



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

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R-600

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 20, 1940

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 December 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

R-600-a

January 20, 1940.  
Not for publication.

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE  
MONTH OF DECEMBER, 1939.

BOSTON

During December seventeen banks were visited, all of which were member banks. The reception was cordial at all banks and there were no criticisms anywhere of Federal Reserve policies or operations.

Throughout the section visited, factory and mill pay rolls were reported to have substantially increased during recent weeks and retail trade at all points was said to be seasonally satisfactory. With the exception of certain shoe factories, all manufacturing plants were said to be on full-time operation.

NEW YORK

During the month of December, officers and representatives visited 212 banks of which 150 are member and 62 nonmember institutions.

New York State

Central and South Central New York

Visits were made to the commercial banks in twenty-five counties in this area which extends from the eastern boundary of New York State west to the Buffalo Branch territory and south to the Pennsylvania State line. Included in this section are the important cities of Albany, Troy, Schenectady, Amsterdam, Gloversville, Utica, Syracuse, Oswego, Auburn, Cortland, Binghamton, Elmira, and Corning.

The following rates of interest are being paid on savings or thrift deposits by the commercial banks in this area:

<u>No. of Banks</u>	<u>Rates</u>
50	2 per cent on entire balance
3	2 per cent on first \$5,000 and 1-1/2 per cent on any excess
1	2 per cent on first \$2,000, 1-1/2 per cent on next \$8,000, and 1 per cent on any excess over \$10,000
1	2 per cent on first \$1,000 and 1-1/2 per cent on any excess

<u>No. of Banks</u>	<u>Rates</u>
120	1-1/2 per cent on entire balance
3	1-1/2 per cent on first \$10,000 and 1 per cent on any excess
1	1-1/2 per cent on first \$7,500 and no interest on any excess
1	1-1/2 per cent on first \$5,000, 1 per cent on next \$5,000, and 1/2 per cent on any excess
2	1-1/2 per cent on first \$5,000 and 1 per cent on any excess
2	1-1/2 per cent on first \$5,000, 1 per cent on next \$5,000, and no interest on any excess over \$10,000
1	1-1/2 per cent on first \$2,500, 1 per cent on next \$7,500, and 1/2 per cent on any excess
10	1 per cent on entire balance
2	Do not accept savings deposits
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The majority of banks are in a highly liquid condition with idle cash and United States Government bonds, direct or fully guaranteed, amounting to approximately half their deposit liabilities. Many bankers continue to be pessimistic about the future earning power of their institutions in view of the small demand for local loans and the low yield on new securities purchased. Officers of several banks state that they would like to improve earnings by utilizing some of their idle cash but they cannot see the advantage of "tying up" funds in ten to fifteen-year United States Government bonds which give a current yield of only about 2 per cent as they believe that interest rates cannot hold at the present record low level indefinitely, and that long before the maturity of such obligations there will be a strong firming up in money rates with a resultant sharp decline in market prices.

Several bankers spoke in complimentary terms of the prompt action on the part of the Federal Reserve authorities in supporting the Government bond market last September which they feel prevented a panic by stabilizing prices for all securities. The president of one of the large trust companies stated that, when he informed his directors of the strong support the Federal Reserve banks were giving the Government securities market, they decided not to follow the suggestion of their bond supervisory service that the bank dispose of its Government bonds, and instead adopted a resolution to the effect that no securities be sold for the time being without their approval. These directors believe that this action has been very beneficial to their institution inasmuch as the income level has been maintained, and the subsequent rise in market values has restored most of the appreciation in the bond list.

Officers of a number of the smaller banks are strongly opposed to the change (effective January 2, 1940) in the procedure of protesting checks of over \$10, and remarked that an increase in the minimum "no protest" limit to \$50 is an injustice to all small banks. The president of one institution (deposits \$600,000) maintains that no benefit is derived by increasing the protestable amount of a check inasmuch as there will be no material saving in work, and the new procedure will result in a considerable loss of revenue, the protest fees in his bank now amounting to about \$500 a year. This banker comments further that, as the change is being made in compliance with a request of the American Bankers Association, he will not renew his membership in that organization.

Several bank officers criticized what they consider undue severity on the part of the national bank examiners in classifying loans as doubtful which they feel deserve no lower rating than slow. One executive said he objects to having his bank serve as a "training field for young examiners inexperienced in farm problems" and indicated that serious thought is being given to the conversion of his institution to a State bank. Another criticized the policy of the Government in stimulating Federal Housing Administration mortgage loans in localities where there are hundreds of first class houses already vacant, predicting that "we shall all pay dearly for it some day".

