

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-614

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



February 16, 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 January 1940 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-614-a
 February 16, 1940.
 Not for publication.

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE
MONTH OF JANUARY, 1940.

BOSTON

Twenty-eight member banks were visited during the month of January, all located in small communities within a radius of fifty miles of Boston.

With the exception of the substantial pay rolls of the Government at the naval stations at Portsmouth, New Hampshire, and Newport, Rhode Island, there are no large pay rolls in the sections visited. The few textile mills, furniture and shoe factories scattered throughout the sections were said to be in good seasonal operation with employment and pay rolls substantially above a year ago.

There was no general complaint on the part of the banks visited. On the whole the banks reported a somewhat stronger earning position and a fair local demand for small loans.

NEW YORK

During the month of January, 70 member banks and 57 nonmember banks were visited, making a total of 127 visits by representatives of the Federal Reserve Bank of New York.

Fairfield County, Connecticut

The commercial bankers in the county have placed little or no limitations on the amounts of deposits which they will accept. However, most of the savings institutions have been restricting the amount of deposits from any one customer and refusing to take new deposits of sizable amounts, and the industrial bankers have been trying to effect a retirement of their full-paid certificates of indebtedness.

The various institutions pay interest on savings accounts and full-paid and unhypothecated installment savings certificates at the following rates:

<u>No. of Banks</u>	<u>Rates</u>
18 (inc. 14 savings banks)	2-1/2 per cent on entire balance
11	2 per cent on entire balance

<u>No. of Banks</u>	<u>Rates</u>
6	1-1/2 per cent on entire balance
3	1-1/2 per cent on the first \$10,000 and 1 per cent on any excess
1	1-1/2 per cent on the first \$5,000, 1 per cent on next \$10,000, and no interest on any excess above \$15,000
1	1-1/2 per cent on the first \$3,000, and 1 per cent on any excess
1	1 per cent on the first \$5,000, and no interest on any excess
1 (industrial bank)	4 per cent on savings certificates
2 (industrial banks)	3 per cent on savings certificates
1 (industrial bank)	2-1/2 per cent on savings certificates
1 (industrial bank - restricted)	Does not pay any interest on certifi- cates
<u>1</u> (private bank)	Does not accept savings deposits
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Many of the commercial and savings bankers appear to be hesitant about making investments at current market prices, and the year-end bank statements of most of these institutions reflect a highly liquid condition. The security holdings of the commercial banks total \$50,300,000 and include \$36,300,000 United States Government obligations direct and fully guaranteed, or about 72 per cent. The officers of two of the larger commercial banks continue the policy of having only United States Government issues in their portfolios, while another has made practically no investments in the bond market for the past three years, preferring to hold idle cash. A number of commercial bankers have improved the quality of their bond accounts, placing particular emphasis on staggering maturities throughout the next ten years. During the past year the savings banks have decreased their holdings of United States Governments \$2,200,000 to the present total of \$31,900,000, while the aggregate of other securities has declined from \$48,800,000 to \$44,500,000, most of the decrease in the latter being due to the sale of railroad bonds. The securities held by the industrial banks total only \$27,000, consisting chiefly of corporate issues.

Loans and discounts of the commercial banks and the private bank aggregate about \$59,300,000 as compared with \$55,500,000 on January 1, 1939, the increase consisting chiefly of installment or mortgage loans. During the past year many of the banks have aggressively sought small loans, financing the time payments of purchases of automobiles, refrigerators, and other home equipment, etc. One banker who has had a substantial expansion in loans of this type says he has recently instituted a new scheme which

is called a "bank credit card". He states that this card is issued to all installment loan borrowers who have never been delinquent in their loan payments, entitling them to a preferred loan rate, and no credit statement is required if the date of the card is less than a year old. More than half of the borrowers have come in to obtain their credit cards within ten days after receiving their notices and the reaction so far has been very favorable to the bank. The president of one of the largest banks in the county, who has contended for some time that the loan situation is the most serious problem of commercial banks, is now making an effort to develop the personal loan department, although heretofore he had been opposed to loans of this type.

