R-587

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release January 3, 1940

The Board of Governors of the Federal Reserve System has amended section 3 of its Regulation L, relating to interlocking bank directorates under the Clayton Act, effective immediately, so as to permit any director, officer, or employee of a bank which does not exercise trust powers to serve a trust company which does not accept deposits.

The amendment consists in striking out paragraph (c) of section 3 of Regulation L and substituting the following:

> (c) Any director, officer, or employee of a member bank of the Federal Reserve System which does not 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 exercise trust powers.

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*For the purpose of this paragraph, the term "deposits" shall not include funds received and held in a fiduciary capacity.

R-588

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release January 4, 1940

Preliminary figures received from the Federal Reserve banks indicate that their current earnings during 1939 amounted to $38,500,000, or $2,240,000 more than in 1938. Current expenses totaled $28,650,000, which was $265,000 less than in the previous year. Current net earnings for 1939 were $9,855,000, as compared with $7,350,000 in 1938.

Net additions to current net earnings amounted to $2,390,000 and consisted principally of profits from sales of United States Government securities less charge-offs on bank premises and reserves for losses on industrial advances. Net earnings for the year were $12,245,000, an increase of $2,660,000 over net earnings for 1938.

The net earnings for 1939 were distributed as follows: Dividends to member banks, $8,110,000; payments to the U. S. Treasury under provisions of Section 13b of the Federal Reserve Act relating to industrial advances, $25,000; net additions to surplus accounts, $4,110,000.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-589

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 6, 1940

Dear Sir:

For your information there is enclosed a copy of a letter which is being sent today to one of the Federal Reserve banks regarding the allocation of the time of messengers to certain units in the functional expense report, Form E.

Very truly yours,

E. L. Smead

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

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT CHICAGO

C O P Y

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

January 6, 1940

Mr. ________________, Vice President,
Federal Reserve Bank of ________,
__________, __________.

Dear Mr. __________:

Reference is made to your letter of January 2, 1940, regarding the allocation of the time of messengers to certain units in the functional expense report, Form E.

It is understood that the messengers referred to are assigned to the mail department; that they are used by several units of the Bank, including the city collections unit; that the time of the messengers is not fully occupied; and that since July 1935 you have allocated to the units making use of messenger service the same percentage of unused time as they were charged of used time.

The manual of instructions governing the preparation of functional expense reports indicates that "messenger service" is one of the operations of the mail and express unit, the city collections unit, the city checks (other than clearings) unit, etc. In no case, however, does the manual provide that unoccupied time of messengers should be absorbed in any particular unit, such as the mail and express unit mentioned in your letter.

In the circumstances, it appears that it would be preferable for you to continue to follow your present procedure in allocating the cost of messenger service.

Very truly yours,

(Signed) E. L. Smead

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-590

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 8, 1940

Dear Sir:

There are being forwarded to you today under separate cover the number indicated of Forms F. R. 95, 96 and 96a, samples of which are attached, for use by your bank during the current year:

| Number of copies | | Form |
|---|---|---|
| | F. R. 95 | Current Earnings of Federal Reserve Bank |
| | F. R. 96 | Current Expenses of Federal Reserve Bank |
| | F. R. 96a | Reimbursable Expenses of Federal Reserve Bank |

Very truly yours,

E. L. Smead

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
WASHINGTON

R-591

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 9, 1940

Dear Sir:

There are enclosed copies of the following pages, as revised, of the Board's Manual of Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements by the Federal Reserve Banks:

| | |
|---|---|
| Contents | |
| Page 1 | Page 20 |
| 3-6 | 26-31 |
| 8-10 | 33-48 |
| 16-17 | |

Additional copies of these pages will be forwarded to you under separate cover.

On April 14, 1939, copies of tentatively revised pages of the Manual were sent to all Reserve banks with the request that they have the revisions reviewed and furnish the Board with any changes they wished to suggest therein. All changes suggested by the Reserve banks have been given careful consideration, and in large part they have been incorporated in the final instructions.

The only major change in the instructions relates to the accrual at least as of each Wednesday and the last day of each month of salaries and Retirement System contributions for current service, or of total estimated current expenses. Further consideration is being given to the instructions relating to reserves for losses on industrial advances and commitments. If it is found desirable to make any changes in such instructions you will be advised thereof promptly.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-592

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 9, 1940

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 December 1 to December 21, 1939.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-592-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
December 1 to December 21, 1939.

Federal Reserve Notes, Series 1934

| | $10 | $20 | Total Sheets | Amount |
|---|---|---|---|---|
| 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 | 3,000 | 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 | 4,000 | 14,000 | 1,288.00 |
| San Francisco | 46,000 | 24,000 | 70,000 | 6,440.00 |
| | 462,000 | 154,000 | 616,000 | $56,672.00 |

616,000 sheets @ $92.00 per M . . . . . . . $56,672.00

# BOARD OF GOVERNORS
OF THE
# FEDERAL RESERVE SYSTEM
WASHINGTON

R-593

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 10, 1940

Dear Sir:

Referring to the Board's letter R-380 of January 6, 1939, there are enclosed 25 copies of 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, as revised to include changes reported to the Board through December 31, 1939.