Business in general throughout these counties continues to show improvement and bankers report that the pay roll accounts of most of their industrial customers have shown successive increases during the fall season.

Genesee, Monroe and Orleans Counties (Buffalo Branch Territory)

The six commercial banks in Rochester pay 1-1/2 per cent up to \$7,500 and 1 per cent on the excess amount. The four savings institutions and the industrial bank pay 2 per cent. In general, interest rates on large deposits, particularly of new money, are subject to special negotiation at lower rates. The president of one small country bank states that some thought was given last September to lowering the interest rate on time deposits to 1-1/2 per cent, but shortly thereafter it appeared to him that money rates would improve, so no action was taken. He now feels that there is little prospect of better money rates for some time to come, and is again giving serious consideration to lowering his interest rate. This same opinion in connection with money rates is shared by other bankers, several of whom say that in recent purchases, principally in connection with United States Government issues, somewhat longer maturities have been acquired.

No complaints or criticisms in connection with the Federal Reserve System were voiced by the officers of the member banks, and the

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subject of membership was brought up by only one of the nonmember institutions. The executive officer of this bank feels that the various rules and regulations which apply to State member banks are too rigid, and believes that his needs are being adequately served by his correspondent bank.

#### PHILADELPHIA

During December representatives of this bank visited 47 member and 18 nonmember banks in several counties in the northern part of Pennsylvania.

#### Lycoming County

Demand for credit continues to be light and only a few institutions have been active in the FHA program. One banker stated that he was opposed to the action taken by the FHA in reducing the rate on insured mortgage loans to 4-1/2 per cent. He believes this rate is too low for loans of such long maturity and for that reason has ceased participation in this program. This particular banker stated that he had increased the loan total at his bank by factoring accounts for several furniture factories in need of working capital, and to date had been quite successful.

An officer at one of the larger institutions paying 1-1/2 per cent interest, is desirous of reducing the rate to 1 per cent, but to date has been unsuccessful in having the competitor banks agree to cooperate in such action.

#### Bradford County

Only one banker reported a good credit demand. At all other institutions the demand is fair, although most of the requests are for small amounts. Liquidation is generally satisfactory. Most banks are maintaining the 6 per cent rate, but two bankers reported that, because of competition with larger banks in New York City, they have been forced to offer to potential borrowers rates lower than those offered by the larger banks.

The condition of their investment accounts continues to be the main problem for most bankers. General improvement is noticeable since last year, but depreciation still exists. Most bankers are desirous of acquiring more Government bonds but are so much concerned about the future that they are reluctant to pay the present prices.

The following rates are paid on savings accounts:

2 banks pay 2-1/2 per cent interest,  
9 banks pay 2 per cent interest,  
4 banks pay 1-1/2 per cent interest.

Wyoming County

All banks in the county pay 2 per cent on time deposits. One banker stated that he believed the Board of Governors of the Federal Reserve System should reduce the existing rates to 1 per cent, and added that his bank would probably reduce to that rate by July 1, 1940, regardless of the action taken by the other county institutions.

Lackawanna County

Credit demand is spotty. Some banks have been able materially to increase the total loaned but other institutions report no increase. One banker deplored the fact that he could no longer lend on the old basis of character, stating that in his locality the attitude of people toward debt had so changed that obligations were entirely ignored. He places responsibility for this upon the attitude of the national administration toward debt and relief, contending that the people construe it to mean that they are to get all they can for nothing, and that these folk would rather live off relief than work. He stated that the moral fibre of the people was stronger when they could not get paid for loafing.

Interest rates are paid on time and savings deposits as follows:

3 banks pay 2 per cent,  
21 banks pay 1-1/2 per cent,  
1 bank pays 1 per cent,  
11 banks which now pay 1-1/2 per cent  
announce a reduction to 1 per cent on January 1st and 8 other institutions are giving  
consideration to concurrent action.

CLEVELAND

During the month of December 133 banks were visited, of which 102 were member banks and 31 nonmember banks.

Bankers in a small but active manufacturing city in the central part of the State of Ohio are exercised over competition offered the three banks in the town by half a dozen or more finance companies, a few building and loan associations and an active production credit corporation. While competition with banks of other agencies is not uncommon in central Ohio the condition is emphasized in this particular community.

In other sections, particularly in the State of Kentucky, reports indicate that, as we have previously reported, increases in loan accounts seem to follow aggressive advertising campaigns and personal solicitation of loan accounts.