During the past year there has been a considerable decrease in the construction of new homes in the county. Effective February 1, 1940 the Greenwich union carpenters will receive \$9.00 a day instead of \$11.00, a reduction being taken by the carpenters on their own initiative, in an effort to stimulate the building industry, the most important source of work in Greenwich.

Monmouth County, New Jersey

Bond portfolios continue to show a predominance of United States Government obligations, both direct and fully guaranteed. As a result of the market recovery in United States Government issues since the severe decline last September, the majority of banks now have an appreciation in their investment accounts. Some bankers show nervousness about the present high prices of Government and other high-grade bonds as they believe prices may drop because of conditions in Europe and the possibility of more nations becoming involved in the war. However, they are of the opinion that any reaction in prices will not be as drastic as occurred following the outbreak of hostilities last September. Some of the bond advisory services are suggesting to their clients that they defer making any investment purchases for the present; and a number of bankers comment that their institutions can afford to maintain a comparatively high cash position in view of the fact that the rate of interest paid on savings deposits is only 1 per cent.

There is very little demand for credit at this season of the year inasmuch as the chief activities in the county consist of agriculture, largely potato growing, and summer resort business from which source applications for loans normally increase during March and April. The cashier of one bank in the agricultural section says that the Federal Land Bank of Springfield, Massachusetts, granted a number of farm mortgages in his territory and that the Commodity Credit Corporation with office in New Brunswick, New Jersey, was active last season in granting produce and crop loans. This officer complains that these two Government agencies have taken a number of good loans (including mortgages) which his bank would have been glad to obtain.

It appears that a majority of the banks have previously absorbed protest fees and many officers express regret over the loss of a substantial amount of this income as a result of increasing the no-protest limit on checks from \$10 to \$50 effective January 2, 1940. A few bankers, however, say that under the previous procedure the number of protestable items was relatively small due to the fact that most of the bothersome accounts formerly handled were withdrawn when service charges were instituted a few years ago. Many bankers remark that although there is some liability involved in retaining the protest fees, and that these should more properly be paid to the individual notary, nevertheless they believe that their institutions are entitled to the income inasmuch as the notary's commission fee is paid by the bank, the protesting is done by the notary employee on the bank's time, and the bank's stationery is used in connection with all notarial work. The opinion was expressed by several bankers that there is little advantage in increasing the no-protest limit and they believe there will be a tendency to draw checks of larger amounts against insufficient funds, thereby causing difficulty for merchants and others in cashing these checks.

Summary of Preferred Capital Issues

In the two counties covered by this report, there are fifty-five commercial banks, thirty-two of which have issued preferred stock aggregating \$5,662,500 par value. Up to the present time twenty-two banks have made partial redemptions amounting to \$542,300 and ten have not retired any, leaving a total still outstanding of \$5,120,200 par value, retirable at \$6,179,700 reflecting a redemption premium of \$1,059,500.

Meetings Attended

The twelfth annual mid-winter meeting of the New York State Bankers Association was held in the auditorium of the Federal Reserve Bank of New York on Monday, January 15, 1940. Resolutions were adopted by the session calling for removal of uncertainties, fears, and restrictions which discourage business and retard recovery, and for modification of Government policies that would continue the unbalanced Federal budget, deficit financing and the easy money position. A resolution also was passed asking the President and Congress to extend the Clayton Act so as to permit interlocking bank directorates to be continued indefinitely, in cases where a director or officer has served more than one bank continuously since August 23, 1935. Mention was made that a number of banks were finding it difficult to obtain new directors of proper experience and capacity to fill the places of those who will be forced to retire on February 1, 1940.

