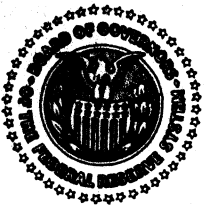


BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-498

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 1, 1939.



Dear Sir:

In accordance with the customary procedure, there is transmitted herewith, for your information, a copy of the certificate of the auditor of the Federal Reserve Bank of Chicago in connection with his audit of the accounts and records of the Board's Fiscal Agent for the period January 1 to May 31, 1939.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, with a large initial "L" and "P".

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BANK OF CHICAGO

I, John J. Endres, hereby certify:

- (a) That a complete audit has been made of all entries in the accounts, "Board of Governors of the Federal Reserve System-Special Fund", "Board of Governors of the Federal Reserve System-Fiscal Agent", and "Board of Governors of the Federal Reserve System-General Fund", for the period January 1, 1939, to May 31, 1939.
- (b) That all cash received by the Board as shown by the cash receipts book has been deposited by the Fiscal Agent and properly credited by the Federal Reserve Bank of Richmond.
- (c) That all remittances made direct to the Federal Reserve Bank of Richmond by the Federal Reserve Banks in compliance with the Board's instructions have been properly placed to the credit of the Board of Governors of the Federal Reserve System.
- (d) That each expenditure made by the Fiscal Agent was properly authorized by an administrative officer of the Board.
- (e) That the items of receipts and expenditures shown by the books of the Fiscal Agent have been reconciled with the items shown in the statements of the Board of Governors of the Federal Reserve System's accounts prepared by the Federal Reserve Bank of Richmond.
- (f) That the balances as shown by the books of the Fiscal Agent have been reconciled with the balances standing to the credit of the Board of Governors of the Federal Reserve System on the books of the Federal Reserve Bank of Richmond as certified by the auditor of that bank.

Respectfully submitted,

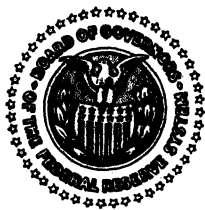
(Signed) John J. Endres

Auditor

June 27, 1939

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 10, 1939.

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal Reserve banks, the following code word has been designated to cover a new issue of Treasury bills:

NUBHEX - Treasury bills to be dated July 12, 1939, and to mature October 11, 1939.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

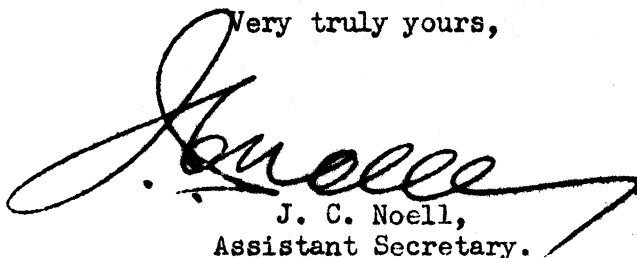
July 12, 1939.

Dear Sir:

By the end of July the Board expects delivery of an additional supply of paper bound copies of the booklet entitled "The Federal Reserve System: Its Purposes and Functions".

It will be appreciated if you will let us know whether your bank desires to supplement its existing stock of this booklet for free distribution to schools and colleges, students, and others requesting information on the Federal Reserve System. If so, please indicate the number of copies which in your opinion will be needed for this purpose.

Very truly yours,


J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 14, 1939

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal Reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

TYMEW - Treasury Bills to be dated July 19, 1939, and to mature October 18, 1939.

The above code word is the word which will also apply when the new code book goes into effect.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 17, 1939

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of June, 1939.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

Josephine E. Lally

Josephine E. Lally,
Deputy Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JUNE, 1939

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	25,039	664	25,703	\$ 543.54	\$ 275.63	\$ 267.91
New York	68,712	-	68,712	1,453.05	1,034.14	418.91
Philadelphia	19,145	664	19,809	418.90	243.82	175.08
Cleveland	30,905	671	31,576	667.74	226.58	441.16
Richmond	26,095	672	26,767	566.04	195.75	370.29
Atlanta	42,425	663	43,088	911.18	236.72	674.46
Chicago	62,597	1,079	63,676	1,346.56	1,351.60	5.04(a)
St. Louis	43,128	662	43,790	926.03	250.91	675.12
Minneapolis	20,093	662	20,755	438.91	187.27	251.64
Kansas City	50,399	662	51,061	1,079.79	259.21	820.58
Dallas	38,247	716	38,963	823.95	275.37	548.58
San Francisco	50,448	775	51,223	1,083.21	369.30	713.91
Board of Governors	278,596	-	278,596	5,891.48	11,244.08	-
Total	755,829	7,890	763,719	\$16,150.38	\$16,150.38	\$5,357.64 5.04(a) \$5,352.60

(1) Based on cost per word (\$.021147019) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,579.60) and wire rental (\$9,664.48). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

(a) Credit - reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 18, 1939

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes for the month of June, 1939.

Very truly yours,

Josephine E. Lally.

Josephine E. Lally,
Deputy Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-503-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
June 1 to June 9, 1939.

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	66,000	-	66,000	\$ 6,072.00
New York	90,000	20,000	110,000	10,120.00
Philadelphia	-	20,000	20,000	1,840.00
Cleveland	-	19,000	19,000	1,748.00
Richmond	-	9,000	9,000	828.00
Atlanta	24,000	-	24,000	2,208.00
Chicago	<u>40,000</u>	<u>-</u>	<u>40,000</u>	<u>3,680.00</u>
	220,000	68,000	288,000	\$26,496.00

288,000 sheets @ \$92.00 per M \$26,496.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 19, 1939

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by offices of the Federal Reserve banks during the month of August:

Tuesday, August 1	Denver Branch	Colorado Day
Wednesday, August 30	New Orleans Branch	Birthday of Huey Long

On the dates mentioned the offices affected will not participate in the transit clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the office mentioned on each of the holidays with your credits for the next business day.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-505

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For Immediate Release

July 19, 1939

Statement by Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, and Member of the Advisory Board on Fiscal and Monetary Policy before the Banking and Currency Committee of the United States Senate.

STATEMENT OF M. S. ECCLES BEFORE THE SENATE COMMITTEEON BANKING AND CURRENCY S-2759

In appearing here this morning I wish to make it clear that I testify not in my capacity as Chairman of the Board of Governors of the Federal Reserve System, but as a member of the Fiscal and Monetary Advisory Board which was consulted by the President when the program underlying this bill was formulated.

I should like to state very briefly my views as to the nature of our economic difficulties that make it necessary to undertake a program along the lines proposed in this bill at this time.

I am convinced on the basis of observation and a great deal of study that has been given to the problem that the present unsatisfactory economic condition of the country, with its large volume of unemployment, is not a passing stage in the so-called business cycle but has fundamental underlying causes that need to be remedied before we can hope to achieve a sustained adequate volume of employment, a reasonably satisfactory national income, and a reasonably stable degree of prosperity. The fundamental adjustment in our economic mechanism that is required is the establishment of a better equilibrium between the capacity of the country to consume goods and services and its capacity to produce them. In the 1920's we had a fair degree of adjustment between consumption and production, but this adjustment was achieved through the existence of many outlets for investment which no longer exist at present. The automobile industry was rapidly expanding; States and municipalities were expending nearly a billion a year, in excess

-2-

of tax receipts, much of it on roads, highways, and schools. There was a billion spent a year on commercial buildings, stores, offices, and hotels. Universities, hospitals, country clubs and other non-profit institutions were spending between one-half billion and a billion a year. A similar amount was annually lent abroad. There was a rapid growth of installment selling which increased the annual spending of the people in later Twenties by nearly a billion a year. And, in addition to all this, we had a tremendous bull market in securities, which resulted in a large volume of luxury spending of profits made in the market.

Many of these factors, which helped to produce a consumer demand for goods that was sufficient to consume the products of industry, are not at present at work or in prospect. The rate of population growth is about one-half now of what it was in the Twenties. This drastic slowing up in population growth, together with declines of property values, have resulted in a decline in State and municipal expenditures so that tax revenues have, since 1932, exceeded expenditures, thus resulting in an addition to funds available for investment instead of providing an outlet for such funds. There is no disposition to make private foreign loans at this time. Commercial and office buildings are still available in excess of the demand. Churches, clubs, and universities have reduced their capital outlays to a small figure. The automobile industry is no longer in the stage of rapid expansion. There is no prospect of the kind of source of spending power as grew out of the stock market boom. And even residential construction, notwithstanding indispensable help from the Government, is below the level of the Twenties.

-3-

The magnitude of the problem facing us is clear. From 1923 to 1929, outlays of the type that absorb capital funds averaged more than \$15 billions a year. Allowing for the increase in population as well as for technological advances that have taken place in the last decade, it would appear that comparable outlays today to insure reasonably full employment would have to be more than \$18 billions a year, provided there is no material change in the present division of the national income between consumption and new investment.

In view of our changed conditions one of three alternatives faces the country: (1) either an unforeseen and unforeseeable very large outlet for investment must develop in new or in old industries, or (2) a very considerable increase must be brought about in the proportion of the national income that goes into consumption, or (3) the Government must provide an outlet for idle funds through deficit financing of work relief, public works, armaments, etc., or, as far as possible, through a program such as proposed in this bill for socially and economically desirable, non-profit making but largely self-liquidating investments. Unless some or all of these developments take place, we cannot escape continuous depression with its accompanying great unemployment. We can remove all the so-called deterrents to business and provide all the stimulus to business that we can contrive, and yet we shall still fall far short of the objective of full production and employment. It is only as adequate outlets are provided for our savings that the national income can rise to a satisfactory level, and it is only as the national income increases that tax revenue adequate to balance the budget can be achieved.

-4-

Of the solutions just indicated - the first is unpredictable, and we cannot wait in the hope that it will materialize sometime, somehow, although much more can and should be done to stimulate private activity in the field of housing to reach a much larger percentage of our population. The second, - a larger proportion of the national income going into consumption - should be a major part of public policy, but it appears to be a slow process, and in the meantime, as an immediate approach, increased investment operations of the Government are the only direct, immediate, and feasible plan at our disposal for the achievement of badly needed improvement.

The present bill constitutes in part an attempt to develop a program of public investment of a self-liquidating nature. It is, I think, indispensable, in view of the proposed greatly reduced employment in WPA and PWA. I am, however, forced to say that the annual expenditures that can be achieved under this program will make only a small contribution toward the solution of our basic problem. My own personal view is that the self-liquidating program, excellent as it is so far as it goes, should be supplemented by a continuing public works program.

Even more basic, however, is the necessity of increasing the proportion of the national income that goes into consumption. The line of progress in this field is clear. It has been traveled ahead of us by many of the older countries. Old-age security provisions in European countries have been so designed as to increase consumption relative to income. In England only sixty per cent of the cost of a national old-age pension scheme

-5-

is met by payroll taxes; in Sweden only twenty-two per cent. In our country, however, we will have, in the three years ending next December, taken out of consumption in the form of payroll taxes \$1.7 billion more than has been returned in old-age benefit payments. Payments under the old-age assistance part of the program have constituted only a minor offset to this withdrawal. In addition, we have increased national saving and decreased consumption through the operation of our unemployment insurance program. The changes in our old-age security program now pending will alleviate this situation slightly. Even if pending amendments are passed, however, we will collect some three to four hundred million dollars more than we pay out in benefits next year. These provisions will have to be further revised. We shall also have to reconsider our entire tax structure, with a view to decreasing taxes on consumption and increasing taxes on income that would otherwise add to unused investment funds.

It is idle money, hoarded money in cash or in deposits, that obstructs the flow of the national income. Money that is saved and invested continues to function, and we must find means both of increasing the proportion of the national income that is consumed and of providing investment outlets for the money that is saved. There is no other way to keep the economy going in a satisfactory manner.

This, then, is the situation in which the present bill must be viewed. If the various items in the bill are approved, and if the resulting programs are prosecuted with vigor, investment outlets for an additional portion of the mounting savings of the community will have been provided in

-6-

useful self-liquidating projects which will not entail any charge on the budget nor any increase in the public debt. There is little financial risk involved as compared with the social and economic gain. The present extremely low level of interest rates makes it possible to utilize a part of our vast volume of idle funds, to make some of them available to borrowers who could not afford to use them if the rates were higher, and thus to diminish the number of idle men.

The provision of certain transportation facilities on a toll basis will permit the construction of certain by-passes, tunnels, bridges, etc., whose cost should properly be borne by the user. The rural security loans will enable hundreds of thousands of farmers who now cannot support themselves and are a continuing charge on relief funds to become self-supporting. Such an investment is one of the most desirable our country could possibly undertake. The rural electrification loans will bring the benefits of electricity to thousands of farmers and will provide markets for the private power companies and for the makers of appliances.

It is, however, of the section relating to railway equipment that I wish to speak particularly. I think the Committee will be interested in the considerations that led to its inclusion in this program. We have, on the one hand, in the railroad equipment industry, one of the most depressed of all our capital goods industries. On the other hand, we have the railroads, with the supply of rolling stock rapidly declining in quantity and deteriorating in quality. Our supply of freight cars is back to the level of 1905. Well over 40 per cent of the freight cars are twenty years of age or

-7-

older. Over 70 per cent of the locomotives are 20 years of age or older and only 3 per cent are under ten years of age. Some 13,000 steam locomotives of American railroads were built before 1910. Most of the machine shop equipment of American railroads is universally acknowledged to be obsolete and in poor condition. Consequently, repair costs are high, both because of the age of the rolling stock and because of the character of the equipment of the machine shops. In no field, I believe, from the point of view of economy, recovery or national defense, could the Government's credit be better used than in enabling the roads to modernize their equipment.

The success of this program depends upon low interest rates, long maturities and no down payments so that railroads can acquire new equipment at annual costs no greater and in some cases less than those arising out of the operation and maintenance of some of the present aged and obsolete equipment. The bill contemplates that the interest charged will be no higher than the cost of the money to the RFC on like maturities and in no case more than the highest rate on long term Government obligations.

The present bill proposes that to the existing loaning powers of the RFC which have been used to a relatively small extent by the railroads for new equipment, the railroads should be permitted to acquire equipment on a leasing basis. The Government will then be in a position to meet the needs of every type of railroad for every type of equipment. Many railroads will doubtless prefer to acquire equipment through the customary form of equipment trust certificates. Others, however, who are reluctant to increase their debt, will prefer to acquire equipment on the very favorable

-8-

terms that will be possible through a leasing arrangement.

In fact, in certain cases, the leasing arrangement will make expenditures possible that would otherwise not be undertaken. Thus it will now become possible for the Government to finance a major rebuilding program, should this prove the economical thing for any railroad to undertake. The RFC will be in a position to contract to purchase older equipment, to have it rebuilt in the shops of the railroad in question, and lease this equipment back to the railroad. Again, the purchase of machine shop equipment can be facilitated through a leasing arrangement, and the cash resources of railroads can be saved for urgently needed improvements on way and structures. Finally, the scrapping of obsolete equipment and the sale of used rolling stock to certain foreign countries that are badly in need of cheap equipment can be facilitated.

I have found in discussing this proposal with various men in the industry in recent days that a good deal of confusion and misunderstanding exists as to the nature of the leasing arrangement. Since it is proposed that the leasing arrangement should be used merely as a means of enabling railroads to acquire equipment, and that the RFC should not purchase any equipment except upon the agreement to lease and upon the specifications of individual roads, I suggest that this be made perfectly clear through a re-phrasing of paragraphs (b) and (c), under Section 8.

I should also favor making this additional \$500 million available for loans as well as leases, as the existing loaning power of the RFC for railroad equipment is limited. Paragraph (a) could well be deleted, pro-

-9-

viding the specifications submitted by individual roads for rolling stock to be constructed and leased to them should be subject to the approval of the RFC. If these changes were made, they would meet the only objections that I, personally, have heard raised to this part of the Self-Liquidating Bill.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 19, 1939.

Dear Sir:

There is enclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of June 1939 in response to the Board's letter of August 25, 1936 (X-9680).

You will find that the present summary is much shorter than those that have been sent to you in former months. It will be appreciated if you will inform the Board whether you consider the summaries of sufficient value to warrant their continuance, and, if so, whether you would rather have them shortened to the present length or made more inclusive, or otherwise modified.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-506-a

July 15, 1939.

TO The Board of Governors SUBJECT: Summary of Bank
Relations Reports

FROM Mr. Hammond, Division
of Bank Operations

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of June. Excerpts therefrom will be found on the following pages, at the end of which is a table showing the number of visits made, meetings attended, and addresses delivered. The following are a few of the items of interest included in the reports:

Boston reports that in practically every one of 40 country member banks in New Hampshire and Connecticut visited during June loans were in somewhat greater volume than a year ago and that earnings for the first six months were above those for the same period last year. Other Federal Reserve banks also report an improved demand for loans in some parts of their districts.

Though the demand for credit is slack, there are numerous complaints by bankers that the attitude of examiners is officious, unreasonable, and unfair. Philadelphia mentions reports of cases where, when payment of a loan criticized by examiners was requested, the borrower transferred the loan to a Government agency.

Richmond and Minneapolis report that many farmers who receive substantial Conservation and AAA payments do not know why they are receiving them.

On the whole, the reports give the impression that, though much dissatisfaction exists, the business situation has improved.

BOSTON

During June visits were made to forty member banks located in the smaller towns and cities of New Hampshire, and to six country banks in Connecticut.

At practically every bank visited loans were in greater volume than a year ago and earnings for the first six months of the current year above those for the corresponding period of 1938. In most cases the loan expansion was said to be from 10 per cent to 15 per cent and made up largely of small loans to individuals, and mortgages on residential and farm properties. Financing in connection with the salvaging of the timber blown down by the hurricane of last

fall accounted for some of the increase in loans shown by New Hampshire banks.

Lending rates range from 6 per cent downward, the majority of loans carrying the 6 per cent rate. Loans made to towns in anticipation of tax receipts, where the towns are borrowing locally, carry rates of 3 per cent and 4 per cent. In New Hampshire the smaller country banks complain quite generally of outside competition for town loans and there was some complaint that this competition extends to other classes of loans.

NEW YORK

During the month of June, our officers and representatives visited 226 banks, of which 161 are member and 65 nonmember institutions. This total comprises banks located in different sections of the district -- one county in New Jersey and twenty-one counties in New York State.

Monmouth County, New Jersey

The continual shrinkage in loan portfolios and the lack of a profitable outlet for funds is having an adverse effect upon income, and some banks are showing rather modest earnings after paying dividends on their preferred capital issues. Several bank executives point out that they have many bonds which will be called within the next few months, and say they will be unable to invest the money except at a greatly decreased yield.

Clinton, Essex, Franklin, Jefferson, Lewis and St. Lawrence Counties, New York

The demand for loans in this territory is in general reported to be light, although the present total of \$37,700,000 shows an increase of nearly \$900,000 in the last six months. Most of the increase is accounted for by three of the larger banks, which have been able to expand their loan accounts as a result of increased financing of automobile sales, development of personal loan departments, and otherwise going after business more aggressively. A majority of the smaller banks show a decrease, due largely to a lessened demand from farmers who constitute the bulk of their clientele, and to a closer scrutiny of credit risks. These banks are in general holding to a 6 per cent rate on loans. Several bankers complained of the competition from the Production Credit Corporation which has granted loans at rates as low as 3-1/2 per cent, and also of an Albany bank which is said to be soliciting loans from school districts and villages at 3 per cent. One nonmember banker expressed hesitancy

over making loans because of examiners' criticisms and mentioned a case where the examiner urged the collection of a loan made to the owners of a local paper mill and thereafter suggested that a personal loan department be established, the principal field for which would be among the employees of the mill.

Summary of Preferred Capital Issues

In the twenty-two counties visited, there are 185 commercial banks, 114 of which issued preferred stock, capital notes or debentures aggregating \$19,384,780 par value. Up to the present time twenty-eight have paid off their entire issues amounting to \$6,405,000 and sixty-two have made partial redemptions aggregating \$2,754,120 and twenty-four have not retired any — leaving eighty-six banks with a total still outstanding of \$10,225,660 par value, retirable at \$14,515,092, reflecting a redemption premium of \$4,289,432.

PHILADELPHIA

East Central Pennsylvania

Conditions in the area visited vary from fair to good. While they are not exceptionally good in any particular spot neither are they very bad. Much of the territory covered lies within the anthracite region where seasonal fluctuations result in a low level of activity during the summer months.

Total deposits of all banks visited are about \$500,000 greater than a year ago. A majority of the investment accounts still contain depreciation, but, as a rule, the quality of the investments appears to be improved. An increasing number of bankers report an improved credit demand, but there still appears to be a shortage of commercial loans. However, a substantial volume of personal and consumer loans has been developed by the banks. Interest rates vary but usually range from 5 per cent to 6 per cent, although in one section mortgage money is available at 4 per cent and 4-1/2 per cent.

Several bankers commented upon the classification of loans by examiners from another supervisory authority, stating that they were too severe and that their insistence that loans be called was unfair. Instances were cited where, as a result of criticism by the examiners, payments were requested resulting in customers obtaining from a Government lending agency money with which to repay the loan to the bank. These officers are quite incensed about this condition, some even inferring that it is planned to bring about this result. One banker stated that his institution had lost a loan for \$8,000, which he would consider of sufficient quality for a personal investment. It is conceded by these officials that the loans are slow but

they appear to believe that their soundness is proved by the ease with which the customers can borrow from the Government agencies.

CLEVELAND

Some expressions of complaint are coming from member banks with respect to small charges generally associated with collection items which have been levied against member banks. Comment most frequently heard is that correspondent banks usually absorb such charges. If the assessment of small items of cost is to be a source of irritation to member banks, some consideration might be given to the question whether the absorption of such charges by Reserve banks would be justified.

In some of the smaller industrial communities in southwestern Ohio conditions are showing some evidence of improvement. A number of banks are reporting a more active demand for funds, particularly in the rural sections.

Nervousness amounting in some cases almost to apprehension concerning the future of bond prices is causing some banks to take profits in their investments, but they experience difficulty in placing funds obtained through bond sales.

RICHMOND

Southwestern Virginia

In the course of the last several months more than \$50,000 in Conservation checks have been paid out to 1,500 Franklin County farmers, while Floyd County farmers received about \$30,000 and those of Patrick County, \$42,000. These payments have contributed materially to the welfare of the farmer, but it seems that some of the recipients do not know why they receive the payments.

Most banks report an increase in both loans and deposits as compared with the same period in 1938. The great bulk of the loans are made locally and the rate is generally 6 per cent. However, one bank has been buying "outside" commercial paper on a 1 per cent basis, with occasional competition from local manufacturing concerns. Another bank holds \$250,000 in certificates of deposit of other banks upon which interest is paid at 1 and 2 per cent.

There is a disposition on the part of banks to compete actively for new loans, especially where they have idle funds, and the opinion prevails that no good loans are rejected. It is said

that Federal lending agencies are fairly active and that they take some desirable business away from the banks. On the other hand, they make loans that banks will not consider and it is held that these are of material assistance to the community.

At Martinsville (Henry County) there is strong competition from northern lenders, one Boston broker having recently made a six-months loan for \$50,000 at 1-1/8 per cent.

Northeastern West Virginia

Most banks report an excellent demand for loans. In a few instances banks have been able to place all of their funds in local loans and thus have escaped the problem of investing in bonds. Borrowers are usually charged 6 per cent and it is thought that this rate does not deprive banks of desirable business. It is realized that certain Government agencies, particularly Production Credit Associations, are in competition with banks, but the impression prevails that loans made by them are not bankable.

ATLANTA

Central Louisiana

The banks visited in this section, located at Alexandria, Lecompte, and Bunkie, serve a very fertile agricultural territory principally devoted to production of cotton and feed crops. During recent years, much progress has also been made in the development of a very profitable cattle raising industry in this section.

It was reported that, although business conditions throughout this section have been comparatively good during recent years, considerable improvement has been noted in all activities during the past twelve months. Retail trade has been favorable and considerable building, both commercial and residential, is in progress.

Officers of the banks visited consider banking activities in the section favorable. Demand for agricultural and commercial loans has been good since the first of the year, and earnings for the period have been satisfactory. Deposits continue to increase and some concern was expressed by bankers at the inability to invest excess idle funds profitably. The banks, especially in Alexandria, are encouraging personal loans as well as the financing of sales of automobiles and farm machinery, which business they are finding profitable.

CHICAGO

Bankers in Wisconsin blame the Government spending program for the low returns on investments and feel that a serious condition is impending. With returns on investments diminishing, they feel more keenly the competition of Postal Savings. The Federal Savings and Loan Associations, whose advertisements indicate that they are paying 3-1/2 per cent on deposits insured by a Federal agency, are becoming more popular with the public. In practically all of the smaller agricultural centers, savings deposits constitute from 60 to 80 per cent of total deposits. This condition does not permit very much income from service charges and adds a burden due to the interest paid on deposits. In order to meet this condition, the smaller banks are developing personal loans secured by chattels, automobiles, or equities on life insurance policies. The competition of the Production Credit Corporation in making chattel loans is evident in many sections of the State. On the whole, the banks are just marking time, but consider it an injustice for the Government to pay 2 per cent on a demand loan at the Post Office and 3/4 of 1 per cent on a five-year Treasury note.

The discrimination between member and nonmember banks in the establishment of branches or paying stations is also noticeable. One bank cited a case where a paying station was opened within three miles of their office by a nonmember State bank twenty miles distant.

Interviews with bankers in both Illinois and Wisconsin disclosed considerable criticism of the attitude on the part of bank examiners of another supervisory authority with particular reference to chattel mortgages.

ST. LOUISSoutheastern Missouri

At a majority of banks visited, it was reported deposits were up slightly, as compared with a year ago, and demand for loans is a little better. Several banks indicated they were planning to reduce the rate of interest paid on time deposits.

Very few of the nonmember banks in southeastern Missouri are on the par list. In every instance where such nonmembers were approached regarding membership, the answer was the advantages of membership would not offset the loss of revenue which would result from giving up exchange on checks received through the mail. The conversations regarding the practice of charging exchange developed

that few banks tried to justify what they are doing, but look upon it as "easy money" income. Several bankers stated that they were surprised that something has not been done to stop the practice. One informed us that he was ready to come back on the par list when others in his vicinity did so.

As a rule, earnings have been substantially buttressed by service charges. Interest paid on savings deposits ranges from 1 per cent to the maximum rate of 2-1/2 per cent, but some banks will not take interest bearing deposits. A number of banks have lowered their rate, and blame interest on deposits as partly responsible for low earnings. There were also complaints of increased and still mounting taxes. Rates charged on loans range from 4 to 8 per cent and it appears that rates charged are in inverse ratio to the size of the towns in which the banks are located. Reports relative to earnings disclosed a broad range of results; from coming out just about even to 20 per cent on paid-in capital in 1938.

MINNEAPOLIS

When we received recently a letter from the State Bank of Rockville, Rockville, Minnesota, asking us questions relative to Federal Reserve membership, it was felt that under no circumstances would this bank give serious consideration to membership because, if they did, they would be deprived of an income in an amount equal to about 10 per cent of their capital through loss of exchange revenue. A meeting with their board of directors was arranged, however, at which time they passed a resolution applying for membership and the completed application has since been received.

This bank has always been off our par list. It is a small bank with deposits of approximately \$200,000. It reopened without any restriction of deposits after the banking holiday.

In discussing membership with their board, it was discovered that the cashier and one of the directors had a very thorough understanding of the Federal Reserve System, and that it was unnecessary to explain its functions and purposes and the benefits they would receive if they became a member. When asked how it happened they had such a thorough knowledge of these matters, they replied that they had received from the Board of Governors at Washington a book entitled "The Federal Reserve System, Its Purposes and Functions", which they had very thoroughly read and digested. They said that before reading it they had no knowledge whatsoever of what the Federal Reserve System really was, and that after reading it they were so impressed they concluded that as a small independent bank they could not afford to be out of the System even though their income

would be materially reduced because of loss of exchange. There is no doubt that the membership application was a direct result of the preparation and distribution of the book.

Southern Montana

A number of bankers expressed the opinion that the Government's AAA program is all wrong--not workable--and said that many of the farmers and ranchers feel the same way. They stated that the creation of an activity by the Federal Government often has an adverse effect elsewhere. It was reported in one town that there was much talk among farmers who received AAA checks this spring and didn't know what they had done to earn them. The checks were cashed, however, and they were glad to get their share of AAA funds that are being distributed.

KANSAS CITY

Bankers in all parts of the Tenth District report the physical condition of their localities to be the best in years.

Bankers in Wyoming appear generally satisfied with livestock and wool prices, and seem much less concerned about the livestock industry than they did a few years ago.

Banks in Colorado are giving a good deal of attention to service charges. Outside of the cities there appears to be a reasonable demand for loans. With respect to banker complaint of Government competition in making loans, there is a good deal of variation. In some communities little complaint is heard, while in others it is exceedingly bitter. Apparently much depends upon the persons in charge of these Government agencies.

Many bankers complain that the Government wants to run banks instead of supervise them. Last month attention was called to the bitter complaint regarding examiners from another supervisory authority. Even more cases were found in June of this same thing, especially in certain sections of southwestern Missouri. Bankers complain that these examiners have no knowledge of the communities in which they are working and that they are highly officious. One banker reported that these examiners requested him to rearrange his cages and cut a hallway through one side of the banking room to connect the lobby with the back part of the bank. This examiner also ordered him to stay away from the windows and limit his dealings with customers to his desk in the back part of the bank. In the case of some small banks, many bankers think the Government is determined to close their institutions in one way or another.

One bank complained that the reserve requirements are too high. This single case is reported as complaint of this kind is heard much less frequently than formerly.

DALLAS

Central West Texas

General economic conditions in this section of Texas were found to be fairly satisfactory, although ranges and crops are beginning to suffer from an incipient drouth, which has delayed cotton planting, necessitated replanting in certain areas, and threatens to curtail feed crops.

Deposits show a general increase over those of 1938 and loans a sizable decline.

The exodus of tenant farmers to towns and cities, which has been in progress for the past two or three years as the result of curtailment of cotton acreage allotments and the steady expansion in the use of tractors, has continued unabated and is adding considerably to the unemployment problem of the larger towns, although it has not materially affected agricultural production.

Southern New Mexico

The fourteen banks visited in our portion of New Mexico reported that there had been a decided change for the worse in the physical condition of the territory. A mild winter and spring with more than the usual amount of moisture had put livestock ranges in excellent condition, but during the past two months the southern half of the State has received practically no moisture. Intense heat waves, accompanied by strong hot winds, have burned the ranges so severely that producers have been forced to begin feeding cattle, and unless rains occur soon, the necessity for feeding will become general.

Despite the recession in business activity, the banks are showing satisfactory earnings and many of them feel that their profits this year will exceed those of any recent year.

SAN FRANCISCO

Salt Lake City Branch Territory

Generally speaking, crops are a little below average due to the late spring and lack of seasonal rainfall. However, there is

sufficient water in storage to supply adequately all the more important irrigated lands. Livestock ranges are drying, but not seriously as yet. Residence building has been fairly active in the larger cities and towns, and the volume of retail trade is reported as running slightly in excess of last year.

Clearwater District of Idaho

The Clearwater District of Idaho produces wheat, beans, peas, and livestock and has large lumber mills producing pine lumber. The agricultural outlook is very fine. The pea crop is practically made. Because there has never been a crop failure, the normal bean crop is expected.

Cattle and hog producers will turn out the usual production in their lines this year. The cherry crop matured nicely, but at picking time the rains created a damage of approximately 40 per cent.

Mining continues to be quite active.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

June - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	49	--	49	4	<u>1/</u>	1	400
New York	161	65	226	12	3,490	--	--
Philadelphia	75	25	100	--	--	--	--
Cleveland	66	21	87	<u>2/</u> 5	1,490	<u>1/</u>	<u>1/</u>
Richmond	48	17	65	4	1,085	<u>3/</u> 3	203
Atlanta	5	3	8	1	300	1	350
Chicago	54	40	94	5	4,324	<u>3/</u> 3	1,100
St. Louis	47	150	197	4	1,662	3	120
Minneapolis	112	86	198	5	3,370	1	40
Kansas City	39	36	75	4	481	2	85
Dallas	30	3	33	2	1,400	1	100
San Francisco	42	24	66	11	1,056	3	464

1/ Not reported.2/ Attendance not reported for one meeting.3/ One radio broadcast.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-507



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 20, 1939

Dear Sir:

There is being forwarded to you, under separate cover, a supply of the Board's Regulation T, which has been reprinted to incorporate amendments to the regulation which have been approved to date--Amendment No. 1, effective March 21, 1938, and Amendment No. 2, effective May 22, 1939.

The Board will be prepared to supply additional copies of the regulation in case you require them.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter". The signature is written in dark ink and is positioned above the typed name and title.

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD
July 21, 1939

Dear Sir:

There are being forwarded to you under separate cover copies of pages 27, 33, 34, 34a, 121e and 121f of the "Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E)", revised as of July 1, 1939. An additional copy of each of these pages is enclosed for your information.

Page 27 has been revised so as to permit the accumulation in the "Sick Relief and Extended Leave" unit of any costs occasioned because of employees absent as a result of jury duty or military service, in addition to those absent on account of illness. Changes in pages 33, 34 and 34a were necessary because of the revised leased wire procedure which became effective July 1, 1939. The new pages, 121e and 121f, are necessary in order to provide for expenses which may be incurred by Federal Reserve banks for the Federal Crop Insurance Corporation and the United States Maritime Commission.

Pages 7 and 22b of Form E are being reprinted to conform with the revised pages of the Manual and a supply thereof will be forwarded to you as soon as received from the printer.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, July 24, 1939

The following summary of general business and financial conditions in the United States, based upon statistics for June and the first three weeks of July, will appear in the August issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Output of factories and mines increased in June reflecting chiefly sharp expansion at steel mills and bituminous coal mines. In the first half of July industrial activity was generally maintained.

Production

The Board's seasonally adjusted index of industrial production advanced to 97 in June as compared with 92 in April and May.

At steel mills output increased from a rate of 45 per cent of capacity in the third week of May to 54 at the end of June and to 56 in the third week of July. Automobile production, which had declined in May, showed some increase in June when a decline is customary. In the first three weeks of July automobile output was at a lower rate, reflecting in part curtailment preparatory to the change-over to new models. Plate glass production rose considerably in June. Output of lumber, which usually shows some increase over May, was unchanged. Among nondurable goods industries woolen mills showed increased activity in June, and activity at cotton and silk mills

was maintained though declines are usual at this season. Meat-packing was lower than in May.

Mineral production increased considerably in June reflecting a sharp rise in output at bituminous coal mines which had been closed during April and the first half of May. Production of anthracite declined from May to June and there was some reduction in output of petroleum.

Value of construction contracts awarded declined in June, according to F. W. Dodge Corporation figures, reflecting chiefly a greater than seasonal decrease in private residential building. Contracts awarded for public residential construction, principally for United States Housing Authority projects, were maintained at the advanced level reached in May, while public construction other than residential showed a small decline.

Employment

Factory employment and pay rolls increased somewhat from the middle of May to the middle of June according to reports from a number of important industrial States. There was a sharp expansion in employment at bituminous coal mines following the reopening of the mines in the middle of May, and the number employed on the railroads increased more than seasonally from May to June.

Distribution

Department store sales showed a less than seasonal decline from May to June and the Board's adjusted index advanced from 85 to 86, which compares with a level of 88 during the first four months

of the year. Sales at variety stores and by mail order houses showed little change.

Freight-car loadings increased more than seasonally in June reflecting a sharp rise in shipments of coal and smaller increases in shipments of grain and miscellaneous freight.

Commodity prices

Prices of hides, silk, steel scrap, copper, and some other industrial materials advanced from the middle of June to the third week of July, while some farm products, particularly grains, declined. Prices of most other commodities showed little change.

Agriculture

A total wheat crop of 716,655,000 bushels was indicated on the basis of July 1 conditions, according to the Department of Agriculture. This would be much smaller than last year's large crop and somewhat below the 1928-1937 average. Cotton acreage in cultivation was estimated to be about the same as last year but one-third less than the 10-year average. A record tobacco crop is indicated. Most other major crops are expected to approximate last year's harvests and are generally larger than average.

Bank credit

Total loans and investments of member banks in 101 leading cities continued to increase during the four weeks ending July 12, reflecting largely purchases of United States Government securities. Commercial loans, which had shown little change in recent months, increased slightly. Deposits and reserves at these banks rose to new

high levels in July, reflecting continued gold imports and Treasury disbursements from its balances at the Reserve banks.

Money rates

Prices of United States Government securities, which had declined somewhat during June, recovered part of the loss in July. The longest-term Treasury bond outstanding showed a yield of 2.31 per cent on July 20, as compared with a record low of 2.26 on June 5. Open-market money rates showed little change.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1939

Dear Sir:

In connection with telegraphic transactions in Government securities between Federal Reserve banks, the following code word has been designated to cover a new issue of Treasury Bills:

TYMOG - Treasury Bills to be dated July 26, 1939, and to mature October 25, 1939.

The above code word is the word which will also apply when the new code book goes into effect. The new Federal Reserve Telegraph Code, which becomes effective on August 1, 1939, provides for the assignment of code words for new issues of securities, and therefore this will be the last letter to the Federal Reserve banks in which such assignments are made.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1939

Dear Sir:

There is enclosed a copy of a letter, dated July 18, which the Board has received from the Treasury Department transmitting a copy of Report No. 1066 of the House of Representatives dated July 10, 1939, with respect to the destruction of the fiscal agency and depository records referred to in the Board's letter of December 14, 1938, R-359, and enclosure. The fiscal agency and depository records are listed on page 4 of the report.

Any questions regarding the disposal of the useless papers should be taken up with the Treasury Department.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

TREASURY DEPARTMENT
Washington

July 18, 1939

The Board of Governors
of the Federal Reserve System,
Washington, D. C.

Attention: Division of Bank Operations

Gentlemen:

Agreeably to authority contained in House Report No. 1066, 76th Congress, 1st Session, covering the disposition of useless papers in the Treasury Department, a copy of which report is transmitted herewith, you are requested to proceed with the elimination from your files of the "useless papers" heretofore reported by you for destruction as listed in said report.

Particular attention is invited to the following recommendation made by the Joint Committee in its report:

"We would, however suggest to the Department of the Treasury, that any request from universities, public libraries, historical societies, or other non-Federal organizations relative to these papers, be honored and that the Department of the Treasury cooperate with such organizations to the extent that it deems reasonable and advisable."

Such useless papers as can be sold for waste paper should be placed in special sacks and kept separate from the ordinary accumulations of waste paper in the building in which the useless papers are housed and when the papers have been disposed of a report should be made to the Chief Clerk of the weight and the proceeds received therefrom.

This information is necessary to enable the Secretary to make a report to Congress showing (1) the action taken under the House Document mentioned and (2) the amount of proceeds received from sales.

It is especially desired that the report be in the office of the Chief Clerk not later than August 15, 1939.

Very truly yours,

(Signed) W. N. Thompson

Acting Administrative
Assistant to the Secretary

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 24, 1939

Dear Sir:

It has come to the attention of the Board of Governors recently that some of the Federal Reserve banks, in the shipment of Government securities by express, are declaring such securities in certain instances at their nominal value and that, as a result, such Federal Reserve banks may be failing to comply with tariff regulations of the Interstate Commerce Commission with respect to express shipments. For your information in this connection, there is enclosed a copy of a memorandum with respect to this matter which has been prepared in the Legal Division of the Board.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

July 19, 1939

DECLARATION OF VALUE ON EXPRESS
SHIPMENTS OF SECURITIES

The attention of the Board has recently been called to the fact that some of the Federal Reserve banks may be failing to comply with the law or with tariffs relating to the valuation of Government securities shipped by express. It is understood that in some instances nominal values are placed upon such securities and that, consequently, lower rates are obtained. The securities are insured, presumably at their full value; and, accordingly, it is unnecessary, for purposes of protection, to declare their actual value.

It appears, however, that the tariff regulations of the Interstate Commerce Commission require that the actual value be declared on securities shipped by railway express. Tariffs relating to shipments by air express, filed with the Civil Aeronautics Authority, are not clear as to whether property shipped must be declared at actual or market value.

Tariff Regulation No. 1400, filed with the Interstate Commerce Commission, which covers railway express shipments, provides as follows:

"A. Receiving shipment.

* * * * *

"(2) Except as otherwise provided herein, shipment must not be received for transportation at rates named in the Money Classification unless the actual or market value is declared by shipper and marked by him upon the package.

* * * * *

"E. Securities.

"(1) Marking - Rates on Securities are based upon the market value and shippers must be required to mark on all packages of securities the character and market value of the contents thereof. * * * * "

It seems clear that the above provisions expressly require that securities shipped by railway express be declared at their market value. According to informal advice received from the Bureau of Traffic of the Interstate Commerce Commission, there is no means by which an express company may lawfully authorize railway shipments of securities at less than their market value.