A small bank in the central part of the State of Ohio to which substantial money shipments were made for relief payments reports that most of the money goes to nearby towns which have no banks, and never seems to return.

Numerous banks report increased earnings, some of them reporting the best earnings in their history.

### RICHMOND

During the month of December 58 banks were visited, of which 45 were member banks and 13 were nonmembers.

### Maryland

Industrial activity in Baltimore is greatly improved over a year ago. Manufacturing pay rolls in the area are running about a third higher, and employment is up 16 per cent.

Successful experience has resulted in the extension of personal loans in many of the banks, and operations in the bond market have contributed to income, though some banks complain about the paucity of loans and meager earnings. Personal loans are made at rates ranging from 4 to 6 per cent.

Interest paid on time deposits is somewhat variable though in the main on a graduated scale. Some banks pay 1-1/2 to 2 per cent on amounts between \$200 and \$1,000, and 1 per cent on balances above \$1,000 less a free balance of \$200. Others pay 2 per cent up to \$500; 1 per cent from \$500 to \$1,000; and 1/2 per cent over \$1,500, with all payments in multiples of \$100 only. Still other banks pay a flat 1 per cent.

Reduction in interest paid to depositors around the middle of 1939 caused little comment among depositors and no loss of deposits. Opinion was expressed that the lower interest rates did not matter much to depositors as their principal concern was security of deposits.

### Western North Carolina

Loans and deposits in most of the banks are notably higher than last year, though loan expansion has not kept abreast of deposit growth. Loan and deposit expansion is attributed to the generally improved business situation locally, and particularly to a better resort season. Loan demand is not now considered brisk, though personal loans are always in better demand when industry is in full operation.

Most of the large manufacturing concerns borrow from banks in the financial centers at fractional rates of interest, which leaves the retail

stores and personal loans to the local banks. Lending rates range from 2 per cent for the large stores up to 6 per cent for other borrowers, with the average rate around 5 per cent.

Interest is paid on time deposits with a maturity over 90 days on a graduated scale as follows:

2 per cent	up to	\$ 2,500
1 per cent	from	2,500 to \$10,000
special rate	over	10,000.

### ATLANTA

During the month of December 36 banks were visited, of which 24 were member banks and 12 were nonmember banks.

Retail trade in the entire area visited was said to be splendid at this time, although many of the bank officers were wondering how their banks could make money next year with general conditions as they are, low interest rates and Government competition.

The bankers interviewed stated that they were satisfied with general conditions in their communities and that they were well pleased with the profits their banks had made for the year. Reduction in interest paid on savings accounts and a minimum of losses on loans contributed to a satisfactory volume of earnings, which permitted the payment of dividends at the usual rate and, in most cases, an extra dividend.

### CHICAGO

In December 6 banks were visited of which 4 were member banks and 2 were nonmember banks.

Indicative of the lack of loan demand, bank statements continue to show about 50 per cent of assets in cash. While there is some demand for loans, liquidation of old ones more than offsets the new applications, particularly in the agricultural sections. In some cases new corn loans help to keep up the total volume of loans, but the proceeds are applied to the reduction of existing loans carrying a better rate. In other cases the liquidation is caused by seasonal movement of livestock, and due to the high prices of feeder-cattle, many of these loans are not replaced. Apparently if this trend continues, it will be necessary for banks to rely on service charges to provide a still larger part of their income. Notwithstanding the foregoing, in this district bank earnings generally were better in 1939 than in 1938. Numerous banks which have not paid a dividend since the moratorium have declared one for the last six months



of 1939. Banks are strongly competing for real estate mortgages and finance paper, and in some localities a much more aggressive attitude is being displayed in meeting Government lending competition.

The only criticism that has been heard comes from some banks in Chicago and Detroit, who are concerned over the fact that on February 1, 1940, under the Clayton Act they will lose the services of certain directors who are representative, outstanding men but who are now serving on more than one bank board. Bankers have been practically unanimous in their approval of the recent action which increased the minimum amount of items subject to protest.

During the month, two national banks took over two nonmember trust companies and three State banks were admitted to membership. Four applications for membership were pending at the end of the year. During 1939, nine banks in the Seventh District were given national charters.

#### ST. LOUIS

During the month of December 280 banks were visited, of which 130 were member banks and 150 nonmember banks.