The annual mid-winter banquet of the Connecticut Bankers Association was held January 25. The principal speaker was Mr. W. Randolph Burgess, Vice Chairman of the National City Bank of New York and former Vice President of the Federal Reserve Bank of New York, who addressed the Association on the subject, "What About Money Management?" Mr. Burgess advocated that a return to a full gold standard would be a means of restoring confidence in our money and of making changes in its gold value still more difficult in the future. He indicated that a return to a fixed parity would make overexpansion, the use of inflationary devices or long continuance of unbalanced budgets less easy, and would put the United States in a much stronger position to advocate and assist in achieving that currency stability which is essential to trade.

Voicing the opinion that Government management of money is here to stay, Mr. Burgess suggested three avenues of approach in remedying the situation; namely, limiting and simplifying monetary management through reducing the powers of the Treasury over gold and credit, and increasing those of the Board of Governors of the Federal Reserve System, improving the management of money by overhauling the present provisions of the Federal Reserve Act bearing on the organization and personnel of top control of the System and, finally, supporting that management. In outlining the responsibility of bankers in supporting those charged with the responsibilities of money management, he said that the only way the law and organization of money management can be changed is with the support of public opinion.

PHILADELPHIA

During January representatives of the Philadelphia Bank made visits to 58 member banks and 13 nonmember banks.

Atlantic County, New Jersey

Combined resources of all banks in this county are \$463,000 greater than in March, 1939, which represents a seasonal fluctuation. The number of banking institutions has been reduced by one through the closing of a nonmember trust company having deposits of about \$1,200,000. About \$500,000 were of demand classification and to a large extent moved to the national bank in the same city. Most of the time and savings deposits, however, went into Postal Savings deposits because of the higher interest rate. The Trustees of the Postal Savings System have since reduced the rate to that paid by the banks; viz. 1 per cent.

Cape May County, New Jersey

The majority of banks in this county report a small appreciation existing in their investment accounts, with new purchases being confined chiefly to Government issues.

Credit demand is for the most part confined principally to small personal loans. The volume is not great but most bankers report some improvement in general demand. It is also evident that more banks are financing automobile loans, and experience with this type of credit accommodation generally has been good. The facilities of the FHA program have not been used to any great extent by the bankers of this county, although there has been some financing under Title I. FHA mortgages are being purchased by several bankers who stated that they preferred to let some one else have the trouble of creating such mortgages. The 6 per cent loaning rate prevails and liquidation, for the most part, is considered satisfactory.

Earnings at most banks were reported to have shown considerable improvement over the past few years. This is mainly because of the effect of a mandatory reduction in the interest rate on savings accounts to 1 per cent. Combined resources are about \$2,301,000 greater than at the time of the last visit in March, 1939.

Cumberland County, New Jersey

Credit demand in this county ranges from fair to good but has been insufficient to absorb additional funds placed on deposit. The amounts requested have for the most part been small. The 6 per cent rate prevails at all banks. Every banker expressed satisfaction with the loan liquidation. One national banker in commenting upon the examiners' insistence that financial statements be obtained said that, while his institution would like to make character loans, fear of criticism had caused the board of directors to adopt a rather rigid loaning policy. He also complained about having been required to charge off \$3,000 of a \$3,900 note on which periodic reductions were being made.

Salem County, New Jersey

Investment accounts continue to be the chief problem of all banks in the county. Depreciation exists in all portfolios, but there has been some general improvement since early last year. However, most bankers are decrying the poor investment opportunities and for that reason have large balances uninvested.

All banks pay 1 per cent on time and savings deposits in conformity with a ruling issued by the Commissioner of Banking and Insurance of New Jersey. Combined total resources of all banks have advanced nearly \$900,000 since March, 1939.

Gloucester County, New Jersey

One banker said that his board of directors had been forced to adopt a rigid credit policy because the residents of that community had

come to treat their obligations so lightly that many could no longer be accommodated safely. Numerous banks are granting personal, automobile, and FHA loans but FHA mortgage credit is restricted largely to the purchase of mortgages granted elsewhere. However, one institution has created about \$500,000 of mortgages of this type and still retains about half that amount, the others having been sold.

CLEVELAND

During January, 124 banks were visited, of which 91 were member banks and 33 were nonmember banks.