Under section 10 of the Interstate Commerce Act (U. S. Code, Title 49, Sec. 10(3)) any shipper who, by means of false representation as to cost, value, etc., knowingly attempts to obtain any allowance whereby the compensation of the carrier is, in fact, less than the regular established rates, is subject for each offense to a fine of not exceeding \$5,000.

With respect to shipments by air express, the latest tariff regulation filed with the Civil Aeronautics Authority contains the following provisions:

"2-A. Shipments acceptable for air express transportation.

"All articles of merchandise, * * * securities, bank checks, etc. which are marked and packed suitable for rail express transportation, will be accepted for transportation by Air Express, not including packages valued in excess of \$25,000 each, * * *

"3. Receiving shipments.

* * * * *

"(b) The value of the property must be declared by the shipper and inserted in the receipt. The shipper's declaration of such value may be made by inserting 'not exceeding \$50.00' or 'not exceeding 50 cents per pound, actual weight,' as the case may be, in the blank space in that portion of the receipt reading 'value herein declared by shipper to be _____ dollars.'

"(c) When the value so declared exceeds \$50.00 as to shipments weighing 100 pounds or less, or exceeds 50 cents per pound as to shipments weighing over 100 pounds the value must be marked by the shipper upon the shipment.

"(d) The nature of contents of shipment should be shown on the receipt.

"(e) Packages with declared value in excess of \$25,000 will not be accepted and no more than \$250,000 aggregate declared value will be carried in any one airplane.

* * * * *

"12. Excess value charge (insurance).

"The charges shown herein provide for full Common Carrier liability for a valuation not exceeding \$50.00 for packages weighing less than 100 pounds or 50 cents per pound, actual weight, for packages weighing over 100 pounds. When the declared value exceeds \$50.00 for any shipment of a 100 pounds or less, or exceeds 50 cents per pound actual weight for any shipment in excess of 100 pounds an additional charge of 10 cents will be assessed for each \$100.00 or fraction thereof in excess of the value stated above and such additional charges provide full Common Carrier liability for the value so declared."

It is to be noted that under the above provisions the "value" of the property is required to be declared by the shipper. While the word "value" may be construed as not meaning actual or market value, it is understood that the word has not been interpreted by the Civil Aeronautics Authority.

R-513

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Saturday, July 29, 1939

The following ruling will appear in the Federal Reserve

Bulletin:

Whether Regulation T Permits Domestic Broker to
Borrow from Foreign Broker

Regulation T provides in section 5(c)^{1/} that:

"A creditor may borrow from another creditor in the ordinary course of business as a broker or dealer on any registered security to the extent and subject to the terms upon which the latter may extend credit to him in accordance with the provisions of this regulation, and subject to any other applicable provisions of law."

^{1/}The permission granted by the Board in section 5(c) of Regulation T is based upon section 8(a) of the Securities Exchange Act of 1934 which provides in part that:

"It shall be unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly -

(a) To borrow in the ordinary course of business as a broker or dealer on any security (other than an exempted security) registered on a national securities exchange except (1) from or through a member bank of the Federal Reserve System, (2) from any nonmember bank which shall have filed with the Board of Governors of the Federal Reserve System an agreement, which is still in force and which is in the form prescribed by the Board,.... or (3) in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe to permit loans between such members and/or brokers and/or dealers, or to permit loans to meet emergency needs."

The term "creditor" as used in section 5(c) is defined in section 2(b) of the regulation as follows:

"The term 'creditor' means any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member."

The Board recently has been asked whether section 5(c) authorizes a "creditor", as defined in section 2(b), to borrow in this country in the ordinary course of business as a broker or dealer on registered nonexempted securities from a foreign broker. The foreign broker maintains no place of business in the United States, but "transacts a business in securities through the medium of a member of a national securities exchange" and hence appears to fall within the definition of the term "creditor".

It is the view of the Board that section 5(c) in its present form grants permission for the domestic broker thus to borrow from the foreign broker who "transacts a business in securities through the medium of a member", but that it grants the permission only on condition that the loan so obtained by the domestic broker meets the requirements of section 5(c) that it be "in accordance with the provisions of this regulation".

This means that in obtaining the loan the domestic broker must not be receiving more credit on given securities than he could get on those securities, in the case of a loan of the same description, from a domestic "broker or dealer who transacts a business in

securities through the medium of a member", and must not otherwise be obtaining any benefits that such a domestic broker or dealer could not lawfully grant under the regulation. One result of this requirement is that the loan may not be obtained on the basis of the special loan value prescribed for the special omnibus account, because section 4(b) of the regulation limits such loans to cases in which the lender is a member of a national securities exchange. It is, of course, unnecessary for present purposes to determine whether, or to what extent, the foreign broker would be required to comply with Regulation T, since the domestic broker is not granted permission to borrow unless the loan complies with the requirements of Regulation T to the same extent as if the lender were a domestic "creditor".

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 1, 1939

Dear Sir:

There is enclosed a copy of the press statement, referred to in the Board's wire of this date, which will be released when the Board is informed that all Reserve banks are ready to mail the revised Regulation J, check collection circulars and time schedules to all member banks.

A supply of revised Regulation J will be mailed you as soon as received from printer.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure 1

TO ALL PRESIDENTS OF FEDERAL RESERVE BANKS

Statement to be released to press on date to be fixed
by Board of Governors

The Board of Governors of the Federal Reserve System announced today that the Federal Reserve banks will put into effect on September 1, 1939 certain changes in their check collection procedure designed to give member banks more prompt credit for checks deposited with the Federal Reserve banks for collection and to reduce the amount of work required in preparing the checks for deposit with the Federal Reserve banks.

Heretofore member banks have been given credit for checks deposited with the Federal Reserve banks in accordance with time schedules which were based on the actual time required to collect the checks. After September 1 the Federal Reserve banks will credit member banks within three days or less for all checks deposited with them for collection. Immediate credit or credit within one or two days will continue to be given for most checks.

The Board's Regulation J relating to the clearance and collection of checks and the check collection circulars and time schedules of the Federal Reserve banks have been revised. Copies are being sent by the Federal Reserve banks to all member banks and to all other banks which maintain deposit accounts with the Federal Reserve banks.

R-515

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release

August 1, 1939

The Board of Governors of the Federal Reserve System has amended subsections 3(a) and 3(e) of its Regulation L, relating to interlocking bank directorates under the Clayton Act, effective immediately, so as to extend until February 1, 1940, the time during which certain persons who have been serving member banks may continue to serve a member bank and not more than one other bank.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 7, 1939
R-516

Dear Sir:

Referring to the Board's letter R-380 of January 6, 1939, following is a statement of changes during July in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Deletion

Ohio

Youngstown

The City Trust & Savings Bank

The City Trust & Savings Bank should be added with the following note to the list (R-380b) of banks which had in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, but which are no longer in operation as nonmember banks:

(Admitted to Federal Reserve membership on July 18, 1939)

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-517

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 8, 1939

Dear Sir:

In our letter dated June 15, 1939, (R-485) it was stated that a review was being made of the allocation of service charges by the Federal Reserve banks to the units of the Fiscal Agency, Custodianship, and Depository function on Form E, and you were requested to furnish this office with certain additional figures. The figures requested have now been received from all Federal Reserve banks and the attached statement has been prepared showing a classification of the expenses of the various units of the Fiscal Agency, Custodianship, and Depository function for the first and second halves of 1938, as to "Direct" expenses and "Service" charges.

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

Enclosure
(B-1242)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-518



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1939.

Dear Sir:

For the Board's information, it will be appreciated if you will furnish it with the following:

1. Two photostats of each insurance policy and fidelity bond, including all riders, now carried by your bank (head office and branches, if any) unless copies have been previously furnished to Board.
2. A statement showing by years from 1914 to date for each item of insurance carried, (a) type of insurance, (b) risk covered, (c) the amount of the policy, (d) net premium, (e) losses incurred, and (f) claims paid to bank by insurance companies.
3. A brief summary of laws, if any, which require your bank to carry any insurance and of any laws which specify with whom such insurance must be carried,

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-519



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 9, 1939

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes from July 5 to July 31, 1939.

Very truly yours,

A handwritten signature in cursive script, reading "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-519-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
July 5 to July 31, 1939.

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	40,000	28,000	-	-	68,000	\$6,256.00
New York	200,000	26,000	45,000	21,000	292,000	26,864.00
Philadelphia	79,000	5,000	14,000	-	98,000	9,016.00
Cleveland	97,000	18,000	-	-	115,000	10,580.00
Richmond	50,000	23,000	8,000	5,000	86,000	7,912.00
Atlanta	1,000	8,000	3,000	3,000	15,000	1,380.00
Chicago	54,000	36,000	16,000	9,000	115,000	10,580.00
St. Louis	22,000	11,000	2,000	5,000	40,000	3,680.00
Minneapolis	23,000	15,000	-	-	38,000	3,496.00
Kansas City	32,000	8,000	2,000	-	42,000	3,864.00
Dallas	32,000	6,000	-	-	38,000	3,496.00
San Francisco	<u>42,000</u>	<u>14,000</u>	<u>5,000</u>	<u>-</u>	<u>61,000</u>	<u>5,612.00</u>
	<u>672,000</u>	<u>198,000</u>	<u>95,000</u>	<u>43,000</u>	<u>1,008,000</u>	<u>\$92,736.00</u>

1,008,000 sheets @ \$92.00 per M \$92,736.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 10, 1939

Dear Sir:

Referring to the Board's letter S-170 of August 4, 1939, there are enclosed ten additional proof copies of the condensed form of State bank member call report (form F. R. 105) which is to be used on spring and autumn calls. It is suggested that the banking department of each State in your district be advised of the Board's adoption of the condensed form, and that a copy of the form be furnished to it. In this connection, there is enclosed a copy of a letter sent today to Mr. William R. White, Superintendent of Banks of the State of New York, who is also Secretary of the Executive Committee of the National Association of State Bank Supervisors.

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Enclosures - 11

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-520-a

August 10, 1939

Mr. William R. White, Secretary,
Executive Committee of the National
Association of State Bank Supervisors,
c/o New York State Banking Department,
80 Centre Street,
New York, New York.

Dear Mr. White:

Referring to your letter of August 7 and pursuant to a subsequent telephone conversation with you, we are asking the Federal Reserve banks to advise the State banking departments of the States in their respective Federal Reserve districts of the adoption of the condensed form of State bank member call report. We are also requesting them to furnish a copy of the condensed form to each such banking department.

It is suggested that you bring the condensed form to the attention of the Executive Committee of the National Association of State Bank Supervisors, and 20 proof copies of the condensed form are enclosed for your use in that connection. As explained in our letter to you dated August 4, existing arrangements for the single publication of condition reports rendered by State bank members to Federal Reserve banks and State banking departments, respectively, are not affected.

In response to your inquiry, the proposed adoption of the condensed form was informally brought to the attention of Mr. Thompson, Chief of the Division of Research and Statistics of the Federal Deposit Insurance Corporation. Inasmuch, however, as the Federal Deposit Insurance Corporation calls for condition reports only as of the June and December call dates, the forms which it uses will not be affected by the use of the condensed form for the spring and autumn calls.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 15, 1939

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of July, 1939.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit.

Very truly yours,

A handwritten signature in cursive script, reading "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-521-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JULY, 1939

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	23,379	423	23,802	\$ 539.53	\$ 277.82	\$ 261.71
New York	62,533	-	62,533	1,417.45	1,048.63	368.82
Philadelphia	18,610	423	19,033	431.43	242.70	188.73
Cleveland	43,236	423	43,659	989.63	360.12	629.51
Richmond	29,133	433	29,566	670.18	191.79	478.39
Atlanta	42,030	420	42,450	962.22	238.90	723.32
Chicago	62,262	823	63,085	1,429.96	1,367.85	62.11
St. Louis	46,440	432	46,872	1,062.46	296.36	766.10
Minneapolis	20,615	420	21,035	476.80	187.13	289.67
Kansas City	49,470	432	49,902	1,131.14	259.21	871.93
Dallas	39,824	458	40,282	913.08	271.77	641.31
San Francisco	46,370	449	46,819	1,061.26	369.34	691.92
Board of Governors	235,120	-	235,120	5,329.52	11,303.04	-
Total	719,022	5,136	724,158	\$16,414.66	\$16,414.66	\$5,973.52

(1) Based on cost per word (\$.022667236) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,579.52) and wire rental (\$9,723.52). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON**



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 16, 1939

Dear Sir:

On Monday, September 4, Labor Day, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed.

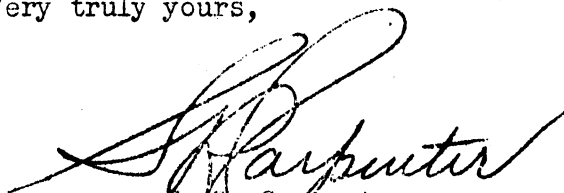
The Board is advised that the following holidays also will be observed by Federal Reserve banks and branches during September:

September 9 (Saturday)	San Francisco Los Angeles	Admission Day in California
September 12 (Tuesday)	Baltimore	Defenders' Day in Maryland

On the dates given the offices concerned will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices mentioned on each of the holidays with your credits for the next business day.

Please notify branches.

Very truly yours,


S. M. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Friday, August 18, 1939.

The following summary of general business and financial conditions in the United States, based upon statistics for July and the first half of August, will appear in the September issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

In July industrial activity, seasonally adjusted, rose sharply and was close to the level reached last December. Prices of some industrial materials increased in recent weeks while those for agricultural products continued to decline.

Production

The Board's index of industrial production, according to preliminary returns, advanced to 102 percent of the 1923-1925 average in July as compared with 98 in June and 92 in April and May. The advance in July reflected chiefly a considerable further increase in output of iron and steel, which usually declines at this season. Steel ingot production rose from an average rate of 52 percent of capacity in June to 57 percent in July and in the first three weeks of August was maintained around 60 percent which for the month would represent about the usual seasonal increase. Lumber production showed little change in July, although a decline is usual.

In the automobile industry output showed a sharp seasonal curtailment during July and the first half of August, reflecting

preparations for the shift to new model production which will be made about a month earlier this year than in other recent years. Retail sales of new cars continued in excess of production and dealers' stocks were greatly reduced. Plate glass production declined sharply in July, following a substantial increase in June.

Changes in output of nondurable manufactures in July were largely of a seasonal nature. At cotton textile mills and meat-packing establishments activity showed somewhat less than the usual declines and at sugar refineries output increased from the low level reached in June. Flour production continued in substantial volume.

Mineral production expanded further in July as output of bituminous coal continued to increase and petroleum production, which had been reduced in June, rose sharply. On August 14 the Texas Railroad Commission ordered a shutdown of most Texas oil wells for 15 days, beginning August 15, and subsequently similar shutdowns were ordered in several other important oil producing States.

Value of construction contracts, as reported by the F. W. Dodge Corporation, increased somewhat in July, owing principally to a small rise in contracts for public projects. Awards for residential work, both public and private, were practically unchanged from the June total.

Employment

Factory employment, which usually declines in July, was

maintained this year at about the June level and payrolls showed a less than seasonal decrease, according to reports from a number of leading industrial States.

Distribution

Sales at department and variety stores in July showed about the customary seasonal decline. In the first half of August department store sales increased.

Freight-car loadings increased further from June to July. Loadings of coal continued to expand and shipments of miscellaneous freight, which usually decline at this season, showed little change.

Commodity prices

Prices of most farm products and foods declined from the beginning of July to the middle of August. Some industrial materials, principally steel scrap, nonferrous metals, and textile fabrics, showed advances in this period, while crude petroleum prices were reduced.

Agriculture

On August 1 prospects for major crops were about the same as a month earlier, according to the Department of Agriculture. The first official estimate on cotton indicated a crop of 11,400,000 bales, somewhat smaller than last year's crop and 2,400,000 bales less than the 1928-1937 average. World carryover of American cotton, however, was estimated to have been somewhat larger on August 1 than the record volume of a year ago.

Bank credit

Total loans and investments of member banks in 101 leading cities increased substantially during the four weeks ending August 9, reflecting chiefly increases in holdings of United States Government obligations and the purchase by New York banks of a large share of a new issue of New York State short-term notes. Commercial loans continued to increase at New York banks but declined at banks in 100 other leading cities as corn and cotton loans that were approaching maturity were taken over by the Commodity Credit Corporation in accordance with a standing agreement. Deposits at reporting banks remained at high levels.

Excess reserves of member banks increased further to new high levels in the latter part of July and the first half of August, owing principally to gold imports and net Treasury disbursements, partly offset by a reduction in Federal Reserve bank holdings of Treasury bills.

Money rates

The average rate on new issues of 90-day Treasury bills has increased slightly in recent weeks and on August 10 was 0.032 percent. Prices of Treasury bonds showed little change from the middle of July to the middle of August.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-524



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1939.

Dear Sir:

There is enclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of July 1939 in response to the Board's letter of August 25, 1936 (X-9680).

In reply to the Board's inquiry made last month as to whether the banks considered the summaries of sufficient value to warrant their continuance and, if so, whether they would prefer them in shortened form or not, letters have been received from ten of the Federal Reserve banks. All but one express the desire to have the reports continued. One bank doubts their value and suggests that they be discontinued - at least temporarily until a need of them becomes apparent. A majority of the banks seemed to prefer having the summary in brief form, though it was pointed out by others that shortening the summary tended to make it lose much of its value.

In view of the foregoing, it has been decided to continue the preparation and distribution of the summaries.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

August 16, 1939.

To: The Board of Governors Subject: Summary of Bank Relations
From: Mr. Hammond, Division of Reports.
Bank Operations.

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of July. Excerpts therefrom will be found on the following pages, at the end of which is a table showing the number of visits made, meetings attended, and addresses delivered.

It should be borne in mind that the reports submitted by the Federal Reserve banks ordinarily do not include the whole of the bank's district, but only a certain portion or portions thereof covered by current visits. The following are a few of the items of interest included in the reports:

New York speaks of the situation of banks which have disposed of sizable blocks of Governments within the last few weeks, largely because of the desire to take profits on issues which were selling at near peak prices.

A small number of rural banks in the New York district are now borrowing to meet the local demand for credit.

Chicago reports that a number of groups in the Chicago area are interested in organizing banks.

While there is frequent complaint of bank examiners, Kansas City reports that many bankers say they find examinations genuinely helpful.

The Arizona legislature at its 1939 session completely revised the State's code of banking laws.

BOSTON

During the latter part of July visits were made to eighteen member banks and one nonmember bank. Only two industrial cities were included in the July itineraries, the other points visited being mostly small towns situated along Cape Cod and in the vicinity thereof.

The summer resort and tourist business, upon which this section of the State is largely dependent, was reported to have been adversely affected by unseasonal weather conditions during the first

few weeks of the season. At the time the section was visited trade was said to be in good volume and indications were favorable to its continuance throughout the remaining few weeks of the season. The only general complaint heard among the banks in this resort section is that they are unable to employ the seasonal deposit increase, which in the cases of some banks is as much as 50 per cent of the normal deposit line.

In the two industrial cities visited, a noticeably better business tone prevailed, and bankers interviewed reported that employment and payrolls had recently begun to show increasing tendencies. Retail trade in these cities was said to be good.

NEW YORK

Fairfield County, Connecticut

Most of the commercial banks now have some appreciation in their security lists which total approximately \$44,950,000. United States Government obligations represent about 65 per cent of the aggregate bond holdings as compared with 71 per cent last February. Ten institutions have disposed of sizable blocks of Governments within the last few weeks largely because of the desire to take profits on issues which were selling at near peak prices. The executives of most of these banks say they have realized enough profits on bond sales to justify holding the funds uninvested for a period of one and a half to two years if necessary, but one reports that income has fallen off to such an extent that his bank is now operating in the red and is waiting for the opportunity to repurchase some of the issues sold. The president of a bank which has only \$51,000 in bonds and which has been carrying more than one half of its deposits (\$2,200,000) in cash and bank balances for the past several years says that in spite of the examiner's criticism of the large amount of uninvested funds, he still feels that security prices are too high and therefore refuses to make any investments in the bond market.

Delaware, Otsego, Orange, Rockland, and Sullivan Counties, New York

Deposits of the commercial banks aggregate \$116,272,000, of which \$73,020,000, or approximately 63 per cent, are savings accounts. Deposits of the five savings institutions total \$41,389,000. The trend of interest rates paid by the commercial banks on savings accounts continues downward, but several bankers who are paying the higher rate indicate that their institutions will probably not make any reduction as long as the savings banks continue to pay 2 per cent. Some are hopeful that the State Banking Board will take some action to lower the legal maximum from the 2 per cent limit now in effect.

Herkimer, Madison, Oneida, and Onondaga Counties, New York

The pressure of unemployed funds is not so great in the rural areas as it is in the larger centers, and four banks in agricultural sections were borrowing money at the time of our visit in order to meet the demand for credit by farmers and the local municipality, school district, etc.

Most of the savings banks are now charging 5 per cent on their mortgages, some having reduced automatically from a former rate of 5-1/2 or 6 per cent and others agreeing to the reduction if mortgagors amortize their loans at least 5 per cent a year. These institutions are finding it difficult to obtain new mortgage loans as there has been very little building going on in this central New York area. In order to invest idle funds and to maintain their mortgage portfolios at a fairly stable amount, two of the largest savings banks have purchased Title II Federal Housing Administration insured mortgages amounting to \$1,800,000 and \$1,600,000 respectively.

Summary of Preferred Capital Issues

In the ten counties visited, there are 150 commercial banks, 104 of which have issued preferred stock, capital notes, or debentures aggregating \$18,490,844 par value. Up to the present time seventeen have paid off their entire issues amounting to \$1,167,500, sixty-five have made partial redemptions aggregating \$2,250,787, and twenty-two have not retired any - leaving eighty-seven banks with a total still outstanding of \$15,072,557 par value, retirable at \$24,586,032, reflecting a redemption premium of \$9,513,475.

PHILADELPHIA

Total resources of banks in this area are approximately \$6,200,000 or 3 per cent greater than they were a year ago. A somewhat better credit demand was reported in certain sections, while elsewhere the total of loans shows little, if any, increase. A greater number of banks are extending consumer and personal credit than heretofore and report satisfactory experience to date. In many cases, however, the volume which can be extended is not of great moment. Another outlet for funds is the granting of loans secured by assignment of life insurance policies with sufficient cash surrender value. Much of this, however, is merely shifting loans from insurance companies to banks.

Low returns on investments and scarcity of loans has resulted in further reductions of interest rates on deposits, although

the banks in this area are paying higher rates than prevail in many other parts of our district. The present schedule of rates is as follows: 14 banks pay 1-1/2 per cent; 47 banks pay 2 per cent; and 12 banks pay 2-1/2 per cent.

Banks issuing time certificates of deposit pay 1/2 per cent more on 12 month certificates than the rate paid for savings deposits, except where such deposits earn the maximum rate.

The desirability of investment in securities of good local companies was referred to by officers of two banks. One, a vice president of a national bank, believes that the Securities Exchange Commission should relax its regulations to permit small issues to be floated without so much expense and difficulty and contends that many such issues are prime investments and generally of more interest to local investors than issues of non-local concerns.

The other officer (who referred to this subject) is vice president of a member trust company. In his opinion, one of the things necessary for a return of stability is a better market for good local issues, which he considers to be the best investment for individuals today.

CLEVELAND

Bank visitation work was suspended for the months of July and August; and in consequence, no contacts have been made in the field.

There is quoted below, for the information of the Board, a copy of a resolution adopted by the West Virginia Bankers Association at their convention held at White Sulphur Springs on May 25-27, last:

"The independent operation of the Federal Reserve Banks is a matter of paramount importance. We believe the operation and control of policies of the Federal Reserve Banks should rest and remain with the stockholder member banks, independent of Treasury Department direction, and free from Governmental and political influence involving fundamental banking principles. The System, with its strength, influence, prestige, and efficient organization can easily provide, through its membership, the necessary and legitimate credit required by industry."

RICHMONDBaltimore, Anne Arundel, and Howard Counties, Maryland

The economic organization in these counties is in a process of transition from a purely agricultural to a combination of suburban and agricultural. There has been a rapid growth of population accompanied by a fairly proportionate growth of housing. Along with this growth have come a number of new community centers with shopping facilities. The residents are employed chiefly in Baltimore, Washington, and Annapolis.

As a consequence of these developments the income of these counties now depends in a large measure upon employment in the municipal areas from which workers commute to their homes in the outlying suburbs. Income from this source is still supplemented by farm income, which is now predominantly from dairying and poultry husbandry.

Thus the position of banks has been altered in that they no longer depend almost wholly upon farm loans, both short and long term, but rather upon personal loans and real estate mortgage loans. This change has not only altered the character of banking, but it also made for greater stability in the volume of business, for farm loans were subject to much fluctuation.

The significance of the change may be brought out by reference to one bank which has negotiated more than \$3,000,000 in FHA loans. The bulk of these loans were made against residential property constructed because of the movement of residents of adjacent cities to suburban communities. Practically all of these loans have been sold, the bank retaining their servicing. Buyers of these loans have bid as high as 103-1/4 and there has been no difficulty in disposing of those made under Title II of the Housing Act, since they have been selected with great care.

However, the impression should not be given that banks in general have gone in for FHA loans, for the contrary is nearer the truth. Most banks have strong cash positions and carry a considerable volume of Treasury bonds, which they regard as secondary reserve and, therefore, desirable notwithstanding their low yields.

ATLANTANorth Central Florida

The banks visited are located in a very fine general agricultural citrus growing area. General business conditions may be

described as fairly good. As a whole, the trend of bank deposits is upward; demand for loans is fair, and several of the banks visited have substantially increased their loans during the year ended June 30, 1939.

South Georgia

During the latter part of July our representative visited a number of banks in the tobacco belt in South Georgia. The tobacco markets were opened and the crop was being sold at prices considerably lower than those in effect last year. Some of the bankers interviewed shared the disappointment of the farmers at the comparatively low level of tobacco prices although they realized that the grade of this year's crop was somewhat inferior.

The banks in the area visited are dependent to a large extent on agriculture. Cotton, corn, and peanuts, as well as tobacco, are important crops. The raising of livestock is also growing in importance. The banks generally report an increased volume of deposits, as compared with a year ago, and the volume of loans also compares favorably with that of last year.

Crop prospects generally were reported as satisfactory, and our representative was advised at several banks that the farmers were in better condition than for several years past.

One member banker stated that since 1931 - when he was assured by officers of the Reserve bank that the Reserve bank would discount his paper - he had not refused a loan to any of his customers who were entitled to the credit applied for, except that in some instances he had prevailed upon his customers to borrow a little less than they thought they needed, and that, as a consequence, his bank had not lost any business to banks outside its trade area nor to any of the Governmental lending agencies.

Jackson, Mississippi

The bankers interviewed advised that the volume of loans shows an increase over that of a year ago. Due to the withdrawal of public funds deposits are somewhat lower than at the same date last year. Earnings in the first six months of 1939 were better than in the same period last year, accounted for by an increase in the loan portfolio and increased holdings of municipal bonds.

The average rate charged on loans by the local banks is 5 per cent. Three of the banks pay 2 per cent on savings while one has paid only 1 per cent for the past two years.

CHICAGO

Many banks have received payment for their corn loans, these payments, of course, adding to the present total of funds seeking employment. However, some of the smaller banks report an increased loan demand, some of this being in their usual lines of credit. A number of them are participating with the larger banks in term loans, and there is an increasing amount of FHA loans in the banks. Some complaint is heard concerning the recent reduction by the FHA in its rate from 5 per cent to 4-1/2 per cent, the banks stating that this not only makes it more difficult for them to maintain their rate on their regular uninsured mortgages, but is causing some dissatisfaction among their customers who have outstanding mortgages at a slightly higher rate. A number of loans to canners will have to be carried over because of the large inventory which has not been moved. One interesting phase in connection with the slightly increased demand is the frequent assertion of bankers that they do not intend to borrow when they have loaned their available funds.

Numerous inquiries are received from banks with respect to the procedure to be followed in surrendering trust powers, this because of the dangers or risks involved in acting as trustee.

A number of groups in the Chicago area are interested in organizing banks. However, the public is very cautious and quite lukewarm when it comes to subscribing for stock at a premium.

ST. LOUIS

During the month our officers visited 112 banks, of which 59 are in Kentucky, 27 in Illinois, 14 in Indiana, and 12 in Missouri.

Southwestern Illinois

In that section of Southern Illinois visited in July, agriculture of a fairly diversified character is the main source of livelihood to the inhabitants. Since the discovery of oil about two years ago, however, the area has undergone notable development. Incomes have been augmented by leases, royalties, production, and sale of petroleum and natural gas. A business boom of fair proportions is in progress, which is likely to continue for a considerable while.

Deposits have increased steadily and substantially since the oil boom started and at present are measurably higher than a year ago. Credit demand is reported fair for small loans, but

commitments of large size are in relatively small volume. Interest rates range from 4 to 6-1/2 per cent and from 1-1/2 per cent to 2-1/2 is paid on time deposits. Banks in the typical oil towns are handling a very large volume of checks and require heavy currency shipments, the cost of which is extremely irksome to nonmembers. A number of banks visited complained of scant income from loans, and these are making strenuous efforts to replace the loss by increased service charges and other expedients. All but a very few banks in the area are on the par list. Reports relative to earnings vary rather broadly. Quite generally bankers are endeavoring to improve farming conditions in their several communities.

The president of a Missouri nonmember when approached regarding membership, stated he was more favorably inclined in that direction by reason of the repeal of the law making membership compulsory for certain size banks if they were to retain deposit insurance. He indicated that he had given further consideration to membership, referring particularly to the booklet recently received from the Board of Governors, but stated there was nothing he could do at this time to further the matter. This is the third time the same officers of our bank have visited officers of this nonmember and not until this visit have they seemed to be interested even mildly in membership.

Officers of a Missouri State member again referred to the non-par situation and inquired what was being done about it. They called particular attention to the difficult situation of a bank like theirs, with so many non-par banks in the vicinity. They charge exchange on all non-par points but have difficulty in explaining and justifying such charges. They indicated that non-par banks make similar charges on checks drawn on their bank, notwithstanding the fact that they are paid at par. Reference was also made to the fact that carrying the required reserve with us made balances with other correspondents less attractive, thus giving the nonmember non-par banks a distinct advantage over their bank.

MINNEAPOLIS

East Central Minnesota and Northwestern Wisconsin

At Stillwater, Minnesota, a member banker stated that they had been advised by one of the large Milwaukee banks that the latter institution was willing to par all cash items on Wisconsin banks whether or not such items were drawn on banks on the Federal Reserve System par list.

The feeling on the part of bankers visited relative to the Production Credit Corporation is somewhat mixed. In many instances,

the bankers did not feel that competition from this source was a matter of much concern to them, although there were several cases where the bankers were very much disturbed over competition of this nature.

Northwestern South Dakota and Western North Dakota

One banker said that he would be afraid of membership because he believed that the Board of Governors wished to acquire complete control of the nation's credit, and he was afraid of the consequences. He said further that he believed that the ambitions of the Board of Governors would not stop at the control of credit, but thought that the Board wanted to be in a position to tell all of the bankers in the country how to run their banks. He was asked whether he had read "The Federal Reserve System - Its Purposes and Functions". He said that he had not read it, but he went to his desk, took out the book, and said that he would take it home and read it carefully. The national banks and the one State member bank visited have nothing but good things to say for our services to them.

One or two bank officers said they did not like the idea of group banking, but admitted that group bankers were keeping their banks in excellent shape. Several of the small member banks would have difficulty in justifying their existence if it were not for the fact that distances between banks in North Dakota are now very great. To illustrate: One bank in a town of 450 persons has \$25,000 in capital, \$3,000 in surplus, \$38,000 in deposits, and \$14,000 in loans. Another bank in a town of 450 has a capital of \$15,000, surplus of \$10,000, deposits of \$76,000, and loans of \$8,000.

Northern Michigan and Northern Wisconsin

Deposits in the banks in this section are slightly down in total which, due to prevailing conditions, is to be expected. Banks on the whole are increasing their loans. In no case, did any banker say that they were not operating in the black. In many cases, bank earnings for 1938 were the largest in their history. Just recently a great many of the banks in this territory have gone into FHA mortgages and automobile paper.

Northeastern South Dakota, Southeastern North Dakota, and Western Minnesota

Loaning rates have been shaded since one year ago. It is also becoming more evident to country bankers that a healthy local demand is something to be grateful for. This is further impressed on these bankers by letters received from Eastern and Southern banks,

Mutual Savings banks, and individuals offering to place time funds up to \$5,000 at 2 per cent. As far as known, none of these offers are being accepted.

KANSAS CITY

In July in addition to other bank contacts an unusually large number of Nebraska banks were visited. In that State more than half of the nonmember banks are not on the par list and these nonpar Nebraska banks constitute the only serious problem of this kind in the Tenth District.

Without exception, these nonpar banks are very friendly to the Federal Reserve System. Generally banks are apologetic, the common excuse given for exchange charges being the need of revenue. That such charges are profitable may be seen from the case of a bank with a capital of \$25,000 where exchange charges run from \$5 to \$20 a day and average more than \$10. In another case earnings from this source were said to equal 1 per cent of deposits. Some of these banks freely admitted that service charges would be preferable as a source of earnings were it not for the fear that service charges would cause them to lose deposits. In a good many nonpar banks, however, the management appeared content to rest too heavily on exchange charges and lacked aggressiveness in developing new sources of revenue. There is considerable criticism of exchange charges on the part of the par banks.

Nearly all banks in eastern Nebraska hold sizeable amounts of CCC corn loans. In Burt County 2,000,000 bushels of corn were sealed and in Richardson County 3,325,000. In both counties another good crop is virtually made and bankers are beginning to wonder what corn is really worth. Many banks have passed on to city banks substantial amounts of corn loans. However, one bank reported they made no CCC corn loans. They said they tried it in 1937 but the farmers fed the corn. A few other cases were found where banks do not like, as they said, to fool with these loans.

In the two previous months the representative of this bank found bitter complaint of examinations from banks in southwestern Missouri. It is rather interesting to note that an almost exactly opposite situation was uncovered in eastern Nebraska. In the latter State many complimentary reports were heard. Many bankers said that examinations were found genuinely helpful.

DALLAS

Southwestern New Mexico and Southeastern Arizona

Mining and cattle raising are the principal industries of this section of our district. Copper mines and smelters are running

on a full time basis. In some areas, particularly those in the vicinity of Silver City, New Mexico, the silver content of copper ore is high and the price now being paid by the Government is adding considerably to the profits of the copper mines.

Cattle prices continue high, but this fact means little to the cattle growers of this region just now, because continued dry weather has damaged ranges to such an extent that cattle are in poor condition and very few contracts are being made for fall deliveries.

Generally speaking business activity is at a low ebb and no substantial revival of trade is expected in the near future. At Tucson, Arizona, however, the business situation and outlook are exceptionally satisfactory, due to a large inflow of tourists last winter, heavy spending for Government projects this year, and a large prospective production of long-staple cotton on the irrigated farms in the town's trade territory.

Bankers had but few comments to offer in regard to banking laws, regulations and pending legislation. The 1939 session of the Arizona Legislature completely revised the State's code of banking laws, and adopted many statutory reforms which the bankers of the State had been seeking for a number of years.

SAN FRANCISCO

Utah

Drouth conditions have prevailed generally over the State of Utah, broken only by a few local showers since spring and more general and heavier rains within the past few days.

Generally speaking, there is sufficient water in storage for irrigation of the better agricultural districts, and it is expected that average crops will be harvested from irrigated lands. The hay crop, however, is below normal, as the first cutting was quite light.

Dry land crops are considerably below normal, a few counties reporting one-fourth to one-third of normal production.

Rainfall is needed on the livestock ranges extending through Utah to the West slopes of the State of Colorado, the situation in some areas being reported as very near an acute stage.

R-524-a

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

July, 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	18	1	19	-	-	<u>1/</u>	<u>1/</u>
New York	101	33	134	2	340	-	-
Philadelphia	45	29	74	-	-	-	-
Cleveland	15	10	25	8	1,097	<u>1/</u>	<u>1/</u>
Richmond	15	13	28	4	932	-	-
Atlanta	16	11	27	-	-	-	-
Chicago	8	11	19	-	-	1	35
St. Louis	34	78	112	1	170	<u>1/</u>	<u>1/</u>
Minneapolis	94	147	241	1	50	-	-
Kansas City	24	23	47	2	105	-	-
Dallas	7	1	8	-	-	-	-
San Francisco	12	9	21	7	417	1	<u>2/</u>

-12-

1/ Not reported
2/ Broadcast

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers
of Monday, August 21, 1939.

August 19, 1939.

The Board of Governors of the Federal Reserve System announced today that the Federal Reserve banks will put into effect on September 1, 1939 certain changes in their check collection procedure designed to give member banks more prompt credit for checks deposited with the Federal Reserve banks for collection and to reduce the amount of work required in preparing the checks for deposit with the Federal Reserve banks.

Heretofore member banks have been given credit for checks deposited with the Federal Reserve banks in accordance with time schedules which were based on the actual time required to collect the checks. After September 1 the Federal Reserve banks will credit member banks within three days or less for all checks deposited with them for collection. Immediate credit or credit within one or two days will continue to be given for most checks.

The Board's Regulation J relating to the clearance and collection of checks and the check collection circulars and time schedules of the Federal Reserve banks have been revised. Copies are being sent by the Federal Reserve banks to all member banks and to all other banks which maintain deposit accounts with the Federal Reserve banks.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1939

Dear Sir:

For your information and assistance in replying to inquiries which may be received from your member banks, there is enclosed a copy of the Social Security Act Amendments of 1939 (Pub. No. 379, 76th Cong.), approved by the President on August 10, 1939.

It will be noted that all national banks and State member banks will become subject to the Social Security Act as of January 1, 1940, as the result of amendments made to the definition of the term "employment" contained in section 209(b) of that Act, and in sections 1426(b) and 1607(b) of the Internal Revenue Code.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, August 22, 1939.

The following ruling will appear in the Federal Reserve
Bulletin:

Capital Contribution Loans Between Members of a
National Securities Exchange

Section 4(f)(2) of Regulation T, as added to the regula-
tion effective May 22, 1939, provides as follows:

"In a special miscellaneous account, a creditor may---

"(2) Make loans, and may maintain loans, to or for any partner of a firm which is a member of a national securities exchange to enable such partner to make a contribution of capital to such firm provided (A) the lender as well as the borrower is a partner in such firm, or (B) the lender as well as the borrower is a member of such exchange, the loan has the approval of an appropriate committee of the exchange, and the committee, in addition to being satisfied that the loan is not in contravention of any rule of the exchange, is satisfied that the loan is outside the ordinary course of the lender's business, and that, if the borrower's firm does any dealing in securities for its own account, the loan is not for the purpose of enabling the firm to increase the amount of such dealing;"

The Board recently considered a case in which such a capital contribution loan was originally made between partners in the same firm, and thus qualified under clause (A) of the provision, but the lender later proposed to withdraw from the partnership. The

Board was asked whether the loan, because of its one-time status under clause (A), might be continued after the lender's withdrawal from the partnership, or whether the loan must then be terminated if it is not authorized by some other provision of the regulation.

It is the view of the Board that the permission granted by clause (A) continues only while the conditions specified therein are met. Accordingly, such a loan between partners in the same firm may not be continued after the lender withdraws from the partnership unless the loan can qualify under some other provision of the regulation.

In the particular case presented, the lender after withdrawal from the partnership was to continue to be a member of the national securities exchange of which the borrower was a member. Therefore, if the loan is approved by an appropriate committee of the exchange pursuant to clause (B) of section 4(f)(2), it could, of course, be continued pursuant to that provision.

For the sake of completing the answer to the question presented, however, it is necessary to consider one other possible alternative, that is, the possibility that the loan could qualify under section 4(f)(8) of the regulation, which provides for loans that are "for any purpose other than purchasing or carrying or trading in securities".

The reason section 4(f)(8) may be relevant to the question presented in this case is that while the exact relation of

the instant loan to the business of the borrower's firm was not entirely clear, it appeared that the borrower's firm was engaged not only in the securities business but also, and to a very considerable extent, in the commodity business. There would, therefore, be at least some possibility that the loan in question could qualify as a loan for a "purpose other than purchasing or carrying or trading in securities".

Whether the loan could in fact so qualify would depend, of course, upon the facts of the particular case, and instances where capital contribution loans could so qualify would be rather rare. In certain cases, of which the present case involving a considerable amount of commodity business might turn out to be an example, it might be possible for a loan to be made under such conditions that it could actually be identified as being for a "purpose other than purchasing or carrying or trading in securities". It is evident, however, that it would be rather unusual for a capital contribution loan to be thus identifiable. The business of the average securities brokerage firm is so bound up with purchasing, carrying or trading in securities - either for its own account or for the account of customers - that a loan to a partner in such a firm to enable him to make a contribution of capital to the firm usually could not qualify as being for a "purpose other than purchasing or carrying or trading in securities".