There is also enclosed, for your information, a statement showing banks which were included in the corresponding list dated December 31, 1938 and which are no longer in operation as nonmember banks.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

# LIST OF NONMEMBER BANKS WHICH HAVE IN FORCE AGREEMENTS FILED WITH THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM PURSUANT TO THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES EXCHANGE ACT OF 1934

(Does not contain names of banks which are no longer in operation as nonmember banks. If name of bank has been changed since the agreement was filed, only the current name is listed)

## Nonmember Banks with Principal Places of Business in the United States

| | |
|---|---|
| **California** | |
| Anaheim | The Southern County Bank |
| Oakland | Central Bank |
| " | Farmers and Merchants Savings Bank of Oakland |
| Patterson | Commercial Bank |
| San Diego | San Diego Trust & Savings Bank |
| San Francisco | Bank of Montreal (San Francisco) |
| " | The Canadian Bank of Commerce (California) |
| Stockton | Stockton Savings and Loan Bank |
| **Connecticut** | |
| Bridgeport | The West Side Bank |
| Darien | The Home Bank and Trust Company of Darien |
| Hartford | The Hartford-Connecticut Trust Company |
| " | The Park Street Trust Company |
| New Haven | The Community Bank and Trust Company |
| Stamford | The Fidelity Title & Trust Company |
| **Delaware** | |
| Dover | Farmers' Bank of the State of Delaware |
| Wilmington | Delaware Trust Company |
| **Idaho** | |
| Lewiston | American Bank & Trust Company |
| Pocatello | Idaho Bank and Trust Co. |
| **Illinois** | |
| Chicago | Banco di Napoli Trust Company of Chicago |
| Oak Park | Prairie State Bank |
| **Indiana** | |
| English | English State Bank |
| Jeffersonville | Citizens Trust Company |
| " | The Clark County State Bank |
| West College Corner (P.O. College Corner, Ohio) | The Farmers State Bank of West College Corner, Indiana |
| **Iowa** | |
| Waterloo | The Waterloo Savings Bank |

| | |
|---|---|
| **Kentucky** | |
| Beaver Dam | The Beaver Dam Deposit Bank |
| Brandenburg | Farmers Deposit Bank |
| Campbellsburg | United Farmers Bank |
| Carrollton | Kentucky State Bank |
| Cave City | The H. Y. Davis State Bank |
| Dayton | State Bank |
| Gravel Switch | Peoples Bank |
| Hardinsburg | Farmers Bank |
| Harrodsburg | State Bank & Trust Co. |
| Hawesville | Hawesville Deposit Bank |
| Hopkinsville | First-City Bank & Trust Company |
| LaGrange | First State Bank |
| Magnolia | Bank of Magnolia |
| Monterey | The First State Bank |
| Munfordville | Hart County Deposit Bank |
| New Hope | The Peoples Bank |
| North Pleasureville | The Central Bank |
| Owingsville | Owingsville Banking Company |
| Pineville | First State Bank |
| Sadieville | Farmers-Deposit Bank of Sadieville |
| Sharpsburg | Citizens Bank |
| Shelbyville | Bank of Shelbyville |
| " | Citizens Bank |
| " | The Farmers and Traders Bank |
| Springfield | Springfield State Bank |
| Taylorsville | Peoples Bank |
| Upton | The Davis Banking Company |
| **Maine** | |
| Rockland | Knox County Trust Company |
| **Maryland** | |
| Baltimore | The Equitable Trust Company |
| " | Mercantile Trust Company of Baltimore |
| **Massachusetts** | |
| Boston | Stabile Bank and Trust Company |
| Clinton | Clinton Trust Company |
| Lawrence | Arlington Trust Company |
| Lynn | Essex Trust Company |
| North Adams | North Adams Trust Company |
| Worcester | Guaranty Bank & Trust Co. |
| **Michigan** | |
| Detroit | Commonwealth Bank |
| Hudson | Hudson State Savings Bank |
| **Missouri** | |
| Kansas City | Mercantile Home Bank & Trust Company |
| St. Louis | Mutual Bank and Trust Company |

R-593a

| | |
|---|---|
| **New Jersey** | |
| Asbury Park | Asbury Park and Ocean Grove Bank |
| Atlantic City | Guarantee Bank and Trust Company |
| Chatham | The Chatham Trust Company |
| Guttenberg | Guttenberg Bank and Trust Co. |
| Hammonton | Peoples Bank and Trust Company |
| Jersey City | Bessemer Trust Company |
| " | The Trust Company of New Jersey |
| North Bergen | Woodcliff Trust Company |
| Trenton | The Trenton Banking Company |
| " | Trenton Trust Company |
| Union City | Hudson Trust Company |
| Woodbury | Woodbury Trust Company |
| **New York** | |
| Albion | Marine Midland Trust Company of Albion |
| Auburn | Auburn Trust Company |
| " | Wm. H. Seward & Co. |
| Berlin | Taconic Valley Bank |
| Brooklyn (New York City) | Citizens Bank of Brooklyn |
| " | Kings County Trust Company |
| Clarence | Bank of Clarence |
| Cortland | The Marine Midland Trust Company of Cortland |
| Forest Hills(New York City) | Boulevard Bank |
| Hudson | Hudson River Trust Company |
| Jamestown | Union Trust Company of Jamestown, N. Y. |
| Kenmore | State Bank of Kenmore |
| Medina | Medina Trust Company |
| Newburgh | The Columbus Trust Company |
| New York City | Banca Commerciale Italiana Trust Company |
| " | The Bank of Athens Trust Company |
| " | Brown Brothers Harriman & Co. |
| " | Empire Trust Company |
| " | Fiduciary Trust Company of New York |
| " | French American Banking Corporation |
| " | Heidelbach, Ickelheimer & Co. |
| " | Laidlaw & Company |
| " | Savings Banks Trust Company |
| " | Title Guarantee and Trust Company |
| " | Underwriters Trust Company |
| North Tonawanda | State Trust Company of North Tonawanda |
| Oyster Bay | Oyster Bay Trust Company |
| Randolph | State Bank of Randolph |
| Riverhead, L. I. | Long Island State Bank & Trust Company |