During the month two State banks having resources totaling \$1,614,000 were admitted to membership, and since the first of the month additional applications have been received.

One of the officers is impressed by the fact that a great many banks, particularly in rural communities, which he has visited during the past month, are "getting back into the banking business and are making money."

The experience of some of the banks in the personal or installment loan field has encouraged them to expand this feature, and is extending the interest in this type of loan to other institutions. So far the experience of banks is uniformly satisfactory.

RICHMOND

During January 20 banks were visited, including 18 members and 2 nonmember banks.

Baltimore, Maryland

The industrial pace in Baltimore slackened moderately in January, and current indications seem to point toward some further slowing in operations during February. Most observers, however, view these recessions as temporary periods of consolidation and express the opinion that 1940 will prove to be a good year for business in Baltimore.

Bank officers have not relaxed their efforts to secure good loans, either large or small, and competition for desirable loans is unusually keen. Some refinancing of real estate mortgages at lower rates of interest has been accomplished, but no enthusiasm is found for the "small business" long-term capital loans, as these are termed hazardous.

Interest paid on time deposits ranges from 1/2 to 1 per cent, with some banks paying nothing on balances below \$500.

West Virginia

Bank deposits of five banks in the area at the end of December were 4 per cent higher than on October 2, while loans were about 1 per cent lower. Security holdings were 1-1/2 per cent below October 2, but cash had risen 11 per cent.

A rate of 2-1/2 per cent is still paid on time deposits, though this rate is only maintained by lack of cooperation among banks. It is felt that a lower rate should be set but fear of a loss of deposits prevents any independent action. Loan rates are maintained, however, at 6 per cent, and it is believed some local loans have gone to outside lenders as a consequence.

It was gratifying to hear that the organizers of a new bank in Fairmont had never considered any other status than that of a member of the Federal Reserve System.

ATLANTA

Sixteen banks were visited during the month of January, of which 14 were member banks and 2 nonmember banks.

Florida

Growers have suffered considerable loss on account of freezing weather in January. The loss in connection with truck crops appears to have been especially severe; and, although the damage to citrus groves is not yet entirely determined, later information from the area indicates that the injury has not been as severe as was first thought. The tourist business throughout this section of the State is exceptionally good, and bank deposits have begun to increase seasonally.

Our representative visited one nonmember bank that is actively interested in obtaining membership in the System. During a visit to a State bank member in Florida our representative learned that the bank was well pleased with its membership, and that the president of the bank had advised one or more nonmember banks in the immediate vicinity to avail themselves of the benefits of membership.

Louisiana Bankers Conference

The representative of the Atlanta Bank reported that Governor McKee and Mr. Stroud made excellent talks, and that favorable comment was

heard from many delegates regarding the Federal Reserve's participation in these conferences.

CHICAGO

In January 8 banks were visited, of which 7 were member banks and 1 was a nonmember bank.

In the final week of January, operations of Chicago district steel mills fell off about 5 points to 85-1/2 per cent of capacity. Incoming orders continued to run sharply lower than outgoing shipments; backlogs, however, still are heavy and the current rate of Chicago district operations is noticeably higher than that for the country as a whole. Although better buying seems to be expected this month, some further decline in the district operating rate is likely. Steel prices are generally firm with the exception of a \$2 concession per ton in the Detroit area on hot rolled sheets by hand mill operators. Automobile assemblies have been declining slowly since mid-January, but production for the month as a whole is estimated to be the heaviest for any January on record. Comparisons with the level of a year ago remain highly favorable. Although February output without doubt will be at a lower level than that of January, an upturn is expected by the end of the month.

ST. LOUIS

During January 105 banks were visited, of which 31 were member banks and 74 nonmember banks.

Agricultural Conditions

Visits of the field representative in January were for the most part in Mississippi, and more specifically the Mississippi Delta region wherein is grown long staple cotton of exceptionally high quality. For the third consecutive year a large section of this area produced excellent crops, with the result that economic conditions in the towns and rural communities are relatively favorable. While most of the cotton was sold prior to the recent advance in prices, planters are not greatly concerned for the reason that the high grade long staple cotton commanded throughout the season better prices than obtained in 1938.