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release

August 22, 1939.

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. Charles P. McCormick, President, McCormick & Co., Inc., Importers, Exporters and Packers, Baltimore, Maryland, as a class "C" director of the Federal Reserve Bank of Richmond for the unexpired portion of the term ending December 31, 1941.

R-529

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release.

September 1, 1959.

The Board of Governors of the Federal Reserve System announces that in view of current developments in the international situation, the Federal Reserve banks are prepared at this time to make advances to member and non-member banks on Government obligations at par at the rates prevailing for member banks.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-530



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 2, 1939.

Dear Sir:

In connection with a research project on the subject "Changes in the Financial Requirements of American Business, Trends in Commercial Borrowing, and the Demand for Short-Term Capital Loans", the National Bureau of Economic Research has indicated to the Board that it would like to obtain from the Federal Reserve banks certain information from the industrial loan application blanks received under Section 13b. It is our understanding that the information desired covers data from the financial statements of the applicants and that it does not entail revealing to representatives of the National Bureau the identity of individual applicants. You may make such arrangements as you desire to safeguard the confidential nature of the information. You will receive a request from the National Bureau setting forth in detail the information desired.

This letter is to inform you that the Board of Governors has no objection to your supplying the National Bureau of Economic Research with information of this character.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

LETTER TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-531



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 11, 1939

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the six forms attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

<u>Number of copies</u>	<u>Form</u>
	Form F. R. 105 (Short form), Report of condition of State bank member.
	Form F. R. 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
	Form F. R. 105e, Publisher's copy of report of condition of State bank member.
	Form F. R. 220, Report of affiliate or holding company affiliate.
	Form F. R. 220a, Publisher's copy of report of affiliate or holding company affiliate.
	Form F. R. 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

The first form listed above is the condensed form of State bank member call report which, as stated in the Board's letter S-170 of August 4, 1939, has been adopted for use on spring and autumn calls. Please advise State bank members that it will be the Board's policy to use the condensed form hereafter on such calls. As in the case of the complete form, however, minor changes may be necessary in the condensed

form from time to time. Please call the State bank members' special attention to the fact that the face side of the condensed form is identical with the face side of the regular form, except that the references to the related schedules are omitted; that, accordingly, existing arrangements for the single, joint publication of condition reports rendered by State bank members to Federal Reserve banks and State banking departments, respectively, are not affected; and that, since the condensed form is basically the same as the regular form, no separate instructions have been printed covering the preparation of reports on the condensed form, and the regular instructions, form F. R. 105a, should be used in preparing reports on the condensed form, in so far as they are applicable.

A minor change has been made in form F. R. 105b (Schedule "O"), by changing the specific reference to Schedule FF in the block appearing in the upper left-hand corner to a general reference to the affiliate schedule. This was done because Schedule FF of the regular form has been designated as Schedule E in the condensed form. No change has been made in any of the other forms listed above.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosures 6.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-532

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 11, 1939.

Dear Sir:

Referring to our letter of July 24, 1939 (R-512), with regard to the declaration of value in the shipment of Government securities by express, there is enclosed herewith merely for your information a copy of a letter received from the Vice President of the Federal Reserve Bank of St. Louis, together with a copy of a letter received by that bank from the St. Louis Division of the Railway Express Agency with regard to this subject.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Enclosures 2.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT ST. LOUIS.

COPY

H-532-a

FEDERAL RESERVE BANK
OF
ST LOUIS

August 29, 1939.

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Attention: Mr. Morrill.

Gentlemen:

The Board of Governors letter R-512 dated July 24, 1939, indicates that some of the Reserve banks in shipping securities by express are declaring such securities in certain instances at a nominal value and that by so doing Reserve banks may be failing to comply with the tariff regulations of the Interstate Commerce Commission.

At the request of member banks in other districts this bank has made some air express shipments of securities and declared them at a nominal or stated value rather than the par or market value. Since the question of proper declaration has been raised we contacted the local office of the Railway Express Agency requesting an opinion as to whether our practice in this connection would in any way be in violation of the tariff regulations. We have received an opinion on the subject and, believing that you may be interested, are enclosing a copy of it.

While we have not had any shipments of securities by rail express it would be our practice to declare as nearly as possible the actual value of the contents.

Very truly yours,

(Signed) O. M. Attebery

O. M. Attebery,
Vice President.

COPY

R-532-b

RAILWAY EXPRESS AGENCYST. LOUIS DIVISION

August 28th, 1939

Federal Reserve Bank
St. Louis, Missouri

5-A-2

Attention: Mr. Gilmore

Gentlemen:

Shipments of Bonds and Securities In
Air Express Service

In connection with the discussion we had some time ago concerning the acceptance of bonds and securities for air express service via Railway Express Agency lines, I have the following interpretation from our General Traffic Manager Wheeler in New York City:

"Our Air Express Tariff No. 6 is all-inclusive; in other words, this tariff is not governed by our Official Express Classification, and any instructions in the Classification applying to a shipment of bonds and securities have no effect when such bonds or securities are forwarded exclusively in Air Express service; consequently there is no law violation or violation of our Classification when bonds and securities are forwarded exclusively by Air Express with less than the actual or market value declared by the shipper. However, any such shipments which may move part rail and partly by air would then come within the provisions of our Classification and actual or market value must necessarily be declared."

Yours truly,

(Signed) J. G. MARSTON
Superintendent

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 12, 1939

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes from August 1 to August 30, 1939.

Very truly yours,

A handwritten signature in cursive script that reads "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
August 1 to August 30, 1939.

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	47,000	7,000	-	1,000	55,000	\$ 5,060.00
New York	158,000	39,000	-	-	197,000	18,124.00
Philadelphia	20,000	10,000	-	8,000	38,000	3,496.00
Cleveland	53,000	12,000	-	-	65,000	5,980.00
Richmond	20,000	12,000	-	-	32,000	2,944.00
Atlanta	4,000	6,000	-	-	10,000	920.00
Chicago	145,000	54,000	1,000	-	200,000	18,400.00
St. Louis	19,000	4,000	-	-	23,000	2,116.00
Minneapolis	13,000	4,000	-	2,000	19,000	1,748.00
Kansas City	11,000	6,000	-	3,000	20,000	1,840.00
Dallas	10,000	3,000	-	3,000	16,000	1,472.00
San Francisco	<u>96,000</u>	<u>39,000</u>	<u>-</u>	<u>6,000</u>	<u>141,000</u>	<u>12,972.00</u>
	<u>596,000</u>	<u>196,000</u>	<u>1,000</u>	<u>23,000</u>	<u>816,000</u>	<u>\$75,072.00</u>

816,000 sheets @ \$92.00 per M \$75,072.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-534



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1939

Dear Sir:

There is enclosed for your information a copy of the Board's Functional Expense Exhibit for the first half of 1939, which has been compiled from the semi-annual functional expense reports (Form E) received from the Federal Reserve banks and branches. Additional copies are being forwarded under separate cover.

It will be noted that columns have been added to the Provision of Space function to show the square foot cost of maintenance of floor space and the rates charged the Treasury Department and Government agencies.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-535



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1939

Dear Sir:

There is enclosed for your information a copy of the Board's Functional Expense Exhibit for the first half of 1939, which has been compiled from the semi-annual functional expense reports (Form E) received from the Federal Reserve banks and branches.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-536 96

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1939

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of August 1939.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System.

In the past you have been requested to send wire advice of this credit to the Federal Reserve Bank of Richmond, but hereafter it will be satisfactory if mail advice is sent.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT RICHMOND

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF AUGUST, 1939

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses(1)	Expenses Paid by banks and Board(2)	Payable to Board of Governors
Boston	26,282	520	26,802	\$ 589.68	\$ 323.72	\$ 265.96
New York	69,099	--	69,099	1,520.26	1,053.16	467.10
Philadelphia	19,519	520	20,039	440.88	241.60	199.28
Cleveland	39,488	529	40,017	880.42	373.39	507.03
Richmond	28,202	519	28,721	631.90	212.39	419.51
Atlanta	46,205	525	46,730	1,028.12	242.30	785.82
Chicago	68,319	900	69,219	1,522.90	1,285.53	237.37
St. Louis	48,522	519	49,041	1,078.96	296.26	782.70
Minneapolis	21,903	517	22,420	493.27	196.91	296.36
Kansas City	49,258	525	49,783	1,095.29	259.21	836.08
Dallas	41,833	608	42,441	933.75	269.63	664.12
San Francisco	48,747	611	49,358	1,085.93	369.34	716.59
Board of Governors	237,415	--	237,415	5,223.42	11,401.34	--
Total	744,792	6,293	751,085	\$16,524.78	\$16,524.78	\$6,177.92

(1) Based on cost per word (\$.022001212) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,567.59) and wire rental (\$9,833.75). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

R-537

98

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, September 18, 1939.

The following summary of general business and financial conditions in the United States, based upon statistics for August and the first half of September, will appear in the October issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Industrial activity, which had increased substantially during the summer, showed a sharp advance in the first half of September after the outbreak of war in Europe. Prices of basic commodities and equity securities rose sharply while prices of high-grade bonds declined.

Production

In August, the Board's seasonally adjusted index of industrial production was at 102 per cent of the 1923-1925 average as compared with 101 per cent reached in July. Volume of manufacturing production increased further, but mineral production declined, owing to a temporary curtailment in output of crude petroleum. In the iron and steel industry output increased somewhat further in August and rose sharply in the first half of September, steel ingot production reaching a rate of 70 per cent of capacity in the week ending September 16 as compared with about 63 per cent at the beginning of the month. Automobile production showed about the usual sharp seasonal changes in this period as the shift to new model production was being made. Output of plate glass increased sharply. Production of nondurable manufactures advanced in August, reflecting chiefly increased activity at cotton and woolen textile mills. At meat-packing establishments activity declined less than seasonally, while at flour mills, where output has been at a high rate in recent months,

there was not the usual large seasonal increase. Shoe production advanced seasonally. At coal mines output increased by about the usual seasonal amount and shipments of iron ore were at the highest rate of this season. Petroleum production declined sharply during the latter half of August, reflecting shut-downs of wells in most of the principal oil producing states, but increased rapidly in the first half of September when the wells were reopened.

Value of construction contracts, as reported by the F. W. Dodge Corporation, increased somewhat in August, owing to larger awards for publicly-financed projects, including several large dams and an increased volume of United States Housing Administration projects. Private residential building showed little change, although there is usually some seasonal decline. Other private construction, which in July had been the highest for any month in two years, declined in August.

Distribution

Department store sales increased more than seasonally from July to August. The Board's adjusted index advanced from 86 to 89 per cent of the 1923-1925 average and was at about the level reached in the latter part of last year. Sales at variety stores showed little change in August.

Freight-car loadings rose somewhat further in August, reflecting chiefly continued increases in shipments of coal and miscellaneous freight.

Commodity prices

Prices of most basic foodstuffs and industrial materials advanced sharply in the first half of September. Prices of wheat, corn, sugar, cocoa, and vegetable oils as well as of hides, rubber, wool, zinc, and tin showed the largest increases. The general level of wholesale commodity prices as measured by the Bureau of Labor Statistics index rose 3.1 points and in the

week ending September 9 was at 78.4 per cent of the 1926 average, about the same level as a year ago.

Agriculture

Crop prospects showed some improvement on September 1 over a month earlier, according to the Department of Agriculture. Indications are that production of all leading crops except cotton will be average or above average in volume. A cotton crop of 12,380,000 bales, about 10 per cent below the 1928-1937 average, is forecast. This compares with a crop of 11,940,000 bales in 1938 and an estimated world consumption of 11,265,000 bales of American cotton during the past season.

Government security market

Average yields on long-term Treasury bonds, which had advanced fractionally since last June, increased sharply by about 1/2 of 1 per cent in the latter half of August and early September. In pursuance of the System's policy of endeavoring to maintain orderly conditions in the money market, the Federal Reserve banks during the first half of September increased their holdings of Government securities by about \$400,000,000. On September 1 the Board of Governors of the Federal Reserve System announced that the Federal Reserve banks are prepared at this time to make advances on Government obligations to member and nonmember banks at par and at the same rate of discount.

Bank credit

Total investments held by reporting member banks in 101 leading cities declined during the first half of September. At New York City banks the decline represented the redemption at maturity of Federal Farm Mortgage Corporation bonds and at banks in other leading cities it represented the sale of Treasury bills and bonds. Commercial loans of city banks showed a substantial growth during August and the first half of September.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

101

R-538

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 18, 1939.

Dear Sir:

There is enclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of August, 1939 in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written over a horizontal line.

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

September 13, 1939.

To: Board of Governors
From: Mr. Hammond, Division
of Bank Operations

Subject: Summary of Bank
Relations Reports.

Reports of bank relations as requested in the Board's letter of August 25, 1936 (X-9680) have been received for the month of August. Excerpts therefrom will be found on the following pages, at the end of which is a table showing the number of visits made, meetings attended, and addresses delivered.

It should be borne in mind that the reports submitted by the Federal Reserve banks ordinarily do not include the whole of the bank's district, but only a certain portion or portions thereof covered by current visits. The following are a few of the items of interest included in the reports:

A subject of general interest perhaps more frequently mentioned than any other is improved bank earnings. These are commented upon by fully half of the Reserve banks.

Improved business conditions are also the subject of rather general comment.

Chicago reports a more active market in farm lands, though with no advance in prices.

Some of the reports include reference to the European war and its effect upon agricultural prices and bond portfolios.

BOSTON

During August visits were made to fifty-eight member banks, seven branches of member banks and eleven nonmember banks. No large industrial city was included in the itinerary, most points visited being principally summer resorts and small trading centers in Maine, Massachusetts, and Vermont. Scattered throughout the sections visited are a number of cotton, woolen, and paper mills, shoe factories and wood-working plants, all, at the time, reported to be gradually increasing both working hours and employment.

In the agricultural sections, along the Connecticut River in Massachusetts and in central and northern Maine, crops were reported to be adversely affected due to unfavorable weather conditions during the early growing season.

There was no general complaint on the part of the banks visited, and at no bank was any criticism heard of the operations and policies of the Federal Reserve System or of this bank. The banks generally referred

to a lack of sufficient volume of loans and satisfactory investment outlets, but practically at all banks visited deposits and loans had increased within the last six months and earnings for that period were greater than for the corresponding period of last year. Concern as to possible unfavorable trends in the Government bond market was evident from conversation with a number of bankers. This became increasingly apparent during the last week in August and the position of the Board of Governors and this bank in relation to the member banks holdings of Government securities, as recently announced, answers directly the question often asked by member bankers as to the support the member banks might expect through the loaning facilities of the System.

NEW YORK

Allegany, Livingston, and Wyoming Counties (Buffalo Branch Territory).

At the present time thirteen banks are paying 1-1/2 per cent on their time deposits, and twenty-two institutions pay 2 per cent. The seventeen banks of Allegany County are included with those institutions paying the higher rate, but the Allegany County Bankers' Association is giving consideration to a rate reduction to take effect October 1. It is not believed, however, that concerted action will be taken, as the managements of four of the banks are not in favor of any change. The officers of these banks express the opinion that earnings in their particular institutions justify continuance of the 2 per cent rate. One is paying dividends to common stockholders at the rate of 8 per cent per annum, another is paying a 7 per cent dividend, and officers of these institutions say they feel it would be unjust to penalize depositors when they can afford to pay large dividends to stockholders.

Suffolk County.

Several of the investment portfolios consist almost entirely of Government securities and for this reason most of these banks have eliminated their bond supervisory services and now depend chiefly on their New York correspondent banks and brokerage houses for bond information. More than half of the banks in the county have some appreciation in their list and only two have a depreciation which is causing concern.

Hunterdon, Somerset, Sussex, and Warren Counties, New Jersey.

Interest on savings deposits is being paid at the rate of 1 per cent in conformity with the order issued by the Commissioner of Banking and Insurance of New Jersey on June 15. Although a majority of these banks heretofore paid interest at 1-1/2 per cent, the officers of all but a few banks express dissatisfaction with the reduction ordered by the supervisory authorities. The chief comment is that it falls on the depositor who is least able to bear it and will work a hardship on many old and retired persons who have depended upon the income from their savings to meet living expenses. A number of bankers express the opinion that this low rate will tend to destroy the incentive for saving, and some believe it will divert savings into speculative securities. Several assert that the

State Banking Department initiated the reduction to save weak state institutions which should not have been allowed to reopen after the banking holiday. One banker remarked that it is paradoxical for the supervisory authorities to say that banks cannot pay more than 1 per cent on savings while the Government pays 2.90 per cent on United States Savings Bonds, and that it appears to him the reduction was a move to drive savings out of the banks. It is reported that few withdrawals of deposits resulted from the reduction in rate, but that sales of United States Savings Bonds in the State showed a large increase during July. It is expected that the lowering of the interest rate will bring about a decrease in expense, and several bankers state that they now can afford to buy better grade bonds. An officer of a nonmember bank, which owns considerable other real estate, has noticed an increase in the number of inquiries for properties recently, and believes savings will gradually be invested in real estate which will be of material benefit to many banks.

Summary of Preferred Capital Issues.

In the eight counties covered by this report, there are 114 commercial banks, 71 of which have issued preferred stock, capital notes, or debentures aggregating \$7,693,570 par value. Up to the present time twenty-three have paid off their entire issues amounting to \$1,678,000, thirty-seven have made partial redemptions aggregating \$1,741,310, and eleven have not retired any - leaving forty-eight banks with a total still outstanding of \$4,274,260 par value, retirable at \$5,824,528, reflecting a redemption premium of \$1,550,268.

PHILADELPHIA

East-central and Southern Pennsylvania.

Conditions in the area covered by this report show an improvement over those of a year ago. Textile plants in several towns are operating extra shifts and, except for the iron and steel industry, industrial activity presages a much brighter future. The American Car and Foundry Company has had its engineers working 24 hours a day for the past several months, experimenting with electric welding. This company was said to have a large order for tank cars to be used in the transport of wine, but operations thereon will not be started until the electric welding method has been perfected. A nationally known radio company has increased its force from 400 to 1,000 persons within the past year and, according to reports, will employ about 1,800 within the next twelve months.

The anthracite industry experienced good business last winter and in several sections operations have been fairly well maintained throughout the summer. The stock of coal usually carried above ground at this season of the year has been depleted because of extra orders resulting from the bituminous coal strike and it will, therefore, be necessary to increase production as the season of heaviest demand is approaching. The principal cause of concern in this industry at present appears to be the lack of stabilization of prices. The smaller coal companies, generally, are

operating on a very limited capital and, in order to get money for pay rolls, many sell stocks of coal for whatever price can be obtained.

Conditions in the agricultural sections are fairly satisfactory. Although early crops were disappointing because of dry weather, recent rains have improved conditions to the extent that late crops have produced very well. The chief complaint of the farmers was said to be low milk prices.

The real estate market is quiet. Houses are well rented at satisfactory figures, but few sales are being effected. Several communities report a shortage of houses but the need has not as yet resulted in any appreciable amount of new construction.

There is only a fair demand for credit and the lack of earning opportunities is a serious problem at many banks. In an effort to increase income, several banks are purchasing FHA mortgages and their experience to date has been most satisfactory.

Bond accounts in most instances are worth less than book value. Several bankers reported that they are making every effort to strengthen their holdings and have confined recent purchases chiefly to Government obligations.

The cashier of a national bank, having about \$10,000,000 in deposits, complained about the insistence of examiners that greater reductions be obtained on slow loans. He contends that, as a result of the bank's efforts to comply with the examiners' recommendations, many borrowers will cease to do business with the institution as soon as their current loans are repaid. This banker stated that he is of the opinion the Federal Reserve banks should examine all member banks within their districts as he believes their examiners to be better qualified than other bank examiners.

The president of a national bank, with deposits of about \$1,400,000, contends that examiners are entirely too critical regarding loan liquidation. He stated that, because of constant criticism, his directors have adopted a loaning policy which he considers to be unnecessarily rigid.

CLEVELAND

Our regular bank visitation program was suspended during vacation season and will be resumed about the middle of September, following five group meetings in the State of Ohio.

During the month of August, six Ohio State banks were admitted to membership in the System. Total resources of these institutions are \$5,490,000. Ten additional applications for membership have been received, and nine of these banks have already been examined.

During the month, twenty-two visits were made to nonmember banks for conferences with bank officers or directors, looking to membership.

RICHMONDPrince Georges and Montgomery Counties, Maryland.

These two counties, bordering on the District of Columbia, have become increasingly suburban communities, and with this development agriculture has become relatively less significant. The same may be said of Arlington and Fairfax Counties on the Virginia side of the District.

There has been a marked growth of residential and personal loans, both on an amortization basis. The volume has been so good that banks have had little need to invest in bonds, although some Treasury issues have been purchased for what is referred to as "secondary reserves". There is still some credit extension for agriculture, but the volume has declined and is relatively small.

It is reported that the present trend towards real estate loans is considered much safer than that which developed prior to 1929. For one thing, there is an avoidance of concentration and a better distribution of risk. Moreover, it is believed that Government employees are far less likely to default or fall in arrears of payment, because they are not so subject to cyclical business fluctuations as are members of agricultural and industrial groups.

Southwestern Virginia.

Generally speaking, the volume of loans has been well maintained, largely because of the greater interest on the part of bankers in personal income loans and in a more aggressive attitude with respect to new business. Most banks charge 6 per cent on loans, but lower rates are made for especially attractive loans. Here, too, some banks maintain that they should pay as high a rate as possible on time deposits because their depositors "stuck by them" during the banking troubles. Hence the incentive to charge 6 per cent on loans.

For the augmentation of earnings there is a growing tendency to install service charges, but there is no great uniformity of practice and a reluctance to adhere rigidly to any schedule that may be proposed. There is evidence of adjustment to changed economic conditions, but there is hesitation and even resistance to change, particularly with respect to the 6 per cent rate on local loans. Nevertheless, most banks have experienced a profitable half year of operations and so long as this continues they are not disposed to change their methods.

Southwestern West Virginia.

In addition, an increasing number of banks are availing themselves of service charges, though the methods employed are not uniform. It is reported that the West Virginia banking authorities favor a uniform schedule of service charges and that, in some manner, it has been rumored that the Board of Governors favor a similar plan for member banks.

Western North Carolina.

There has been a fair demand for loans and this has been stimulated by aggressive action of banks that have encouraged customers to borrow from them rather than from trade creditors and others. The bulk of all loans are made at 6 per cent, a smaller volume at 5 per cent, and a few at 4 per cent. There is competition from outside banks for the business of the larger and better known manufacturing concerns, but this has not been sufficient to induce a lowering of the lending rates.

As for earnings, it may be said that banks in this region will show better earnings for the first half of 1939 than for the corresponding period in 1938. In this respect member banks are handicapped relative to nonmember banks, because the latter derive considerable earnings from exchange charges. This is a factor which often makes for lukewarmness on the part of member banks towards membership in the Federal Reserve System and it is the chief obstacle to encouragement of membership among nonmember banks.

ATLANTANorth Alabama.

All of the banks visited are in towns located in farming sections. Gadsden and Huntsville serve agricultural trade areas and, in addition, possess a number of manufacturing concerns. These two cities are very prosperous and optimism prevails. Practically all the plants in Gadsden are operating on full schedule. A number of textile mills are located in Huntsville and it was reported that, with the settlement of labor difficulties, three large mills are now on a full time basis.

The crops in the section visited are in excellent condition. This is especially true of the cotton crop and it is expected that the yield will be at least as large as that of last year.

Southeastern Alabama and Southwestern Georgia.

The bankers in the towns of Newnan, LaGrange, and West Point, Georgia, and Opelika and Montgomery, Alabama, all reported that the textile mills in their localities were operating on a full time basis. The employment situation is satisfactory, and the mercantile establishments are doing well. Crop conditions in the section northeast of Montgomery, Alabama, are good.

Several of the bankers visited stated that their experience with FHA loans had not been altogether satisfactory, due to the time required to service the loans properly and to keep in touch with the physical condition of the properties. Several of the banks have disposed of their FHA loans, with the exception of a number of selected risks.

Very favorable comment was heard from a number of bankers with regard to the statement of operating ratios prepared by the Federal Reserve

Bank of Atlanta covering member bank operations for the year 1938. The bankers stated that such information was helpful in comparing the results of operation of their own bank with those of other banks in their group, and several of the bankers stated that such comparisons had been brought to the attention of the directors of their banks.

Northeastern Georgia.

As a general rule, the present condition of the cotton crop in the section visited is good, although the corn crop is only fair. With few exceptions, deposits are up and loans little changed. While most of the bankers stated that they were looking for good loans and investments, all reported nevertheless that earnings were more or less satisfactory and that dividends were being paid.

Middle Tennessee.

Present and prospective banking conditions in a wide area surrounding Nashville are extremely favorable. All of the banks visited are anticipating good profits for the year.

The agricultural outlook for the section visited, which is devoted largely to Burley tobacco, is extremely favorable at the present time and unless there is an unusual amount of rainfall the tobacco crop should be of excellent quality and demand a good price. It is expected that a large amount of money will come to this section this fall from the sale of live stock. The bankers are very much encouraged by the increase in demand for loans. Sentiment toward the Federal Reserve System continued to be favorable.

CHICAGO

Bankers from Aurora, Springfield, Decatur, and Bloomington, Illinois, and Fort Wayne, Indiana, report earnings for the six months of 1939 ranging from 12 to 22 per cent in excess of earnings for the corresponding period last year. Recent reports from numerous other banks indicate improvement in investment accounts, and a great many have eliminated their sub-standard bonds. A majority of banks that have had non-recurring bond profits have conserved these profits in various forms of reserve in order to take care of anticipated bond depreciation. Some banks are enjoying moderate gains in loans, largely attributable to FHA loans. Country banks continue to show a larger percentage of excess reserves than other classes of banks.

Two national banks in the Seventh District made application for conversion into State institutions, and one nonmember State bank applied for a National charter. Three applications for membership in the System were received by this bank during the month.

Crop prospects are excellent. Favorable weather conditions the last week in August benefited corn by hastening maturity of the crop.

In some parts of the district, more interest has been displayed recently in farm lands. While prices have not increased, there is a more active market with considerable land moving.

Sales of Seventh District department stores in August exceeded those of the corresponding month a year ago, and in the first eight months of the year were larger than in the same 1938 period.

Some increase in employment has been shown in the district during August. Pay rolls for manufacturing industries in Illinois, Indiana, and Wisconsin are up slightly, while there is practically no unemployment in rural districts, where a great deal of activity is reported by lumber companies, some of this due to building granaries and to residential building which has increased sharply.

ST. LOUIS

Taken as a whole, demand for bank loans in the Kentucky area was somewhat better than a year ago, reflecting moderate expansion in general business. Reports relative to profits varied widely, but nowhere were results superlative. Rates paid on time deposits range from one per cent to the legal maximum. There is a disposition in some communities to abolish interest-bearing deposits; a number of banks have already discontinued the practice. Rates received by the banks on customer loans range from 4 to 8 per cent. As elsewhere in the district there is general complaint of Government competition on loans, agricultural and building chiefly. Likewise there was outspoken dissatisfaction with the attitude of bank examiners and the close supervision of banks by the Government agencies. Rising taxes and scant demand for loans cut into profits. The sale of real estate loans by banks to their customers is not an uncommon practice.

One bank reported a good demand for small loans and because of limited funds available to meet such demand, the bank accepted three deposits of \$5,000 each for six months at a rate of 2-1/2 per cent. One of the deposits was made by another bank. This prompted inquiry by examiners, who apparently questioned the advisability of such deposits.

In the four Illinois counties, bank earnings, so far this year, are as good or better than for similar period in 1938. All the way from 1 per cent to the maximum allowed is paid on time and savings deposits, there being no uniformity in at least two of the cities visited. A number of banks that were paying 2 per cent or higher, stated they were giving serious consideration to reducing the rate paid on such deposits.

Six nonmember banks, believed to be eligible for membership, were visited, two of which displayed mild interest in membership, but leaned toward taking out national charters to get away from the double liability on stock. The president of one other bank stated he wanted to defer membership because of being afraid of too much domination by Washington.

More complaint was voiced, regarding what was termed the drastic policy of examination followed by the State and Federal bank authorities, than ever before.

The cashier of an Arkansas national bank made the comment that the State nonmember located in his town had taken some good business from his bank by establishing a branch in a nearby town. He felt that the discrimination against national banks in this connection should be corrected and that a State bank operating a branch should be under more strict supervision of supervising authorities.

MINNEAPOLIS

Northwestern Wisconsin.

Bank earnings in this area were universally reported to be satisfactory and there were a number of banks whose earnings are outstanding. The earnings have been wisely used to complete the clean-up of bond depreciation and other undesirable items before dividend payments are resumed. The demand for loans is increasing although most loans are of the monthly pay-off, dairy type and repayments nearly offset the new loans. A few banks have increased the size of their lending territory by encouraging the drivers for creamery companies to bring in loan applications from distant customers.

Only three nonmember banks in this area are eligible for Federal Reserve membership, i.e., have sufficient capital and no branches and are on the par list. None of the three expressed an interest in membership at this time. One of these banks would probably find its operations somewhat curtailed by Federal Reserve membership, for its largest borrowing customer is the President of the bank who operates a factory in the community.

There was no interest in the revision of Regulation J and the time schedule of our check collection department. Banks in this area send their checks to Milwaukee and object to sorting the par items and nonpar items separately. One banker stated that if we would take all items, whether par or nonpar, he would be glad to send all of his out-of-town checks to us for collection. Many of the nonmember State banks in this area operate stations which range all the way from a teller's booth in a butcher shop to banks which have enough deposits and enough activity to support an independently owned State bank. One or two of the stations are self-supporting on the basis of the volume of loans and deposits drawn from the community which would not flow to the parent bank without the existence of the station. Some of the stations are not self-supporting and the managers operate some other business, such as insurance to eke out a living wage. One station was stated to be operated entirely as a service to the store and other interests of the community which are owned by the principal stockholders of the parent bank.

There was much talk of the possibility of a European war and the effect of such a development on banking. None of the bankers seemed

apprehensive, for it was the general opinion that agricultural prices would rise in case of war and the farmers would have a period of prosperity.

Northeastern Minnesota and Northwestern Wisconsin.

Banking comment was almost entirely of a cheerful nature, especially in the strictly country banks where borrowing rates are never materially lowered, irrespective of the rates on deposits. There were not many banks where the local demand was sufficient to absorb available funds, but the broadened scope for charges now in effect at most banks has brought profits, in some cases, greater than in previous good years. One National bank paid 20 per cent last year, mainly because of a big insurance business. Automobile paper is giving many banks an important addition to revenues and the desire to get such paper has resulted in some lowering of rates. Housing paper is generally acceptable. Most paper being taken is on a fixed payment plan and a high percentage of loans at practically every bank require monthly payments.

Northwestern Minnesota.

Earnings at a large percentage of the banks visited are good. With a reasonably strong demand for loans at 8 per cent whereas rates on time deposits are only 2 - 2-1/2 per cent with the standard service charges in effect and with rather substantial earnings from other sources (insurance, auctions, occasional land sales, etc.) some banks are making money in this section of the State that would be running behind if they were located in the southern half. Both banks in one town of a 1,000 population claim to be making "excellent profits" even though their combined deposits are only three-quarters of a million! Their loans, however, are a half million, mostly at 8 per cent. In one county, all banks (except one national bank) charge \$1 semi-annually on all active checking accounts.

KANSAS CITY

During August visits were made to fifty-six Nebraska banks. A special effort was made to call on banks that might be interested in membership. Virtually all of these state banks were found to be friendly to the Federal Reserve System and a surprising number showed interest in becoming members. But for many of these institutions membership is a long way off. A great deal of house-cleaning would be necessary in many cases and existing capital structure would eliminate others. One bank was found where present reserve requirements would make membership out of the question.

While there are exceptions, many of these Nebraska banks have suffered a loss of deposits in the last year. That state has not had a normal corn crop since 1933 and this long period of adverse farm conditions is reflected in bank deposits and sentiment. These adverse conditions, coupled with increased competition of Government agencies of various kinds, are resulting in a considerable number of bank consolidations and quite a little talk of liquidation in individual cases.

A good many bankers in August were wondering whether they should not dispose of some of their Government securities at the very attractive prices then obtaining. One Nebraska bank was found with substantial investments yet holding no Federal Government securities.

Increasingly Nebraska farmers are cooperating with the agricultural program and most bankers appear to be advising farmers to do this. While there is difference of opinion regarding the wisdom and soundness of the agricultural program, bankers and farmers more and more are taking the position that the individual farmer should do what seems advantageous to him at the moment and let the future take care of itself.

In Nebraska a great deal of experimentation appears to be going on with different varieties of hybrid corn. In one community it is said that over twenty varieties had been tested in an attempt to get the one most suitable to that locality. Bankers say that farmers by planting hybrid corn can comply with the farm program and raise more corn on the smaller acreage than they formerly did with no acreage restrictions.

Visits to Kansas banks in August found many bankers and farmers expecting war in Europe and greatly interested in what would happen to farm prices in that event. It was generally expected that the price of wheat would rise. The opinion was expressed that even though a war should cause wheat prices to go above Government loan values many farmers would nevertheless leave their wheat under seal while making up their minds about selling.

DALLAS

South Texas.

Lean operating results are widely mentioned. Acceptable local credit outlets have all but vanished. This, along with low yields on investment securities, has kept income at low levels, barely sufficient to permit reduced or nominal dividend rates.

Fear over the future of bond prices was widely expressed. Reluctance to accept bond profits was generally voiced on account of the necessity for current income and the difficulty of making replacements. The limit of Savings bonds is being acquired by a wide list of banks in this section on account of the comparatively good return and elimination of market risk.

Only isolated complaints were registered against competition of Government lending agencies. On the whole, the bankers visited feel that the Government agencies are supplementary in that they supply credit to non-banking risks.

One nonmember bank, having deposits in excess of \$1,000,000, expressed a lively interest in membership, but stated that it desired to make certain improvements in its assets before filing an application. Another

nonmember, which pursues a rather aggressive loaning policy, declared that the System's present high reserve requirements make membership unattractive from its own point of view. Still another explained that membership had no attractions because its city correspondents duplicated the services offered by the Federal Reserve.

SAN FRANCISCO

Santa Barbara County, California.

Business in Santa Barbara is described as better than it has been for some time, owing to the fact that the tourist trade has picked up very materially in volume. The reason assigned for this is the European situation and the San Francisco Fair.

No particular interest in the FHA has ever been evidenced in Santa Barbara, in spite of quite extensive advertising by the banks. There is a feeling that there is too much delay in closing loans through the FHA, and this has worked to the benefit of the building and loan associations which finance practically all residence building there is.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

August - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	67	12	79	<u>1/</u>	<u>1/</u>	1	<u>2/</u>
New York	149	56	205	2	195	--	--
Philadelphia	84	24	108	--	--	--	--
Cleveland	27	2	29	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>
Richmond	83	44	127	--	--	--	--
Atlanta	68	47	115	1	125	<u>2/</u> 5	470
Chicago	22	13	35	--	--	1	100
St. Louis	26	70	96	3	330	1	85
Minneapolis	96	140	236	4	342	1	65
Kansas City	24	41	65	--	--	--	--
Dallas	12	10	22	--	--	--	--
San Francisco	10	7	17	10	1,228	<u>3/</u> 5	170

1/ Not reported.
2/ One broadcast
3/ Two broadcasts.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 18, 1939.

Dear Sir:

Attached is a copy of a letter which the Board, under date of August 28, 1939, sent to all banks in the United States following the distribution to them in June of the booklet "The Federal Reserve System--Its Purposes and Functions".

The Board has received, and is still receiving, a considerable number of letters in reply to this circular. Some of the letters received from nonmembers evidence an interest in membership: others from both member and nonmember banks express a desire for information in addition to that contained in the booklet or indicate a favorable or unfavorable attitude toward the System. It is believed that such replies will be of interest to the Federal Reserve banks, and therefore copies of these communications from within your District will be forwarded to you from time to time as received without covering letter.

Replies indicating an interest in membership or requesting information regarding matters falling within the field of Federal Reserve bank relations with banks in their Districts are being acknowledged with a statement that the inquiry has been referred to the appropriate Federal Reserve bank for attention.

Other replies which require no special consideration but which it is thought you would like to see will also be forwarded to you. Where a letter is particularly cordial or appreciative and no other factors are involved, it will, as a matter of courtesy, be acknowledged here prior to filing.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 28, 1939

Gentlemen:

In June of this year the Board sent you a copy of a booklet just published by it entitled *The Federal Reserve System - Its Purposes and Functions*. This publication was sent you, with the Board's compliments, in the belief that you would naturally be interested in a presentation of facts and a description of functions which are of importance to all persons engaged in banking.

Since it is the purpose of the publication to be useful and informative, the Board would appreciate very much your frankly expressed opinion of its interest and value to you. The Board would be glad to know what points you may feel are not clearly or sufficiently explained, and what, if any, should also be included. We shall be glad to answer requests for further information and to have suggestions which may be helpful in the preparation of future material.

If you should like to have copies of this book sent to any of your directors or officers, or to others who might be interested, please do not hesitate to ask for them.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-540

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 18, 1939.

Dear Sir:

On Thursday, October 12, Columbus Day, there will be neither transit nor Federal Reserve note clearing and the books of the Board's Interdistrict Settlement Fund will be closed. The offices of the Board and the following Federal Reserve banks and branches will be open for business as usual on that day:

Charlotte	St. Louis
Nashville	Little Rock
	Memphis
Detroit	Minneapolis
	Kansas City
	Oklahoma City

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-541

CANCELLED

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-542



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1939.

Dear Sir:

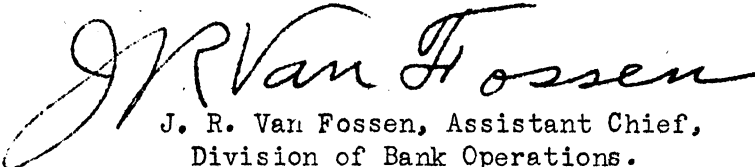
For your information there is enclosed a recapitulation of an audit submitted to the Secretary of the Treasury by Mr. M. R. Loanman, Chief, Division of Public Debt Accounts and Audits, showing the stock of incomplete face printed Federal Reserve notes, Series of 1928 and Series of 1934, and of uniform backs allocated to Federal Reserve notes, on hand at the Bureau of Engraving and Printing at Washington as at the close of business June 30, 1939.

In his letter transmitting the report to the Secretary of the Treasury, Mr. Loanman stated that: "The audit extended from June 29 to July 5, 1939, inclusive, and consisted of a piece count of the stocks of faces, Series 1934, (except part of the stock of \$5 denomination), and a package count of the uniform backs allocated to Federal Reserve notes. All stocks of Federal Reserve notes, Series 1928, and the stocks of the \$5 denomination, Series 1934, with the exception of those retained by the Bureau for specimen purposes and 4,000 notes of the \$5 denomination, Series 1934, retained by the Surface Printing Division for reference purposes, were piece counted and placed under the Auditor's seal prior to the audit. An inspection was made of the seals on the various bins containing these stocks and the seals were found to be intact.

"In view of the fact that a recent piece count has been made by this office of the entire stock of each denomination of uniform backs on hand in the Bureau, a package count and an inspection for denominations of the uniform backs allocated to Federal Reserve notes was deemed sufficient at this time.

"The total sheets of all denominations on the whole of Federal Reserve notes, faces and backs were found to be in excess of the total required reserve of 4,250,000 sheets."