R-593a

| | |
|---|---|
| New York (Continued) | |
| Rochester | Genesee Valley Trust Co. |
| " | Rochester Trust & Safe Deposit Company |
| " | Security Trust Company of Rochester |
| " | Union Trust Company of Rochester |
| Tonawanda | The First Trust Company of Tonawanda |
| Troy | The Troy Trust Company |
| Ohio | |
| Lisbon | The Firestone Bank |
| Milledgeville | The Milledgeville Bank |
| Ottoville | The Ottoville Bank Company |
| Sugarcreek | Citizens Bank |
| Warren | The Union Savings & Trust Company |
| Pennsylvania | |
| Abington | Abington Bank & Trust Company |
| Altoona | The Altoona Trust Company |
| Philadelphia | Land Title Bank and Trust Company |
| " | Liberty Title and Trust Company |
| " | Mitten Bank and Trust Company |
| " | Northern Trust Company |
| " | North Philadelphia Trust Company |
| " | The Real Estate Trust Company of Philadelphia |
| " | Wyoming Bank and Trust Company |
| Pittsburgh | The Arsenal Bank |
| Pottsville | Safe Deposit Bank of Pottsville |
| Prospect Park | Prospect Park State Bank |
| Rankin | The Rankin Bank |
| Tennessee | |
| Covington | Tipton County Farmers Union Bank |
| Paris | Commercial Bank & Trust Co. |
| Texas | |
| Houston | Guardian Trust Company of Houston |
| " | Houston Land & Trust Company |
| Utah | |
| Salt Lake City | First Security Trust Company |
| " | Zion's Savings Bank and Trust Company |
| Vermont | |
| Barton | The Barton Savings Bank and Trust Company |
| Bellows Falls | Bellows Falls Trust Company |
| Brattleboro | Brattleboro Trust Co. |
| Wisconsin | |
| Cudahy | Cudahy State Bank |
| Marshfield | Central State Bank |

Nonmember Banks with Principal Places of Business in Territories, Insular Possessions, or Foreign Countries

| | |
|---|---|
| **Canada** | |
| Montreal | Bank of Montreal (including Agencies at New York City, Chicago, and San Francisco) |
| " | The Royal Bank of Canada (including Agency at New York City) |
| Toronto | The Bank of Nova Scotia (including Agencies at New York City, Boston, and Chicago) |
| " | The Canadian Bank of Commerce (including Agencies at New York City, Portland, Ore., San Francisco, and Seattle) |
| " | The Dominion Bank (including Agency at New York City) |
| **England** | |
| London | Banque Belge pour l'Etranger (Overseas) Limited (including Agency at New York City) |
| " | Barclays Bank (Dominion, Colonial and Overseas) (including agency at New York City) |
| **Hawaii** | |
| Honolulu | Bank of Hawaii |
| " | Bishop National Bank of Hawaii at Honolulu |
| **Italy** | |
| Milan | Banca Commerciale Italiana (including Agency at New York City) |
| **Switzerland** | |
| Basle | Swiss Bank Corporation (including agency at New York City) |

December 31, 1939

R-593a

BANKS INCLUDED IN THE DECEMBER 31, 1938 LIST (R-380a) 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

| | |
|---|---|
| Kentucky | |
| Rocky Hill | Bank of Rocky Hill (Suspended on March 4, 1939) |
| New York | |
| New York | Bronx County Trust Company (Admitted to Federal Reserve membership on October 10, 1939) |
| Ohio | |
| Sandusky | The Citizens Banking Company (Admitted to Federal Reserve membership on November 17, 1939) |
| Youngstown | The City Trust & Savings Bank (Admitted to Federal Reserve membership on July 18, 1939) |
| Pennsylvania | |
| Philadelphia | Banca Commerciale Italiana Trust Company (Absorbed by the Liberty Title and Trust Company, Philadelphia, Pa., on December 31, 1938) |

December 31, 1939

R-593b

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-594

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 15, 1940

Dear Sir:

During the past year an additional supply of paper has been purchased for the revised examination report form at a cost of $2.812.36. The basis for prorating this cost among the various Federal Reserve banks is the same as that used in previous assessments for this purpose, and the following statement shows the distribution of the cost among the banks:

| | Per Cent | Amount |
|---|---|---|
| Boston | 5 | $140.62 |
| New York | 20 | 562.47 |
| Philadelphia | 10 | 281.23 |
| Cleveland | 10 | 281.23 |
| Richmond | 5 | 140.62 |
| Atlanta | 5 | 140.62 |
| Chicago | 15 | 421.85 |
| St. Louis | 5 | 140.62 |
| Minneapolis | 5 | 140.62 |
| Kansas City | 5 | 140.62 |
| Dallas | 5 | 140.62 |
| San Francisco | 10 | 281.24 |
| | 100 | $2,812.36 |

Every Federal Reserve bank except the Federal Reserve Bank of Richmond should pay this assessment by transferring the amount indicated through the Interdistrict 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 advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond should pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

TO THE PRESIDENTS OF
ALL FEDERAL RESERVE BANKS

# BOARD OF GOVERNORS
OF THE
# FEDERAL RESERVE SYSTEM
WASHINGTON

R-595

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 16, 1940

Dear Sir:

One Federal Reserve bank has advised us that confusion sometimes arises from the use in Interdistrict Settlement Fund telegrams of the symbol KC to designate the San Antonio Branch and the symbol LA to designate the Seattle Branch.