Industry and Trade

Generally trade and industry in the area during the fall and in January were considerably more prosperous than during the corresponding period a year earlier, reflecting successful agricultural operations and

improvement in the employment situation. In the larger towns and the country, merchants report an active business, with holiday trade the best in a number of seasons.

Banking Conditions

Banking conditions as a whole are more favorable than a year ago. Quite a number of institutions paid substantial dividends to their stockholders last year. Prevailing interest rates charged on loans range from 4-1/2 to 8 per cent. Interest rates paid on time deposits are from 2 per cent to the legal limit. There is a trend in the direction of eliminating interest on deposits.

MINNEAPOLIS

During January 15 banks were visited, of which 8 were member banks and 7 were nonmember banks.

Four radio broadcasts were given over Station WCCO during January. The first was called "Business as Usual" and was a dramatic comparison of banking and monetary events at the opening of the World War in 1914 and last September. At the close of the broadcast listeners were offered copies of the script, and 78 requests were received. The second broadcast, "The Farmer and His Bank", showed how the banking system serves agriculture and how the Federal Reserve banking structure stands behind the country bank. This script was not offered to the public. The third broadcast called "Write Your Own Money" was a dramatic presentation of the process of check collection before and after the inauguration of the Federal Reserve check collection system. Seventy-five requests for that script were received. The fourth broadcast, "How's Business", was a dramatic presentation of the assembly and use of the Monthly Review of a Federal Reserve Bank. Requests are still coming in for the January issue of the Review, which was offered at the close of this broadcast, and approximately 100 requests have been received to date.

The research department received and answered 60 special requests for information from sources outside of the bank during the month, and our reference library lent 29 books and periodicals to bankers and others outside of the Federal Reserve bank.

During the month, we have had one of our transit men spend some time in several country member banks that were not using our check collection facilities to fully acquaint them with the new availability schedule and the use of the Federal Reserve System's direct-sending privileges. We follow this practice whenever a State bank is admitted

into the System, not only for the purpose of acquainting the new member with our check collection facilities, but also with other Federal Reserve services.

KANSAS CITY

During January 33 visits were made to banks in Nebraska and 15 to Oklahoma banks. Of the total of 50 banks visited, 17 were member banks and 33 were nonmember banks. In every part of the District sentiment has been improved greatly by recent snows. In south central Nebraska the ground was covered with nearly twenty inches of snow and people were much encouraged. It was said that this was the largest amount of snow since 1924. It is a rule of thumb among the old timers in that region that lots of snow in January means good crops as usually considerable spring moisture can be counted on. In other parts of the State where there was little snow, bankers say that farmers lack enthusiasm for the next year and seem to be entering it with a spirit of resignation.

Much additional evidence was found of farmers adjusting themselves to drought conditions. Farmers are raising turkeys, barley, and sorghum crops and less corn. In south central Oklahoma, communities that formerly depended largely on cotton are now more and more giving attention to alfalfa, pecans, small grains, and dairying.

Country bankers are finding the Wages and Hours law a never-ending problem. In many places banks open at 9:30 and close at 3:00, with a 12 o'clock closing on Thursday. The early closing is said to cause some embarrassment to local merchants as it necessitates their carrying over the night much larger amounts of cash than is considered prudent. Bitter complaint is found among small banks regarding the Act. There is a tendency to look upon banking as a profession, not as a business. These banks are firmly of the belief that their problem under this law is greatly different from that of the city bank, for they comment on the fact that representatives of large eastern banks, who call on them, say that the large institutions had gone to a 40-hour week some years ago and apparently are having no difficulty.

The last legislature in Oklahoma attempted to put teeth in the law as regards the enforcement of a two mill tax on intangibles, including bank deposits. The result is that banks report a great loss of deposits over the year-end as the assessments were made as of the first of January. One State bank reported a loss in deposits of over \$300,000 just before the first of January and a city bank is said to have lost over \$4,000,000. Some of these deposits were reported to have been transferred to Texas banks.