Very truly yours,


J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

Enclosure

TO ALL FEDERAL RESERVE AGENTS

R E C A P I T U L A T I O N

FEDERAL RESERVE NOTES AND UNIFORM BACKS ALLOCATED TO FEDERAL RESERVE NOTES, SHEETS OF 12 SUBJECTS EACH
AS AT THE CLOSE OF BUSINESS JUNE 30, 1939

R-542-a

Series of 1928

Federal Reserve Bank	\$5	\$10	\$20	\$50	\$100	\$500	\$1,000	\$5,000	\$10,000	Total
Faces:										
Boston	68,660-2/3	1	--	6,663-2/3	11,313-1/3	1,535	293	15	24	88,535-2/3
New York	--	--	--	--	--	300	345	--	--	645
Philadelphia	--	--	--	30,105-1/3	9,974	399	100	--	--	40,578-1/3
Cleveland	76,711-1/3	--	1	21,026	12,306	30	252	50	25	113,401-1/3
Richmond	34,638-2/3	--	--	15,148-2/3	8,124	170	224	24	77	58,706-1/3
Atlanta	--	--	8,000	3,743	5,851-1/3	200	--	34	34	17,862-1/3
Chicago	1	--	61,858-1/3	36,341-2/3	30,660	698	402	79	32	130,072
St. Louis	--	--	--	5,423	3,982-1/3	474	300	--	--	10,179-1/3
Minneapolis	--	--	--	4,546	5,021-1/3	245	68	--	--	9,883-1/3
Kansas City	28,040-2/3	--	--	4,465	7,582-1/3	152	102	11	13	40,366
Dallas	--	27,871	23,712-1/3	2,989-2/3	3,001	60	250	9	7	57,900
San Francisco	--	--	92,731-1/3	8,922	12,251	200	226	40	48	114,418-1/3
Total Faces	208,052-1/3	27,872	186,303	142,674	110,099-2/3	4,463	2,562	262	260	682,548

Series of 1934

Faces:										
Boston	12,841-1/3	78,115-1/3	40,778-1/3	1,528	2,876	200	200	50	50	136,639
New York	144,966-2/3	213,143	156,263	52,535-1/3	44,881-1/3	412	1,190	51	41	613,486-1/3
Philadelphia	76,633-1/3	116,339-1/3	49,160-2/3	9,410-2/3	1,961-1/3	80	100	--	--	253,685-1/3
Cleveland	7,966-2/3	110,301	53,318-2/3	2,146-2/3	833-1/3	100	100	25	25	174,816-1/3
Richmond	7,766-2/3	71,366-2/3	44,833-1/3	2,502	1,380	400	230	98	50	128,626-2/3
Atlanta	31,675	11,166-2/3	28,566-2/3	4,744-1/3	4,464	400	402	90	46	81,554-2/3
Chicago	128,066-2/3	172,757-2/3	69,407	11,832-2/3	11,301	500	450	90	90	394,495
St. Louis	57,342-2/3	50,157-1/3	27,233-1/3	3,657-1/3	1,945-1/3	400	230	90	49	141,105
Minneapolis	26,133-1/3	41,000	29,166-2/3	937	3,852	200	100	--	--	101,389
Kansas City	8,366-2/3	41,133-1/3	29,033-1/3	3,474-1/3	4,150	400	300	99	48	87,004-2/3
Dallas	27,166-2/3	40,033-1/3	21,817	710-1/3	1,687-1/3	400	200	90	45	95,149-2/3
San Francisco	35,100	85,433-1/3	20,266-2/3	3,919	2,853-1/3	400	300	100	46	148,418-1/3
Total Faces	564,025-2/3	1,030,947	572,811-2/3	97,397-2/3	82,188	3,892	3,802	783	490	2,356,370

Backs:

Uniform Backs allocated to
the various denominations
of Federal Reserve Notes

568,500	656,500	630,500	94,100	43,400	--	--	--	--	1,993,000
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1939

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1940:

<u>Form</u>	<u>Title</u>
F. R. 34	Daily balance sheet. (Please state the number required for the head office and each branch separately, and indicate any special punching that may be desired.)
F. R. 38	Classification of discounted and purchased bills held at the end of the month.
F. R. 95	Monthly report of current earnings.
F. R. 96	Monthly report of current expenses.
F. R. 96a	Monthly report of reimbursable expenses.
F. R. 160	Monthly report of receipts and payments of paper
160A	currency.
160B	
160C	
E	Semiannual functional expense report.

Please show separately the number of copies of each form, except Form F. R. 34, required if revised and the number if not revised.

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-544



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1939

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required at your bank (including branches, if any) during the calendar year 1940:

<u>Form</u>	<u>Title</u>
F. R. 5	Federal Reserve notes - Daily statement of Federal Reserve Agent.
F. R. 44	Monthly report of Federal Reserve notes showing the number of each denomination and aggregate amount received, issued to bank, and returned to the Comptroller of the Currency.

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 9, 1939

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes from September 1 to September 29, 1939.

Very truly yours,

A handwritten signature in cursive script that reads "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
September 1 to September 29, 1939.

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>\$500</u>	<u>\$1,000</u>	<u>\$5,000</u>	<u>\$10,000</u>	Total Sheets	Amount
Boston	47,000	7,000	--	--	--	--	--	--	54,000	\$ 4,968.00
New York	90,000	39,000	60,000	30,000	6,000	4,000	200	50	229,250	21,091.00
Philadelphia	20,000	10,000	--	--	--	--	--	--	30,000	2,760.00
Cleveland	53,000	12,000	--	--	--	--	--	--	65,000	5,980.00
Richmond	20,000	12,000	--	--	--	--	--	--	32,000	2,944.00
Atlanta	4,000	6,000	--	--	--	--	--	--	10,000	920.00
Chicago	72,000	27,000	--	--	3,200	1,700	--	--	103,900	9,558.80
St. Louis	7,000	4,000	--	--	--	--	--	--	11,000	1,012.00
Minneapolis	13,000	4,000	--	--	--	--	--	--	17,000	1,564.00
Kansas City	11,000	6,000	--	--	--	--	--	--	17,000	1,564.00
Dallas	10,000	3,000	--	--	--	--	--	--	13,000	1,196.00
San Francisco	<u>46,000</u>	<u>24,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>70,000</u>	<u>6,440.00</u>
	<u>393,000</u>	<u>154,000</u>	<u>60,000</u>	<u>30,000</u>	<u>9,200</u>	<u>5,700</u>	<u>200</u>	<u>50</u>	<u>652,150</u>	<u>\$59,997.80</u>

652,150 sheets @ \$92.00 per M \$59,997.80

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 17, 1939

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of September 1939.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by mail the amount and purpose of the credit.

Very truly yours,

A handwritten signature in cursive script that reads "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF SEPTEMBER, 1939

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	25,325	896	26,221	\$ 574.22	\$ 280.63	\$ 293.59
New York	76,760	-	76,760	1,680.97	1,042.75	638.22
Philadelphia	19,851	932	20,783	455.13	244.69	210.44
Cleveland	38,204	913	39,117	856.63	321.01	535.62
Richmond	25,697	892	26,589	582.27	198.52	383.75
Atlanta	42,247	887	43,134	944.59	241.39	703.20
Chicago	65,672	1,255	66,927	1,465.64	1,285.98	179.66
St. Louis	44,162	888	45,050	986.55	298.90	687.65
Minneapolis	21,242	883	22,125	484.52	190.55	293.97
Kansas City	46,554	890	47,444	1,038.98	273.06	765.92
Dallas	35,669	920	36,589	801.26	272.95	528.31
San Francisco	47,475	900	48,375	1,059.37	369.34	690.03
Board of Governors	226,487	-	226,487	4,959.85	10,870.21	-
Total	715,345	10,256	725,601	\$15,889.98	\$15,889.98	\$5,910.36

(1) Based on cost per word (\$.02189906) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,711.19) and wire rental (\$9,159.02). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Friday, October 20, 1939.

The following summary of general business and financial conditions in the United States, based upon statistics for September and the first half of October, will appear in the November issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Volume of industrial production, which had turned up sharply last summer, advanced still more rapidly in the six weeks after the outbreak of war. Employment also increased but at a less rapid rate. Consumption of goods by industry and by individuals has not expanded so rapidly as production and orders. Buying of basic commodities, after a burst of activity in early September, has slackened considerably, but orders for many semi-finished goods and for finished products, particularly machinery and railroad equipment, have continued in large volume. Most orders have come from domestic sources. Prices of basic commodities advanced sharply in the early part of September, but in recent weeks prices of foodstuffs have declined while prices of industrial materials in most instances have been maintained. Prices of finished goods have shown a much smaller advance.

Production

In September the Board's seasonally adjusted index of industrial production advanced to 110 per cent of the 1923-1925 average as compared with 103 in August and 92 last spring. Increases in output of iron and steel, flour, sugar, meat products, and petroleum were particularly marked in September. In the steel industry ingot production rose from an average

rate of 61 per cent of capacity in August to 71 in September. In the first three weeks of October the rate advanced further to 90 per cent and actual volume of output was at the highest level on record. Flour production rose to near record levels and at meat-packing establishments activity was at the highest rate reached in several years. The sharp increase in output of crude petroleum followed a considerable reduction in the previous month and currently production is at about the high rate prevailing before wells were closed in the latter half of August.

In other industries increases in activity, though quite general, were not so marked. Automobile production showed a sharp seasonal rise as volume production of new model cars was begun at most plants, and in related lines, such as plate glass, activity also increased. Textile production increased somewhat further from the high level reached earlier. Shoe production, however, which had been in large volume in the first eight months of the year, decreased in September. Mineral production advanced generally and iron ore shipment schedules were expanded to build up stocks at lower lake ports before the close of the shipping season.

Value of construction contracts, as reported by the F. W. Dodge Corporation, rose further in September, reflecting a contraseasonal increase in private residential building. Other private construction showed little change and there was some reduction in the volume of new public projects, both residential and nonresidential.

Distribution

In September and the early part of October department store sales increased considerably. Freight-car loadings also advanced sharply, with

the most marked increases reported in shipments of coal and of miscellaneous freight, which includes most manufactured products.

Commodity prices

Wholesale prices of foodstuffs declined after the middle of September, following sharp advances earlier in the month. Prices of industrial commodities, which rose considerably until the third week in September, subsequently were generally maintained, although prices of some materials, such as steel scrap, hides, and rubber, declined from earlier peak levels.

Bank credit

Following reductions during the early part of September, Government security holdings by member banks in 101 leading cities increased somewhat during the three weeks ending October 11, reflecting largely the purchase of Treasury bills. Commercial loans continued to increase, but at a less rapid rate than in late August and early September. The volume of demand deposits at city banks also increased further.

Excess reserves, which had increased sharply at member banks during the first half of September, showed further moderate increases during the four weeks ending October 11.

Money rates and bond yields

Prices of United States Government securities increased in the latter part of September and the first half of October, following sharp declines early in September. Average yields on long-term Treasury bonds declined from 2.79 per cent on September 21 to 2.62 per cent on October 16. Yields on Treasury notes declined to 0.78 per cent from 1.30 per cent early in September.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-548

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 19, 1939

Dear Sir:

There is enclosed for your information a summary of the bank relations reports submitted by the Federal Reserve banks for the month of September 1939 in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

sold a portion of their Government bond holdings, and in most instances the policy of the Federal Reserve System as indicated by its recent buying of bonds was commented upon favorably as a means of enabling the banks to adjust their Government bond accounts in an orderly manner. At a number of banks inquiries were made as to the future policy of the System in relation to the Government bond market and as to probable rates to be paid by the Treasury on future borrowings.

NEW YORK

Bronx, Kings, Queens, and Richmond Counties, New York

The majority of banks continue to hold substantial blocks of United States Government securities and many are faced with a net depreciation in their portfolios as a result of the decline in prices of United States Governments and other high grade bonds subsequent to the outbreak of the European War. Several bankers remarked that the decline in market values of high grade securities is having a bad psychological effect, and that institutions with funds to invest are hesitant to purchase long-term high grade issues at present prices as they believe purchases can be made at still lower levels if there is to be a prolongation of the war. Two banks which sold large amounts of long-term United States Government bonds when prices first began to decrease now hold substantial amounts of cash (amounting to nearly 40 per cent of their deposit liabilities), and are planning to reinvest in short-term United States Government securities as they believe these will be less likely to depreciate. A number of bankers state that, although there has been a sizable increase in the market values of their second grade railroad and other substandard bonds, they are hesitant to sell at this time as they expect higher prices may prevail.

Although this is normally the season when bank loans to commerce and industry usually expand, the majority of bankers report a light demand for credit and indicate that their loan portfolios continue to decrease. The officers of several smaller banks state that it is becoming more difficult to meet the competition of the larger banks for installment and life insurance loans.

Essex County, New Jersey

The security accounts of the commercial banks total approximately \$201,000,000 and continue to show a high proportion of United States Government issues, direct or fully guaranteed, amounting to about \$125,000,000, or 62 per cent of total holdings. During the

past few months, there has been some shifting around of United States Government issues in order to take profits or prevent further losses, and in some cases to shorten maturities. A number of bankers have preferred to hold their United States Governments for income despite the recent downward trend in market values, but are concerned that the supervisory authorities may require writedowns if this shrinkage in values continues. Many investment accounts which previously showed some appreciation now have depreciation because of the current market prices of United States Government issues. Municipal obligations form an important part of the investments of the banks in Essex County and many are constantly adding issues of this type to their security portfolios. Few bankers care to increase their holdings of corporate issues at this time, most of them apparently preferring to continue liquidation of such investments as rapidly as favorable opportunities are presented. The reported improvement in railroad activities which is reflected in somewhat higher market values of railroad securities, is raising the hopes of many bankers that they may, in the near future, be able to dispose of such bonds at around present book values, and thereby reduce some of their previously estimated losses.

PHILADELPHIA

South Central Pennsylvania

The area covered by this report depends upon diversified manufacturing and agricultural activities. Much of this section escaped the extreme dry weather experienced elsewhere this year and as a result of favorable growing conditions crops yielded heavily. Prices were disappointing, however, and it was said that the farmers did not make money this year. Milk prices are considered satisfactory in all but York County, where the complaint was made that sanitary and other requirements force expenditures upon dairymen beyond their ability to recover under present prices.

Factory activity at all but a few establishments is considerably higher than a year ago. The increased business of some of the larger concerns results from Government orders, principally for war materials, and several bankers express concern about what will happen after these orders are filled. However, the firms chiefly concerned have been developing new products and no doubt will be able to maintain operations at a fair level. Some of the concerns which are now experiencing a decline in activity expect improvement within the next few months.

Banking resources are \$2,797,000 greater than a year ago, an increase of 2-1/4 per cent. A majority of the bankers interviewed

reported an increased demand for credit. Various means of credit extension, such as FHA, personal, automobile, equipment, and cattle loans, are being used and in most cases are proving satisfactory, only one banker reporting otherwise.

The great majority of the bankers reported net depreciation in investment accounts but the amount was of serious moment in but a few cases. Many of the officers interviewed stated that the recent decline in prices wiped out appreciation which accounted for the present small depreciation.

Real estate conditions are fairly satisfactory, although the market is quiet. Houses rent readily at satisfactory figures and in those communities where there is demand for new homes there is considerable new construction under way.

CLEVELAND

The active campaign for membership on the part of Ohio State banks has continued, and during the month of September four banks having total resources of \$3,459,524 were admitted to membership. Contacts are now being established with banks in Pennsylvania and Kentucky looking to round-table discussions with boards of directors or committees thereof to discuss and consider membership in the System.

On balance, member banks, particularly those in the smaller centers, have sold Government securities. In a few instances this has been occasioned by the demand for loans. In a majority of instances it appears to reflect the view of the bankers that better buying opportunities will present themselves at some future time. Many banks have commented favorably upon the action of the Federal Reserve System in supporting the Government bond market, and are appreciative of the offer on the part of Reserve banks to accept as collateral security Government obligations at par.

In one instance a substantial block of Governments was sold in a community where individuals ordinarily favor Government bonds as investments, and the bank feels it necessary to increase its cash position now in anticipation of individual withdrawals should the Government bond market reach lower levels. At this particular bank the loan account is also reported to be the highest in ten years.

In the southwestern portion of the State of Ohio a strong demand for loans has developed. This is true both of agricultural and industrial regions. A number of banks report loans at all time peaks. Some farmers are borrowing to buy livestock in anticipation of higher livestock prices; other farmers are reported as borrowing to carry grain in anticipation of a more favorable market. One bank reports earning assets practically equal to deposits.

RICHMOND

Southwestern Virginia

Many banks reported an increase in deposits and a few reported deposits at their peak. Most banks are paying 2-1/2 per cent on deposits, but the rate has been reduced to 2 per cent in those communities where the bankers have been able to agree. Moreover, the major portion of deposits are time deposits. There is, therefore, a general tendency to charge 6 per cent on loans, though it is apparent that banks make some loans at 4 or 4-1/2 per cent. So far as obtainable banks prefer good local loans to business concerns, but where these are not available there is a tendency to go in for real estate loans, including FHA insured loans. Some banks report losses of business to Federal lending agencies because of the lower rates of interest charged by them.

Banks have not been much disturbed about the effects of the war upon the prices of Treasury issues and they seem quite unconcerned about the disappearance of appreciation on their bonds. However, they are much interested in the question of the future trend of bond prices, since many of them want to buy Treasury issues when it is believed that the time is ripe. There seems to be some feeling that Treasury bonds are "a good buy" at par, but there is a preference for the shorter maturities.

Central West Virginia

As for banking conditions, most banks report an increase in deposits and also in loans. Here, as elsewhere in West Virginia, the prevailing rate on loans is 6 per cent, but the rate on time deposits is somewhat lower, being only 2 per cent. A few banks have FHA loans, but the bulk of all loans are local loans to tradesmen and farmers, with an increasing volume of personal income loans, especially to miners. In some communities mining concerns supply housing for their workers and there is no demand for real estate loans. But, in others, banks have been able to place substantial amounts in loans of this type.

In certain communities substantial amounts have been deposited with the Postal Savings System and United States Savings bonds have been popular. Even so, most banks have a plethora of idle funds which they are quite unwilling to lend at a rate lower than 6 per cent. These idle funds flow into investments to some extent, the preference being for Treasury bonds, since they are regarded as highly liquid. It is evident that most banks still prefer to be highly liquid and desire to avoid any possible situation which might compel them to borrow or rediscount. The better informed banks look with distinct approval upon the service of the Federal Open Market Committee following the outbreak of war.

South Central West Virginia

As for the investment position of banks, in a few instances nothing but Treasury issues are held and in practically all cases these predominate. It may be said that nearly all bankers have been quite undisturbed by recent declines in the prices of Treasury issues, since they maintain that these bonds have been purchased for income rather than for profit. A few bankers feel that prices of Treasury issues will recover somewhat, but that they will not regain their former high levels. It is apparent that bankers generally hope for higher interest rates and a few have restricted loans with the hope of benefiting by the anticipated increase.

ATLANTA

Florida

Visits were made to 12 nonmember banks and 17 member banks in Florida. Most of the banks visited have experienced more activity this summer than in the last two or three summers. In many cases increases in loans and deposits were reported, as compared with the corresponding dates last year. General business conditions in the territory visited were reported good.

Bankers in the West Coast resort towns and bankers at Daytona Beach and St. Augustine are hopeful for a good tourist season. What effect world conditions will have on travel in this country is a matter of conjecture. Opinion was expressed, however, that some increase might be expected in the number of tourists since European travel has practically ceased. The consensus is that war conditions will have a decided bearing on the volume of tourist business in Florida this winter.

Our representative reports that many of the banks visited use the facilities of their city correspondents for check clearing purposes and that they will continue to do so in order to avoid the keeping of records covering items of deferred availability. The bankers feel that where they can include all items in one letter to a city correspondent for sorting and collecting it is to their advantage to do so.

The questions foremost in the minds of the bankers interviewed seemed to be what the Government bond market will do and how to lend money with a feeling of security. In this connection our representative called attention to the fact that the Federal Reserve Bank is prepared to make advances on Government securities at par, as announced recently in our circular letters.

Several bankers made mention of the noncash collection service of the Federal Reserve Bank and spoke of recent questionnaires which had been received relative to a proposal made by certain city banks to the effect that the Federal Reserve Bank of Atlanta and its branches discontinue the handling of noncash items payable at Atlanta and our branch cities. The member banks at Sarasota and Winter Haven seem particularly interested in this service and would dislike any change since they forward numerous fruit and vegetable drafts to Federal Reserve banks and branches over a wide territory for collection at par. The bankers at these points contend that any change in our practice of handling noncash items would necessitate the opening of correspondent accounts in Federal Reserve cities or the payment of collection charges and would be costly to their banks.

Louisiana

The executive officers of the three nonmember banks located in Plaquemine and Donaldsonville are somewhat perturbed over the recent decline in price of high grade bonds but, because of the extremely liquid condition of their institutions, do not anticipate that they will be forced to borrow funds. The officers of the three banks spoke in complimentary terms of the action of the Reserve System in making it possible for both member and nonmember banks to avail themselves of advances on direct obligations of the United States at par and at a low rate of interest.

CHICAGO

Very little change is shown in the loan portfolios of the country banks, although the adjustments that have been made in interest paid on deposits and the continuous readjustment of service charges are enabling the banks generally to operate on a profitable basis. Many of

the smaller banks continue to rely upon F.H.A. loans as an outlet for their funds. Of the bankers visited during the month, only one indicated that it might be necessary for his bank to borrow from the Federal Reserve bank.

At the various group meetings, the topic of Wages and Hours seems to have attracted more attention than any other one subject. Compliance with this act appears to be increasingly irksome to the small banks.

The sentiment of banks toward Government bonds is favorable. While they have shown some concern over the trend of prices, generally speaking they do not seem to be particularly disturbed and practically without exception banks, both small and large, have expressed themselves as being pleased with the manner in which the Open Market Committee has handled the Government bond situation. Good short time municipals still sell on a very favorable basis; for example, Milwaukee County, Wisconsin, has recently awarded a new issue of \$3,700,000 Poor Relief obligations due April 1, 1940, on a bid of 100.0062 for an interest rate of .50 per cent.

We are advised by one of the banks in Detroit that some of the financial minds there are concerned with the present wave of prosperity, as it may affect the activity of the finance companies which are furnishing consumers' credit in a large way. They feel that these companies may use readily available cheap money and encourage abnormal credit buying on the part of the workers of all classes. Those concerned think that the big banks and even the Federal Reserve banks should sound a warning note and should perhaps even condition their loans to finance companies by a provision that those companies would reduce the terms of their loans and possibly increase the cost of money for the purpose of discouraging over-expansion of consumers' credit. It is understood that one of the larger automobile companies has expressed keen interest in this subject and will probably make its views known in some manner before long.

ST. LOUIS

Interviews with bankers reflect somewhat spotty conditions, but on the whole a fair degree of prosperity. Approval was expressed by a number of bankers of the Federal Reserve Bank announcement that it will make advances at par on U. S. Government obligations. This action has served to relieve anxiety of certain country banks whose investment portfolios contain large holdings of long-term Government securities.

There were a number of complaints of small profit margins, more, in fact, than small volume. One bank reported uninvested funds

equal to 65 per cent of deposits. Liquidation was reported in satisfactory volume, including paper classed as slow. Five to six per cent, mainly the latter figure, is charged on customer loans. On time deposits 2 per cent to the maximum is allowed. Some banks are not taking interest bearing deposits.

The executive officer of a Missouri State member, which entered the System this spring, seemed pleased with membership and said relations were entirely satisfactory. He stated the large reserves required made it difficult to carry adequate balances with correspondents but he nevertheless appreciated the benefits of membership.

The vice president of an Illinois National bank, who is a booster for the System, remarked that reserve requirements were a bit high. He and officers of several other member and nonmember banks in Illinois, Indiana, and Kentucky, stated that the adoption by our bank of the 1 per cent rate on advances to banks, secured by U. S. Government obligations, would go a long way toward increasing their confidence in long-term Government bonds. Some of the banks visited are making additional purchases of Governments with the thought in mind that they can be used to advantage as collateral if necessary.

MINNEAPOLIS

South Central Minnesota

The forty-two banks visited are all located within an area forty miles wide and forty-five miles long. Many bankers complain that there is an over-population of banks in this community. Distances between banking points are from three to fifteen miles.

Well established banks with sufficient volume of business report adequate to excellent earnings. There are a few banks in this locality, however, which are severely handicapped because of extremely small volume of loans and deposits, and because they are located in highly competitive territory they complain of their inability to make adequate earnings.

The demand for local loans is spotted. In a few instances a heavy demand was reported, although in most instances the demand was reported as light.

Income from service charges has become an important item from earnings standpoint in many of the banks, while in most of the smaller outlying banks this source of revenue has not been developed

at all. The smaller banks are fearful that by assessing such charges their customers will gradually move their business to the larger trading centers.

Although all of the officers of nonmember banks who were approached on the subject stated that exchange charges could be eliminated and service charges substituted, they preferred to cling to the income from exchange charges because such charges are easy to collect.

As a general rule, the banks in this territory are opening later and closing earlier in order to comply with the Wages and Hours Act.

East Central South Dakota

The two principal topics in which most of the bankers are interested at this time are the war situation and wheat loans which many of the banks have been making in volume. Bankers generally are very much interested in the possible effect of war on bond prices as well as the attitude of the Treasury Department and the Federal Reserve System in supporting the market on government issues.

Banks are competing to some extent for the privilege of handling wheat loans. In some cases, smaller banks are turning over to their correspondent or affiliated banks in the larger centers the wheat loans made at their offices. In virtually all of these instances, the banks originally handling the loans receive .4 of 1 per cent for their work, and the remainder of the 2-1/2 per cent allowed the banks by the Commodity Credit Corporation on such loans goes to the banks carrying the loans until paid.

Deposits quite generally are showing an increase at this season of the year, and funds resulting from wheat loans are given in a number of instances as being the reason for the increase. There are but very few cases where banks do not have sufficient funds to meet the local demand for money. Many of the bankers reported an improvement in their earnings. Chattel mortgage loans are usually made on a very conservative basis, one bank having adopted the practice of lending not to exceed \$20 on a cow or \$3 on a sheep. Most banks receive 8 per cent on chattel mortgage loans, although there are a few instances where the return is only 7 per cent.

Some of the bankers recently had seen articles in newspapers stating that the Federal Reserve banks would lend both to member and nonmember banks at par on Government securities regardless of market value, and they felt this was a wise and timely move on the part of the Federal Reserve System.

KANSAS CITY

In September most of the visits made by this bank were concentrated in Nebraska and Kansas. Early in the month the war was the principal topic of conversation, although in a few weeks attention was turned to other matters. Banks were interested especially in what the war would do to the price of their Government securities and how it will affect grain and livestock prices.

Everyone was remarkably calm. A few bankers were found who had sold Government securities in the summer when prices were near their peak and they expressed the wish that they had sold more. Some also were found who had been doing some selling since the outbreak of war and a number of these individuals expressed the wish they had not sold. A few banks, in order to employ idle funds, would like to buy more Government securities but are afraid to do so. There seems to be a tendency to ignore paper profits and take an investment position in regard to Government security holdings. A few banks were found in drouth stricken sections of Nebraska where it was said either bonds must be sold or loans on them secured. Virtually without exception, the opinion was expressed that the Federal Reserve System had been wise and skillful in its support of the Government bond market. Also without exception, appreciation was expressed of the offer of this bank to lend at par and at a low rate of interest on Government securities.

Next to the war and its probable effect on bond, grain, and livestock prices, the most important item of interest to bankers is the continuation of the unprecedented fall drouth. In many parts of the District the highest temperatures of the year were registered in the early part of September and the almost complete lack of rainfall on top of the summer shortage created a highly critical condition. The Hard Winter Wheat Belt lies almost wholly within the boundaries of this Federal Reserve District and in almost every State there is no moisture to germinate the seed. Some farmers have planted their wheat in the dust and there are reports that in some sections the sown grain has been injured by insects.

A striking example of how banking has changed in the last decade or so was found in the case of a bank with \$54,000 of deposits, which has an income of \$900 from exchange charges and \$1,100 from service charges.

City banks report that their loans are beginning to show some evidence of war influence. Loans for handling grain have increased sharply in individual cases and it is said that wholesalers, especially in food lines, are borrowing increased funds to buy merchandise.

DALLASEast Texas

The area visited includes the great East Texas oil field, the largest in the nation, containing 27,000 producing wells, and extending through four counties of East Texas.

The visited bankers reported that notwithstanding the slowing down of oil field activities, business and agricultural conditions in this section of Texas are quite satisfactory. The cotton crop, which has been somewhat curtailed this year by drought, is being sold by the farmers as fast as it is ginned, and, strange to say, the prevailing price of about nine cents a pound is considered amply sufficient to enable the producers to liquidate their seasonal borrowings and other current debts.

Bankers throughout this area are practically unanimous in opposing a Government loan on cotton this year. They hope the Government will not make a loan on the 1939 crop, because, they say, the present price is adequate to move it into consumption channels without detriment to the producers' interest, and they fear that a continuance of Government loans will tend to destroy what little world market the American cotton crop now has, by holding the crop out of world consumption channels.

Unanimous opposition to the Patman and Brown Bills was voiced by the visited bankers. Several banks complained of the present assessment rates charged by the FDIC, saying that in their opinion the Corporation has accumulated a sufficient reserve to take care of normal future losses and that Congress could well afford to reduce the assessment rate and thus afford some relief to the banks that are hard-pressed to make expenses under present conditions.

Widespread interest in the Government bond market is in evidence among the banks of East Texas. There has been comparatively little selling since the outbreak of war. A few banks had sold off some of their Governments during the summer for profit-taking purposes, but the general tendency is to hold present portfolios intact. Several of the banks interviewed in this region declared that they intend to make substantial purchases of certain issues if and when they reach par or near-par levels. The indications are that this attitude may be more or less universal throughout the State, and if so it would seem probable that any further declines in the Government bond market will be followed by a general buying movement among banks, particularly those whose outlet for loans is still restricted and those whose holdings of Governments have been depleted by earlier profit-taking operations.

SAN FRANCISCOWashington

While the bankers visited in the Yakima Valley during the latter part of August and the first part of September were looking forward to a satisfactory marketing of this year's apple crop, war conditions in Europe have changed the picture completely. In normal years approximately 25 per cent of apples grown in the Northwest are exported to European and Scandinavian markets, of which about 75 per cent are exported to nations now engaged in war. This market has been completely cut off, with the result that the growers are now facing a serious marketing problem. We understand that the Federal Surplus Commodities Corporation, within the past two weeks, has placed apples on the surplus commodity list and is now assisting in moving the excess stocks.

Crops of other agricultural products, such as hay, potatoes, and sugar beets, were satisfactory this year and brought good prices.

Bankers reported good demand for loans, and, with the exception of conditions as noted above, business was considered very satisfactory.

Banks located in the lumber and logging sections which were visited during the month were very optimistic over the increased demands for logs and lumber products. The lumber mills report very satisfactory conditions, and in the most part are refusing to book orders for longer than sixty days in advance. Prices for lumber products have been advancing, and some mills have increased their output by an addition of one or two shifts.

In other sections agricultural conditions are reported to be very satisfactory, particularly in the dairying, poultry raising, and seed growing industries.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

September - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	23	--	23	1	<u>1/</u>	<u>1/</u>	<u>1/</u>
New York	77	27	104	10	2,080	1	85
Philadelphia	45	16	61	4	3,075	--	--
Cleveland	99	30	129	11	2,297	2	90
Richmond	66	31	97	4	675	2	350
Atlanta	21	15	36	1	<u>1/</u>	--	--
Chicago	65	32	97	15	5,659	1	75
St. Louis	69	88	157	15	<u>2/</u> 1,783	2	<u>2/</u> 66
Minneapolis	57	103	160	7	3,720	--	--
Kansas City	20	36	56	7	3,268	1	20
Dallas	17	1	18	3	2,375	1	200
San Francisco	55	16	71	11	3,208	--	--

1/ Not reported.

2/ Attendance for one not reported.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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R-549

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 19, 1939

Dear Sir:

The Board of Governors regrets that the pressure of other matters during recent weeks has made it impossible for it to arrange for a conference of the Chairmen of the Federal Reserve banks during the early fall.

It has now been suggested that the conference be held on Monday, December 4, 1939, at 10:00 a.m., and I have been requested to inquire whether that date would be a convenient one for you.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON**

R-550

**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

October 24, 1939



Dear Sir:

On Saturday, November 11, Armistice Day, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed.

The Board is advised that the following holidays also will be observed by Federal Reserve banks and branches during November:

November 1 (Wednesday)	New Orleans	All Saints Day
November 7 (Tuesday)	New York Buffalo Philadelphia Pittsburgh Richmond San Francisco Los Angeles	Election Day

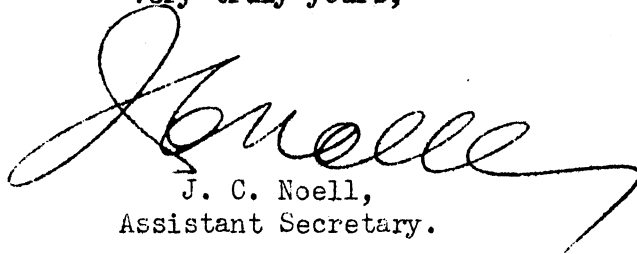
On November 1 and 7 the offices affected will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits of November 1 and 7 for such offices with your credits for the following business days. No debits covering shipments of Federal Reserve notes for account of the head offices mentioned should be included in your note settlement of November 7.

The Federal Reserve Bank of Cleveland and its Cincinnati Branch will be open for business on November 7 until 1:00 p.m. Debits covering shipments of Federal Reserve notes for account of the head office and transit clearing credits for both offices should be included in the settlements of that day.

Since the President has not as yet issued his Thanksgiving proclamation, advice with respect to that holiday is held in abeyance awaiting the proclamation and action by the authorities of the respective States.

Please notify branches.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell", written in dark ink. The signature is fluid and extends to the right with a long, sweeping tail.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 27, 1939



Dear Sir:

Referring to the Board's letter of September 3, 1937 (S-29), there is enclosed a copy of Form F. R. 296, which has been revised in view of the recent changes in discount rate schedules of the Federal Reserve banks.

A supply of the revised form is being sent to your bank under separate cover.

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-552

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 15, 1939

Dear Sir:

Referring to the Board's letter R-380 of January 6, 1939, following is a statement of changes during October in the list of non-member banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Addition*

Switzerland
Basle

Swiss Bank Corporation
(including agency at New York
City)

*Add to list of Nonmember Banks with Principal Places of Business in Territories, Insular Possessions, or Foreign Countries (Page 5, R-380a).

Deletion

New York
New York

Bronx County Trust Company

The Bronx County Trust Company should be added with the following note to the list (R-380b) of banks which had in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, but which are no longer in operation as nonmember banks:

(Admitted to Federal Reserve membership on
October 10, 1939.)

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-553

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 15, 1939.

Dear Sir:

In the Board's letter of June 20, 1939, S-165, you were advised that the Board believed sufficient time had elapsed to warrant asking for Congressional authority to destroy certain records, not including bank examination reports, accumulated by the Federal Reserve agents from the date of the organization of the Federal Reserve banks to the date of the transfer of the nonstatutory duties of the agents to the banks, and you were requested to furnish the Board with a list of any records not included in the June 11, 1936 report of the committee on destruction of records which you felt should be destroyed at this time.

Replies to the above mentioned letter have now been received from all Federal Reserve agents and the attached statement lists the records recommended for destruction in the Committee's report, together with the additional records recommended for destruction by the several Federal Reserve agents. It will be appreciated if you will furnish the Board with any suggestions you may care to make with respect to the destruction of the records listed in this statement and, if any additional records are recommended for destruction, it would be helpful if information were supplied with respect thereto along the lines indicated in the next to last paragraph of Board's letter S-165.

While it is intended to request Congressional authority to destroy certain records of the Federal Reserve agents, not including bank examination reports, from the date of the organization of the Federal Reserve banks to the date of the transfer of the nonstatutory duties of the agents to the banks, no records should, of course, be destroyed until after they have been held for the minimum retention period recommended in the Committee's report, and until their destruction has been authorized by the Board.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure.

RECORDS OF FEDERAL RESERVE AGENTS RECOMMENDED FOR DESTRUCTION IN REPORT OF COMMITTEE ON THE DESTRUCTION OF RECORDS DATED JUNE 11, 1936; ALSO, ADDITIONAL RECORDS RECOMMENDED FOR DESTRUCTION BY FEDERAL RESERVE AGENTS IN RESPONSE TO BOARD'S LETTER, S-165, DATED JUNE 20, 1939.

Recommended for Destruction

<u>Form No.</u>	<u>Title or Description</u>	<u>From</u>	<u>To</u>
FR 107	Report of Earnings and Dividends of State member bank.	1914	1937
TREAS 2129	Report of Earnings and Dividends of National bank.	1914	1937
FR 105	Report of Condition of State Member bank.	1914	1937
TREAS 2130	Report of Condition of National bank.	1914	1937
FR 105b	Schedule O--Loans and Advances to Affiliates of State member bank and investments in and loans secured by obligations of affiliates.	1933	1937
TREAS 2131	Schedule O--Loans and Advances to Affiliates of National bank and investments in and loans secured by obligations of affiliates.	1933	1937
	Inter-office communications regarding applications under Section 8 of the Clayton Act and Section 32 of Banking Act of 1933.	1916	1937
FR 220	Report of Affiliate of State member bank.	1933	1937
TREAS 2130e	Report of Affiliate of National bank.	1933	1937
	Work sheets and printer's proofs of text of annual report of Federal Reserve agents to Federal Reserve Board.	1915	1937
	Member banks' weekly condition reports	1917	1937
	Monthly Review -- copies of text sent to Federal Reserve Board.	1915	1937

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<u>Form No.</u>	<u>Title or Description</u>	<u>Recommended for Destruction</u>	
		<u>From</u>	<u>To</u>
	Monthly Review mailing list requests.	1915	1937
	Inter-office communications regarding the issuance and retirement of Federal Reserve notes and Federal Reserve Bank notes.	1914	1937
FR 45	Requisition by Federal Reserve Agent to Federal Reserve Board for Federal Reserve notes and Federal Reserve Bank notes.	1914	1937
FR 44	Report to Federal Reserve Board of Federal Reserve notes (or bank notes) received, issued to bank, returned to Comptroller and on hand by denomination and aggregate amount.	1914	1937
FR 194	Report to Federal Reserve Board of receipts and issues of Federal Reserve notes (or bank notes) and amounts of Federal Reserve notes, etc. on hand.	1914	1937
TREAS 2328) TREAS 2329) TREAS 2330) TREAS 2328a) TREAS 2329c) TREAS 2330a)	Advice to Comptroller of the Currency of issue, return or re-issue of Federal Reserve Notes and bank notes.	1914	1937
	Vault deposit and withdrawal tickets used in Federal Reserve Agent's function in connection with currency transactions.	1914	1937
	Weekly reports of bank debits made by clearing house associations.	1918	1937
	Letters from Comptroller of Currency to Federal Reserve Agent advising that, by direction of Board, Bureau of Engraving and Printing had been requested to ship a specified amount of Federal Reserve notes or bank notes.	1914	1937

Form No.	Title or Description	Recommended for Destruction	
		From	To
TREAS 957	Form letters from Bureau of Engraving and Printing to Federal Reserve Agent advising that a specified amount of Federal Reserve notes is being forwarded and requesting that receipts be executed.	1917	1923
TREAS 8070	Form letters from Bureau of Engraving and Printing to Federal Reserve Agent advising that a specified amount of Federal Reserve notes or bank notes is being forwarded and requesting that receipts be executed (Superseded Treas. form 957).	1923	1937
	Form letters from Custodian of Federal Reserve Vault, Bureau of Engraving and Printing, to Federal Reserve Agent giving following data with respect to Federal Reserve note shipments - number of pouches, number of packages, denominations, and rotary lock numbers.	1917	1927
TREAS 8509	Form letters from Custodian of Federal Reserve Vault, Bureau of Engraving and Printing, to Federal Reserve Agent, giving following data with respect to Federal Reserve note and bank note shipments - number of pouches, number of packages, denominations, rotary lock numbers. (Superseded form letters mentioned in preceding paragraph)	1927	1937
	Pouch invoice from Bureau of Engraving and Printing enclosed in each mail pouch containing shipments of Federal Reserve notes showing number of packages, denominations, and rotary lock numbers.	1922	1929
TREAS 8510	Pouch invoice from Bureau of Engraving and Printing enclosed in each mail pouch containing shipments of Federal Reserve notes showing number of packages, denominations and rotary lock numbers. (Superseded pouch invoices mentioned in preceding paragraph.)	1930	1937

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<u>Form No.</u>	<u>Title or Description</u>	<u>Recommended for Destruction</u>	
		<u>From</u>	<u>To</u>
	Letters and telegrams from Comptroller of Currency to Federal Reserve Agent advising of the receipt of unfit Federal Reserve notes for destruction.	1915	1916
	Form letters from Treasurer's Office countersigned by National Bank Redemption Agency to Federal Reserve Agent advising that Federal Reserve notes redeemed have been charged against deposits made by the Agent for the exclusive purpose of redeeming such notes.	1916	1919
	Form letters from Treasurer's Office countersigned by National Bank Redemption Agency to Federal Reserve Agent advising of the receipt of upper and lower halves of unfit Federal Reserve notes forwarded for redemption.	1916	1919
	Form letters from Treasurer's Office countersigned by National Bank Redemption Agency to Federal Reserve Agent advising that upper and lower halves of unfit Federal Reserve notes forwarded for redemption and held for Agent's account, as previously advised, have been delivered to Comptroller of the Currency for credit of Federal Reserve Agent.	1916	1919
	Form letters from Comptroller of Currency countersigned by Federal Reserve Issue and Redemption Division to Federal Reserve Agent advising number and denomination of unfit Federal Reserve notes, redeemed by Treasurer, received for destruction and credit to Agent's account.	1916	1918
TREAS 6232 R.A.) Advice of Federal Reserve notes		
TREAS 6232 B, R.A.)	(bank notes) redeemed and delivered		
TREAS 6239 A, R.A.)	for destruction.	1918	1937

Recommended for Destruction

<u>Form No.</u>	<u>Title or Description</u>	<u>From</u>	<u>To</u>
	Form letters from Treasurer's Office countersigned by National Bank Redemption Agency to Federal Reserve Agent advising of the receipt of unfit Federal Reserve notes forwarded for redemption.	1916	1918
	Letters from Treasurer's Office countersigned by National Bank Redemption Agency to Federal Reserve Agent advising of the receipt of deposits for the redemption of Federal Reserve notes.	1916	1918
TREAS 6233A, R.A.	Advice of Federal Reserve notes received for redemption - settlement in gold redemption fund.	1919	1929
TREAS 6234A, R.A.	Advice of Federal Reserve notes received for redemption - settlement by Federal Reserve Agent.	Jan. 1918	Dec. 1918
	Telegrams from Comptroller of Currency to Federal Reserve Agent advising of the receipt of unfit Federal Reserve notes shipped by Federal Reserve banks and branches. (Code DUSTERITE)	1929	1937
	Telegrams from Comptroller of Currency to Federal Reserve Agent advising of the receipt of unfit Federal Reserve notes from sources other than Federal Reserve banks. (Code DROPTIDE)	1929	1937
TREAS 6231, R.A.	Statement of account - Gold Redemption Fund.	1918	1929
TREAS 5373	Advice of remittance	1927	1929
	Statement from the Chief, Federal Reserve Issue and Redemption Division, showing amount of Federal Reserve notes on hand, amount being printed, and amount shipped	1915	1937

<u>Form No.</u>	<u>Title or Description</u>	<u>Recommended for Destruction</u>	
		<u>From</u>	<u>To</u>
St. 772 31-B	Federal Reserve notes: Weekly report of Federal Reserve Agent to Federal Reserve Board.	1919	1920
	Weekly telegrams to Board of Governors giving condition statement of Federal Reserve Agent and Federal Reserve bank.	1914	1937
172 172a	(And superseded 381 and 381a) Inter-district movement of Federal Reserve notes.	1919	1922
FR 206	(And superseded form) Confirmation of balance in Federal Reserve Agent's gold certificate fund.	1926	1937
	Weekly gold coin telegram to Board - gold coin held by bank and Agent at close of business on Wednesday.	June 1932	July 1932
	Daily gold coin telegram to Board - gold coin held by bank and Agent.	1933	1934
	Weekly report to Board's Division of Research and Statistics of gold sold for use in industry and correspondence in connection therewith.	1928	1933
	Inter-office communications and telegrams in connection with transfers affecting the Agent's gold and gold certificate funds.	1919	1933
F.R.A. 8	Government securities held at New York as collateral against Federal Reserve notes and Federal Reserve bank notes; also, correspondence in connection therewith.	1933	1934
FR 240	Report of member firm of a National Securities Exchange	1935	1937
	Annual budgets for the Statistical and Analytical function and letters transmitting them to Board of Governors	1925	1937

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<u>Form No.</u>	<u>Title or Description</u>	<u>Recommended for Destruction</u>	
		<u>From</u>	<u>To</u>
	Correspondence with Board of Governors with respect to that portion of the functional expense report which relates to the functions under the supervision of the Federal Reserve Agent	1922	1937
	Interoffice communications regarding the allocation in the Board's functional expense report of the time of employees under the supervision of the Federal Reserve Agent	1922	1937

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-554

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1939



Dear Sir:

Regulation H, Membership Of State Banking Institutions In The Federal Reserve System, has been amended in minor respects effective November 20, 1939, and the regulation has been reprinted to incorporate such amendments and one previously adopted. A supply of copies of the regulation is being forwarded to you under separate cover.