To avoid such confusion forms F.R. 137 and F.R. 184, used in the Interdistrict Settlement Fund for the Board's EXNOV and CURUC telegrams, have been revised effective February 1, 1940. Copies of these revised forms are enclosed. It will be noted that the branches in each Federal Reserve district have been arranged alphabetically and that there is no conflict between the new symbols and the usual abbreviations for Federal Reserve bank and branch cities.

Very truly yours,

E L Smead

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
WASHINGTON

R-596

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

January 16, 1940

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the Birmingham and New Orleans Branches of the Federal Reserve Bank of Atlanta will be closed on Tuesday, February 6, 1940, in observance of Mardi Gras Day. Please include transit clearing credits of February 6 for the New Orleans Branch with your credits for the following day.

On Monday, February 12, a majority of the Federal Reserve banks and branches will be closed in observance of the anniversary of the birth of Abraham Lincoln, and accordingly there will be neither transit nor Federal Reserve note clearing through the Interdistrict Settlement Fund on that day. For your information, the Board is advised that the following Federal Reserve banks and branches will be open for business on February 12:

| | | |
|---|---|---|
| Boston | Atlanta | St. Louis |
| | Birmingham | Little Rock |
| Richmond | Jacksonville | |
| Baltimore | New Orleans | Kansas City |
| Charlotte | | Oklahoma City |

On Thursday, February 22, in observance of Washington's Birthday, the offices of the Board and all Federal Reserve banks and branches will be closed.

Please notify branches.

Very truly yours,

J. C. Noell

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-597

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers, Thursday, January 18, 1940.

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

Industrial activity, after a rapid rise in recent months, declined less than seasonally in December. In the first half of January activity did not show the usual seasonal increase. Distribution of commodities to consumers was maintained in large volume.

Production

Industrial output decreased in December, but by a smaller amount than is usual at this season, with the consequence that the Board's index, which allows for usual seasonal variations, advanced further from 124 to 128 per cent of the 1923-1925 average. As in other recent months, the rise in the index continued to reflect mainly increased activity in industries producing durable goods. Automobile production rose sharply in December owing to the reopening of plants of one large producer which had been closed for almost two months. Plate glass production also increased. At steel mills activity was maintained near the high level that prevailed in October and November; fourth quarter production of steel ingots was greater than in any other three-month period on record. Output of zinc and deliveries of tin continued to increase in December, and lumber production declined less than seasonally.

In the nondurable goods industries, where production had been at high levels throughout the autumn, changes in output in December were largely seasonal in character. At woolen textile mills, however, there was a considerable reduction in activity, and activity at silk mills declined to a low level, reflecting in part continued high prices of raw silk. Output of crude petroleum continued at a high rate in December, while coal production was reduced, following a large volume of output in the two preceding months.

In the first half of January steel ingot production was at a somewhat lower level than in December, while automobile assemblies were maintained at about the same high rate as in the previous month.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased further in December, owing to the inclusion in the December figures of a large amount for a dam under construction by the Tennessee Valley Authority. Contracts for private building, both residential and nonresidential, declined seasonally.

Employment

According to reports from leading industrial States, factory employment decreased less than seasonally in December and pay rolls showed a further advance.

Distribution

Distribution of commodities to consumers increased further in December. Sales at variety stores showed about the usual sharp rise and sales at department stores and mail-order houses increased more than seasonally.

Freight-car loadings declined by more than the usual seasonal amount from November to December, reflecting chiefly a further reduction in coal shipments and a decrease in loadings of ore, which had been at a high level in the previous month.

Commodity prices

Prices of wheat, which had advanced sharply early in December and continued at the higher level during the rest of the month, declined considerably in the first half of January. Smaller decreases occurred in some other commodities, including hides, tin, and zinc. Prices of most other basic commodities, such as cotton, wool, lead, and steel scrap, showed little change.

Government security market

Prices of United States Government securities continued to advance during December and were steady during the first two weeks of January.

Bank credit

Total loans and investments of reporting member banks in 101 leading cities declined in the four weeks ending January 10, following an increase during the first half of December. These changes reflected largely a temporary rise and a subsequent decline in loans to security brokers and dealers in connection with the Government's flotation of a new issue of bonds. Total holdings of United States Government obligations at city banks showed little net change during the period.

As a result chiefly of further increases in gold stock as well as the post-holiday return of currency from circulation, excess reserves of member banks increased sharply in the four weeks ending January 10.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-598

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1940

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 December 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,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-598-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF DECEMBER, 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 | 30,976 | 798 | 31,774 | $ 590.08 | $ 279.95 | $ 310.13 |
| New York | 96,533 | - | 96,533 | 1,792.73 | 1,043.89 | 748.84 |
| Philadelphia | 21,085 | 768 | 21,853 | 405.84 | 248.68 | 157.16 |
| Cleveland | 41,826 | 772 | 42,598 | 791.10 | 322.76 | 468.34 |
| Richmond | 32,970 | 757 | 33,727 | 626.35 | 213.68 | 412.67 |
| Atlanta | 50,107 | 756 | 50,863 | 944.59 | 252.72 | 691.87 |
| Chicago | 75,273 | 809 | 76,082 | 1,412.93 | 1,218.65 | 194.28 |
| St. Louis | 50,554 | 758 | 51,312 | 952.92 | 295.05 | 657.87 |
| Minneapolis | 24,888 | 757 | 25,645 | 476.26 | 187.13 | 289.13 |
| Kansas City | 50,603 | 757 | 51,360 | 953.82 | 273.06 | 680.76 |
| Dallas | 42,838 | 859 | 43,697 | 811.51 | 271.07 | 540.44 |
| San Francisco | 49,472 | 767 | 50,239 | 933.00 | 392.96 | 540.04 |
| Board of Governors | 270,895 | - | 270,895 | 5,030.84 | 10,722.37 | - |
| Total | 838,020 | 8,558 | 846,578 | $15,721.97 | $15,721.97 | $5,691.53 |