Banking conditions vary somewhat, but are on the whole favorable, and generally show improvement over a year ago. A number of the institutions visited have made satisfactory progress in the direction of eliminating or cutting down criticized and dubious assets. Owing to the fact that the area is typically agricultural and the banks rely largely on farm borrowing for granting credit, there was found much and, in some instances, very pungent criticism of invasion of their field by Government lending agencies. Strictures also extended to rigidity of examinations, bank supervision, regulations, reports, increasing taxes and expenses.

Expressions relative to the outlook for banking in 1940 were in the main optimistic, and based on the belief that the present upturn in general business is not merely a spurt, but will endure for twelve to eighteen months. Earnings in many instances were reported good, and while not sufficient in some cases to pay regular cash dividends to stockholders, part of the revenues have been used to fortify surplus.

Interest rates charged on customer loans were reported from a minimum of 4-1/2 per cent to a maximum of 8 per cent. On time deposits from 1-1/2 per cent to the legal maximum is being paid. The banks are trying to reduce interest paid on deposits, but meet strong customer resistance.

The cashier of an Indiana nonmember, which is not on the par list, stated that he was very much ashamed that his bank charged exchange, the reason being that he had one director who blocked going on the par list at this time because of about \$1.00 per day income which is received. He believes he might be able to get the bank on the par list during the coming year as he is a warm friend of the System and expressed a wish for membership as soon as he can convince his board to stop charging exchange and he can get the bank in a little better condition.

The matter of leaving the par list was thoroughly discussed with the cashier of a Missouri nonmember. He explained that it simply became necessary to derive income from one source or another and it was finally decided to charge exchange on checks. The chief reason for this decision was decrease in loan income and increase in general expenses. The bank will pay \$400 more in local taxes this year than it did in 1938.

The vice presidents of a Missouri and an Illinois State member bank think that possibly something should be done to take care of small capital loans. The Missouri officer was not in favor of the Mead Bill but thought that banks not being allowed to underwrite small issues probably interfered with some business expansion. The Illinois officer believed there was a place for new capital loans in amounts of \$25,000 and up.

The president of a large Missouri national bank expressed himself as being very much opposed to the Mead Bill or any bill purporting to aid small business. It is his feeling that business, large or small, can get any money to which it is legitimately entitled. He stated that all Clearing House members were making reports on loans declined and the reasons. Our visiting officer understood from him that this factual information is being gathered in all large cities and would be important for use in opposing suggested legislation.

Officers of a Kentucky nonmember have found it very profitable to handle finance paper, consisting in the main of notes secured by chattel mortgages on autos, refrigerators, etc., at the prevailing discount rate of 8%. They are having difficulty in securing enough funds to invest in these types of financing. Nevertheless, the bank pays  $2\frac{1}{2}\%$  on savings and time deposits. The officers stated they had been subjected to some criticism on this score.

The president of a Kentucky State member regretted the attitude of many leaders in finance and industry toward the social and economic measures sponsored by the present administration, pointing out that a certain lack of cooperation on their part perhaps in turn had brought less consideration for business than might have been shown otherwise.

The president of a Kentucky national bank deplored the effects of "wage and hour" and labor laws on business, expressing the belief that they had contributed to uncertainty, with consequent slowing up of expansion and development of industry.

MINNEAPOLIS

During December 32 banks were visited, of which 24 were member banks and 8 were nonmember banks.

KANSAS CITY

During December 34 banks were visited, of which 16 were member banks and 18 were nonmember banks.

In the light of the developments of the last twelve months comment is quite often heard about a scheme to increase hog production in Nebraska that was urged by certain hog enthusiasts a year ago. In the belief that conditions in that State could never be normal until hog numbers were restored, it was urged upon bankers that they form a pool from which losses on full purchase price loans to farmers to buy breeding stock should be met.

A number of bankers in Kansas and Colorado have taken an active part in a new controversy that has developed regarding the so-called "Dust Bowl". Two well-known scientists of the middle west, commenting on the continuing serious shortage of moisture in that part of the District, recently made the statement that even with good rains year after year it would take 50 years to restore the Dust Bowl by normal means. It was said that the condition had become so bad that even the jack rabbits had quit the country and that, left to itself, the region was doomed to cacti and the Russian thistle. A Colorado banker replied as follows: "As to the Russian thistles, they have come within the last 30 to 40 years, they are the savior of the plains country as they are great drought resisters and if the Government and state experts will stay out of the country and let them alone, in time they will rebuild the country better than it ever was as they catch the snow and check the water runoff when it rains and gradually some kind of grass will set in and the thistles will disappear." Whatever may be the truth of the matter, the Dust Bowl is again a subject of lively controversy and it is freely predicted that the worst dust storms on record will be seen this year.