The amendment of Regulation H has been prompted primarily by the repeal of the requirement in subsection (y) of section 12B of the Federal Reserve Act that State banks having deposits of \$1,000,000 or more become members of the Federal Reserve System. References to such statutory provisions and the related provisions of section 9 of the Federal Reserve Act concerning the waiver of membership requirements have been eliminated.

Standard condition of membership numbered 4 and the footnote appended thereto have been amended to conform the requirements of the condition to comparable requirements contained in Regulation F relating to trust powers of national banks. Standard condition of membership numbered 5 was previously revised for the same reason and the revised condition has been inserted in this print of the regulation.

Numerous other amendments, not specifically mentioned in this letter, are all of a perfecting nature and do not involve any change in policies or practices already in effect.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-555

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1939.



Dear Sir:

Regulation F, Trust Powers of National Banks, has been amended effective November 20, 1939, and a supply of copies of the amended regulation is being forwarded to you under separate cover.

The only substantive amendment to the regulation relates to the requirements of section 11. Inquiries received from time to time have indicated that in some instances the best interests of trusts might be better served if the requirements were somewhat more flexible. Accordingly, transactions have been excepted from such requirements where specifically authorized by court order. This exception has been incorporated in the regulation by substituting for the last sentence of footnote 12 the following footnote applicable to the entire section:

"The requirements of this section shall not be deemed to prohibit the making of any investments or the carrying out of any transactions which are expressly required by the instrument creating the trust or are specifically authorized by court order."

For the purpose of clarification, the first sentence of footnote 12 has been revised and incorporated as a footnote appended to the word "interests" in subsections (a) and (b) of section 11.

Certain technical amendments to section 17 and the appendix have been adopted in order to conform with amendments to the Internal Revenue laws.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Saturday, November 18, 1939.

The following summary of general business and financial conditions in the United States, based upon statistics for October and the first half of November, will appear in the December issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Rapid expansion of industrial output continued in October, and employment and pay rolls increased considerably. Distribution of commodities to consumers, which had increased in September, was maintained at the higher level in October. In the first half of November industrial activity increased further but, with production in many industries approaching capacity, the advance was less rapid than in earlier months. Commodity prices generally showed little change during October and the first half of November, following the sharp rise in September.

Production

Volume of industrial production showed a further sharp rise in October and the Board's seasonally adjusted index advanced from 111 to 120 per cent of the 1923-1925 average. Marked increases in activity were reported in the steel and steel-consuming industries and at mines. In the steel industry ingot production in October was at a rate of 90 per cent of capacity and actual volume of output was the greatest for any month on record. Some further increase in the rate of output was

reported in the first half of November. Pig iron production also advanced sharply and lake shipments of iron ore, which had increased considerably in September, continued in exceptionally large volume. Activity in the machinery and shipbuilding industries and in most other steel-consuming lines rose in October but by a considerably smaller amount than output of steel. In the automobile industry, however, output showed less than the marked rise usual at this season. This was due to the fact that plants of one large producer were closed during most of the month by an industrial dispute. Mineral production in October was at record levels owing chiefly to a high rate of crude petroleum output.

In the nondurable goods industries activity was generally maintained at the high levels reached in August and September. Flour production declined sharply, however, following an exceptionally large volume of output in September.

Value of construction contracts, as reported by the F. W. Dodge Corporation, decreased considerably in October, reflecting principally a reduction in awards for public construction. Private residential contracts continued in substantial volume while awards for commercial and industrial building declined somewhat following increases in the previous month.

Employment

Reports from leading industrial States indicate that factory employment and pay rolls increased sharply between the middle of September and the middle of October. Increases were particularly large at steel mills and in related industries. There was also a considerable increase

in employment on the railroads in October.

Distribution

Retail distribution of general merchandise in October showed about the usual seasonal rise from the advanced September level. In the early part of November department store sales increased considerably.

Freight-car loadings rose further from September to October, reflecting a large increase in shipments of miscellaneous freight, which includes most manufactured products, and smaller increases in loadings of coal, forest products, and ore.

Commodity prices

Price changes that have occurred since the general sharp rise in September have reflected largely particular developments in individual commodities. From the middle of October to the middle of November prices of a number of foodstuffs continued to decline and there were also decreases in some industrial materials, such as print cloths, wool, tin, and steel scrap. Wheat, cotton, and burlap advanced somewhat while prices of most other commodities, including finished industrial products, showed little change.

Government security prices

Following a sharp recovery from the low of September 21, prices of United States Government bonds showed irregular changes during the period from October 24 through the first half of November. On November 15 yields on long-term Treasury bonds were at 2.47 per cent as compared with 2.79 per cent on September 21.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities increased substantially during the six weeks ending November 8, reflecting largely purchases of Treasury bills by New York City banks. Commercial loans continued to show moderate increases. Deposits at these banks rose to new high levels.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-557

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 17, 1939

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes from October 2 to October 31, 1939.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-557-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
October 2 to October 31, 1939.

Federal Reserve Notes, Series 1934.

	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	47,000	7,000	54,000	\$ 4,968.00
New York	226,000	39,000	265,000	24,380.00
Philadelphia	20,000	10,000	30,000	2,760.00
Cleveland	53,000	12,000	65,000	5,980.00
Richmond	20,000	12,000	32,000	2,944.00
Atlanta	4,000	6,000	10,000	920.00
Chicago	72,000	27,000	99,000	9,108.00
St. Louis	8,000	4,000	12,000	1,104.00
Minneapolis	13,000	4,000	17,000	1,564.00
Kansas City	11,000	6,000	17,000	1,564.00
Dallas	10,000	4,000	14,000	1,288.00
San Francisco	<u>46,000</u>	<u>24,000</u>	<u>70,000</u>	<u>6,440.00</u>
	<u>530,000</u>	<u>155,000</u>	<u>685,000</u>	<u>\$63,020.00</u>

685,000 sheets @ \$92.00 per M - - - \$63,020.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-558

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 17, 1939



Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of October 1939.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by mail the amount and purpose of the credit.

Very truly yours,

A handwritten signature in cursive script that reads "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-558-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER, 1939

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	26,391	543	26,934	534.40	274.10	260.30
New York	82,693	-	82,693	1,640.70	1,028.36	612.34
Philadelphia	18,417	549	18,966	376.30	246.36	129.94
Cleveland	38,731	549	39,280	779.35	232.86	546.49
Richmond	28,544	542	29,086	577.09	236.35	340.74
Atlanta	44,620	541	45,161	896.04	244.53	651.51
Chicago	69,855	773	70,628	1,401.32	1,264.25	137.07
St. Louis	44,993	541	45,534	903.44	290.49	612.95
Minneapolis	21,384	541	22,225	440.96	203.13	237.83
Kansas City	47,708	541	48,249	957.30	273.06	684.24
Dallas	36,706	541	37,247	739.01	282.93	456.08
San Francisco	46,248	548	46,796	928.48	369.34	559.14
Board of Governors	257,140	-	257,140	5,101.89	10,330.52	-
Total	763,750	6,209	769,939	\$15,276.28	\$15,276.28	\$5,228.63

(1) Based on cost per word (\$.019840896) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,601.72) and wire rental (\$8,728.80). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-559

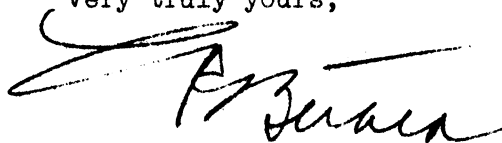
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 22, 1939.

Dear Sir:

There is enclosed for your information a statement containing excerpts from the bank relations reports submitted by the Federal Reserve banks for the month of October 1939 in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS



November 22, 1939.
Not for publication.

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE
MONTH OF OCTOBER 1939.

BOSTON

During October visits were made to twenty-two member banks and one nonmember bank.

Mills and factories located in the communities visited were said to be working full time in all lines. In some communities pay rolls had increased recently from 10 to 20 per cent. Retail trade at all points was reported to be satisfactory.

The one general complaint among the banks visited was that of an insufficient volume of loans and unsatisfactory yields on short-term securities. In the several instances where bank loans had shown a tendency to increase during the last several months, the increase was confined almost entirely to loans to small borrowers.

At no bank was there any criticism of the policies and operations of the Federal Reserve System or of the services rendered by this bank.

NEW YORK

During the month of October our officers and representatives visited 225 banks, of which 171 are member and 54 nonmember institutions. This total comprises banks located in different sections of the district - two counties in New Jersey and twelve counties in New York State.

Bergen County, New Jersey.

In general, the disposition to liquidate holdings of corporate issues, especially railroad bonds, continues although some bankers have lately been following a "watchful waiting" policy since the recent market improvement in some of their rails, and now seem inclined to hold on to those issues in the expectation that they may yet be able to sell them without any further substantial losses. Several bankers who have been confining new investments exclusively to United States Government, State, and municipal issues, say they are being pressed by some of their directors to invest in higher yield securities in order to increase

income, and that it is becoming increasingly difficult to resist this pressure in view of the limited earning power of their banks.

The attitude of bankers visited is friendly toward the Federal Reserve System. Several commented favorably on the action recently taken to stabilize values in the Government bond market, but a few were critical of the temporary requirement that the names be reported to the Federal Reserve banks of those offering United States Government securities for sale to us, the opinion being expressed that this practice operated against a free market and did more harm than good.

Hudson County, New Jersey

The four mutual savings banks showed a good increase in deposits (now totaling \$77,175,000) for the first six months of this year, but all have suffered quite heavy withdrawals since July 1 when the rate paid on savings deposits by all banks in the State was reduced to a maximum of 1 per cent under the mandatory regulation issued by the Commissioner of Banking and Insurance. Officers of these institutions also report that the amounts of new funds being deposited are less than normal, and they fear that there will be further heavy withdrawals of deposits, after the next semi-annual interest payment on January 1, 1940, when more people become aware of the rate reduction. The president of one savings bank (deposits \$11,000,000) regards the drop in interest rate from 2 to 1 per cent as too drastic and believes there would have been a better feeling if the rate had been fixed at 1-1/2 per cent. He is also opposed to the action taken by the Federal Housing Administration in reducing the rate on insured mortgage loans to 4-1/2 per cent, as he contends that this is too low for loans of such long maturity. The president of another savings bank (deposits \$35,000,000) characterizes the mandatory interest rate reduction as an "outrage", saying that his institution as well as some others in the State could well afford to continue the 2 per cent rate which is being paid by savings banks in New York. He also criticizes Congress for not enacting the proposed legislation to increase the insurance coverage by the Federal Deposit Insurance Corporation from \$5,000 to \$10,000 for any one account, as he claims his bank has lost a substantial amount of deposits on account of customers reducing their balances to the insurable limit.

Columbia, Dutchess, Putnam, Saratoga, Warren, and Washington Counties,
New York

Only a few of the commercial banks sold any substantial amounts of their United States Government obligations or other high grade securities during the September market reaction. Two institutions

sold large blocks as a part of a previously determined program whereby certain substandard bonds are being eliminated and the losses thereon offset by profits realized from sales of United States Governments. Another sold \$500,000 United States Governments in anticipation of withdrawals of public funds. There was also some switching from long-term to short-term Governments, a number of bank officers stating that this was done upon the suggestion of their investment advisory services. One executive remarked that he made no changes in September as he "did not care to sell the Government short"; another stated that he watched a very substantial appreciation disappear but had the satisfaction of knowing that he "had not contributed to rocking the boat". A few banks took advantage of early September prices to add to their Government security holdings and placed additional orders on a downward scale of prices in the hope of obtaining still more. Two institutions hold no United States Government obligations. A considerable number, however, are confining all new purchases to Governments and a few are carrying out a program whereby their portfolios in the future will consist almost entirely of United States and high grade State and municipal issues.

PHILADELPHIA

The area covered by this report includes ten counties in the southwestern part of that portion of Pennsylvania assigned to this district. It contains 7,564 square miles and has a population of 704,000. Total banking resources approximate \$185,000,000, having increased about 4 per cent since the time of the last previous visit.

There has been widespread improvement in local business and employment conditions during the past year. The principal sources of industrial income in much of this area, bituminous coal mining, steel and brick manufacturing, and railroad operations, are susceptible to the same influence, thus producing the practical effect of dependence upon one industry - steel. The steel mills use coke, which is produced from soft coal, for fuel, and also need firebrick for furnace linings. Consequently increases in steel mill activity cause proportionate increases in mine and refractory operations. The transport of coal, firebrick, and steel causes a big upturn in rail operations.

The steel mills are busy at present and are employing between 12,000 and 13,000 men. All of the brick yards have materially increased operations, while the coal mines are working five and six days a week. Some bankers report that there is a shortage of mine workers in their respective communities, which in some cases could be met if men experienced in this work but now on WPA rolls would return to the mines. Other bankers, however, stated that in their counties the number of

workers re-employed by the mines had reduced WPA rolls to a point that there were not enough men available to complete projects already under way.

Increased activity by both the Pennsylvania Railroad and the Baltimore and Ohio Railroad has resulted in the re-employment of workers laid off for as long as two years.

The various other industries, while of local importance, are considerably smaller than those referred to, but are operating at a satisfactory level.

In shipping coal to Canada, old cars are being used and the cars are then sold at their destination for scrap. A continuance of this practice will result in a shortage of cars and require replacements, thus increasing activity at the various car shops. Additional stimulus is expected to be provided by the necessity of re-equipping several closed coal mines in the event that the demand for coal makes it profitable to reopen them.

Agricultural conditions are fairly good. The greater portion of this area escaped drought damage and produced abundant crops. Prices for most of them, however, were low and only small profits were made. The exceptions to this were peaches, cherries, berries, and potatoes. Grain prices, which had been low were said to be increasing.

Milk prices have improved and dairying is now providing a satisfactory year-round income. Poultry and poultry products also are netting a good return.

Credit demand is somewhat stronger than in recent years and loan liquidation is considered satisfactory. An upturn in the realty market would be most welcome to many of the bankers, as holdings of other real estate are substantial and the several years of hard times have impaired the protection of many loans. To date, there has been little activity in this market, although rentals in general are good. There is but a limited amount of new building and that is confined to a few communities.

At most of the institutions visited it was learned that credit could be obtained at rates less than 6 per cent where the collateral or risk warranted. Savings and time deposit rates, however, tended higher than those prevailing in many other sections of the District.

CLEVELAND

During the month of October six additional State banks were admitted to membership having resources totaling in excess of \$8,100,000.

(It is interesting to note that one of these is a bank which a number of years ago brought suit against Federal Reserve Bank of Cleveland in connection with presentation of checks at the counter for collection.)

A number of banks in addition to those mentioned last month are reporting loans at all-time peaks. This is especially true in the tobacco sections in Kentucky, and is partly seasonal since loans usually reach a seasonal high during October and November. A substantial liquidation ordinarily follows the opening of tobacco markets in early December. It is believed that the tobacco markets may not open until approximately a month beyond the customary day.

Efforts to interest Kentucky State banks in membership are not particularly fruitful. The principal objections seem to center around the idea that membership in the System constitutes a step away from the dual banking system; that reports by the Federal Reserve constitute an undue and unnecessary burden. An additional obstacle is that reserve requirements would be substantially increased since the Kentucky law provides for reserves equal to those required by the Federal Reserve System prior to the passage of the Banking Act of 1935, and permits cash in vault to be counted as part of such reserve.

The president of a large city National bank raises the question as to the future of the one to ten ratio in view of rapidly increasing deposits at all banks.

RICHMOND

Many banks in the District reveal a growing interest in membership. Senior officers and other representatives of this bank have contributed to this by numerous visits to nonmember banks. In consequence, some of them have applied for membership and others have taken steps to that end. In a few instances banks now ineligible are considering the advisability of making adjustments essential to membership, and certain eligible banks, hitherto uninterested, are carefully considering membership. In carrying on the work of adding to the number of member banks, this bank for the first time has the helpful cooperation of several large and influential correspondent banks.

Maryland and West Virginia banks visited in October manifest a growing optimism, with deposits firm or increasing and renewed activity in the loan field, particularly from individuals and farmers. The interest in loans is believed to be the result of increased industrial pay rolls and better prices received for livestock.

Northern West Virginia

Most banks report an increased demand for loans following the outbreak of war. Six per cent is the going rate for loans, while 2 and 2-1/2 per cent are paid on deposits.

Personal income loans are being pushed vigorously in some communities, while in others this type of loan is about the only kind that can be made. Personal loans, while not any important proportion of the total, have proved to be the most profitable assets in portfolios.

Some banks, feeling an urgency for income and having insufficient loans to produce it, have recently purchased some Governments. Many other banks have surplus funds to invest and would be interested in a level of 3 per cent for long-term bonds and 2-1/2 per cent for intermediate-term. In fact, expressions indicated a substantial demand for long-term bonds at a 3 per cent level.

A number of favorable comments were expressed in regard to the Reserve System's support of the Government bond market.

Bank earnings have improved in those banks where loans have risen, with a good prospect of further increase in earnings from loan expansion.

North Central Virginia

Bank loans and deposits have been expanding. Indeed, some banks report an all-time high for deposits. As deposits have grown, the problem of the rate paid on time deposits has been aggravated, for these deposits expand faster than demand deposits and usually constitute the major portion of the total. Where agreements can be perfected among bankers the rate is generally reduced to 2 per cent, but otherwise it remains at 2-1/2.

It then becomes both possible and necessary for the banker to hold out for 6 per cent on loans. The result is that some communities are paying more for money than would be necessary and to that extent borrowers other than time depositors are penalized. One of the impressive facts that comes out from a study of country banking is the tendency to rigidity in the rate charged on loans. When local banks have been subjected to outside pressure resulting from competition with banks in metropolitan centers, loan rates have been reduced and gradually this sort of competition is becoming more effective, but only gradually.

A few banks have found it necessary to borrow for seasonal purposes and now and then one meets with a banker who no longer contends that it is unsafe to show notes payable in his published statement.

ATLANTA

A representative of the Federal Reserve Bank made visits to thirteen member and twelve nonmember banks, all situated on the Florida east coast, south of Daytona Beach. The banks visited have enjoyed a very satisfactory period during the past few months. Business this summer has been good; deposits in many of the banks have increased considerably in comparison with a year ago; likewise, loans in many banks have increased, particularly in the smaller towns. Several of the banks report that earnings have been quite satisfactory. Some of the banks in the smaller towns, where the ratio of earning assets to deposits is greater than in the larger cities, contend that the profitable employment of funds is more or less a question of going after the business and that loans can be made if a banker is willing to keep on the alert.

Little mention was made of the European situation by bankers with whom our representative talked, and fewer comments on the market for Government securities were heard than while visiting banks in southwest Florida in the first half of September. However, a topic quite frequently broached was that of the requirements of the Wages and Hours Law and how to keep within the 42 hour work week effective October 24.

Louisiana

The officers of banks visited in southwestern Louisiana reported some improvement in banking activities since the first of the year, and, due to recent advances in commodity prices, view with considerable optimism the outlook for the immediate future. Although the banks in this area continue to be confronted with the general problem of excess funds, there has been a notable increase in demand for both agricultural and commercial loans. Several bankers reported that in order to meet advancing commodity and merchandise prices, a number of their customers, including rice millers, sugar mill operators, and merchants had already applied for increased lines of credit. During recent years, loans to farmers for purchase of cattle and improvement of herds have greatly assisted in building up a thriving industry and at the same time have proved a valuable source of revenue to the banks. Personal and installment loan departments, which are being actively promoted by all banks visited, are also found to be an important source of earnings. Without exception, bankers in this section report satisfactory earnings for the current year.

Banks in this area pay from 1-1/2 per cent to 2-1/2 per cent on savings accounts, while the average rate charged for commercial, personal, and installment loans is 6 per cent and for agricultural loans 8 per cent.

Tennessee

Our representative visited thirteen member and eleven nonmember banks in Knoxville and in the northern part of Tennessee between Knoxville and Nashville. In the Carthage-Cookeville section, and in Knoxville and its vicinity, most of the banks reported a surplus of loanable funds, the profitable employment of which continues to be one of the main problems confronting the managements of the institutions visited. One member bank reported an increase in loans in the last twelve months from \$240,000 to \$420,000, this being attributed to advertising the fact that the bank wanted loans. In spite of a generally existing surplus of loanable funds, a majority of the bankers visited stated that earnings for the year would be fairly satisfactory. Forage crops were hurt severely by the dry weather during the latter part of the summer and in September, as was the upland corn crop. However, lowland corn will apparently make a good yield. In Morgan County potatoes are the main cash crop and are now being harvested with a satisfactory yield per acre, and with the grower receiving around \$1 per bushel.

CHICAGO

Banks continued during the early part of October to manifest considerable interest in the Government bond market. The general tendency, however, was to make no change in their present holdings. Some bankers indicated that they would increase their Government bond portfolios should the market reach what they consider a more favorable level. Bank earnings continued reasonably good, the prospect being that, contrary to the earlier impressions, the earnings for the last six months of 1939 will equal those for the first half of the year.

Many of the bankers expressed regret over the fact that the Commodity Credit Corporation did not permit the banks to carry the renewed corn loans rather than to pay off such loans by selling 5/8 per cent debentures largely to the eastern banks.

Throughout the corn belts in Iowa and Illinois, the corn yield has been exceptionally good. While rainfall has been lacking in certain sections of the Seventh District, the drouth has not materially impaired the quality of corn, and it is said that it has facilitated the harvesting of the soy bean crop. On the other hand, the drouth has adversely affected alfalfa and the prospects for winter wheat. In some quarters, continued drouth has resulted in the drying of wells, and concern is felt over the ability to water livestock. The favorable yield of corn has led to substantial purchases of feeder stock at prices around eight cents per pound and upward, particularly in Iowa. A large volume of the feeders purchased comes from Texas and other western points.

Industrial activity in the District continued to rise. The steel operating rate has approached capacity levels. Delivery problems are acute, one of the heaviest pressure spots being the railroad car building shops. The volume of automobile production has shown a rapid seasonal expansion. In industrial centers visited it was stated that employment is at the high levels with a scarcity of skilled labor being experienced and a noticeable reduction in relief rolls at some points.

ST. LOUIS

During the month our officers and field representatives visited 173 banks, of which 63 were in Indiana, 30 in Arkansas, 30 in Missouri, 26 in Kentucky, 19 in Tennessee, and 5 in Illinois.

Those portions of Indiana visited in October are principally agricultural but contain numerous industrial plants, and are important in production of bituminous coal.

The season to September 1 was very decidedly favorable from the standpoint of agricultural production and farmers for the most part have made some money.

Trends in banking in the area follow rather closely those in general business. Apparently demand for credit has been good in most communities during the year, but much improved since late spring. Reports of expansion in demand for small, personal loans were numerous. Liquidation at country banks of agricultural loans of all descriptions is in the main satisfactory, with some notes of long standing being paid in full or reduced.

Among a number of country banks much uncertainty seems to be felt relative to the future of Government bonds, because of steadily increasing National debt, unbalanced budget, the European war, prospects of our entering the conflict with incident colossal bond issues, and other causes. Many of dubious bankers sought advice as to what to do, buy, sell, hold, or what. Naturally no suggestions were vouchsafed.

The cashier of a Missouri nonmember admitted that his board was more favorable and enthusiastic about membership than he was. He finally stated that his main reason for not applying was that he had a large number of correspondent accounts, some for business purposes, others due to friendships, but if he could determine a satisfactory

way to consolidate these accounts, he might apply for membership. He further stated that he had heard much favorable comment about what he termed "the changed attitude of the Reserve System" in attempting to promote goodwill among commercial banks by being of real service.

The cashier of a Missouri State member was very bitter in his criticisms of the Production Credit Association activities which he said were taking many of his good customers away from him. He was also worried about ways and means to be used in operating the bank so as to conform to the Wages and Hours Law.

The cashier of a Missouri National bank stated that he was not bothered by competition from the Production Credit Association since his bank did not like to make loans of the type made by the Association. A few of his customers had left and gone to the Association only to return after one experience with the Association.

MINNEAPOLIS

South Dakota

One of the principal speakers at the South Dakota group meetings was William C. Rempfer, Cashier of the First National Bank, Parkston, South Dakota, and President of the South Dakota Bankers' Association. His topic was "Adequate Earnings" and in connection with it he presented a number of schedules showing comparative statistics of South Dakota banks covering earnings and expenses, earning rates, gross income ratios, average rate of interest paid on time money, salaries record, gross income per employee, bank activity charges, operating statements, etc.

One point that he stressed was the necessity for making adequate service charges. In his talk he outlined the practice of his bank in charging 1/2 of 1 per cent for the denominational exchange of currency and coin. The latter proposal was new to many of the bankers, and it was evident that some of them were not favorably inclined toward the adoption of such a service charge.

Due to lack of moisture, general conditions in western South Dakota were considered to be only fair. There was a shortage of feed in this territory, and hay was being shipped in at the time of our visit. It was reported in some sections that it would be necessary to reduce the amount of livestock as a result. Throughout the central section of South Dakota, conditions were somewhat spotted, it being reported that where local showers had been received, crops in some cases

had been good, while in other sections they ranged from poor to fair. Conditions generally were more satisfactory in the eastern part of the State, which comprises most of the better diversified farming area of South Dakota. Bankers generally were somewhat optimistic and some of them reported that their earnings to date were good. In other instances, the banks admitted prospects for the coming year were not particularly encouraging, although due to Governmental expenditures, they did not anticipate acute suffering by the farmers in their territories.

Southern Minnesota

Generally the banks in this territory were enjoying a good demand for loans and most of them had a very good total of loans and discounts as compared to their deposits.

With the exception of Rochester where one member bank pays 1-1/2 per cent on time deposits, banks in this vicinity pay 2 or 2-1/2 per cent. While some of the banks paying 2-1/2 per cent were debating whether to reduce to 2 per cent, the general feeling was that with the increased lines of loans and discounts on which 6 per cent and 7 per cent and sometimes 8 per cent was realized, probably the rates paid were not out of line.

Generally speaking, the banks were pleased with their situation as to earnings, which it was indicated would be better this year than for some years back. One bank with \$15,000 capital reported earnings of \$8,000 last year and expected greater earnings this year.

KANSAS CITY

In October a large number of banks in western Nebraska were visited and nine group meetings in Kansas were attended. In Colorado twenty member and seventeen nonmember banks were called on. There were a few exceptions but generally bankers were very friendly. Not many good prospects for new members were found. At the same time there was more discussion of the advantages of membership than formerly and in a number of institutions adjustments are in process that may clear the way for membership.

In September the almost universal subject of conversation among bankers had been the war and its probable effect on the price of farm products and Government bonds. In October there was little talk of war and apparently little concern about the price of Government bonds. Most bankers took the position that the Federal Reserve System would not let the Government bond market get out of hand and some instances were found of regret that bonds had been sold.

The continuation of the unprecedented fall drouth is the thing about which everyone is talking. In Kansas and Oklahoma rainfall in September was only 10 per cent of normal and in Missouri and Nebraska only 20 per cent. October was unusually dry also, rainfall averaging appreciably less than half of normal throughout the District. Some farmers were drilling wheat in the dry soil while others were waiting for rain. It is said that nearly all of this wheat that is being dusted in, as the farmers call it, is covered by crop insurance.

In Nebraska, outside of irrigated regions, and in many parts of western Kansas, a feeling of discouragement and resignation because of the drouth is very noticeable. In some parts of Nebraska it has been seven or eight years since a crop was produced and many farmers are moving out, some going to Wyoming. It is said that more than a third of the farmers in Custer County, Nebraska, have been financed by the FSA and that this agency is now selling out many farmers. In nearly all cases, according to reports, the FSA is taking a loss.

In the irrigated regions of western Nebraska conditions are unusually good. The beet crop got a poor start, but later came out unexpectedly well. It appears that yields and sugar content will be normal. The potato crop is also the best in years, the average yield being around 300 bushels per acre and yields of 500 and 600 bushels occasionally being reported. The bean crop is both good and profitable.

Banks in irrigated regions of Nebraska report considerable demand for loans. Farmers generally are holding for higher prices and quite a number of banks are rediscounting. There is also some demand for loans for feeding purposes but cattle prices are considered high and banks are loath to make loans to feeders except in cases where those persons can afford to take a loss.

Next to the drouth, the most important topic of conversation at group meetings of bankers was the Wages and Hours Act. There is a great deal of resentment against the application of this law to banks as it is universally agreed that many tasks around a bank, such as a teller's job, are of such a nature that it is almost impossible for a substitute to finish the day's work. It is the opinion of many bankers that it would be better to go to a 40-hour-week at once in order that bank operations can get adjusted to those hours and thus obviate the necessity of bank customers having to go through a process of successive adjustments to new schedules of hours. Apparently Saturday afternoon closing will take care of most cases. Some banks are also planning to open later and others to close earlier. Considerable study is being made of Saturday afternoon business. It appears that there is

less activity in country banks at that time than is ordinarily supposed. In small country places nearly everyone goes to the county seat town Saturday afternoon, and even in the larger places few banks work credit lines on Saturday and most of their business consists of cashing checks. However, it is customary for merchants to cash checks for farmers so there is less need of banks being open Saturday afternoon than might be expected.

DALLAS

West Texas

All member banks and three nonmembers located in eleven counties of the South Plains region in west Texas were visited by our representatives.

The livestock industry continues to be the bright spot in the economic picture of this section of Texas. The low estate to which the cotton farmers have fallen in recent years by reason of low prices, loss of markets and restricted production has caused a steadily increasing number of them to turn to raising cattle, hogs, and sheep, particularly in the so-called shallow well water terrain that extends over several counties and affords an ample supply of water for livestock and irrigation for feed crops. Livestock prices continue high in relation to the cost of feeds, and thousands of calves, hogs, and sheep are being profitably raised and fattened for market. The ever-increasing construction of trench silos for the storage of reserve supplies of feed in the form of ensilage is gradually reinforcing the position of livestock producers against the hazards of winter drouths.

The competition among banks and other lending agencies, both public and private, for loans to stockmen is exceedingly keen.

In some localities cotton is being held in anticipation of a Government loan; in others it is being sold as rapidly as it is ginned. Many bankers expressed the hope that the Government will not make a loan on cotton this year. They feel that previous loans have been largely responsible for the loss of this country's foreign cotton markets and that the cotton impounded in the Government's warehouse stocks is a constant bearish menace to the domestic market.

Whatever may be the position of the cotton farmers in other sections of the South, those in west Texas are able, it is claimed, to produce cotton profitably on the basis of a market price ranging from six to nine cents a pound, due to the highly mechanized methods of cultivation and harvesting employed in the large-scale farming system peculiar to the plains country of west Texas.

In the larger centers of this highly diversified agricultural region, deposits are steadily increasing despite the deterrent effects of drouths and the restricted crop control program. Loans are also showing an upward trend and bank earnings, as a rule, are regarded as healthy and satisfactory.

As a general rule the interviewed bankers were about evenly divided in their sentiments regarding the AAA farm program, some of them being in favor of its continuance and about an equal number being of the opinion that all forms of subsidies and crop controls should be discarded and a free rein given to farmers to fall back on their own financial and managerial resources.

SAN FRANCISCO

Fresno and Kern Counties, California

General conditions in Fresno and Kern Counties are quite satisfactory. Agricultural production has provided reasonably good crops and returns have been somewhat better than expected. Some difficulty is being experienced in the cotton areas, where a portion of the pickers are on strike. Sales of cotton this season are reported to have been made at from 8 to 9 cents per pound. Grape production was smaller than anticipated earlier in the season, and while the price paid to growers was somewhat less than received last year, it was considerably better than the outlook appeared at the beginning of this year's operations. Prices have been from \$10 to \$12 per ton and wineries have paid as high as \$17 per ton for the muscat variety. There appears to be considerable activity in the building of small homes at Fresno. Inquiry, however, did not disclose the basis for this building activity.

Wenatchee and Okanogan Valleys, Washington

The apple situation in the Wenatchee and Okanogan valleys, with particular reference to the lack of an export market, has been giving the growers considerable concern. The bankers, however, have not financed the apple growers to the same extent as in previous years, and they feel that, while there may be some losses in the industry, the banks will not be materially affected.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

October - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	23	2	25	2	<u>1</u> / 565	--	--
New York	171	54	225	4	565	--	--
Philadelphia	97	32	129	--	--	3	170
Cleveland	140	64	204	13	3,262	3	230
Richmond	114	59	173	7	2,256	1	150
Atlanta	48	37	85	8	865	--	--
Chicago	43	39	82	12	2,437	--	--
St. Louis	68	105	173	5	830	5	635
Minneapolis	29	44	73	7	1,304	8	1,174
Kansas City	32	34	66	13	4,051	1	40
Dallas	18	3	21	2	200	--	--
San Francisco	36	7	43	20	2,212	2	175

1/ Not reported

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-560

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 27, 1939



Dear Sir:

Recently it became necessary to replenish the supply of Regulation Q, Payment of Interest on Deposits, and in reprinting the regulation there was included the amendment which became effective on February 11, 1937, which is the only amendment made to the regulation since the previous print.

There are being sent to you today under separate cover 100 copies of the reprint.

Very truly yours,

A handwritten signature in cursive script, reading "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-561

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 28, 1939



Dear Sir:

In accordance with its practice in recent years, the Board of Governors of the Federal Reserve System will send to State bank examiners upon request a complimentary copy of each issue of the Federal Reserve Bulletin published in 1940. In this connection, it will be appreciated if you will submit as soon as possible the names and addresses of all State bank examiners in your district who desire to avail themselves of this service.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT CHICAGO

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-562

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 29, 1939



Dear Sir:

On Monday, December 25, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed.

Very truly yours,

A handwritten signature in cursive script, reading "J. C. Noell". The signature is written in dark ink and is positioned above the typed name and title.

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-563
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1939

Dear Sir:

There are being forwarded to you today under separate cover the number indicated of the following forms for use by your bank during 1940:

<u>Number of copies</u>	<u>Form</u>
E	Functional Expense report
F. R. 38	Classification of discounted and purchased bills held at end of month
F. R. 160) Receipts and Payments of Paper Currency - Monthly Report
160A	
160B	
160C	

Other forms required for use in 1940 will be furnished at a later date.

Very truly yours,

J. R. Van Fossen

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-561

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 1, 1939



Dear Sir:

There are being forwarded to you today under separate cover the number indicated of the following forms for use by your office during 1940:

<u>Number of copies</u>	<u>Form</u>
F. R. 5	Federal Reserve Notes - Daily Statement of Federal Reserve Agent
F. R. 44	Federal Reserve Notes received, issued to bank and returned to Comptroller of the Currency - Monthly report.

Very truly yours,

J. R. Van Fossen Assistant Chief,
Division of Bank Operations.

TO THE FEDERAL RESERVE AGENTS OF EACH FEDERAL RESERVE BANK

R-565

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release

December 4, 1939

The Board of Governors of the Federal Reserve System today announced the appointment of Warren F. Whittier, farmer, dairyman and cattle breeder, Douglassville, Pennsylvania, as a class "C" director of the Federal Reserve Bank of Philadelphia for the unexpired portion of the term ending December 31, 1940.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-566

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 4, 1939

Dear Sir:

There is enclosed for your information a copy of the Board's letter of December 4, 1939, to President Harrison, and an attached proposed circular letter concerning separation allowances and special contributions to the Retirement System, in which it is requested that this subject be placed on the program for discussion at the forthcoming Presidents' Conference.

Very truly yours,

A handwritten signature in black ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Enclosures 2

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT NEW YORK

R-566-a

December 4, 1939

Mr. G. L. Harrison, Chairman,
Presidents' Conference,
C/o Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Harrison:

Now that the Retirement System has been in operation for a period of nearly six years, the Board is of the opinion that some changes should be made in the authorizations contained in its letter, S-7, of June 24, 1937 with respect to separation allowances and special contributions to the Retirement System for the purpose of supplementing retirement allowances, and in its letter, X-9798, of January 21, 1937 with respect to the retention of officers and employees in service after the attainment of age 65.

Accordingly, the Board's staff has prepared the attached proposed circular letter to all Federal Reserve banks which is intended to supersede the above mentioned letters.

Before reaching any decision in regard to the proposed circular letter, the Board would appreciate receiving the opinion of the Presidents on the suggested changes. It will be appreciated, therefore, if this subject is placed on the program for discussion at the forthcoming Presidents' Conference. Owing to the limited time before the next Presidents' Conference, December 12, a copy of this letter and its enclosure is being sent to the President of each of the other Federal Reserve banks.

Very truly yours,
(Signed) Chester Morrill

Chester Morrill,
Secretary.

Enclosure

Dear Sir:

The Board has reviewed its policy with respect to the retirement of officers and employees upon attainment of age 65, and the authorization heretofore given to the Federal Reserve banks to pay separation allowances, and to make special contributions to the Retirement System, and is of the opinion that some changes therein are desirable. Accordingly, the Board's letters X-9798 of January 21, 1937, and S-7 of June 24, 1937, are hereby rescinded, effective July 1, 1940, and beginning with that date the Board's policy on the above mentioned matters will be as follows:

Retirement of officers and employees upon attainment of age 65.

The Rules and Regulations of the Retirement System provide that any member in active service who has attained age 65 shall be retired on a date not more than ninety days next following the date on which such age is attained, except that during the five years next following attainment of age 65 any member, on the request of the employing bank, may be retained in service for a period of one year as the result of each such request during the five year period.