(1) Based on cost per word ($.018571201) 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 ($1,601.13) and wire rental ($9,121.24). 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-599

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1940

Dear Sir:

The conference of representatives of the bank examination departments of the Federal Reserve banks referred to in the Board's letter of December 22, 1939, R-584, will be held in the Board's offices in Washington beginning Wednesday, February 7, at 10:00 a.m. It is anticipated that the conference will last three days.

It is suggested that each Reserve bank be represented at the conference by the officer in charge of the department and the chief examiner or a senior examiner. Any additional representatives whom the Reserve bank desires to send will also be welcome. Special reference is not made to the trust examiners, since a separate conference of trust examiners will not be held at this time, and neither is it planned to devote much of the time of the conference to the work of trust examinations.

A program for the conference is being prepared, based on the suggestions received from the Federal Reserve banks and from the Board's staff. Copies will be furnished to the Reserve banks within a short time by Mr. Paulger.

Since the days of the conference will be rather full, it is suggested that representatives of the more distant Reserve banks who have various matters to take up with the Board's staff may wish to arrive a day early or to stay after the conference. The members of the Board's staff, of course, will be glad to discuss such matters at any available opportunity.

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-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:

| No. of Banks | Rates |
|---|---|
| 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 |

| No. of Banks | Rates |
|---|---|
| 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 |
| 197 | |

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.

<u>Genesee, Monroe and Orleans Counties</u> (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 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 2½% 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 | 1/ | - | - |
| 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.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-601

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 22, 1940

Dear Sir:

There is enclosed, for your information, a copy of a letter which was sent to one of the Federal Reserve banks on January 18, 1940, regarding the elimination of certain words from the Inter-district Settlement Fund telegrams.

In the future, when there is a holiday at a given bank or branch, the code words representing the bank or branch will not be shown in our transit clearing telegrams.

Very truly yours,

J R Van Fossen

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

Enclosure

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

C O P Y

January 18, 1940

Mr. O. M. Attebery, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Olin:

I was pleased to receive your letter of January 9, enclosing a memorandum prepared by Mr. Dwyer, Assistant Head of your Accounting Department, regarding the elimination of certain words from the Interdistrict Settlement telegrams.

We are always glad to receive any suggestions, which, if adopted, would tend to reduce expenses and I have had a survey made for the purpose of determining whether it would appear practicable to eliminate certain words from the Interdistrict Settlement telegrams as suggested.

It is assumed that Mr. Dwyer's memorandum relates to the transit clearing telegrams, since an examination of your Bank's note clearing telegrams indicates that code words and amounts are shown only where shipments of Federal Reserve notes have actually been made.

In the case of the transit clearing telegrams, when there is a holiday at a given bank, it will be perfectly agreeable to us if the code word representing the bank is eliminated, together with the word "holiday" or a dash.

When all banks and branches are open for business, however, and there happen to be no credits for a given bank or branch, we would prefer to have the telegrams sent as heretofore without eliminating any words. The reason for this is that the outgoing telegrams are prepared on an adding machine directly from the incoming telegrams and the men who handle this work feel that it would be rather confusing to them in calling the figures if a bank were dropped out of one telegram but not out of all telegrams, as is the case when there is a holiday.

Best regards.

Very truly yours,

(Signed) E. L. Smead

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-602

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 25, 1940

Dear Sir:

The enclosed list of topics for discussion at the examination conference February 7-9 has been prepared in the light of the suggestions received in reply to the Board's letter R-584. As stated previously, the conference will be largely a round table discussion and it is expected that the discussion of each topic will be led by the representatives of the Reserve bank or banks which suggested the topic.

In the effort to keep the program to a reasonable length, a number of the suggestions received have not been included in the list of topics. It is hoped, however, that opportunity will be found either to discuss such topics at the conference or to discuss them outside of the conference with those who submitted them.

As mentioned in the Board's letter R-599, a separate conference of trust examiners will not be held at this time, and neither is it planned to devote much of the time of the conference to trust matters. If any of the trust examiners, however, are going to attend the Mid-Winter Trust Conference in New York February 13-15, we would be glad to have them visit us after that conference for informal discussion of any matters of importance in which we may be of assistance.

Please let us know who will represent your bank at our conference and when they expect to arrive. If desired, we shall be glad to make hotel reservations. In that case, advice as to preferences with respect to hotel or accommodations desired will be helpful.

Very truly yours,

Leo H. Paulger

Leo H. Paulger, Chief,
Division of Examinations.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

# TOPICS FOR CONSIDERATION AT CONFERENCE OF REPRESENTATIVES OF THE BANK EXAMINATION DEPARTMENTS OF THE FEDERAL RESERVE BANKS, FEBRUARY 7-9, 1940, FEDERAL RESERVE BUILDING, WASHINGTON, D.C.