In view of the national interest in the reciprocal trade agreements some interesting reactions of cattlemen to these agreements were found. Cattlemen take the position that the relatively satisfactory cattle prices in the face of increased imports from Canada and elsewhere are highly misleading when considering the effects of these agreements on the future of the industry. They point out that with the drought beginning in 1934 many herds were broken up, the Government alone purchasing 8,000,000 head of cattle that year. The result was a greatly reduced cattle population. The dry years since then have not been conducive to the rapid building up of these herds and relatively short supplies have been a sustaining market influence. Under such conditions cattlemen point out that larger imports could be absorbed without a great deal of damage to prices. They believe it highly probable, however, that with changes to types of farming that give emphasis to livestock, and with probable improvement in future moisture conditions, former cattle numbers will be restored. Increased domestic supplies will then depress prices and greatly enlarged imports under such conditions would be a very serious thing indeed.

DALLAS

During January 18 member banks and 4 nonmember banks were visited, making a total of 22.

Again the representatives were told that the Government's farm program is driving tenant farmers away from the farms and to the urban centers in search of other employment or relief. Landlords in this section, as in other parts of west Texas, are finding it to their financial advantage to take over the operation of their farms from tenants and with the aid of tractors and a hired hand or two are working the farms themselves.

A more simplified system of handling Government subsidy payments has been placed in effect at banks which make advances secured by assignments of such payments. Subsidy checks are being made payable directly to the banks as assignees.

In connection with the current campaign for the purpose of increasing State bank membership the Dallas Bank has been suggesting to each interviewed nonmember that it write to the nearest State member bank for a statement as to the latter's experience as a member of the System and its opinion as to the advantages of membership. This has proved to be a most effective method of interesting an indifferent "prospect".

The President of a very prominent State member bank in the western part of the district, which has deposits of \$9,000,000, wrote a letter

to the chief executive officer of an equally prominent nonmember institution, which reads in part as follows:

"Our experience with the Federal Reserve has been eminently satisfactory. Their examinations have been most helpful, their attitude most cooperative and courteous, and the general information which we obtain from them is reliable, accessible and promptly supplied.

"But I want to tell you the one specific reason why I cannot understand why any one would stay out of the System. Very briefly, it is this: In time of need this is a responsible, cooperative, semi-public body, charged with and conscious of a duty to be helpful in time of such need. I have learned that you cannot always depend upon your so-called "big friends" among your correspondent banks. Where one is willing to help, five are only willing to receive.

"The Federal Reserve System to me is a benefit that is parallel to the FDIC. I never want to be without either of them. I don't care how liquid our bank is, or how big we may become; I want to be a part of the banking system of the country, and not an outsider."

SAN FRANCISCO

In January 15 banks were visited, of which 11 were member and 4 were nonmember banks.

San Diego (city)

According to reports, the local merchants experienced a very good Christmas holiday trade, the estimated sales figures showing a good improvement over similar figures for the same period in 1938.

Bank deposits showed an increase over the previous year, and although it was indicated that there was a fair activity in loans, the value of all types of building permits during December declined 48.9% from the December figure in 1938. The twelve months' total of all permits issued in 1939 represented a 25% decline from the figure for 1938.

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PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

January - 1940

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	28	-	28	1	<u>1/</u>	5	1,520
New York	70	57	127	10	3,074	2	60
Philadelphia	58	13	71	3	1,011	4	936
Cleveland	91	33	124	4	1,218	6	390
Richmond	18	2	20	7	2,040	-	-
Atlanta	14	2	16	2	375	1	200
Chicago	7	1	8	5	2,072	1	90
St. Louis	31	74	105	5	1,580	3	265
Minneapolis	8	7	15	9	3,370	3	277
Kansas City	17	33	50	3	325	2	75
Dallas	18	4	22	1	190	1	190
San Francisco	11	4	15	18	1,086	1	70

1/ Not reported.