While the retention of employees in service after attaining age 65 was justified, in many instances, when the Retirement System was first established, it is thought that the necessity for such extensions now rarely exists. Furthermore, it has now been nearly 6 years since the Retirement System was set up and employees have had sufficient notice that the Rules and Regulations provide for retirement at age 65 to enable them to take the steps necessary to accommodate themselves to the change from an employed to a retired status. Accordingly, the Board is of

the opinion that officers and employees should be retired promptly after attainment of age 65, in the absence of exceptional circumstances which would justify retention in service beyond that age. In case, therefore, a Federal Reserve bank wishes to retain an officer (other than the President or First Vice President) or employee in service for more than 90 days after he attains age 65, the Board should be furnished with a full statement of the exceptional circumstances which, in the judgment of the board of directors of the bank, justify such retention, and beginning with January 1, 19¹/₁, the Board's advance approval should be obtained for the payment of salary for any service rendered after the expiration of such ninety day period.

Special contributions to the Retirement System for benefit of officers and employees retired at or after age 65.

On retirement of an officer or employee at or after attaining age 65 and after at least five years of service, your bank is authorized, with the approval of the Board of Directors, to pay to the Retirement System such amount as may be necessary to increase his retirement allowance by an amount not exceeding \$1.00 for each month of service, provided that the retirement allowance as thus supplemented shall in no case exceed one-half of his average annual salary during the last five years of service or \$1,200, whichever is less.

In the case of medium and higher salaried officers and employees, this represents a substantial reduction from the maximum payment, six months' salary, that can be made under existing authorizations. In order that this change may not be too abrupt, your bank is authorized in lieu of the above to pay to the Retirement System for the benefit of an officer or employee retired prior to January 1 19¹/₂, an amount not to exceed 25 per cent of the salary that the officer or employee would have received at the current rate from the date of his retirement to January 1, 19¹/₂, if he had remained in service to that date.

Contributions to the Retirement System for the benefit of employees on leave of absence on part pay or without pay.

In the case of officers or employees on leave of absence on part pay, contributions by the bank may be continued at the full rate, provided that deductions are also made at the full rate from salary paid. Contributions in order to continue in effect eligibility for death and disability benefits may be made by the bank in the case of an officer or employee on leave of absence without pay,

whether or not he makes his contributions also, but such contributions by the bank should not be made for a period in excess of two months without obtaining the prior approval of the Board of Governors, unless the absence is due to illness or to temporary service in a civilian capacity with a department or agency of the Federal Government.

Separation allowances

If an officer or employee of your bank is separated from service with the bank prior to attainment of age 65 under such circumstances as in the opinion of your directors warrants the payment to such officer or employee of a separation allowance, your bank may pay to the officer or employee, or to the Retirement System for his benefit, an amount equal to not more than one-half of one month's salary for each six months' service or fraction thereof, with a maximum of six months' salary. It is assumed that no separation allowance will be paid to an officer or employee who voluntarily resigns to accept other employment.

In applying the above any salary in excess of \$12,000 per annum shall be treated as a salary of \$12,000, and in computing length of service for the purpose of determining the maximum separation allowance or special contribution to the Retirement System all service to date of retirement may be counted, even though a portion of such service may not be creditable service, as defined in Section 1 of the Rules and Regulations of the Retirement System. Retirement allowances as referred to above are the regular cash refund allowances or their actuarial equivalent under any of the optional plans.

This letter is not to be construed as indicating the contribution, if any, that should be made in a given case. It merely sets forth what in the opinion of the Board appear to be the maximum payments that should be made either as separation allowances or to supplement retirement allowances.

Very truly yours,

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



December 5, 1939 ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Dear Sir:

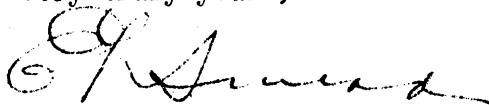
It will be appreciated if you will furnish us, not later than January 15, 1940, with the following data for use in the Board's forthcoming annual report:

1. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during each month of the calendar year 1939 and during the year as a whole.
2. Statement showing the following information as of December 30, 1939:
 - Number of member banks in operation
 - National banks
 - State bank members
 - Number of nonmember banks on the par list
 - Nonmember State banks (exclusive of mutual savings banks)
 - Private banks under State supervision
 - Private banks not under State supervision
 - Number of nonmember banks not on the par list
 - Nonmember State banks (exclusive of mutual savings banks)
 - Private banks under State supervision
 - Private banks not under State supervision
3. Statement showing the names and locations of banks (including private banks) not on the par list on December 31, 1938, which during 1939,
 - (1) went out of existence (other than through conversion into or succession by national banks)
 - (2) were converted into or succeeded by national banks
 - (3) were admitted to Federal Reserve membership
 - (4) were added to par list (other than through membership)

4. Statement showing the names and locations of banks (including private banks) which became non-par banks during 1939 through
 - (1) primary organization of non-par banks
 - (2) conversion of national banks into or succession by nonmember non-par banks
 - (3) withdrawal of State banks from Federal Reserve membership
 - (4) withdrawal of nonmember banks from par list

The figures of banks on the par list and **not** on the par list on December 30, 1939, should include all banks on which checks are drawn. Statement No. 2 should show separate figures for each State or part of State in the territory assigned to the head office and to each branch, if any. The total figures for each State or part of State should be reconciled with the latest State banking department abstract of condition reports and the Board advised of the names and locations of the banks which account for any differences between the number of banks shown in your statement and in the State banking department abstract. A copy of the reconciliation should accompany the statement showing the number of nonmember banks on par list and not on par list, unless the reconciliation would delay the furnishing of the statement beyond January 15, in which case the statement should be forwarded before the reconciliation is effected and the Board advised of any necessary changes in the statement at the time the reconciliation is furnished.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 6, 1939
R-568

Dear Sir:

Referring to the Board's letter R-380 of January 6, 1939, following is a statement of changes during November in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Deletion

Ohio

Sandusky

The Citizens Banking Company

The Citizens Banking Company should be added with the following note to the list (R-380b) of banks which had in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934, but which are no longer in operation as nonmember banks:

(Admitted to Federal Reserve membership on November 17, 1939)

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

199

R-569

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 6, 1939

Dear Sir:

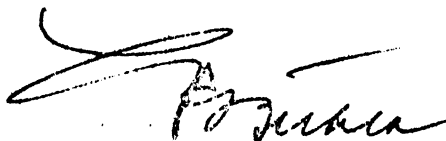
Pursuant to the Board's letter R-431 of March 22 the Federal Reserve banks filled in and returned to the Board copies of form F.R. 456 showing, for the year 1938, operating ratios and a few balance sheet figures for each of their member banks. Data from these forms were recorded on punched cards, from which various special distributions and averages were derived. Owing to unexpected difficulties in reconciling the reported figures and to the experimental character of this year's work, delays have been unavoidable and no report showing the results of the undertaking has been issued. However, some of the new averages and percentage distributions are summarized in a series of 50 condensed tables, three copies of which are enclosed. Analyses of these tables are under way.

It is believed that further work along the lines of this year's undertaking is justified. Accordingly, a combination work sheet and reporting form, copy enclosed, has been prepared which provides space for all the ratios recommended by the Presidents' Conference Committee on Member Bank Operating Ratios as a result of a meeting of the Committee held at the Board's offices on November 13, 1939. Space is also provided on the form for several "optional" ratios for the use of such Reserve banks as may wish to compute them.

A supply of the new forms (F.R. 456, revised) is being forwarded to you. It will be appreciated if, when your tabulations have been made, you will return the completed forms to the Board, by registered mail, for its temporary use. All of the ratios provided for on the work sheet are desired for the Board's tabulations except those marked "optional", which need not be computed unless your bank plans to use them. In case it is not convenient for your bank to use the form for work sheet purposes, no entries need be made in the first five columns of section A or the first two columns of section B. If it will not be practicable for your bank to lend the completed forms to the Board for a limited time early next spring, additional copies of the form will be provided in order that the data in section C and the last column of sections A and B may be entered and transmitted to the Board.

It is likely that machine tabulations and distributions will be made of the 1939 data. In that event, aggregates and averages of the individual ratios for the member banks in your district, by size groups, and by States if desired, could be furnished your bank within a reasonably short time after receipt of the individual reports in Washington, thereby making it unnecessary for your bank to calculate such averages. Please advise the Board if your bank will compute its own averages, or if you would like to have such averages computed here.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosures 4

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R- 570

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 7, 1939

Dear Sir:

There have been forwarded to you today under separate cover copies of Form F. R. 107 to be used by State bank members in submitting their reports of earnings and dividends for the six months ending December 31, 1939. The form is unchanged from the one used in submitting reports for the six months ended June 30, 1939.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-571

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 7, 1939



Dear Sir:

There are enclosed herewith six copies of a tentative draft (L-653) of an amendment to the Board's Regulation L, Interlocking Bank Directorates under the Clayton Act, which would exempt relationships between a trust company which does not accept deposits and a bank which does not exercise trust powers. It will be appreciated if you will furnish the Board with your recommendation as to the desirability of adopting this amendment, together with any comments or suggestions which you may have regarding its form.

In view of the fact that the amendment may affect some relationships which are now existing by virtue of the permission granted in subsection 3(e) of Regulation L and which, therefore, will have to terminate on February 1, 1940 unless the enclosed amendment is adopted, it is requested that your reply to this letter be made at your earliest convenience.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosures 6

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

L-653

RESOLVED, That section 3 of Regulation L, Interlocking Bank Directorates under the Clayton Act, be amended, effective immediately, by striking out paragraph (c) thereof and substituting the following:

(c) Any director, officer, or employee of a member bank of the Federal Reserve System which does not maintain a trust department and which is not authorized to exercise trust powers may be at the same time a director, officer, or employee of not more than one trust company which does not receive or hold deposits*; and any director, officer, or employee of a trust company which is a member of the Federal Reserve System and which does not receive or hold deposits* may be at the same time a director, officer, or employee of not more than one bank, banking association, or savings bank which does not maintain a trust department and which is not authorized to exercise trust powers.

*The term "deposits" shall not include funds received and held in a fiduciary capacity.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



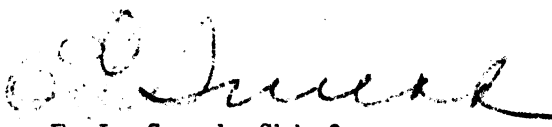
R-572
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 7, 1939

Dear Sir:

There is enclosed for your information a proof copy of Form F. R. 34 as revised for use during 1940. It is hoped that shipment of the forms can be made about December 15.

Very truly yours,


E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-573

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 8, 1939



Dear Sir:

Reference is made to the Board's letter of November 29, 1939, R-562, concerning holidays during the month of December. Pursuant to an Executive Order of the President, dated November 30, 1939, the offices of the Board of Governors will be closed all day on Saturday, December 23 and Saturday, December 30, with the exception of the telegraph office, which will operate as usual on both days.

Please notify branches.

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. C. Noell".

J. C. Noell,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-574

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 11, 1939

Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes from November 1 to November 29, 1939.

Very truly yours,

A handwritten signature in cursive script, reading "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-574-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
November 1 to November 29, 1939.

Federal Reserve Notes, Series 1934

	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	47,000	7,000	54,000	\$ 4,968.00
New York	158,000	39,000	197,000	18,124.00
Philadelphia	20,000	10,000	30,000	2,760.00
Cleveland	53,000	12,000	65,000	5,980.00
Richmond	20,000	12,000	32,000	2,944.00
Atlanta	4,000	6,000	10,000	920.00
Chicago	72,000	27,000	99,000	9,108.00
St. Louis	8,000	4,000	12,000	1,104.00
Minneapolis	13,000	4,000	17,000	1,564.00
Kansas City	11,000	6,000	17,000	1,564.00
Dallas	10,000	4,000	14,000	1,288.00
San Francisco	<u>46,000</u>	<u>24,000</u>	<u>70,000</u>	<u>6,440.00</u>
	462,000	155,000	617,000	\$56,764.00

617,000 sheets @ \$92.00 per M, . . . \$56,764.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-575

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD


December 11, 1939



Dear Sir:

In accordance with the usual practice, please furnish the Board with a summary statement showing the number and salaries of officers and employees of your bank (including branches, if any) as of December 31, 1939, made out in accordance with the attached form. The figures, which should not include any changes in either the number or salaries of officers or employees that become effective on January 1, 1940, will be published in the Board's 1939 Annual Report.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-575a

NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF THE
 FEDERAL RESERVE BANK OF _____ (INCLUDING BRANCHES)

December 31, 1939

	Total officers and employees including those whose salaries are reimbursed to the bank in whole or in part	Officers and employees (in- cluded in column 1) whose salaries are reimbursed to the bank in whole or in part(a)
Annual salary of President	\$ _____	
Other officers:		
Number	_____	\$ _____
Annual salaries	_____	_____
Employees, both permanent and temporary:		
Number (b)	_____	_____
Annual salaries	_____	_____

- (a) Should represent aggregate of fractional amounts in the case of employees whose salaries are only partly reimbursed to the bank. For example, if 25 per cent of the salary of an employee receiving \$1,200 a year is reimbursed to the bank, .25 should be included in the computation of the "number" of employees, and the amount of salary reimbursed, \$300, should be included in the computation of the annual salaries.
- (b) In the case of part-time employees, i.e., employees who are regularly engaged for less than a full day, the "number" reported should represent the portion of the full day worked. For example, if any employee is regularly engaged for one-half of the usual working day, .50 should be included in the computation of the "number" of employees.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-576

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 13, 1939

Dear Sir:

It will be appreciated if you will mail to the Board as soon as practicable after January 1 a copy of the budget approved by your bank for its head office and each of its branches, if any, and for the head office and branches combined, for the calendar year 1940.

It will also be appreciated if the 1940 budgets furnished to the Board are prepared along functional lines in accordance with the sample form, R-576a, attached, totals for each function being shown as in the functional expense report, Form E.

Please also submit statements on Form R-576b and R-576c showing the itemization of the budgets of the statistical and analytical and bank examination functions.

In addition kindly prepare and submit with the budget statements memoranda setting forth in general the reasons for the principal increases and decreases in the budget estimates for 1940 as compared with actual expenses during 1939.

A supply of forms R-576a, R-576b, and R-576c is enclosed.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written over a horizontal line.

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

SUMMARY OF BUDGET ESTIMATES, 1940

Federal Reserve Bank of _____ * * * * *
 (Indicate whether head office, branch or "combined" report)

<u>Function</u>	Expenses, Year 1939	Budget, Year 1940
General overhead - Controllable		
General overhead - Noncontrollable		
Provision of space (less income and distribution)		
Furniture and equipment		
Provision of personnel		
General service		
Postage		
Insurance		
Failed banks		
Loans, rediscounts, and acceptances		
Securities		
Currency and coin		
Check collection		
Noncash collection		
Accounting		
Legal		
Bank and public relations		
Auditing		
Bank examination		
Federal Reserve note issues		
Statistical and analytical		
Securities exchange		
Fiscal agency, custodianship, and depository:		
Reimbursable expense		
Expense not reimbursable		
Foreign		
 TOTAL (column 1 must agree with Form E)		

STATISTICAL AND ANALYTICAL BUDGET, 1940

Federal Reserve Bank of _____

(Indicate whether head office,
branch or "combined" report)

<u>Expense Unit</u>	Expenses, Year 1939	Budget, Year 1940
---------------------	------------------------	----------------------

1. Statistical:

- a. Salaries - Officers*
- b. Salaries - Employees
- c. Retirement system contributions
for current service
- d. Traveling expenses
- e. Printing, stationery, and supplies
- f. Telephone and telegraph
- g. Postage and expressage
- h. All other

TOTAL

2. Monthly letter:

- a. Printing and stationery
- b. Postage and expressage

TOTAL

3. Library:

- a. Salaries - Officers*
- b. Salaries - Employees
- c. Retirement system contributions
for current service
- d. Traveling expenses
- e. Printing, stationery, and supplies
- f. Telephone and telegraph
- g. Newspapers, periodicals, books,
binding, clipping service, etc.
- h. All other

TOTAL

TOTAL, STATISTICAL AND
ANALYTICALNumber of copies of Monthly Letter
printed for month of December 1939

*Indicate in a footnote the complete allocation of the time and salary of each officer whose salary is charged in whole or in part to this unit.

BANK EXAMINATION BUDGET, 1940

Federal Reserve Bank of _____ (Indicate whether head office,
branch or "combined" report)

<u>Bank Examination Function</u>	Expenses, Year 1939	Budget, Year 1940
a. Salaries - Officers*		
b. Salaries - Employees		
c. Retirement system contributions for current service		
d. Traveling expenses		
e. Printing, stationery, and supplies		
f. Telephone and telegraph		
g. Copies of bank examination reports		
h. All other		
TOTAL		
DEDUCT - EXPENSES CHARGED AGAINST BANKS EXAMINED		
NET TOTAL, BANK EXAMINATION		

*Indicate in a footnote the complete allocation of the time and salary of each officer whose salary is charged in whole or in part to this function.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-577

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 14, 1939

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the seven forms attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

Number of
copies

Form

Form F.R. 105, Report of condition of State bank member.

Form F.R. 105b (Schedule "O"), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.

Form F.R. 105-i (Schedule "A.1"), Retail installment paper.

Form F.R. 105e, Publisher's copy of report of condition of State bank member.

Form F.R. 220, Report of affiliate or holding company affiliate.

Form F.R. 220a, Publisher's copy of report of affiliate or holding company affiliate.

Form F.R. 220b, Instructions for preparation of reports of affiliates and holding company affiliates.

Form F.R. 105-i (Schedule "A.1") is a supplement to Schedule A, Loans and Discounts. As indicated on the new form, it calls for the banks' holdings of installment loans arising from the

retail sale of, and secured by, automobiles, household appliances, furniture, clothing, jewelry, etc. Three copies of form F.R. 105-i should be furnished to each State bank member. Two copies of the completed report should be returned to the Federal Reserve bank, and one of these in turn should be forwarded by the Federal Reserve bank to the Board. No change has been made in any of the six other forms listed above.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosures 7.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-578

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 14, 1939



Dear Sir:

The Board's letter of December 23, 1938 (R-368) requested the Federal Reserve banks to obtain annual reports from holding company affiliates having general voting permits, and transmitted a form (Form F. R. 437) for use in obtaining such reports. The letter indicated that regular annual reports would be requested as of the end of each calendar year, or the holding company affiliate's fiscal year. Accordingly, it is now requested that an annual report for the year ending December 30, 1939, or for the holding company affiliate's latest fiscal year if it differs from the calendar year, be obtained from each holding company affiliate which has its principal executive office in your district and which holds a general voting permit. As soon as practicable, please deliver to each such holding company affiliate three copies of Form F. R. 437, with the request that the annual report be filed in duplicate with your bank not later than February 1, 1940.

It has not been deemed necessary to revise Form F. R. 437, and the form used a year ago should be used again in obtaining the annual reports. Inasmuch as a surplus stock of Form F. R. 437 was sent to each Federal Reserve bank last year, most of the banks presumably have enough copies of the form on hand to supply the holding company affiliates in their respective districts with the required number of copies. However, if your bank does not have a sufficient number of copies of Form F. R. 437, please inform us immediately as to the number of additional copies needed, and these will be supplied to you promptly from the stock available in the Board's offices.

The instructions contained in R-368 and its enclosure (R-368-a) are applicable to the reports now requested, with the exception, of course, of certain dates mentioned in such instructions. It is therefore requested that reference be made to R-368 and R-368-a for information as to the procedure to be followed in obtaining the reports.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, December 19, 1939.

The following summary of general business and financial conditions in the United States, based upon statistics for November and the first half of December, will appear in the January issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks.

Following a rapid rise after the outbreak of the European war industrial activity continued at a high level in November and the first half of December. There was a considerable increase in distribution of commodities to consumers while prices of basic commodities, which had been steady during November, rose somewhat in the first two weeks of December.

Production

The Board's seasonally adjusted index of industrial production advanced from 121 to 124 per cent in November, reflecting sustained activity at a period of the year when a decline is usual. Production of durable goods, which had advanced rapidly for several months, showed a further expansion. Record production of steel ingots continued in November and was followed by a less than seasonal decline in the first half of December. Automobile production increased in November, notwithstanding the fact that plants of one important company remained closed pending settlement of an industrial dispute. After this was settled at the end of November assemblies rose sharply. Retail sales of new automobiles were in large volume

in November and at the end of the month dealers' stocks of new cars apparently were smaller than at the corresponding time in other recent years. Lumber production declined less than seasonally in November but plate glass production, which had reached a high level in October, showed a reduction.

Output of nondurable goods continued at a high level in November. At cotton and woolen mills activity increased somewhat further and was close to the record levels reached three years ago. Rayon production advanced to new high levels but at silk mills there was a sharp decline following substantial increases earlier this fall. Output of flour and sugar declined further from the levels reached in September while changes in activity at shoe factories and meat-packing establishments were largely seasonal in character.

Coal production in November declined somewhat from the high level reached in October. Output of crude petroleum increased further and iron ore shipments continued in exceptionally large volume until the Great Lakes' shipping season closed in the latter part of the month.

Value of construction contracts, as reported by the F. W. Dodge Corporation, increased in November following a sharp decline in October. In both months changes in total awards reflected principally fluctuations in the volume of contracts for public construction. Private residential awards declined somewhat less than seasonally in November, while awards for other private projects showed little change. Contracts for private work, both residential and nonresidential, were larger than a year ago, while those for public projects were below the high level of that time when contracts under the Public Works Administration program were being awarded in large volume.

Employment

Factory employment and pay rolls continued to increase in November, reflecting chiefly further sharp advances in industries producing steel, machinery, and other durable goods.

Distribution

In November distribution of commodities to consumers increased considerably. The Board's seasonally adjusted index of department store sales, which had been around 90 in the three preceding months, advanced to 94, a level about the same as at the peak in 1937 when prices of commodities sold at department stores were generally somewhat higher than at present.

Freight-car loadings showed less than the usual seasonal decrease from October to November and the Board's adjusted index increased from 80 to 82, which was only slightly under the recovery peak reached in the early part of 1937. Shipments of ore and miscellaneous freight declined less than is usual in November, while loadings of coal decreased more than seasonally from the relatively high October level.

Commodity prices

Prices of both industrial materials and foodstuffs advanced from the latter part of November to the middle of December. Wheat and silk prices rose considerably and there were smaller increases in cotton and hides. Prices of steel scrap and nonferrous metals, on the other hand, showed declines.

Government security market

Prices of United States Treasury bonds advanced sharply during the last half of November to a level not far below the all-time high point

of last June and remained steady during the first half of December.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities rose substantially during November and the first half of December, reflecting largely purchases of new United States Government securities. Commercial loans, which had been increasing since August, continued to rise until the third week in November. Deposits increased further.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-580

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 16, 1939

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of November 1939.

Please credit the amount payable by your bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by mail the amount and purpose of the credit.

Very truly yours,

A handwritten signature in cursive script, reading "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-580-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER, 1939

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	25,561	906	26,467	\$ 555.54	\$ 332.73	\$ 222.81
New York	78,798	-	78,798	1,653.95	1,034.60	619.35
Philadelphia	17,422	914	18,336	384.87	245.89	138.98
Cleveland	36,486	915	37,401	785.04	232.66	552.38
Richmond	28,991	894	29,885	627.28	213.93	413.35
Atlanta	43,342	892	44,234	928.46	242.84	685.62
Chicago	62,687	951	63,638	1,335.74	1,253.32	82.42
St. Louis	43,683	906	44,589	935.91	292.13	643.78
Minneapolis	19,486	888	20,374	427.64	189.50	238.14
Kansas City	43,701	892	44,593	935.99	273.06	662.93
Dallas	34,510	921	35,431	743.69	270.15	473.54
San Francisco	44,495	914	45,409	953.12	344.37	608.75
Board of Governors	228,873	-	228,873	4,803.98	10,146.03	-
Total	708,035	9,993	718,028	\$15,071.21	\$15,071.21	\$5,342.05

(1) Based on cost per word (\$.020989725) for business handled during the month.

(2) Payments by banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,745.41) and wire rental (\$8,400.62). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-581

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1939



Dear Sir:

On Monday, January 1, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve banks and branches will be closed.

The Board is advised that the following holidays also will be observed by Federal Reserve banks and branches during the month of January:

January 8 (Monday)
Anniversary of the
Battle of New Orleans

New Orleans

January 19 (Friday)
Anniversary of the
birthday of Robert
E. Lee

Richmond
Charlotte
Atlanta
Birmingham
Jacksonville
Nashville

Louisville
Memphis
Dallas
El Paso
Houston
San Antonio

On January 8 and 19 the offices affected will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for such offices on January 8 and 19 with your credits for the following business days. No debits covering shipments of Federal Reserve notes for account of the head offices concerned should be included in your note clearing of January 19. It is understood that the telegraph office at Atlanta will be open on January 19 to handle business to and from the New Orleans Branch. The Board's telegraph office has direct connection with the Baltimore Branch.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-582

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 20, 1939.

Dear Sir:

There is enclosed for your information a statement containing excerpts from the bank relations reports submitted by the Federal Reserve banks for the month of November 1939 in response to the Board's letter of August 25, 1936 (X-9680).

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, written over a horizontal line.

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-582-a
December 20, 1939
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE
MONTH OF NOVEMBER 1939

BOSTON

Thirty-two member banks and one nonmember bank were visited during the month of November. While the section visited is the national center of the brass industry, manufacturing on the whole is widely diversified.

In practically all lines, most manufacturing plants were operating more than one shift. Pay rolls had increased substantially over a twelve-months period and the greater part of the increase was said to have taken place within the previous forty-five days. Plant operations in all lines were reported to be confined largely to domestic orders -- no substantial amount of foreign business was reported anywhere.

Low investment yields, lack of strong demand for commercial loans and increasing reserves were often referred to and at one or two banks there was some discussion of the narrowing effect upon the capital ratio of increasing deposits. Apparently the purpose of these discussions was to ascertain the probable attitude of Federal Reserve and other authorities, should the ratio be forced below 10 to 1 at a time when a bank is in a strong liquid position.

No banker visited was critical in any way of the policies or operations of the Federal Reserve System or of this bank.

NEW YORK

During the month of November, the officers and representatives visited 208 banks of which 151 are member and 57 nonmember institutions.

Clinton, Essex, and Franklin Counties, New York

An increased demand for loans is reported by most of the banks but they are experiencing difficulty in maintaining loan totals due to the rapidity of repayments.

The summer resort business and farming are the principal sources of income in these counties. The volume of vacationists'

trade during the past summer throughout the Adirondack region and along Lake Champlain was the most satisfactory in several years, and in one instance it was reported as the best in ten years.

Dairying is of chief importance in the northern parts of Clinton and Franklin counties.

Industrial activity throughout the territory has increased substantially during the last several months.

Erie and Niagara Counties (Buffalo Branch Territory), New York

The demand for loans continues light, and total loans of commercial banks, which amount to \$140,049,000, are somewhat lower than at the first of the year. Quite a number of institutions have bolstered their loan accounts through Federal Housing Administration mortgage lending, either by originating or purchasing such mortgages. A number of bankers mentioned that, in view of the $4\frac{1}{2}$ per cent rate, these Federal Housing Administration mortgages are less attractive and for this reason they do not intend to add to their present holdings. Several bank officers commented on the severity of examining authorities, and one nonmember banker in particular said that he felt the examiners were unduly critical of certain lines, which had precluded him from granting credit to concerns which he felt were desirable risks.

The subject of membership was brought up by the president of one nonmember bank, who mentioned that he is subject to so much regulation and has so many reports to make at present that he is unwilling to subject himself to further regulations and restrictions. The executive officer of one member bank said he felt Federal should give immediate credit on all checks, and, if necessary, raise reserve requirements to offset the float we would thereby be required to carry. This banker stated that he is receiving such service from his correspondent bank, and that the time thus saved through eliminating the sorting of checks and the running of a deferred account is a helpful factor in keeping within the present 42-hour week.

Business conditions in the Buffalo area reflect a very encouraging improvement.

Conditions throughout the agricultural areas of these two counties were reported to be moderately good in some sections and rather poor in others.

Westchester County, New York

General business conditions in this area are said to have improved considerably in the last two months, largely as a result of the increased activity in the industrial plants.

Middlesex and Union Counties, New Jersey

A number of banks have already taken advantage of the increase in market prices of lower grade securities and have liquidated sizable blocks of railroad and other substandard bonds, and are awaiting an opportunity to make further sales if market prices continue to advance. New purchases are still confined largely to United States Government securities and to some extent to municipal, State, and county obligations, the short and medium term maturities being most favored.

The officers of several banks remarked that although their institutions have substantial amounts of idle funds, they have hesitated to purchase more Government bonds. They contend that the yield at present prices is satisfactory as long as the interest paid on savings accounts continues at 1 per cent, but point out that if there should be a general firming up of money rates so that banks have to increase their interest payments, it would be hard to obtain earnings sufficient to pay any higher rate if Government bonds were purchased at present levels.

Some banks have recently installed the "Vee Bee System" of personal loans which is a plan being sponsored by the American Surety Company. Under this method employed people may obtain loans on their signatures without having to obtain endorsers or co-makers. Loans are made in amounts of \$75 to \$1,000 with repayments over as long a period as twelve months. The plan permits the borrower to "rent" collateral in the form of a surety bond which procedure eliminates the necessity for the borrower to suffer delay and the embarrassment of having to ask friends to become co-signers. The cost of the surety bond is \$5 per \$100 of loan for as long as twelve months, in addition to which the banks charge a rate of 5 or 6 per cent on a discount basis. The banks remit every month to the surety company \$2 of the \$5 collected for each \$100 of loans granted during that period, and the remaining \$3 is set up in a Vee Bee System account until the reserve fund so established and maintained is equivalent to 10 per cent of the aggregate of such loans outstanding, and thereafter the full amount of 5 per cent is paid to the surety company.

Passaic County, New Jersey

The subject of membership in the Federal Reserve System appears to be receiving little attention by nonmember bankers in this county at the present time.

Bankers, both member and nonmember, appear friendly to the Federal Reserve System and no complaint was made regarding the services rendered by the Federal Reserve Bank.

PHILADELPHIA

During November representatives of this Bank visited 67 member and 29 nonmember banks.

Clinton County, Pennsylvania

One officer stated that he was desirous of increasing his bank's holdings of Government issues, but will not buy at present levels. He expects to be able to purchase such issues below par in the not too distant future, at which time he will convert some of the bank's corporate holdings to Governments.

All banks in the county pay 2 per cent on time and savings deposits, but three banks, including the two largest, are reducing the rate to 1-1/2 per cent, as of December 1st, and no doubt this will cause similar action at some of the other institutions.

McKean County, Pennsylvania

The factories are all working full time, with several of those employing female labor reporting a shortage of workers.

There is a good demand for credit at banks located in the center of the oil fields but at all other institutions the demand is poor. Bankers at those institutions active in extending FHA credit report a good experience with these loans. The 6 per cent loaning rate prevails on all but FHA loans.

Ocean County, New Jersey

Credit demand, while light, has been satisfactory. The large majority of extensions are for small amounts and several banks in this county have utilized the provisions of Titles I and II of the National Housing Act to expand loan totals. There has been considerable new construction in many seashore communities and most of it is being financed in this manner.

The problem for the majority of the banks in this county is bond depreciation. While there has been some improvement generally since last March, railroad issues continue to cause most of the depreciation. As a result of their experience with corporation issues, several bankers said they were desirous of disposing of those issues and reinvesting the funds in Government holdings as rapidly as possible with a minimum amount of loss.

All banks in the county pay 1 per cent on savings accounts, which is the maximum rate allowed by the Commissioner of Banking and Insurance.

Mercer County, New Jersey

This is an important industrial county and is the site of plants of many nationally known concerns. Industrial activity has increased considerably since last winter and is now at a high level. In commenting on industrial conditions a banker of Trenton, the State capital and chief city of the county, stated that some manufacturers had advised him that cancellations of orders were becoming frequent and bid fair to force a curtailment of the present rate of activity. However, other bankers in that city stated that to their knowledge such a condition did not exist with their customers. One officer said a representative of a large steel company had visited the city recently to ascertain whether steel orders received from local concerns were for current needs or placed in anticipation of higher prices. While this officer seemed to feel that this indicated that steel companies were trying to discourage forward buying or excess inventories, it quite obviously could be considered to mean that that company is trying to prevent possible cancellations.

Bankers are much disturbed by present low earnings. With a lessened volume of loans and the experience of losses in the bond market, bankers feel forced into the purchase of Government issues and, while there were no doubts expressed as to payment at maturity, considerable comment was made relative to present high prices and the possibility of a severe decline in the future. While it is known that the reserve banks at present will lend par on Governments, a majority of the bankers do not appear to believe that this policy will, or should, be continued in the event of a general decline to sub-par levels.

Summary

In commenting upon the services several member bankers reported that they preferred to collect checks through their correspondent banks because faster collection was obtained on a large number of items than if the checks were deposited in the reserve bank. This saving of time was said to be effected by the correspondent bank through a greater use of air mail and the sending of items in other districts direct to the town in which the drawee banks are located.

CLEVELAND

During the month of November 199 banks were visited, of which 147 are members and 52 are nonmembers.

The sharp increase of industrial activity in this territory, particularly in steel, coal mining, and glass operations, has resulted

in a considerable reduction in unemployment and in increase in pay rolls. This is especially true of western Pennsylvania. Despite these facts, however, merchants are complaining that they are not getting the increased business which the increase in pay rolls might logically be expected to bring about. A few banks have reported that their time deposit totals are showing increases.

There appears to be a revival of interest in FHA mortgages. Banks which for long periods of time have had substantial balances with correspondents and which do not consider favorably the opening of personal or chattel loan departments are purchasing FHA mortgage loans.

Some banks in Kentucky are feeling the competition of insurance companies which are making loans on the security of real estate at four per cent. The going rate on loans of that type in Kentucky ranges from six per cent upward and bankers are extremely reluctant to reduce loan rates.

Ohio bankers who entered the small installment loan field four years ago met for the first time last week in Columbus to discuss consumer credit. It was found that more than 250 of Ohio's 700 banks have installed small loan departments since they received State permission by statute in 1935. Some 50 more are considering entering the field. Interest rates on such loans are 5 to 6 per cent and losses have been less than one per cent.

RICHMOND

During the month of November 59 banks were visited, of which 39 were member banks and 20 nonmember banks.

Nottoway and Spotsylvania Counties, Virginia

Banks in Nottoway County, like most others in this region, report increases in deposits much in excess of the increases in loans. Most banks pay 2-1/2 per cent on time deposits, although a few pay that rate only on certificates of deposits with a rate of 2 per cent on regular savings deposits. Where a rate of 2-1/2 per cent is paid, it is contended that a lower rate is impossible so long as competing banks pay 2-1/2 per cent. As a rule, 6 per cent is the lending rate and it follows that banks with time deposits growing at a greater rate than loans are subjected to pressure on their earnings.

There is complaint because of loans made by Federal agencies, for occasionally it comes to the bankers' attention that bankable loans

are lost to these agencies. While some banks are content to stop with mere complaint, others are more aggressive in obtaining business. It does not seem to occur to country bankers that these Federal lending agencies are maintained because of the demand for cheaper credit.

These borrowers have no ill-will towards the banks, but they seem quite unwilling to pay higher rates of interest while lower rates are available. There is a considerable difference of opinion as to lending rates, for bankers seem to feel that the traditional rate of 6 per cent should somehow be made to prevail, while borrowers do not. The hiatus between the bank lending rate and borrowers' opinion makes room for the Federal agencies.

ATLANTA

During the month of November, 1939, 104 banks were visited, of which 68 were members and 36 nonmembers.

Alabama

Some of the bankers are making special efforts to point out to the farmers the advantages of hog raising, dairying, and cattle feeding, and the number of points at which hog and cattle auctions are held is increasing.

In industrial towns, such as Anniston, Alexander City and Talladega, wherein are located numerous textile mills, soil pipe plants, chemical plants and lumber mills, business is reported as being very satisfactory. Most of these industries are operating on a full-time basis and their well-sustained pay rolls contribute materially to the trade activity of the communities.

Georgia

Increasing interest is being shown in several communities in the raising of livestock.

Louisiana

The officers of the four banks visited stated that they have had a reasonably good demand for loans during the current year and that all legitimate requests are being granted. Without exception, it is anticipated that this year's earnings will equal, or exceed, those for 1938.

CHICAGO

During the month of November 15 banks were visited, of which 5 are member banks and 10 are nonmember banks.

Very little change is reported in the demand for credit in this district. Some of the banks are expecting increases in deposits and liquidation of loans as the old corn loans are paid off. Many banks are evidencing their desire to handle the 1939 corn loans regardless of the lower return. A number of the city banks are canvassing their smaller correspondent banks and offering to take excess corn loans, allowing the originating bank 1/4 to 1/2 of one per cent.

The question of the amount of interest to be paid on time deposits continues to be a matter of considerable interest. The large down-town banks in Chicago have recently reduced the rate from 1-1/2 to 1-1/4 per cent.

ST. LOUIS

During the month officers and field representatives visited 193 banks, of which 85 are member and 108 nonmember banks.

The officers of one bank are seriously considering closing one afternoon weekly, and employing that time to visit farmer customers with the view of inducing those who patronize Production Credit Corporation to use the facilities of the home bank. These officers think their loan account can be substantially increased through these contacts. Banks where livestock is extensively raised and fattened have plentiful supplies of paper from feeders. This fall certain banks have found it necessary to place part of this collateral with city correspondents.

The president of a national bank mentioned the matter of call reports and expressed pungent views relative to these and other reports. He indicated that nonmember banks in Indiana have been required to publish only two reports during the period when his bank published four. This banker feels strongly that there is need for greater uniformity in rules and regulations of the various supervising authorities.

Upon entering a Kentucky national bank, a representative first met the executive vice president, who immediately began to berate him for alleged shortcomings of the System in general. He stated

that, even though he was a stockholder, in his opinion, no suggestion of his would be beneficial as he had absolutely no voice in the management or the policy of the System because the Reserve banks were now politically dominated. The bank's president, however, seems to have a much more friendly attitude toward the System. The representative endeavored to assure both officers that every effort was being made to improve the services and relations between the Federal Reserve bank and its member banks.

The vice president of a Mississippi nonmember was rather outspoken in criticizing the economic theory of paying our way out of the depression. He felt that the moral fibre of the people had been lowered and that many borrowers now make little effort to pay their just debts. Government interference in business, in the opinion of the president of another Mississippi nonmember, is more of a hindrance than a help and he feels that if banks and business were let alone, our economic troubles would adjust themselves.

MINNEAPOLIS

During the month of November 84 banks were visited, of which 43 were members and 41 nonmembers.

This fall a number of the banks have been active in taking wheat loans and many are taking them up to the limit of their reserves. One member bank contemplates borrowing from this bank on a bills payable basis secured by Governments in order to expand and carry these loans.

Several of the small member banks operating with very limited earnings spoke of their inability to obtain exchange income under national charters. One national bank has applied for a State charter in order to obtain the income which in that instance is estimated to be upwards of \$1,000 per year. A few officers of nonmember banks stated that their banks would be members if it were not for the exchange income problem.

KANSAS CITY

In November, 74 banks were visited, 25 of which are member banks and 49 nonmembers.

The most optimistic parts of Nebraska were found in the irrigated regions where crops have been very good. In the Loup River district new irrigation projects are being opened and bankers are

quite optimistic about the possibilities of the sugar-beet industry. While they recognize that growers make little or nothing from raising beets, they feel it will bring in outside capital and increase employment and population. In the western part of Nebraska it is reported that hybrid corn produced from two to four times as much as the old varieties. A few bankers were found who have South American bonds that were charged off long ago. These bankers are hopeful that the war will help these bonds and that there will be some nice recoveries. In southwestern Nebraska some bankers reported that they make loans to only those farmers who use horses. One banker said that the FSA was loaning money a few years ago to farmers in this dry land farming territory, for the purchase of tractors and machinery, but experience has shown that it is not good business. Therefore, it is now lending only to farmers who use horses or mules for farm power.

The wages and hours question continues as a live matter of discussion among bankers. This is especially true of small banks in Kansas. In small towns the banker sees the stores, filling stations, and other types of local activities untouched by the law and wonders why his little bank is essentially different. A few cases were found where bankers' sons are graduating from the university and these boys would like to work in the bank for a time without compensation while learning the banking business. Bankers are irritated when they find that such a mutually satisfactory arrangement is not permitted.

Some banks are going to refuse to help farmers make out their applications for corn loans, while others are expecting to make a charge for this service. Until recently these loans were made at 4 per cent, the bank carrying the loan getting 2-1/2 per cent, but effective November 1 the CCC renewal rate to farmers is 3 per cent and the bank will get 2 per cent. Most bankers feel that this rate is unprofitable as the loans are small and a great many of them must be made in order to get any volume. Because banks feel that the 2 per cent rate is unprofitable, they expect either to refuse to help farmers or to make a charge for the service.