A. Matters pertaining to supervisory practices and policies.

1. Problem banks.

   a. Responsibility of Reserve banks in promotion of rehabilitation programs and in the elimination through mergers and liquidation of weak uneconomic units.
   b. Procedure to effect desired strengthening in management where situation does not warrant use of section 30.

2. Capitalization.

   a. Factors determining adequacy of capital.
   b. Treatment of cases with inadequate capital.
   c. Policies and practices with respect to retirements of preferred stock and capital debentures.

3. Dividend payments.

   a. Factors to be considered in reviewing dividend policies.
   b. Treatment of cases where apparently unwarranted dividends are being paid on common or preferred stock (or interest on income debentures)

4. Measures for obtaining desired corrections -- letters, conferences, cooperation with other agencies.

5. Frequency of examinations and use of supplemental "credit surveys"; "assets reviews" in case of problem banks.

6. Revised examination procedure.

   a. Discussion of experience with procedure.
   b. Extent to which the revised procedure is used by State authorities and effect of differences of procedure.

7. Procedure with respect to follow-up of matters of criticism in reports of examination of trust departments, as compared with procedure with respect to commercial departments.

B. Matters pertaining to examination work.

1. Classification of loans.

   a. Particular reference to Classification II.
   b. Past due and statutory bad debts.
   c. Type of comments and suggestions with respect to individual loans and general loaning and credit policies.

2. Securities.

   a. Types of comments and suggestions with respect to particular issues or investment policies.
   b. Appraisal and classification of nonmarketable securities.
   c. Classification of income bonds.
   d. Amortization of premiums on exempted securities.
   e. Requirements with respect to use of profits from sale of securities.

3. Banking premises.

   a. Classification II. Basis for inclusion in schedule of nonincome producing assets.
   b. Treatment of depreciation allowed by Internal Revenue Dept. but not taken on bank's books.
   c. Investment in affiliated safe deposit company representing ownership of bank vaults. How should it be treated by the examiner -- how should it be reported by the bank?

4. Other real estate.

   a. Treatment of land contracts -- as other real estate or real estate loans.
   b. Treatment of "assets indirectly representing other real estate" -- item 9 in report of condition.

5. Preparation of reports of examination.

   a. Type of comments and conclusions on page 2.
   b. Adjusted capital.
      i. Treatment of excess valuation reserves against securities, loans, other real estate and other assets.
      ii. Treatment of nonbook securities.
   c. Nature and extent of comments regarding earnings of the bank, including those of trust department.

6. Report of trust department.

   a. Preparation of statement of individual trusts (page T-2) where the records of the bank do not readily show the segregations called for.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-603

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 27, 1940

Dear Sir:

Your advice will be appreciated as to the total amount of reimbursement received by your Bank for messages transmitted over the main lines of the Federal Reserve Leased Wire System during the last six months of 1936 and 1939.

Please show separately, for the last six months of 1939, the total amount of reimbursement received from all government departments and agencies combined and the total amount received from member and nonmember clearing banks for messages transmitted over the main lines.

Very truly yours,

J R Van Fossen

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-604

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 27, 1940

Dear Sir:

It seems likely that you may receive inquiries as to whether the Board will extend beyond February 1, 1940, the time during which interlocking relationships affected by the Clayton Act may continue; and the purpose of this letter is to enable you to reply to such inquiries.

As you know, the Board, by amendments to section 3 of its Regulation L, extended until February 1, 1940 the time during which certain interlocking relationships which were lawfully existing on the date of the enactment of the Banking Act of 1935 could continue. This extension was made shortly before the President vetoed the bill S. 2150, which would have extended the date until February 1, 1943. In the course of his veto message, the President said:

"* * * If it was in the public interest in 1935 for the Congress to decide to terminate these relationships, it is in the public interest to terminate them now. Affected banks and affected directorates have had over 4 years to make adjustments. That would seem to be a liberal time.

"If the Congress wishes to reverse itself and allow interlocking directorships in the future, it can, of course, do so. But I do not think that the Congress should nullify its policy, declared in 1935, by extending interlocking directorships for another 4 years on top of the 4 years' extension which has already been given."

In the circumstances, the Board does not believe at this time that it should intervene to extend the period further by regulation.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO PRESIDENTS OF ALL
FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-605

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 30, 1940

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 Atlanta in connection with his audit of the accounts and records of the Board's Fiscal Agent for the period June 1 to December 31, 1939, inclusive.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-605-a

I, E. P. Paris, hereby certify:

(a) That a complete audit has been made of all entries in the account - "Board of Governors of the Federal Reserve System - General Fund Account" for the period June 1 to December 31, 1939, inclusive.

(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 "Board of Governors of the Federal Reserve System - General Fund Account."

(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's account prepared by the Federal Reserve Bank of Richmond.

(f) That the balance as shown by the books of the Fiscal Agent has been reconciled with the balance 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 to by the Auditor of that bank.

Respectfully submitted,

(Signed) E. P. Paris

E. P. Paris,
Auditor.

January 25, 1940.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-606

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 31, 1940

Dear Sir:

For your information there is enclosed herewith a copy of a letter which the Board is today addressing to the Chairman of the Presidents' Conference of the Federal Reserve Banks, and copies of the enclosures therewith, with reference to a suggestion as to the possibility of a uniform size of paper for the regulations, circulars and general letters of the Board of Governors and the Federal Reserve banks.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT NEW YORK

R-606-a

January 31, 1940

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

Dear Mr. Harrison:

There is enclosed herewith a copy of a letter received by the Board of Governors from the Cashier of The First National Bank and Trust Company of Tulsa, Oklahoma, suggesting the possibility of a uniform size of paper for the regulations, circulars, and general letters of the Board of Governors and the Federal Reserve banks. There is also enclosed a copy of the Board's reply.