Bankers in western Nebraska complain rather vigorously over the early closing of the subscription period of the recent offering of Government securities. It was said that the notice of the subscription did not reach them until the books were closed and many cases were reported of customers who wanted to subscribe for registered bonds.

A good many banks are found that are paying 2 per cent on time and savings deposits. Apparently there are old people who rely on some income from their savings deposits and many bankers feel an obligation to promote thrift among the children of their communities. Some banks while

paying interest on the accounts on their books will accept no new ones. A few cases were found where banks make loans on assigned allotment checks. One bank was visited that is making large numbers of FHA loans and selling many of them to insurance companies. This bank finds the 3/4 per cent servicing fee attractive. The officers of a number of State member banks in Nebraska were complimentary regarding the examinations of this bank.

### DALLAS

During December 29 banks were visited, of which 19 were member banks and 10 were nonmembers.

#### East Texas

Ten member banks and ten nonmember institutions located in ten counties of Central East Texas were visited in December. Business conditions were found to be generally good. This year's cotton crop, while small compared to pre-restriction outputs, was somewhat above last year's crop in most areas.

Livestock raising has supplanted cotton as a primary source of agricultural income over much of the territory visited. Cattle are in good condition at this time with the present prices at a particularly remunerative level. Not only has the number of animals been greatly increased, but there has been a definite trend toward an improvement in quality which redounds to the benefit of the producer.

The recent sharp upturn in the cotton market has proved of little rural benefit in connection with 1939 production, which had already passed into trade channels. Producers are, however, now disposing of equities in their 1938 cotton against which they borrowed from the Commodity Credit Corporation. Depending upon the grade and location of the cotton, the sum realized is ranging up to \$10 per bale.

Inquiry at the larger banks visited revealed no instances of local industries in need of working capital credit.

### SAN FRANCISCO

During the month of December 117 banks were visited, of which 84 were member banks and 33 were nonmembers.

#### Sacramento Valley (West Side), California

Throughout all this area, there was considerable concern in

regard to the dock tieup in San Francisco. In several towns it was reported that last year's crops, such as rice and prunes, were still carried by producers, who attribute to the dock tieup their inability to dispose of their crops at proper prices. It was stated that there were buyers, but that delivery to water through other ports decreased the net price to the producer below a profitable point. Some farmers have, therefore, been unable to pay taxes. In other instances, such as rice around the Willows district, loans were still carried by the banks against warehouse receipts.

The prevailing rate paid on savings accounts is 2%. Banks are obtaining 6% on most of their loans and sometimes 7%.

Banks at Vallejo are called upon to perform a rather costly public service in the cashing of United States Government checks for employees of the Navy Yard. Not only do the banks require additional employees in order to extend this service and keep open one night a week in the evening so that holders will have access to the bank after working hours, but they must assume all the risks attendant upon the cashing of Government checks, for which they receive no direct compensation.

#### Los Angeles City, California

While the increases in employment have been quite general, some industries have curtailed operations due to the lessening in foreign demand resulting from the war. A notable example of this is the motion picture industry, where approximately 40% of the previous normal income from pictures was eliminated. In addition, as a consequence of labor trouble, activity in the motion picture industry was slowed down considerably, although this difficulty has now been eliminated by the granting of a general pay increase to all employees.

#### Los Angeles County, California

During November, petroleum inventories were further reduced, which marked the seventh consecutive month in which inventories of Pacific Coast companies declined. This condition is a result of voluntary curtailment on the part of producing companies, together with relatively heavy shipments of oil products to the Orient and a heavy consumption of gasoline in this area. Although exports to Japan during the first nine months of this year were 23% less than the corresponding period in 1938, recent shipments are reported to have been very heavy, so that the year's totals are expected to approach the 1938 figures, a year of heavy shipments. Prices have been stable with most operators reporting satisfactory earnings.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

December - 1939

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	17	-	17	1	<u>1</u> /	-	-
New York	150	62	212	5	2,700	-	-
Philadelphia	47	18	65	2	1,000	3	605
Cleveland	102	31	133	3	1,076	3	205
Richmond	45	13	58	5	2,547	-	-
Atlanta	24	12	36	2	235	-	-
Chicago	4	2	6	4	2,631	1	60
St. Louis	130	150	280	3	120	3	120
Minneapolis	24	8	32	6	730	4	353
Kansas City	16	18	34	4	190	2	88
Dallas	19	10	29	-	-	-	-
San Francisco	84	33	117	15	4,043	4	157

1/ Not reported.