DALLAS

During the month of November 19 banks were visited, of which 16 were member banks and 3 nonmember banks.

All member banks and three nonmember institutions in North Louisiana were visited by the officers.

Interest in the subject of membership in the System is almost nil among the nonmember banks in this section. Exchange charge revenues

account for this situation. Out of a total of fifty-five nonmember banks in North Louisiana, only two are on the par list. The president of one non-par bank, however, expressed the wish that Congress would enact a law requiring all commercial banks in the United States to become members of the Federal Reserve System.

SAN FRANCISCO

In November 61 banks were visited, of which 48 were members and 13 nonmember banks.

Ventura County, California

Construction activity so far this year has been maintained on very satisfactory levels, with total building permits for the principal cities of the county continuing to reflect the general increase in building which had its inception in 1934.

Citrus growers generally will receive less net returns for their fruit this year than last, with but few operators realizing profits from operations.

Southwestern Idaho

Fall collections from agricultural operators are generally considered favorable with a relatively small amount of carry-over in prospect. Farm production is reported normal, except seed tonnage in the Twin Falls area, which is under average on account of pest invasion.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

November - 1939

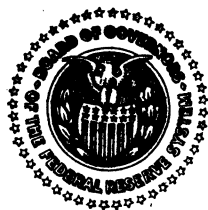
Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	32	1	33	4	<u>1/</u>	<u>1/</u>	<u>1/</u>
New York	151	57	208	13	2,900	1	62
Philadelphia	67	29	96	2	850	1	50
Cleveland	147	52	199	2	690	3	120
Richmond	39	20	59	5	1,007	-	-
Atlanta	68	36	104	7	1,305	3	257
Chicago	5	10	15	4	2,290	3	900
St. Louis	85	108	193	9	1,102	2	375
Minneapolis	43	41	84	6	1,096	2	331
Kansas City	25	49	74	2	487	1	120
Dallas	16	3	19	-	-	1	125
San Francisco	48	13	61	22	2,530	4	496

1/ Not reported.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-583

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 21, 1939

Dear Sir:

There is attached a copy of a resolution adopted by the Board of Governors of the Federal Reserve System levying an assessment upon the various Federal Reserve banks in an amount equal to twenty-five hundredths of one per cent (.0025) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve banks as of the close of business December 31, 1939, to defray the estimated expenses and salaries of the members and employees of the Board from January 1 to June 30, 1940.

The resolution also contains instructions with regard to the manner in which the payments on the assessment shall be deposited with the Federal Reserve Bank of Richmond.

Very truly yours,

A handwritten signature in cursive script that reads "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-583-a

RESOLUTION LEVYING ASSESSMENT

WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning January 1, 1940, it is necessary that a fund equal to twenty-five hundredths of one per cent (.0025) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve banks an assessment in an amount equal to twenty-five hundredths of one per cent (.0025) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business December 31, 1939.

(2) Such assessment shall be paid by each Federal Reserve bank in two equal installments on January 2, 1940, and March 1, 1940, respectively.

(3) Every Federal Reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-584

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1939



Dear Sir:

In accordance with the practice of holding periodic conferences of representatives of the bank examination departments of the Federal Reserve banks, it is planned to hold such a conference in Washington some time in the first part of the coming year, probably early in February. The exact date will be announced later.

As in the past, the conference will partake largely of the nature of a round table discussion and an effort will be made to consider at the conference any subjects or problems of general interest which the representatives of the Reserve banks may wish to discuss. Members of the Board's staff will also be glad, of course, to discuss with representatives of the Reserve banks any other matters of less general interest which are not brought up at the conference.

The Board's Division of Examinations has suggested that it might be more helpful if, instead of having many topics on the program, the program were planned with the idea of rather full discussion of a relatively few topics. The Division has suggested that the following topics be included:

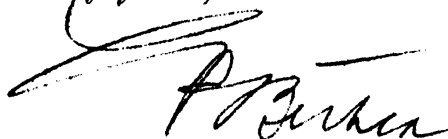
1. Classification of loans, particularly Classification II.
2. Type of comments and suggestions with respect to individual loans and general loaning and credit policies.
3. Real estate and real estate loans.
 - a. Treatment of land contracts -- as other real estate or real estate loans.
 - b. Treatment of "assets indirectly representing other real estate".

4. Securities.

- a. Amortization of premium on exempted securities.
- b. Requirements with respect to use of profits from sale of securities.
- c. General supervisory policies and practices.

It will be appreciated if the officers in charge of the examination departments of the Federal Reserve banks will forward to Mr. Paulger before January 10 their comments and suggestions as to the general type of program and as to specific subjects. It will also be helpful in planning for the conference if the Reserve banks will indicate both the most convenient and the most inconvenient times for holding the conference during the period from the latter part of January to the first part of March.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-585

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers
of Friday, December 29, 1939

December 28, 1939

The Board of Governors of the Federal Reserve System announced today the adoption of a regulation, effective February 1, 1940, governing the collection by Federal Reserve banks of notes and bills and other "noncash items" for member banks and nonmember clearing banks. This regulation has been issued by the Board in order that the principal terms and conditions relating to the collection of noncash items may be published in the Federal Register and requires no change in the existing practices of the Federal Reserve banks. Other provisions regarding the collection of non-cash items will be contained, as heretofore, in the circulars of the individual Federal Reserve banks.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers
of Saturday, December 30, 1939

December 29, 1939

The Board of Governors of the Federal Reserve System today announced the following designations and appointments of chairmen and deputy chairmen of the Federal Reserve banks for the year 1940, and directors of Federal Reserve banks and branches for the terms specified. All positions not preceded by an asterisk were filled by re-appointment of the present incumbents.

FEDERAL RESERVE BANK OF BOSTON

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. F. H. Curtiss of Boston

DEPUTY CHAIRMAN: Mr. Henry S. Dennison of Framingham Centre,
Massachusetts

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. Henry S. Dennison

FEDERAL RESERVE BANK OF NEW YORK

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Owen D. Young of New
York, New York

DEPUTY CHAIRMAN: Mr. Beardsley Ruml of New York, New York

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. Edmund E. Day
of Ithaca, New York

Buffalo Branch of the Federal Reserve Bank of New York

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. Gilbert A. Prole
of Batavia, New York

FEDERAL RESERVE BANK OF PHILADELPHIA

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Thomas B. McCabe of
Swarthmore, Pennsylvania

*DEPUTY CHAIRMAN: Mr. Alfred H. Williams of Wallingford, Pennsylvania

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. Thomas B. McCabe

FEDERAL RESERVE BANK OF CLEVELAND

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Geo. C. Brainard of
Youngstown, Ohio

DEPUTY CHAIRMAN: Mr. R. E. Klages of Columbus, Ohio

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. R. E. Klages

Cincinnati Branch of the Federal Reserve Bank of Cleveland

BRANCH DIRECTOR:

For two-year term beginning 1-1-40: Mr. Stuart B. Sutphin
of Cincinnati

*For unexpired portion of two-year term ending 12-31-40: Mr.
Frank A. Brown of Clarksburg, Ohio

Pittsburgh Branch of the Federal Reserve Bank of Cleveland

BRANCH DIRECTOR:

For two-year term beginning 1-1-40: Mr. H. S. Wherrett of
Pittsburgh

FEDERAL RESERVE BANK OF RICHMOND

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Robert Lassiter of
Charlotte, North Carolina

DEPUTY CHAIRMAN: Mr. W. G. Wysor of Richmond

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. W. G. Wysor

Baltimore Branch of the Federal Reserve Bank of Richmond

BRANCH DIRECTOR:

*For three-year term beginning 1-1-40: Mr. Joseph D. Baker,
Jr., of Monkton, Maryland.

Charlotte Branch of the Federal Reserve Bank of Richmond

BRANCH DIRECTOR:

*For three-year term beginning 1-1-40: Mr. D. W. Watkins of
Clemson, South Carolina

FEDERAL RESERVE BANK OF ATLANTA

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Frank H. Neely of Atlanta

DEPUTY CHAIRMAN: Mr. J. F. Porter of Williamsport, Tennessee

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. J. F. Porter

Birmingham Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. Howard Gray of
New Market, Alabama

Jacksonville Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. Howard Phillips of
Orlando, Florida

Nashville Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. W. E. McEwen of
Williamsport, Tennessee

New Orleans Branch of the Federal Reserve Bank of Atlanta

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. H. G. Chalkley,
Jr., of Lake Charles, Louisiana

FEDERAL RESERVE BANK OF CHICAGO

*CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Robert E. Wood of Chicago

*DEPUTY CHAIRMAN: Mr. Frank J. Lewis of Chicago

CLASS "C" DIRECTOR:

*For three-year term beginning 1-1-40: Mr. Clifford V. Gregory
of Des Moines, Iowa

Detroit Branch of the Federal Reserve Bank of Chicago

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. H. L. Pierson of
Detroit

FEDERAL RESERVE BANK OF ST. LOUIS

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. Wm. T. Nardin of St. Louis

DEPUTY CHAIRMAN: Mr. Oscar Johnston of Scott, Mississippi

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. Wm. T. Nardin
*For unexpired portion of three-year term ending 12-31-41: Mr.
Douglas W. Brooks of Memphis, Tennessee

Little Rock Branch of the Federal Reserve Bank of St. Louis

BRANCH DIRECTOR:

*For three-year term beginning 1-1-40: Mr. R. E. Short of
Brinkley, Arkansas

Memphis Branch of the Federal Reserve Bank of St. Louis

BRANCH DIRECTOR:

*For three-year term beginning 1-1-40: Mr. J. P. Norfleet of
Memphis

FEDERAL RESERVE BANK OF MINNEAPOLIS

*CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. W. C. Coffey of St. Paul,
Minnesota

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. W. C. Coffey
*For unexpired portion of three-year term ending 12-31-41:
Mr. Roger B. Shepard of St. Paul, Minnesota

Helena Branch of the Federal Reserve Bank of Minneapolis

BRANCH DIRECTOR:

For two-year term beginning 1-1-40: Mr. H. D. Myrick of
Square Butte, Montana

FEDERAL RESERVE BANK OF KANSAS CITY

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. R. B. Caldwell of Kansas
City

DEPUTY CHAIRMAN: Mr. J. J. Thomas of Seward, Nebraska

CLASS "C" DIRECTOR:

*For three-year term beginning 1-1-40: Mr. Clarence Roberts
of Oklahoma City, Oklahoma

Denver Branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. Wilson McCarthy
of Denver

Oklahoma City Branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. T. S. Hanna of
Oklahoma City
*For unexpired portion of three-year term ending 12-31-41:
Mr. Neil R. Johnson of Norman, Oklahoma

Omaha Branch of the Federal Reserve Bank of Kansas City

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. H. L. Dempster
of Beatrice, Nebraska

FEDERAL RESERVE BANK OF DALLAS

CHAIRMAN AND FEDERAL RESERVE AGENT: Mr. J. H. Merritt of McKinney,
Texas

DEPUTY CHAIRMAN: Mr. Jay Taylor of Amarillo, Texas

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. Jay Taylor

El Paso Branch of the Federal Reserve Bank of Dallas

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. R. E. Sherman of
El Paso

Houston Branch of the Federal Reserve Bank of Dallas

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. Sam Taub of Houston

San Antonio Branch of the Federal Reserve Bank of Dallas

BRANCH DIRECTOR:

For three-year term beginning 1-1-40: Mr. Edwin F. Flato of
Corpus Christi, Texas

FEDERAL RESERVE BANK OF SAN FRANCISCO

DEPUTY CHAIRMAN: Mr. St. George Holden of San Francisco

CLASS "C" DIRECTOR:

For three-year term beginning 1-1-40: Mr. Carlyle Thorpe of
Los Angeles, California

Los Angeles Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:

For two-year term beginning 1-1-40: Mr. Carl V. Newman of
Tustin, California

Portland Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:

For two-year term beginning 1-1-40: Mr. Geo. T. Gerlinger
of Portland

Salt Lake City Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:

For two-year term beginning 1-1-40: Mr. Herbert S. Auerbach
of Salt Lake City

Seattle Branch of the Federal Reserve Bank of San Francisco

BRANCH DIRECTOR:

For two-year term beginning 1-1-40: Mr. Charles F. Larrabee
of South Bellingham, Washington

S-167
Reg. R-2

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

July 12, 1939.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Consideration has been given to your letter of June 26, 1939, with further reference to the question whether Mr. (A) of _____, _____, a dealer in securities, may serve as Secretary to the Board of Directors of The _____ National Bank of _____, _____.

The question presented is whether Mr. (A) would be an "officer, director, or employee" of the bank within the meaning of section 32 of the Banking Act of 1933, as amended. In this connection you state:

"The bank informs us that, as Secretary, Mr. (A) would be without vote, voice, or official status and that his only duties would be to attend the meetings of the Board for the purpose of recording and reading the minutes of all meetings, regular or call, and to furnish certified copies of the minutes of such meetings when necessary."

The purpose of this somewhat unusual arrangement would be (as stated by Mr. (B), Executive Vice President of the bank, in his letter of May 22, 1939) to "identify him with" the bank, although Mr. (B) makes it clear that it is the desire of the bank "to comply strictly with the spirit as well as the letter of the law."

Generally speaking, the term "employee" includes everyone performing services for a corporation except an officer or director of the corporation or an independent contractor. Furthermore, a person may be an employee even though he does not receive money compensation for his services.

In furnishing certified copies of the minutes of the meetings of the board of directors, Mr. (A) would be performing a function usually performed by the secretary of a corporation or

his assistant. In recording and reading the minutes of meetings, Mr. (A) would be performing the duties usually performed by one of the directors, or the secretary of the corporation, or a clerk.

Therefore, it appears that Mr. (A) would be rendering services to the bank and its board of directors similar to those usually performed by an officer or a clerical assistant to an officer, and since it seems clear that the purpose of the statute, in using the words "officer, director, or employee" is to include everyone who has a position with the bank, the Board is of the opinion that the proposed arrangement would be within the prohibition of the statute.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 19, 1939

Dear Sir:

There is enclosed for your information a copy of the Board's letter of July 19, 1939, in response to an inquiry from one of the Federal Reserve banks, advising that the Board will offer no objection to the discontinuance of the pledging of eligible paper with the Federal Reserve Agent whenever the amount of gold certificates pledged with the Federal Reserve Agent as collateral security for outstanding Federal Reserve notes is in excess of the amount of such notes outstanding.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-168-a

July 19, 1939

Mr. _____, Cashier,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letters of June 1 and June 19 in regard to the question as to whether under present conditions the pledging of eligible paper with the Federal Reserve Agent as security for outstanding Federal Reserve notes might be discontinued.

You state in your letter that you now have gold pledged with the Federal Reserve Agent in excess of the amount of outstanding Federal Reserve notes, and that the discontinuance of the pledging of eligible paper with the Federal Reserve Agent would eliminate work and expense.

The Board will offer no objection to the discontinuance of the pledging of eligible paper with the Federal Reserve Agent whenever the amount of gold certificates pledged with the Federal Reserve Agent as collateral security for outstanding Federal Reserve notes is in excess of the amount of such notes outstanding.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1939

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Whether Regulation T Permits Domestic Broker to Borrow from Foreign Broker".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,



S. R. Carpenter,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Saturday, July 29, 1939

The following ruling will appear in the Federal Reserve

Bulletin:

Whether Regulation T Permits Domestic Broker to
Borrow from Foreign Broker

Regulation T provides in section 5(c)^{1/} that:

"A creditor may borrow from another creditor in the ordinary course of business as a broker or dealer on any registered security to the extent and subject to the terms upon which the latter may extend credit to him in accordance with the provisions of this regulation, and subject to any other applicable provisions of law."

^{1/}The permission granted by the Board in section 5(c) of Regulation T is based upon section 8(a) of the Securities Exchange Act of 1934 which provides in part that:

"It shall be unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, directly or indirectly -

(a) To borrow in the ordinary course of business as a broker or dealer on any security (other than an exempted security) registered on a national securities exchange except (1) from or through a member bank of the Federal Reserve System, (2) from any nonmember bank which shall have filed with the Board of Governors of the Federal Reserve System an agreement, which is still in force and which is in the form prescribed by the Board,.... or (3) in accordance with such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe to permit loans between such members and/or brokers and/or dealers, or to permit loans to meet emergency needs."

-2

The term "creditor" as used in section 5(c) is defined in section 2(b) of the regulation as follows:

"The term 'creditor' means any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member."

The Board recently has been asked whether section 5(c) authorizes a "creditor", as defined in section 2(b), to borrow in this country in the ordinary course of business as a broker or dealer on registered nonexempted securities from a foreign broker. The foreign broker maintains no place of business in the United States, but "transacts a business in securities through the medium of a member of a national securities exchange" and hence appears to fall within the definition of the term "creditor".

It is the view of the Board that section 5(c) in its present form grants permission for the domestic broker thus to borrow from the foreign broker who "transacts a business in securities through the medium of a member", but that it grants the permission only on condition that the loan so obtained by the domestic broker meets the requirements of section 5(c) that it be "in accordance with the provisions of this regulation".

This means that in obtaining the loan the domestic broker must not be receiving more credit on given securities than he could get on those securities, in the case of a loan of the same description, from a domestic "broker or dealer who transacts a business in

-3-

securities through the medium of a member", and must not otherwise be obtaining any benefits that such a domestic broker or dealer could not lawfully grant under the regulation. One result of this requirement is that the loan may not be obtained on the basis of the special loan value prescribed for the special omnibus account, because section 4(b) of the regulation limits such loans to cases in which the lender is a member of a national securities exchange. It is, of course, unnecessary for present purposes to determine whether, or to what extent, the foreign broker would be required to comply with Regulation T, since the domestic broker is not granted permission to borrow unless the loan complies with the requirements of Regulation T to the same extent as if the lender were a domestic "creditor".

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-170



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 4, 1939

Dear Sir:

The Board has adopted a condensed form of State bank member call report (Form F. R. 105) for use on spring and autumn calls. The face side of the condensed form (the only part required to be published) is identical with the face side of the regular form F. R. 105 except that references to the related schedules are omitted. Accordingly, existing arrangements for a single publication of condition reports rendered by State bank members to Federal Reserve banks and State banking departments, respectively, are not affected. A copy of the condensed form, which it is expected will be used on the next call, is enclosed.

A copy of the condensed form has been sent to Mr. William R. White, Superintendent of Banks of the State of New York, so that in his capacity as Secretary of the Executive Committee of the National Association of State Bank Supervisors he may advise all State banking departments of the adoption of such a form by the Board. A copy of our letter to Mr. White is enclosed. No advice need be given State bank members of the adoption of the condensed form until blanks are distributed at the usual time for the autumn call. If, however, any such bank learns of the form through its State banking department or otherwise, there will be no objection to advising it of the difference between the regular form and the condensed form.

For your own information, the condensed State bank member call report is similar to a corresponding condensed form which we understand the Comptroller's office expects to use in obtaining national bank reports. The only difference between the reverse sides of the two forms is that the Comptroller's form will include schedules corresponding to Schedules AA and BB on the regular form, which call respectively for the amounts of officers' and directors' liabilities, etc., and for loans and balances exceeding legal limits. It is understood that the Comptroller's office is not planning to make a public announcement of the adoption of the condensed form

-2-

but that it plans to distribute the blank forms to national banks as soon as practicable during this month.

The adoption of the condensed form will make it somewhat inconvenient to compare the amounts of demand and time deposits, as shown in reports of deposits for reserve computation purposes, with deposits as shown in the spring and autumn call reports. Accordingly, and since it is understood that in recent years the number of substantial discrepancies has been reduced considerably, the suggestion made in the Board's letter St. 6064 of January 21, 1929 is modified to the effect that such comparisons need be made hereafter only as of the June and December call dates.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

C O P Y

August 4, 1939

Mr. William R. White, Secretary,
Executive Committee of the National Association
of State Bank Supervisors,
c/o New York State Banking Department,
80 Centre Street,
New York, New York.

Dear Mr. White:

As you doubtless know, I called your office about ten days ago, and in your absence discussed with Mr. Ludemann a condensed form of State bank member call report for use on the spring and autumn calls. I understood Mr. Ludemann to say that he knew of no reason to think that any State banking department would be inconvenienced by our adopting such a form. Since the Board of Governors has adopted the condensed form of State bank member call report, it is expected that this form will be used on the next call. A copy of the condensed form of report is enclosed.

You will note that the face side of the condensed report form (the only part required to be published) is identical with the face side of the regular form except that references to the related schedules are omitted. Accordingly, existing arrangements for the single publication of condition reports rendered by State bank members to Federal Reserve banks and State banking departments, respectively, are not affected. Nevertheless, in your capacity as Secretary of the Executive Committee of the National Association of State Bank Supervisors, you may wish to advise all State banking departments of the adoption of the condensed form by the Board. Additional copies of the form will be furnished to you upon request.

The Federal Reserve banks are being advised of the adoption of the condensed form, but no public announcement thereof will be made at this time and it is not planned to advise individual State bank members of the adoption of the condensed form until blanks are distributed at the usual time for the autumn call.

Very truly yours,

(Signed) E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 9, 1939

Dear Sir:

There is attached, for your information, a copy of a letter addressed to the First Vice President of a Federal Reserve bank, under date of August 3, 1939, with regard to the reporting, in condition reports and in reports of deposits submitted for reserve computation purposes, of outstanding drafts drawn upon member bank reserve accounts.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-171-a

August 3, 1939

Mr. _____, First Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of June 30, regarding the reporting, in condition reports and in reports of deposits submitted for reserve computation purposes, of outstanding drafts drawn upon member bank reserve accounts.

As indicated in the Board's letter R-488 of June 16, 1939, transmitting blank forms for the mid-year call for condition reports upon State bank members, the definition of "Reserve with Federal Reserve bank", item 7 in Schedule D of form F.R. 105, was amended in view of the Board's letter S-161 of April 26, 1939. That letter merely gives member banks permission to exclude from "Cash items in process of collection" as shown in condition reports and in reports of deposits submitted for reserve computation purposes, any cash items in process of collection which are included in "Reserve with Federal Reserve bank" on the member banks' books. Banks which take advantage of such permission are required to carry higher reserves than they otherwise would have to carry, because they do not deduct from gross demand deposits cash items in process of collection with Federal Reserve banks. Moreover, in determining whether or not a member bank has adequate reserves the Federal Reserve bank uses the balance shown by its books (which, of course, does not include cash items for which the member bank has been given deferred credit) rather than the balance shown by the member bank's books.

In contrast with the above situation, if a member bank should omit outstanding drafts upon its reserve account from deposits as reported for reserve purposes, it would be excluding a class of liabilities which Regulation D specifically defines as deposit liabilities, with the result that its computed reserve requirements would be understated. This understatement of reserve requirements would not be offset by the member bank's charging the outstanding drafts to its reserve account because its reserve balance as shown by the Federal Reserve bank's books, which is the figure used in determining whether reserves are equal to requirements, is not charged until the drafts reach the Federal Reserve bank. Member banks should, therefore, continue to include outstanding drafts on their reserve accounts in demand deposits as shown in reports submitted for reserve computation purposes. Since, however, member bank

condition reports are prepared from their general books a bank may in condition reports show deposits as reflected by its books, but any difference between deposits as shown in condition reports and in reports of deposits for reserve purposes should be explained by the member bank.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

August 10, 1939.

Mr. _____,
Division of _____,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of August 2, 1939, regarding the question whether a member of a national securities exchange may, under section 6(d) of Regulation T, accept the transfer of an account, the adjusted debit balance of which exceeds the maximum loan value of the securities in the account, from a foreign broker who "transacts a business in securities through the medium of a member".

Section 6(d) provides in part that:

"In the event of the transfer of a general account from one creditor to another, such account may be treated for the purposes of this regulation as if it had been maintained by the transferee from the date of its origin: Provided, That the transferee accepts in good faith the signed statement of the transferor that no cash or securities need be deposited in the account in connection with any transaction that has been effected in the account or, in case he finds that it is not practicable to obtain such a statement from the transferor, accepts in good faith such a signed statement from the customer."

The term creditor is defined in section 2(b) to mean "any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member".

As your letter points out, the Board recently ruled (S-169, Reg. T-84) that a foreign broker who "transacts a business in securities through the medium of a member" comes within the meaning of the term "creditor" so far as to qualify under section 5(c) as a person from whom a domestic broker may borrow, subject to certain requirements, in the ordinary course of business on registered securities.

The Board is of the view that a foreign broker who "transacts a business in securities through the medium of a member" also comes within the meaning of the term "creditor" so far as to qualify

as a person from whom a member of a national securities exchange may accept the transfer of an account pursuant to section 6(d). It is the Board's view further that, if margin was obtained in amounts that would have met the requirements of Regulation T and the account was otherwise maintained in such a way that it would have satisfied these requirements, it may properly be said that "no cash or securities need be deposited in the account in connection with any transaction that has been effected in the account".

Accordingly, the Board agrees with the suggestion in your letter that the transfer from such a foreign broker of an account meeting these requirements would be permissible under section 6(d).

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

June 16, 1939

TELEGRAM

(Addressed to a Federal Reserve bank)

Relet June 13 concerning _____ Corporation, _____,
_____ (a holding company affiliate). Board is of the opinion
that a holding company affiliate may satisfy the requirements
of subsections (b) and (c) of section 5144 by acquiring immedi-
ately acceptable assets in the maximum amount ultimately re-
quired, subject, however, to the possibility that changes in
the facts (for example, decline in value of such assets or
acquisition of additional bank stocks) may make it necessary
for the holding company affiliate to acquire additional assets
in order to continue to comply with such requirements. We
will communicate with you further regarding the other ques-
tions contained in your letter as soon as possible.

(Signed) L. P. Bethea

Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

August 5, 1939

Mr. _____,
First Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers further to your letter of June 13, 1939, requesting advice upon a specific inquiry submitted by _____ Corporation, _____ (a holding company affiliate), which was answered in the Board's telegram of June 16, 1939, and also requesting the Board's views at its convenience with respect to certain assumptions relating to the requirements of subsections (b) and (c) of section 5144 of the Revised Statutes.

With respect to the first assumption, the Board will not object to the computation of earnings upon the basis of calendar or fiscal years, rather than upon the basis of years ending on June 16, in connection with the requirements concerning the investment of "excess" net earnings of holding company affiliates in readily marketable assets after June 16, 1938, if there is substantial compliance with the statutory requirements and a holding company affiliate desires to follow this practice as a matter of convenience.

With respect to the second and third assumptions, the Board concurs in the view that the 2 per cent per annum increase in readily marketable assets required by clause numbered (1) of subsection (b) may be accomplished through the investment of earnings required to be used for this purpose by clause numbered (2) of such subsection and that the maximum amount of readily marketable assets ultimately required by such subsection is 25 per cent, not 50 per cent, of the aggregate par value of the bank stocks having double liability.

In addition to the matters mentioned in your letter, it is believed that it should be pointed out that the requirements concerning the investment of "excess" net earnings relate to the investment of net earnings in excess of 6 per cent per annum on the book value, not par or stated value, of a holding company affiliate's own shares outstanding.

Very truly yours,
(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.

S-175
Reg. T-86

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

August 11, 1939

Mr. _____,
Assistant Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of July 29, 1939, requesting a ruling with respect to section 6(c) of the Board's Regulation T, which section relates to guaranteed accounts.

Section 3(b) of Regulation T provides that when all of the transactions on any day in a customer's general account, combined, have the effect of creating or increasing an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account, the creditor must obtain the deposit of a certain amount of cash or securities. Section 6(c) permits certain deductions in the calculation of the adjusted debit balance of a general account that is guaranteed by another customer, so that transactions may be effected therein without creating or increasing such an excess.

The pertinent provisions of section 6(c) are as follows:

"In case a general account maintained by a creditor for one customer is guaranteed in writing by another customer for whom the creditor maintains a general account, the adjusted debit balance of the guaranteed account may, at the option of the creditor, be computed by deducting from the sum of the items specified in section 3(d) an amount not greater than the excess of the maximum loan value of the securities in the guarantor's general account over the adjusted debit balance of such guarantor's account calculated without the addition thereto prescribed by the following paragraph, provided (1) the guarantor is not a creditor, (2) a duplicate original of the guarantee has been filed with the secretary of a national securities exchange of which the creditor is a member or through which his transactions are effected, and (3) the guarantee permits the creditor to use funds

and securities in the guarantor's account to carry the guaranteed account without restriction, except that the guarantee may be limited to a specified amount and in that event the deduction shall not exceed such amount.

"In case a guarantee has served to permit in the guaranteed account any transaction which could not otherwise have been effected in accordance with this regulation: (A) the adjusted debit balance of the guarantor's account shall be computed by adding to the sum of the items specified in section 3(d) an amount equal to the deduction made pursuant to the preceding paragraph;
* * * ."

The question which you have presented relates to the following set of circumstances: Customer A, not a creditor, has executed a guarantee of the general account of Customer B and a duplicate original of the guarantee is properly on file with the secretary of a national securities exchange. Customer B, also not a creditor, has executed a guarantee of the general account of Customer C and a duplicate original of the guarantee is likewise filed with the secretary of a national securities exchange. Neither of the guarantees is restricted as to amount.

The maximum loan value of the securities in the general account of Customer A exceeds the adjusted debit balance of the account by an amount greater than \$400. The maximum loan value of the securities in the general account of Customer B just equals the adjusted debit balance of the account. The maximum loan value of the securities in the general account of C is less than the adjusted debit balance of the account.

The question is whether the creditor may utilize the excess loan value in the general account of Customer A in effecting for the general account of Customer C a purchase of registered non-exempted securities at a total cost of \$1,000.

While the use of such indirect guarantees is rather unusual, the Board is of the opinion that the answer to the question is in the affirmative provided the terms of the guarantee executed by Customer A are such that, as a matter of general law and without regard to Regulation T, the guarantee clearly covers Customer C's account and provided, of course, that all other requirements of section 6(c) are met. The question whether Customer A's guarantee extends, as a matter of general law, to Customer C's account would, of course, depend upon the terms of the particular guarantee.

If the necessary requirements are met, the creditor may first deduct \$400 from the sum of the other items used in computing the adjusted debit balance of Customer B's general account and then make the same deduction in Customer C's general account. Under the present provisions of the supplement to Regulation T the \$1,000 of securities purchased would have a maximum loan value of \$600, and there would be no increase in the excess of the adjusted debit balance of Customer C's general account over the maximum loan value of the securities in the account. After these transactions, the adjusted debit balances in the general accounts of both Customer A and Customer B would be computed by adding \$400 to the sum of the other items included, although in the case of Customer B's account the \$400 addition would be offset by the equal deduction resulting, as indicated above, from Customer A's guarantee.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 18, 1939



Dear Sir:

The Board does not appear to be receiving copies of all circulars and form letters issued by the Federal Reserve banks, as requested in its letters of August 4, 1921, X-3180, November 26, 1923, X-3897, February 7, 1925, X-4264, and May 17, 1933, B-894.

In reviewing this matter, it appears that the occasional nonreceipt of certain circulars and form letters by the Board may be due perhaps to the fact that addressograph or other mailing lists prepared for member banks, nonmember banks, etc. do not include the Board, because of the fact that more than one copy has been requested, and that copies for the Board are handled, therefore, in a special manner.

In order to assure receipt by the Board of each circular and form letter issued by the Federal Reserve banks, it will be appreciated if your bank will have plates or stencils made as indicated in the attached statement and include them with your regular mailing lists for member banks, nonmember banks, etc.

This letter supersedes all previous requests with respect to furnishing the Board with copies of circulars and form letters.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

Enclosure

S-176-a

ADDRESSES TO BE ADDED TO FEDERAL RESERVE
BANKS' MAILING LISTS FOR MEMBER BANKS,
NONMEMBER BANKS, ETC.

Board of Governors of the Federal Reserve System,
Files Section 1,
Washington, D. C.

Board of Governors of the Federal Reserve System,
Files Section 2,
Washington, D. C.

Board of Governors of the Federal Reserve System,
Files Section 3,
Washington, D. C.

Chief, Division of Bank Operations,
Board of Governors of the Federal Reserve System,
Washington, D. C.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 18, 1959

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Capital Contribution Loans Between Members of a National Securities Exchange".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written over a horizontal line.

L. P. Bethea,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, August 22, 1939.

The following ruling will appear in the Federal Reserve
Bulletin:

Capital Contribution Loans Between Members of a
National Securities Exchange

Section 4(f)(2) of Regulation T, as added to the regula-
tion effective May 22, 1939, provides as follows:

"In a special miscellaneous account, a creditor may---

"(2) Make loans, and may maintain loans, to or for any partner of a firm which is a member of a national securities exchange to enable such partner to make a contribution of capital to such firm provided (A) the lender as well as the borrower is a partner in such firm, or (B) the lender as well as the borrower is a member of such exchange, the loan has the approval of an appropriate committee of the exchange, and the committee, in addition to being satisfied that the loan is not in contravention of any rule of the exchange, is satisfied that the loan is outside the ordinary course of the lender's business, and that, if the borrower's firm does any dealing in securities for its own account, the loan is not for the purpose of enabling the firm to increase the amount of such dealing;"

The Board recently considered a case in which such a capital contribution loan was originally made between partners in the same firm, and thus qualified under clause (A) of the provision, but the lender later proposed to withdraw from the partnership. The

-2-

Board was asked whether the loan, because of its one-time status under clause (A), might be continued after the lender's withdrawal from the partnership, or whether the loan must then be terminated if it is not authorized by some other provision of the regulation.

It is the view of the Board that the permission granted by clause (A) continues only while the conditions specified therein are met. Accordingly, such a loan between partners in the same firm may not be continued after the lender withdraws from the partnership unless the loan can qualify under some other provision of the regulation.

In the particular case presented, the lender after withdrawal from the partnership was to continue to be a member of the national securities exchange of which the borrower was a member. Therefore, if the loan is approved by an appropriate committee of the exchange pursuant to clause (B) of section 4(f)(2), it could, of course, be continued pursuant to that provision.

For the sake of completing the answer to the question presented, however, it is necessary to consider one other possible alternative, that is, the possibility that the loan could qualify under section 4(f)(8) of the regulation, which provides for loans that are "for any purpose other than purchasing or carrying or trading in securities".

The reason section 4(f)(8) may be relevant to the question presented in this case is that while the exact relation of

the instant loan to the business of the borrower's firm was not entirely clear, it appeared that the borrower's firm was engaged not only in the securities business but also, and to a very considerable extent, in the commodity business. There would, therefore, be at least some possibility that the loan in question could qualify as a loan for a "purpose other than purchasing or carrying or trading in securities".

Whether the loan could in fact so qualify would depend, of course, upon the facts of the particular case, and instances where capital contribution loans could so qualify would be rather rare. In certain cases, of which the present case involving a considerable amount of commodity business might turn out to be an example, it might be possible for a loan to be made under such conditions that it could actually be identified as being for a "purpose other than purchasing or carrying or trading in securities". It is evident, however, that it would be rather unusual for a capital contribution loan to be thus identifiable. The business of the average securities brokerage firm is so bound up with purchasing, carrying or trading in securities - either for its own account or for the account of customers - that a loan to a partner in such a firm to enable him to make a contribution of capital to the firm usually could not qualify as being for a "purpose other than purchasing or carrying or trading in securities".

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 25, 1939.

Dear Sir:

In view of its responsibility in passing upon the selection of examiners at the Federal Reserve banks, the Board in its letter of September 20, 1933 (X-7595), set forth the procedure to be followed in submitting information to the Board regarding applicants for positions on the examining staffs. In some instances the information called for by the foregoing letter has been submitted either in very meager form or in such a manner as not to be particularly informative. Therefore, letter X-7595 is superseded by this letter, and it will be appreciated if, in submitting proposed appointments in the future, the procedure herein set out will be observed.

Whenever a new examiner or assistant examiner is to be added to the examining staff, it is assumed that the field of possible appointees will be carefully canvassed in order to obtain the services of the one best fitted for the position. In considering men for such positions, it is desirable to select individuals who, judged by their education, experience, initiative, and personality, give reasonable promise of developing into capable senior examiners. Qualifications being equal, preference may be given to present employees of other departments, but in such selections the qualifications necessary for an assistant examiner or an examiner should be the yardstick rather than the qualifications for some other position in the Reserve bank which the individual may be filling creditably. In this connection it seems appropriate to call attention to the desirability of commercial bank experience as one of the qualifications of major importance in the selection of examining personnel, other than trust examiners whose qualifications were outlined in the enclosure to the Board's letter of November 17, 1933 (X-7688).

When a decision has been reached as to the individual best fitted for the position, and in order that the Board may be advised fully, it is suggested that the information submitted

cover the following with respect to the proposed appointee:

1. Name, date of birth, place of birth and citizenship, marital status, number of dependents, condition of health, and physical defects, if any.
2. Education, including names of schools and colleges attended, periods of attendance, degrees obtained, other training, special examinations and results thereof, and diplomas or certificates received.
3. Previous employment, names and addresses of employers, periods of employment, positions held and nature of work, salary received in each case, reasons for leaving previous positions, and information obtained from previous employers as to quality of applicant's work. In this connection, care should be exercised to ascertain independently of the proposed appointee the attitude of previous employers with respect to his services and reasons for termination thereof.
4. All other experience which would have a bearing on the proposed appointee's qualifications as an examiner or assistant examiner.
5. Information as to proposed appointee's indebtedness, if any; whether indebted to banks, their subsidiaries or affiliates; when indebtedness was contracted; its original amount, progress being made in liquidation; and whether, if tendered appointment by the Federal Reserve bank as an examiner or assistant examiner, he will resign any official connections he may have with other business concerns and discontinue any other existing relationship which may affect his service as an employee of the Federal Reserve bank.
6. Any other information, including any comments of either an adverse or favorable character, which will be of assistance in the consideration of the recommendation.

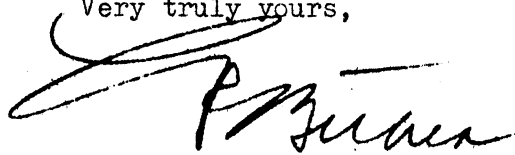
It will be appreciated if you will submit a copy of the application (unless the proposed appointee has been in the employ of the Reserve bank for some time and the application is therefore uncurrent), a recent photograph of the proposed appointee (not over 4 x 6 inches in size), a copy of any memorandum prepared for any officer or committee of the Reserve bank

in connection with the consideration of the application, and, if not fully covered in such memorandum, a further memorandum summarizing the data developed in the bank's investigation and setting forth the reasons for regarding the proposed appointee as the best man available for the position. To the extent that the information contained in the application and these memoranda supplies information requested in the numbered paragraphs above, it will not be necessary to duplicate such information in any special memorandum or report to the Board.

Upon receipt of a recommendation accompanied by the information requested above, the Board will consider the proposed appointment and the Federal Reserve bank will be advised promptly of the action taken. In some cases, however, recommendations have been submitted with requests for immediate action, and it will be appreciated if, whenever possible, recommendations and information are submitted sufficiently in advance to permit of the matter being handled in the regular course.

In the Board's letter of April 3, 1937 (X-9858), reference was made to the designation of officers and employees of other departments as examiners or assistant examiners, in order that their services may be available to assist your regular examining staff when necessary. In order that there may be uniformity in the designations of such employees, it is requested that all such persons who are not members of the regular examining staff be designated as "Special Assistant Examiner" or "Special Examiner", as the case may be, for examination purposes. In this connection it is assumed, of course, that each such person participating in an examination will be provided with an appropriate commission or identification certificate before the examination begins.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

August 31, 1939.

Mr. _____, Assistant Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Further reference is made to your letter of August 18, 1939, with respect to the question submitted to you by the _____ National Bank and Trust Company, _____, as to whether transfers may be made from the savings accounts of certain depositors to so-called FHA mortgage accounts in their names, pursuant to the written orders of the depositors but without the presentation, at the time the transfers are made, of the pass books evidencing such savings accounts.

It is understood that the national bank is servicing a large number of mortgage loans which are insured by the Federal Housing Administration; that in connection with the making of such loans the mortgagors open savings accounts with the bank and deliver to it written authorizations to charge their respective savings accounts for the amounts due monthly in respect of their mortgages. The amounts thus charged to their savings accounts are credited to so-called FHA mortgage accounts in their names, and amounts so credited are used to pay the monthly installments due on the mortgages for principal, interest, premiums for mortgages, insurance, service charges, taxes, ground rents and assessments. The savings accounts pass books are not presented to the bank, but the bank sends monthly advices to the mortgagors of the amounts charged to their savings accounts and the mortgagors send their savings deposits pass books to the bank quarterly for the entry therein of the debits to their savings accounts.