Feeling that the subject is one which is worthy of careful consideration, the Board would like to obtain the views of the Presidents' Conference as to the desirability and feasibility of the proposal and suggests that it be given consideration by the Conference.

In order that the other Federal Reserve banks may be informed with respect to this matter, we are sending copies of this letter and of its enclosures to them.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

Enclosures 2

R-606-b

THE FIRST NATIONAL BANK
AND TRUST COMPANY

Tulsa, Oklahoma

January 18, 1940

Federal Reserve Board
Washington
D. C.

Gentlemen:

We get some of our best suggestions from the most unexpected places, perhaps it is the same with you.

The suggestion I have to make is in regard to the lack of uniformity in the size of your regulations, supplements, letters, et cetera. The book of regulations from the Federal Reserve Board, and from the Federal Reserve Bank of our district, which I have been trying to keep is about the most unsightly of all the accumulation of laws and services we have on hand. I have heard representatives of the operating and legal departments of other banks say substantially the same thing.

I suggest that you consider the appointment of a committee to work out a uniform size of sheet for all these regulations and general letters and also that they be designed for some uniform binding, such as a three-ring binder or other book which can be purchased in most stationery stores.

I would be pleased to know what you think of this idea and if I can be of service to you please let me know.

Yours very truly,

(Signed) E. W. Pollock

E. W. Pollock

R-606-c

January 31, 1940

Mr. E. W. Pollock, Cashier,
The First National Bank and Trust Company,
Tulsa, Oklahoma.

Dear Sir:

We always welcome suggestions from the member banks of the Federal Reserve System and appreciate your letter of January 18, 1940, in which you suggest the possibility of a uniform size of paper for the regulations and general letters of the Board of Governors and the Federal Reserve banks.

As you know, the regulations of the Board of Governors are now published on paper of uniform size. It is also the policy of the Board, with few exceptions, whenever a regulation is amended, to reprint the entire regulation. However, the size of the Board's regulations differs from the size of some of the circulars and general letters of the Federal Reserve Bank of Kansas City, and it is recognized that a uniform size for all of these documents would be much more convenient for the member banks and others using them.

We are glad to advise you that steps are being taken to have the feasibility of your suggestion studied in consultation with the various Federal Reserve banks, and it is hoped that after investigation some way may be found to bring about a more convenient arrangement.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

R-607

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release February 1, 1940

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 June 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.

This final extension was made at the request of Senator Wagner, Chairman of the Banking and Currency Committee of the Senate, and of Senator Glass, senior member of that Committee, and upon receipt of the following letter from the President addressed to the Chairman of the Board:

"In view of my veto last year of the Bill extending the time for ending interlocking bank directorships and in view of the apparent hope on the part of some of these directors that some method could be devised for a slight extension of the final date, I am writing to you and the Board to tell you that I have no objection to a short extension -- say three months but no longer than four months. This will give ample time to make the necessary arrangements. As I said in my veto message, I honestly believe that the intent of the law should be definitely put into effect, especially because so much time has already elapsed."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-608

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 6, 1940

Dear Sir:

For your information, and in order that correct comparative figures may be published in the consolidated weekly condition statement of the Federal Reserve banks for 1940, if issued at your bank, there are shown below revised 1939 weekly Federal Reserve bank press statement figures received too late to be reflected in the comparative column of the following week's statement.

REVISED FIGURES IN CONSOLIDATED WEEKLY
STATEMENT OF CONDITION OF FEDERAL RESERVE
BANKS IN 1939, NOT REFLECTED IN THE
COMPARATIVE COLUMN OF THE FOLLOWING
WEEK'S STATEMENT

| | (In thousands of dollars) |
|---|---|
| January 18 | |
| Gold certificates on hand and due from U. S. Treasury | 11,896,274 |
| Other cash | 435,230 |
| Total reserves | 12,340,697 |
| Uncollected items | 660,761 |
| Total assets | 15,707,309 |
| F. R. notes in actual circulation | 4,338,417 |
| Member bank reserve account | 9,130,409 |
| Other deposits | 275,936 |
| Total liabilities | 15,363,309 |
| Total liabilities and capital accounts | 15,707,309 |
| March 15 | |
| Other assets | 46,081 |
| Total assets | 16,076,446 |
| Other liabilities including accrued dividends | 3,658 |
| Total liabilities | 15,732,502 |
| Other capital accounts | 32,572 |
| Total liabilities and capital accounts | 16,076,446 |

| | (In thousands of dollars) |
|---|---|
| March 22 | |
| Gold certificates on hand and due from U. S. Treasury | 12,317,721 |
| Other cash | 395,551 |
| July 5 | |
| Commitments to make industrial advances | 10,958 |

Very truly yours,

J R Van Fossen

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-609

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 9, 1940.

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 January 2 to January 30, 1940.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-609-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
January 2 to January 30, 1940.