Although the amounts charged to the savings account are credited to the so-called FHA mortgage account of the mortgagor, the transaction is essentially a payment by the bank out of the savings account to a third party, because under the agreement between the mortgagor-depositor and the bank, the amounts thus debited to the savings accounts and credited to the FHA mortgage accounts are no longer under the control of the mortgagor-depositor but are merely in transit to the ultimate recipients of the amounts constituting the monthly payments due under the mortgage.

In view of the facts stated above, it is clear that the payment is not made "upon presentation of the pass book", and the question

-2-

is presented whether the transaction complies with the provision of section 1(e)(2) of Regulation Q with respect to savings deposits that

- "Withdrawals are permitted in only two ways, either
- (i) upon presentation of the pass book, through payment to the person presenting the pass book, or (ii) without presentation of the pass book, through payment to the depositor himself but not to any other person whether or not acting for the depositor."

You refer to the ruling contained in the Board's letter of June 22, 1936 (X-9627) to the effect that a transfer may properly be made by a member bank from the savings account of a depositor to his checking account upon the written order of the depositor but without the presentation of the savings deposit pass book. In the present case you point out that the mortgagor-depositor could accomplish the same result as is accomplished by the existing arrangement by following the procedure described in X-9627 and by giving the bank a further order to pay the required amount out of his checking account; but you suggest that it would not be desirable to require a member bank to make these additional entries on its books merely in order to achieve technical compliance with the requirements of the definition of "savings deposit" in Regulation Q.

It seems proper in a case like the present one to consider the essential nature and purpose of the transaction as well as its form. One of the typical purposes for which savings accounts are maintained is the accumulation of funds with which to pay off a mortgage. In the present case the savings accounts are maintained for that purpose, and each depositor gives the bank a written order to pay off his mortgage out of his savings account at the time when his savings account is opened and as a part of the same transaction. As stated in the Board's letter of February 8, 1936 (X-9489), the requirement that the savings pass book must accompany a check payable to a third party is designed to prevent the drawing of more than one check at a time against a savings account and the use of a savings account as an ordinary checking account; but it does not appear that any such abuse is involved in the present arrangement. While the order given by the depositor provides for several transfers at regular periodic intervals, it appears that all of the transfers are for the same purpose and are made in pursuance of the same order.

Accordingly, the Board is of the opinion that the handling of the periodic payments in the manner described above is not in violation of Regulation Q.

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It is hardly necessary to point out that the present ruling is based upon the facts of this particular case, and that a different result might be reached in another case with facts bearing a superficial resemblance to those discussed herein.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 8, 1939.

Dear Sir:

In its letter of January 24, 1938, S-70, the Board set forth reasons why it was believed to be undesirable for a member of the board of directors of a Federal Reserve bank to serve at the same time as a director of a branch of the bank. The amendment to the Board's regulation with respect to the appointment of directors of branches of Federal Reserve banks, to which reference was made in that letter, provided that no director of a Federal Reserve bank should be appointed to serve as a director of a branch during the period of his service as a director of the Federal Reserve bank. It will be noted that this provision does not cover the case where a director of a branch is appointed to serve as a director of the Federal Reserve bank and in order to give full effect to the policy of the Board in this matter the last sentence of the second paragraph of the regulation has been amended to read as follows:

"No director of a Federal Reserve bank shall serve as a director of a branch of the bank during the period of his service as a director of the Federal Reserve bank."

A copy of the amended regulation is attached to this letter.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure.

1. The board of directors of each branch of a Federal Reserve bank shall consist either of seven members or of five members, as may be determined by the Federal Reserve bank, subject to the approval of the Board of Governors of the Federal Reserve System. Where the board of directors of the branch consists of seven members, four shall be appointed by the Federal Reserve bank and three by the Board of Governors, and, where the board consists of five members, three shall be appointed by the Federal Reserve bank and two by the Board of Governors.
2. All directors shall be persons of high character and standing who have established reputations and ability to meet their financial obligations. They shall be persons whose business and financial interests are primarily within and representative of the branch territory rather than of interests controlled or owned outside the territory. The directors appointed by the Federal Reserve banks shall be persons who are either well qualified and experienced in banking or actively engaged in agriculture, industry or commerce. The directors appointed by the Board of Governors shall be persons who are actively engaged in agriculture, industry or commerce and who are not primarily engaged in banking (although they may be stockholders or directors of banks). No director of a Federal Reserve bank shall serve as a director of a branch of the bank during the period of his service as a director of the Federal Reserve bank.
3. All directors shall be citizens of the district and shall reside within the territory served by the branch, but at least one of the directors appointed by the bank shall reside outside of the city in which the branch is located.
4. One of the directors appointed by the Reserve bank shall be the active manager of the branch and shall have the title "Managing Director".
5. The term of office for the director chosen by the Reserve bank to act as Managing Director of the branch shall be one year, subject to reappointment from year to year, if such action be desirable.
6. The full term for other directors shall be three years where the branch board consists of seven members and two years where the branch board consists of five members. In order to make practicable an orderly rotation of branch directorships, the terms of directors, other than the Managing Director, shall be so arranged that the term of a director appointed by the Board of Governors and the term of a director appointed by the Federal Reserve bank shall expire at the end of each year. No director, other than the Managing Director, who has had six or more years of continuous service, shall be reappointed as a director to take effect before the expiration of a period, immediately following such service, of

at least two years at any branch having five directors or three years at any branch having seven directors.

7. The board of directors of each branch shall annually elect as chairman of the board the member appointed by the Board of Governors whose term of office expires with the current year.

8. In the event of a vacancy occurring in the board of directors of a branch of a Federal Reserve bank, the appointment to fill such vacancy shall be made by the body making the original appointment and such appointment shall be for the unexpired term.

9. As provided in Section 3 of the Federal Reserve Act, directors of branches of Federal Reserve banks hold office at the pleasure of the Board of Governors.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

September 8, 1939.

Mr. _____, President,
_____ National Bank of _____,
_____, _____.

Dear Sir:

A copy of your letter of August 9, 1939, addressed to the Chief National Bank Examiner of your district, regarding the question whether certificates of deposit maturing on Sunday may be renewed or paid on the previous day, has been referred to the Board of Governors of the Federal Reserve System by the office of the Comptroller of the Currency.

The Board of Governors, in a ruling published at page 609 of the 1934 Federal Reserve Bulletin, declared that there is no provision of law which would preclude the renewal of a time certificate of deposit prior to the date of its maturity, dating the new certificate as of the date of maturity of the original certificate.

When the maturity of a certificate of deposit falls on a Sunday, the date on which it is due and payable is to be determined by State law. It is our understanding that, under the statutes of (Name of State), negotiable paper maturing on a Sunday or on a holiday becomes due on the succeeding secular or business day and, accordingly, if this is correct, under section 4 of the Board's Regulation Q, a copy of which is enclosed, a member bank of the Federal Reserve System located in (Name of State) may not pay a time certificate of deposit having such a maturity until the next succeeding secular or business day, except in the circumstances specified in the regulation.

If you have any further questions regarding this matter, or any similar matter, it is suggested that you communicate with the Federal Reserve Bank of _____.

Very truly yours,

(Signed) L. P. Bethea,

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 15, 1939.

Dear Sir:

With its letter of May 3, 1939, R-456, the Board submitted a draft of a proposed regulation governing the collection of noncash items. This draft of the regulation has been revised in some particulars in the light of suggestions received from the Federal Reserve banks pursuant to the Board's letter and there is enclosed herewith a copy of the revised form of the regulation. The regulation in the form enclosed will be adopted by the Board when drafts of the noncash collection circulars of the Federal Reserve banks have been received and reviewed so that an effective date for the revised regulation may be fixed. The new regulation will be known as Regulation G.

In this connection it is noted that the report of the Standing Committee on Collections dated April 22, 1939, states (Paragraph 60) that: "Revised uniform paragraphs for circulars to be issued by the Federal Reserve banks, relating to the collection of noncash items, will be submitted by the Standing Committee on Collections when the text of the new regulation has been determined." It is understood, accordingly, that the Standing Committee on Collections will give further consideration to this subject before changes are made in the noncash collection circulars of the Federal Reserve banks designed to bring them into conformity with the new regulation. Copies of letters which the Board addressed yesterday and today to the Chairman of the Presidents' Conference regarding this matter are enclosed herewith for your information.

You are also advised that the Board of Governors has approved recommendation No. 18 contained in the report of the Standing Committee on Collections dated January 14, 1939, and concurred in by the Presidents' Conference "that each Federal Reserve bank, whenever possible, should endorse or stamp all municipal warrants handled by it as noncash items in such manner as to indicate the agency status of the Federal Reserve bank, or should attach to such municipal warrants notices indicating such status". Action upon this particular recommendation has heretofore been deferred pending consideration of the new regulation governing the collection of noncash items.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosures 3

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

REGULATION G

Effective _____, 1939.

COLLECTION OF NONCASH ITEMS

AUTHORITY FOR REGULATION

This regulation is based upon and issued pursuant to the provisions of subsection (i) of section 11, the first paragraph of section 13, and the 14th and 15th paragraphs of section 16, and other relevant provisions of the Federal Reserve Act.

SECTION 1. DEFINITION OF NONCASH ITEMS

As used in this regulation, the term "noncash items" means any items of the following classes when payable within the continental United States:

(1) Maturing notes, acceptances, bankers' acceptances, certificates of deposit, bills of exchange, and drafts with or without securities, bills of lading or other documents attached;

(2) Drafts and orders on savings deposits with pass books attached;

(3) Checks, drafts and other cash items which have previously been dishonored or on which special advice of payment or dishonor is required;¹

(4) Maturing bonds and coupons (other than obligations of the United States and its agencies which are redeemed by Federal Reserve banks as fiscal agents);

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1. Any check, draft, or other item which is normally handled as a cash item will not be handled as a noncash item unless special conditions require that this be done, and the Federal Reserve bank will decide whether such special conditions exist.

-2-

(5) State and municipal warrants, including both orders to pay addressed to officers of States and political subdivisions thereof and any special or general obligations of States and political subdivisions thereof;

(6) All other evidences of indebtedness and orders to pay, except checks and bank drafts handled under the provisions of Regulation J¹ and checks and bank drafts drawn on or payable by a nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank of the district in which such nonmember bank is located.²

SECTION 2. RECEIPT OF ITEMS FOR COLLECTION

Each Federal Reserve bank may receive for collection non-cash items from member and nonmember clearing banks in its district, from other Federal Reserve banks, and from all member and nonmember clearing banks in other Federal Reserve districts which are authorized to route direct for the credit of their respective Federal Reserve banks, subject to the terms and conditions of this regulation.

SECTION 3. TERMS OF COLLECTION

(1) Agreement of sending bank. - Each member and nonmember clearing bank which sends noncash items to any Federal Reserve bank for collection shall by such action be deemed: (a) to authorize the Federal Reserve banks to handle such items subject to the terms and conditions of this regulation; (b) to warrant its own authority to give the Federal Reserve banks such authority; (c) to agree to indemnify any Federal Reserve bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from the failure of such sending bank to have such authority, or resulting from such Federal Reserve bank's guaranty of prior endorsements, or resulting from any action taken by the Federal

-
1. (See Footnote 1 on preceding page.)
 2. Checks and bank drafts drawn on or payable by a nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve bank of the district in which such nonmember bank is located, and which may not be received under the terms of Regulation J, likewise may not be received as noncash items under the terms of this regulation.

-3-

Reserve bank within the scope of its authority for the purpose of collecting such noncash items; and (d) to guarantee all prior endorsements on such items whether or not a specific guaranty is incorporated in an endorsement of the sending bank.

(2) Federal Reserve bank as agent. - A Federal Reserve bank will act only as agent of the bank from which it receives such noncash items and will assume no liability except for its own negligence and its guaranty of prior endorsements.

(3) Presentation of items by Federal Reserve bank. - A Federal Reserve bank may present such noncash items with any accompanying documents for payment direct to the person, firm or corporation on which they are drawn or by or through which they are payable or collectible, or may present them for payment or forward them for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible; or, in its discretion, may forward them to another agent with similar authority to present them for payment or forward them for collection. The bank upon which any such noncash item may be drawn, or at which the same may be payable or through which the same may be payable or collectible shall be deemed to be a proper agent for collection within the meaning of this regulation.

(4) Items payable in other districts. - Noncash items received by a Federal Reserve bank payable in other districts will be forwarded for collection to the Federal Reserve bank of the district in which such items are payable; except that, when in the judgment of the Federal Reserve bank the size or character of the items or other special circumstances justify such action, any such items, in the discretion of the Federal Reserve bank, may be forwarded for collection direct to the bank on which they are drawn, at which they are payable, or through which they are payable or collectible, or may be forwarded for collection to another agent with authority to present them for payment direct to the person, firm, or corporation on which they are drawn or by or through which they are payable or collectible or to present them for payment direct to the bank on which they are drawn, at which they are payable or through which they are payable or collectible.

(5) Forms of payment accepted by Federal Reserve bank. - A Federal Reserve bank may, in its discretion and at its option, accept from any bank in payment of or from any collecting agent in remittance for such noncash items, cash, checks, bank drafts, transfers of funds or bank credits, or other forms of payment or remittance, acceptable to the collecting Federal Reserve bank. The Federal Reserve

bank shall not be liable for the failure of any bank or any agent to collect, or to pay, or to remit for, such noncash items, nor for any loss resulting from the acceptance from any bank or any agent, in lieu of cash, of any other form of payment or remittance authorized herein, nor for the nonpayment of, or failure to realize upon, any bank draft or other medium of payment or remittance which may be accepted from any bank or any collecting agent.

(6) Collection of remittances for noncash items. -

Bank drafts and other forms of payment or remittance received by a Federal Reserve bank in payment of or in remittance for noncash items handled under the terms of this regulation will be collected, at the option of the Federal Reserve bank, either under the terms and conditions of this regulation or under the terms and conditions of Regulation J of the Board of Governors of the Federal Reserve System.

(7) Suspension or closing of paying or remitting bank. -

No draft, authorization to charge, or other order, upon any reserve balance, clearing account, deposit account, or other funds of a paying, remitting, or collecting bank in the possession of a Federal Reserve bank, issued for the purpose of settling items handled under the terms of this regulation will be paid, acted upon, or honored after receipt by such Federal Reserve bank of notice of suspension or closing of such paying, remitting, or collecting bank.

(8) Items sent direct to Federal Reserve bank in another district. - With respect to any noncash item sent direct by a member or nonmember clearing bank in one district to a Federal Reserve bank in another district, the relationships and the rights and liabilities existing between the member or nonmember clearing bank, the Federal Reserve bank of its district and the Federal Reserve bank to which the noncash item is sent will be the same, and the relevant provisions of this regulation will apply, as though the member or nonmember clearing bank had sent such noncash item to the Federal Reserve bank of its district with its endorsement and guaranty of prior endorsements and such Federal Reserve bank had sent the noncash item to the other Federal Reserve bank with its endorsement and guaranty of prior endorsements.

SECTION 4. OTHER RULES

Each Federal Reserve bank may also promulgate rules not inconsistent with the terms of the law or of this regulation, governing the details of its noncash collection operations. Such rules may be set forth by each Federal Reserve bank in circulars to its member and nonmember clearing banks and shall be binding upon any member or nonmember clearing bank which sends any noncash item to such Federal Reserve bank for collection or to any other Federal Reserve bank for the account of such Federal Reserve bank for collection.

C O P Y

September 14, 1939.

Mr. G. L. Harrison,
Chairman of the Presidents' Conference,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Chairman:

With its letter of May 3, 1939, R-456, the Board submitted to the Federal Reserve banks a draft of a proposed regulation governing the collection of noncash items. This draft of the regulation has been revised in some particulars in the light of suggestions received from the Federal Reserve banks, and the revised draft is now before the Board for action.

In this connection it is noted that the report of the Standing Committee on Collections dated April 22, 1939, states (Paragraph 60) that: "Revised uniform paragraphs for circulars to be issued by the Federal Reserve banks, relating to the collection of noncash items, will be submitted by the Standing Committee on Collections when the text of the new regulation has been determined." It is understood, accordingly, that the Standing Committee on Collections will give consideration to the uniform paragraphs of the noncash collection circulars before changes are made in the circulars designed to bring them into conformity with the new regulation.

The Board feels that it is desirable that arrangements be made for consideration at the same time of the non-uniform provisions of the noncash collection circulars, with a view to producing as much uniformity as practicable. It will be appreciated, therefore, if you will bring this matter to the attention of the Presidents' Conference on September 18, 1939, in order that it may be referred to an appropriate committee for consideration as soon as practicable after action by the Board on the text of the new regulation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

C O P Y

September 15, 1939.

Mr. G. L. Harrison,
Chairman of the Presidents' Conference,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Chairman:

Referring to the letter which the Board addressed to you on yesterday regarding the regulation governing the collection of noncash items, there is enclosed herewith for your information a letter which the Board is today addressing to the Federal Reserve banks with respect to this subject.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Enclosure.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

September 15, 1939.

Mr. _____, President,
_____ National Bank,
_____, _____.

Dear Sir:

Your letter of August 11, 1939, addressed to the Comptroller of the Currency has been referred to the Board of Governors of the Federal Reserve System for reply. You request information as to whether your bank may pay interest on a savings account after the death of the depositor.

Under the definition of the term "savings deposit" contained in subsection 1(e) of the Board's Regulation Q, a copy of which is enclosed herewith, such a deposit may consist of funds, the entire beneficial interest in which is held by one or more individuals or by a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit. Accordingly, a savings deposit may continue to be classified as such after the death of the depositor if the entire beneficial interest is then held by individuals or organizations of the kinds mentioned in the regulation. Likewise, a deposit in the name of an executor or administrator may be classified as a savings deposit if it meets the other requirements of the definition of savings deposits in the regulation and the entire beneficial interest is held by individuals or organizations of the kinds mentioned. Even where it is not known whether the entire beneficial interest is held by individuals or organizations of the kinds described, the Board of Governors will offer no objection, for a reasonable time after the death of the depositor, to the continued classification as a savings deposit of a deposit which has theretofore been properly classified as such.

If you have any further questions regarding this matter, or any similar matter, it is suggested that you communicate with the Federal Reserve Bank of _____.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

September 15, 1939.

Mr. _____, Vice President
_____,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letters of August 7, 1939 and August 31, 1939, regarding the question raised by _____ Company, _____, _____, as to whether it "transacts a business in securities through the medium of a member of a national securities exchange" within the meaning of Regulation T.

As indicated in the Board's letter (X-9880; Reg. T-54) of April 26, 1937, and the ruling which accompanied the Board's letter (S-123; Reg. T-80) of October 27, 1938, to which you refer, the question here presented necessarily must turn upon all the relevant facts involved in the particular case.

The facts presented by _____ Company, however, apparently raise for interpretation the question whether a broker or dealer would be prevented from being one who "transacts a business in securities through the medium of a member" if the business so transacted is not the major business of the firm, the business so transacted in this particular case being said by the firm to constitute approximately 10 per cent of its total business.

It is to be noted that the phrase does not require that a majority of the broker's business be transacted through the medium of a member, or that the business be "principally" or "chiefly" so conducted. The omission of any such requirement indicates an intention to exclude such questions of degree from present consideration and to narrow the problem down to the simple question whether "a business" in securities is so transacted. It seems clear that a firm could be transacting "a business" in securities through the medium of a member even though such business constituted no more than 10 per cent of the total securities business of the firm.

-2-

Accordingly, it is the view of the Board in the present case that the facts presented do not exempt the firm from the application of the phrase in question, and hence do not exempt it from Regulation T.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 25, 1939.

Dear Sir:

For your information there is enclosed herewith a copy of a letter received from the Financial Adviser to the Federal Home Loan Bank Board, together with a copy of the reply of the Board of Governors, with reference to advances by Federal Reserve banks to Federal Home Loan banks on the security of Government obligations.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosures 2.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-185-a
Reg. A-7.

C O P Y

FEDERAL HOME LOAN BANK BOARD

Washington

September 2, 1939

Mr. Lawrence Clayton,
Assistant to the Chairman,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Mr. Clayton:

Regarding our telephone conversation today in connection with the Federal Home Loan Banks requesting advances from the Federal Reserve Banks on Government obligations at par.

Will you be so kind as to ask the Board of Governors of the Federal Reserve System for a ruling as to whether these advances may be made at the rates prevailing for member banks.

Yours very truly,

(Signed) Francis X. Pavesich

Francis X. Pavesich,
Financial Adviser to the Board

C O P Y

September 25, 1939.

Mr. Francis X. Pavesich,
Financial Adviser to the Board,
Federal Home Loan Bank Board,
Washington, D. C.

Dear Mr. Pavesich:

This refers to your letter of September 2, 1939, in which you request a ruling as to whether advances may be made to the Federal Home Loan banks by the Federal Reserve banks on Government obligations at par "at the rates prevailing for member banks".

In reply you are advised that it is the view of the Board of Governors that Federal Home Loan banks are included in the term nonmember banks as used in the Board's announcement of September 1, 1939, regarding advances by Federal Reserve banks on the security of Government obligations.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 4, 1939.

Dear Sir:

For your information there is enclosed a copy of a letter which the Board recently addressed to the President of one of the Federal Reserve banks with regard to the policy of the bank as to the holding in safekeeping of securities pledged by member banks to secure deposits of public funds.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written over a horizontal line.

L. P. Bethea,
Assistant Secretary

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT DALLAS

September 29, 1939.

Mr. R. R. Gilbert, President,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Gilbert:

This refers to your letter of September 15, 1939, advising that the _____ National Bank of _____, New Mexico, has requested that your bank reconsider its policy of declining to hold for safekeeping securities pledged to secure deposits of public funds. It is noted that this matter has been taken up with your board of directors and that it was the unanimous feeling of the members of your board and of your officers that the service should be extended to your member banks, if it could properly be done, and that your board by a unanimous resolution instructed that the question be submitted to the Board of Governors.

In this connection you advise that all of the Federal Reserve banks except four now extend this service to their member banks and that the Federal Reserve Bank of Kansas City performs this function for member banks in the part of New Mexico which is in the Kansas City district, whereas member banks in the part of New Mexico which is in the Dallas district are not accorded the service.

The question whether Federal Reserve banks have authority under the law to receive and hold in safekeeping securities pledged by member banks to secure deposits of public funds is one which has been under consideration by the Board and its Counsel on several occasions in the past, and it is noted that the question has also been considered from time to time by Counsel for the Federal Reserve Bank of Dallas. However, a number of Federal Reserve banks have been performing this service for some years past, and it appears that the practice received the approval of the Conference of Governors in December 1929 and of the Conference of Presidents in October 1937. The Board of Governors agrees with the directors and officers of your bank that this is a valuable service, both to the member banks and to public officials. In the circumstances if the Federal Reserve Bank of Dallas should decide to undertake to do so, the Board of Governors will offer no objection to its rendering the service to its member banks under such safeguards as your Counsel may deem advisable.

Very truly yours,
(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 17, 1939



Dear Sir:

During recent weeks there has been an increase in certain types of business activity and if present trends continue it is quite likely that some business enterprises may find themselves in need of additional working capital to finance expanding operations, while others affected less favorably by current developments may be in urgent need of additional funds to keep their personnel employed and meet current financial obligations.

The Board of Governors believes that the entire System should be keenly alive to the changed conditions and be ready to render prompt and efficient service wherever practicable. With this in mind the Board hopes that the Federal Reserve banks will make special efforts to expedite the handling of all applications for advances for working capital purposes, whether received direct or through financing institutions. It is important, especially at this time, that applications for working capital advances be considered sympathetically and that sincere efforts be made to grant the credit applied for whenever it can be done on a reasonable and sound basis, as required by statute. In acting upon applications it is important that substance, rather than technicalities be given paramount consideration.

In order that the Board may be kept informed as to developments in this field, it will be appreciated if you will furnish it with a brief statement with respect to each industrial loan application filed with your bank as soon as final action has been taken thereon. It would be helpful if this statement would include the date the application is filed, the name, address, and type of business of the applicant, the date the application was considered by (a) the Industrial Advisory Committee, and (b) the Federal Reserve bank, and if the application was declined, the reasons therefor.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

S-188
Sec. 4 F.R.A.-1

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

October 18, 1939

(First Vice President of a
Federal Reserve bank)

Your letter October 13. On basis of considerations mentioned in X-4373, holding that a person whose sole occupation is that of an officer of a life insurance company is not eligible for election as a Class B director, Board of Governors feels that a person whose sole occupation is that of president of a Federal savings and loan association and who has been serving as a Class A director is not now eligible for election and service as a Class B director.

(Signed) Chester Morrill

MORRILL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-189
Reg. L-8

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 27, 1939



Dear Sir:

There is attached, for your information, a copy of a letter addressed by the Board under date of October 19, 1939, to the Chairman of a Morris Plan Company with respect to the question whether the company is a "bank" within the meaning of Section 8 of the Clayton Act.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-189-a
Reg. L-8

October 19, 1939

_____,
_____,
_____.

Dear _____:

Following receipt of your letter of October 9, 1939, further consideration has been given to the question whether The Morris Plan Company of _____ is a "bank" within the meaning of section 8 of the Clayton Act. As you know, if the Company is not a "bank", the statute is not applicable to directors of the Company who are serving as officers or directors of member banks of the Federal Reserve System.

It is understood that the Company was organized under a statute (_____) which relates to "loan and investment companies" and which defines the powers of such companies. It is also understood that, since it was organized under that Chapter, section 4 of Chapter 144 of those Laws makes it unlawful for the Company to call itself a "bank", "savings bank" or "trust company", or receive "deposits", or "transact business in the way or manner of a bank, savings bank or trust company".

You have furnished us with a copy of the letter from the Chief of the Division of Banking and Insurance of the State of _____ in which he says, consistently with the above statutory provisions, that the Company "is in no sense a banking institution". You have also advised us that the Federal Deposit Insurance Corporation ruled that the Company was not eligible for membership in the Temporary Federal Deposit Insurance Fund because it did not accept "deposits", and that the Federal Bureau of Internal Revenue refused to grant the Company exemption from surtaxes under section 104(a) of the Revenue Act of 1936 on the ground that it was not a "bank".

It is understood that the Company sells fully paid investment certificates but only in denominations of fifty dollars or multiples thereof; that, although it may, and does in practice, redeem such certificates on demand, it requires the registered owner thereof to sign a receipt therefor on the back of such certificate with the practical result that there is no effective method of negotiating such certificate except by presenting it at the office of issue which holds the stub originally attached to

such certificate and which stub bears the owner's signature; that the Company issues what are termed installment investment certificates representing accounts opened for the purpose of purchasing fully paid investment certificates on an installment basis; that, although it permits withdrawals from such installment investment certificate accounts, the customer may not draw on such account by check but must (except in extreme cases such as illness, etc., where he may sign a receipt which is returned to the Company's office accompanied by the installment investment account book and receive the Company's check for the amount withdrawn) present his installment certificate account book at the Company's office and sign a receipt reading "Received of The Morris Plan Co. of _____ the sum of \$_____ as part payment of Instal. Invest. Cert. #_____" which is imprinted by rubber stamp on the Company's card record of the particular account at the time of withdrawal; that the Company makes no use whatever of counter checks or other checks to effect withdrawals; that, although the Company pays interest on both full paid and installment investment certificates, the interest on full paid investment certificates is paid by check mailed to the customer's registered address, and interest on installment investment certificate accounts (which does not begin to run until the balance thereon amounts to \$25) is not paid or credited at regular intervals, but is paid to the customer by cash, check, or credit to the customer's installment certificate account when called for by the customer; that the major portion of the Company's transactions, which are estimated at an average of approximately six hundred a day, involve the making of loans or receipt of payments on loans; that payments on or withdrawals from installment certificates average about ten a day; that the daily cash on hand carried in the Company's main office amounts to about \$10,000, of which amount about \$400 to \$500 is set aside for payments on both full paid and installment investment certificates and the remainder is set aside for lending transactions; that the receipt and payment of funds in connection with investment certificates probably does not require much more than a half hour a day of the one investment teller's time; that withdrawals on investment certificates probably average about three weekly; that the Company does not issue cashier's checks or drafts, such checks as it issues being drawn on the banks where it has deposit accounts in the city of _____; that the Company does not maintain any form of so-called checking account service (other than the limited withdrawal service on installment investment certificate accounts above described); that the Company is prohibited by law from transacting and does not transact a trust business; that it does not offer safety deposit facilities to the public; that it transacts no escrow or agency business for the public; that, except for the occasional sale of securities held as collateral to loans, it does not buy or sell

securities for customers; that it is not a member of the _____ Clearing House Association; that its hour of closing extends one hour beyond the closing hour of banks in _____; that, although it is subject to the supervision of and examination by the Chief of the Division of Banking and Insurance of _____, so also are building and loan associations, credit unions and small finance companies in the State; and that, although it is required to submit reports of condition to the Chief of the Division of Banking and Insurance twice a year, it is not required to publish such reports, which banks and trust companies in the State are required to do. It is understood also that the general public regards the Company as a lending corporation or finance company operating primarily in the installment lending field and not as a bank of deposit.

The question whether or not a particular institution is a "bank" within the meaning of section 8 of the Clayton Act is often a perplexing one, and in view of the great variety of financial institutions in this country there must necessarily be cases where even slight variations in the facts will produce different results. It is for this reason that the facts upon which the present ruling is based have been set forth in detail in this letter, and on the basis of these facts the Board is now of the opinion that the Company is not a "bank" within the meaning of section 8 of the Clayton Act.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-190
Reg. F-22

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 8, 1939

Dear Sir:

In response to inquiries received by it, the Board has expressed the opinion that United States Savings Bonds may be used to satisfy the requirement contained in Section 11(k) of the Federal Reserve Act and Section 9(b) of Regulation F, Trust Powers of National Banks, that national banks deliver to their trust departments securities of specified kinds as collateral security for trust funds used by them in the conduct of their business.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, with a large initial "L" and "P".

L. P. Bethea,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

November 10, 1939.

Mr. _____,
Assistant Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of October 13, 1939, regarding section 4(f)(5) of Regulation T which provides that:

"In a special miscellaneous account, a creditor may --

"(5) Effect transactions for and finance any joint adventure or group in which the creditor participates and in which all participants are dealers (whether such participants be acting jointly or severally), or any member thereof or participant therein, for the purpose of facilitating the underwriting or distributing of all or part of an issue of securities (A) not through the medium of a national securities exchange, or (B) the distribution of which has been approved by the appropriate committee of a national securities exchange;"

The question whether a particular transaction may properly be effected under section 4(f)(5) is necessarily a question of fact that depends upon all the relevant facts involved in the particular case. As indicated in the letter which you forwarded from the _____ Stock Exchange, however, the qualification of a transaction under the section requires more than merely the existence of a joint-venture or compliance with the conditions specified in clause (A) or (B). The transaction must in any event be "for the purpose of facilitating the underwriting or distributing of all or part of an issue of securities..."

Since it appears that the transactions referred to in your letter do not relate to "underwriting", the question arises whether they are for the purpose of facilitating the "distributing" of securities. It is necessary, therefore, to consider the meaning of the word "distributing" as used in this provision.

The use of this word in addition to the word "underwriting" naturally makes it reasonable to assume that the two words were not

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intended to have identical meanings. On the other hand, however, the word "distributing" necessarily must be read in its context. Its meaning cannot be understood without considering the general meaning and purpose of the provision in which it is used.

It seems clear, therefore, that the distributing here referred to is something similar to underwriting. In other words, it must involve the distribution of a relatively large block of securities from one owner, or a comparatively few owners, to a much larger number of holders.

No exact requirements can be stated with respect to the minimum size of the block of securities, the maximum number of the original owners, or the minimum number of ultimate holders. In general, there must be what is usually considered in the trade to be a distribution as distinguished from position trading.

The typical case would, of course, be the distribution of a new issue of securities. Securities might in some instances be the subject of a distribution even though they had been issued a long time before, and the widespread sale of a large block of securities which had been left as a part of the estate of a deceased person might be an example of such a distribution. On the other hand, however, if a quantity of old securities was accumulated from a large number of individuals long after the securities had been issued, and the securities were then resold to a large number of persons, this would not constitute "distributing" within the meaning of section 4(f)(5). It will be recalled that the ruling at page 549 of the July 1936 Federal Reserve Bulletin indicated similar limitations on the meaning of the term "distribution" as used in a similar provision of Regulation U.

It is hoped that this general discussion will be of assistance to your Bank and to the _____ Stock Exchange, and if there should be any further questions of interpretation regarding the provision, the Board will, of course, be glad to give them consideration.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

November 15, 1939

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of September 13, 1939, relating to a request from Mr. _____, Secretary-Comptroller, _____, _____, that the Board define the terms "net earnings" and "actual net earnings" used in subsections (c) and (e)(4), respectively, of section 5144 of the Revised Statutes of the United States. The Board believes that it is not feasible for it to furnish comprehensive definitions of these terms which would cover all of the specific questions which may arise in various cases and circumstances. It is believed, however, that the following views on the matter will furnish the information which Mr. _____ desires regarding undistributed earnings of subsidiary banks.

Subsection (e)(4) requires that a holding company affiliate shall agree, in its application for a voting permit, that thenceforth it will declare dividends only out of actual net earnings. The Board feels that the amount of the "actual net earnings" of a holding company affiliate, within the meaning of such subsection, should be arrived at on the basis of the most conservative accounting principles. Accordingly, it is felt that the actual net earnings of a holding company affiliate generally should not be construed to include earnings of subsidiary banks which have not been distributed to the holding company affiliate in the form of dividends.

With respect to the provisions of subsection (c) regarding the establishment and maintenance by a holding company affiliate of a reserve of readily marketable assets out of net earnings over and above 6 per centum per annum on the book value of its own shares outstanding, it is felt that "net earnings" should not be construed to include undistributed earnings of subsidiary banks which, in accordance with the comments in the preceding paragraph, are not regarded as "actual net earnings" of the holding company affiliate.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-193

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 14, 1939



Dear Sir:

The Board concurs in the action of the Conference of Presidents, held December 12, 1939, in approving, with certain modifications, the recommendations contained in the report of the Standing Committee on Collections, dated November 8, 1939, with respect to the inclusion of certain uniform paragraphs in the noncash collection circulars of the Reserve banks and the insertion of additional paragraphs in the cash collection circulars when the occasion arises for the reprinting of such circulars.

As stated in the Board's letter, S-182, of September 15, 1939, Regulation G, "Collection of Noncash Items", in the form enclosed with that letter, will be adopted by the Board when drafts of the revised noncash collection circulars of the Federal Reserve banks have been received and reviewed so that an effective date for the regulation may be fixed. The effective date will be sufficiently far in advance to allow for the printing of the regulation, and the noncash collection circulars, and their simultaneous release by all Federal Reserve banks about two weeks in advance of the effective date.

It will be appreciated if you will forward to the Board as soon as practicable two copies of your revised non-cash collection circular. It is requested that no Federal Reserve bank make public the revised circular until the effective date has been established and the regulation released by the Board.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-194

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 20, 1939.



Dear Sir:

Following a review of the by-laws governing the branches of Federal Reserve banks and also of the Board's regulations relating to directors of such branches, the Board of Governors is considering the adoption of regulations in the form enclosed herewith governing the operations of the branches of the Federal Reserve banks. These regulations include most of the provisions which are now contained in the regulations of the Board regarding directors of branch Federal Reserve banks and also certain other provisions that are largely of a formal character, but they do not contemplate any important changes in operating procedure.

The regulations provide that each Federal Reserve bank may adopt by-laws or issue instructions, not inconsistent with the law or the regulations, containing such further provisions with regard to the operation of its branches as it may deem advisable. Under the proposed regulations it will not be necessary for a Federal Reserve bank to obtain the approval of the Board of Governors of such by-laws or instructions, but it will be expected that copies of any such by-laws or general instructions regarding the operation of branches, as well as copies of any future amendments thereof, will be furnished promptly to the Board of Governors for its information. In this connection, it will also be expected that, before the regulations become effective or as soon thereafter as practicable, each Federal Reserve bank will review the existing by-laws of its branches and make such modifications as may be appropriate in the light of the new regulations.

The Board will be pleased to receive any comments you may care to make with respect to the proposals outlined above, and it is requested that you submit them in time to reach the Board not later than January 10, 1940.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure

REGULATIONS
RELATING TO
BRANCHES OF FEDERAL RESERVE BANKS

(Effective _____, 1940)

These regulations, governing the operations of all branches of Federal Reserve banks, are prescribed by the Board of Governors of the Federal Reserve System (hereinafter referred to as the Board of Governors) under authority of the provisions of section 3 of the Federal Reserve Act.

Section 1. Names of Branches and Territory Served

(a) Names of branches. - Each branch shall include in its title the name of the city in which it is situated and the name of the Federal Reserve bank of which it is a branch, as "Detroit Branch of the Federal Reserve Bank of Chicago".

(b) Branch territory. - No change shall be made by any Federal Reserve bank in the territory included within the district served by any of its branches, except with the approval or upon the direction of the Board of Governors.

Section 2. Authority and Functions

No substantial change shall be made by any Federal Reserve bank in the authority of or functions performed by any of its branches, except with the approval or upon the direction of the Board of Governors.

Section 3. Directors

(a) Number of directors. - The Board of directors of each branch of a Federal Reserve bank shall consist either of seven members or of five members, as may be determined by the Federal Reserve bank, subject to the approval of the Board of Governors. Where the board of directors of the branch consists of seven members, four shall be appointed by the Federal Reserve bank and three by the Board of Governors, and, where the board consists of five members, three shall be appointed by the Federal Reserve bank and two by the Board of Governors.

(b) Qualifications of directors. - All directors shall be persons of high character and standing who have established reputations and ability to meet their financial obligations. They shall be persons whose business and financial interests are primarily within and representative of the branch territory rather than of interests controlled or owned outside the territory. The directors appointed by the Federal Reserve banks shall be persons who are either well qualified and experienced in banking or actively engaged in agriculture, industry or commerce. The directors appointed by the Board of Governors shall be persons who are actively engaged in agriculture, industry or commerce and who are not primarily engaged in banking (although they may be stockholders or directors of banks). No director of a Federal Reserve bank shall serve as a director of a branch of the bank during the period of his service as a director of the Federal Reserve bank. All directors shall be citizens of the United States and shall reside within the territory served

by the branch, but at least one of the directors appointed by the Federal Reserve bank shall reside outside of the city in which the branch is located.

(c) Managing Director. - One of the directors appointed by the Federal Reserve bank shall be the active manager of the branch. He shall have the title "Managing Director" and perform such duties as may be prescribed by the Federal Reserve bank.

(d) Terms of other directors. - The term of office of directors, other than the Managing Director, shall be three years where the branch board consists of seven members and two years where the branch board consists of five members. In order to make practicable an orderly rotation of branch directorships, the terms of directors, other than the Managing Director, shall be so arranged that the term of a director appointed by the Board of Governors and the term of a director appointed by the Federal Reserve bank shall expire at the end of each year.

(e) Directors with six or more years of continuous service. - No director, other than the Managing Director, shall be reappointed as a director if such reappointment is to become effective within a period of two years immediately following six or more years of continuous service at any branch having five directors or within a period of three years immediately following such service at any branch having seven directors.

(f) Chairman. - The Federal Reserve bank shall annually designate as chairman of the board of directors of each branch one of the members appointed by the Board of Governors.

(g) Vacancies. - In the event of a vacancy occurring in the board of directors of a branch of a Federal Reserve bank, the appointment to fill such vacancy shall be made by the body making the original appointment and such appointment shall be for the unexpired term.

(h) Removal of directors. - As provided in section 3 of the Federal Reserve Act, directors of branches of Federal Reserve banks hold office during the pleasure of the Board of Governors.

(i) Meetings. - The board of directors of each branch shall meet once a month during at least ten months in each calendar year. A special meeting may be called at any time in accordance with such procedure as the Federal Reserve bank may prescribe.

(j) Quorum. - A majority of the board of directors of the branch shall constitute a quorum for the transaction of business, but less than a majority may adjourn from day to day until a quorum is in attendance.

(k) Fees and allowances. - The fees and allowances to be paid to directors of the branch for attendance at meetings of the board of directors of the branch or any committees of the branch shall be fixed by the Federal Reserve bank subject to the approval of the Board of Governors.

(l) Powers. - The board of directors of the branch shall supervise the operations of the branch subject to the direction and control of the Federal Reserve bank of the district and the regulations of the Board of Governors.

Section 4. Officers

The Federal Reserve bank shall appoint such officers for each branch, in addition to the Managing Director, as the bank from time to time deems necessary. Such officers shall perform such duties as may be prescribed by the Federal Reserve bank or by the Managing Director. In accordance with the provisions of the Federal Reserve Act, all officers of a branch shall be subject to removal by the Board of Governors and any compensation provided for officers or employees of any branch shall be subject to the approval of the Board of Governors.

Section 5. Supplemental Instructions

Each Federal Reserve bank may issue instructions or adopt by-laws, not inconsistent with the law or these regulations, containing such further provisions with regard to the operation of its branches as it may deem advisable.