Federal Reserve Notes, Series 1934

| | $10 | $20 | Total Sheets | Amount |
|---|---|---|---|---|
| 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 | 3,000 | 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 | 4,000 | 14,000 | 1,288.00 |
| San Francisco | 46,000 | 24,000 | 70,000 | 6,440.00 |
| | 462,000 | 154,000 | 616,000 | $56,672.00 |

616,000 sheets @ $92.00 per M . . . . . . . $56,672.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-610

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 9, 1940

Dear Sir:

Referring to the Board's letters of October 30, 1936 (X-9729), and December 28, 1938 (S-137), it will be appreciated if you will furnish the Board with the following data regarding the officers and employees of your bank who will attend the 1940 session of the Graduate School of Banking at Rutgers University:

(1) Total number who will attend 1940 session:
   (a) Number of first-year students,
   (b) Number of second-year students, and
   (c) Number of third-year students.

(2) Total number who will attend wholly or partially at bank's expense:
   (a) Number who will be granted necessary leave with pay,
   (b) Number whose transportation expenses will be paid by bank, and
   (c) Number whose registration and resident and extension tuition fees will be paid by bank.

(3) Total number who will attend entirely at their own expense during their annual vacations.

It will also be appreciated if you will advise the number of officers and employees at your bank who have attended the first or second sessions, or both, but who will not attend this year.

Very truly yours,

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-611

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 12, 1940

Dear Sir:

There is enclosed a copy of a letter dated February 7, 1940, which the Board has received from the Treasury Department, transmitting a list of certain Fiscal Agency records that have been approved for destruction, and a form for reporting to the Treasury Archivist the disposition made of the records on the list.

Any questions regarding the disposition of the useless records should be taken up with the Treasury Department.

Very truly yours,

S. R. Carpenter
S. R. Carpenter,
Assistant Secretary.

Enclosures 3

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

TREASURY DEPARTMENT
WASHINGTON

R-611a

Office of the
Administrative Assistant
to the Secretary

February 7, 1940

AUTHORIZATION FOR THE DISPOSITION
OF USELESS RECORDS

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

Attention: Division of Bank Operations

Pursuant to the terms of the act of August 5, 1939, concerning the disposition of certain records of the United States Government, permission has been granted in Disposition Authorization No. 17 of the Archivist of the United States, dated January 2, 1940, for the disposition of the records described in the following list of useless papers:

Federal Reserve Banks as Fiscal Agents of United States, November 20, 1939.

Under the terms of section 5 of the act of August 5, 1939, disposition may be made by one of the following methods:

(a) By sale, upon the best obtainable terms after due publication of notice inviting proposals therefor;
(b) By causing them to be destroyed;
(c) By transfer (without cost to the United States Government) to any State or dependency of the United States of America or to any appropriate educational institution, library, museum, historical, research, or patriotic organization therein, that has made application *** therefor, through the Archivist of the United States.

You are hereby instructed to dispose of the records described in the list referred to above, by one of the methods indicated in the preceding paragraph. Records containing confidential information should not be disposed of by sale as waste paper unless their character as records has been destroyed, nor should they be transferred to another institution without the consent of the Administrative Assistant to the Secretary.

If records are to be transferred to another institution pursuant to an application received through the Archivist of the United States, arrangements for such transfer should be made through the Treasury Archivist.

If records are to be sold, a separate account should be kept of the cost of the sale and the amount of the purchase price received, and the moneys derived from the sale should be paid into the Treasury of the United States.

A report of the disposition of the records on the list indicated above should be made on the attached form in duplicate, and should be submitted to the Treasury Archivist not later than April 1, 1940.

(Signed) Charles S. Bell
Acting Administrative Assistant
to the Secretary

Enclosures

Field Offices Form

R-611b

# REPORT OF THE DISPOSITION OF USELESS RECORDS

To the Treasury Archivist:

The records described in the following list:

Federal Reserve Banks as Fiscal Agents of United States, November 20, 1939,

approved for disposition by authority of Disposition Authorization No. 17 of the Archivist of the United States, dated January 2, 1940,

have been disposed of by the following method (except as indicated under the item "Remarks" below):

_ By sale: Cost of sale:
Purchase Price:

_ By destruction: (Indicate manner of destruction)

_ By transfer to ______________________________
(name of institution)

______________________________
(post-office address)

Date of disposition:

Remarks:

______________________________

Field Office Form

# LIST OF FISCAL AGENCY RECORDS OF FEDERAL RESERVE BANKS, DATED NOVEMBER 20, 1939, APPROVED FOR DESTRUCTION IN DISPOSITION AUTHORIZATION NO. 17 OF THE ARCHIVIST OF THE UNITED STATES, DATED JANUARY 2, 1940

(See letter from Treasury Department to Board of Governors, dated February 7, 1940)

| Item No.* | Form No. | Title or Description | Kind of Copies | Approved for Destruction From | To |
|---|---|---|---|---|---|
| 1 | Treas. 17 | Daily transcript of the account of the Treasurer of the United States and supporting tickets. | Duplicate | 1-1-34 | 12-31-34 |
| 1-A | | Records regarding Federal farm loan coupons: Advice of shipment of Federal land-bank coupons | Original | 1-1-34 | 12-31-34 |
| 2 | Treas. 5686 | Schedule of United States Coupons paid | Duplicate | 1-1-34 | 12-31-34 |
| 3 | Treas. 5783 | Advice of shipment of redeemed securities forwarded for credit and supporting tickets. | Duplicate quintuplicate | 1-1-34 | 12-31-34 |
| 4 | | Receipt from post office for outgoing shipments of securities made in Fiscal agency capacity (accompanying papers) | Duplicate | 1-1-34 | 12-31-34 |
| 5 | P.D. 1 | Advice of shipment of securities forwarded for credit | Duplicate quadruplicate | 1-1-37 | 12-31-37 |
| 6 | P. D. 2 | Manifest of shipment | Quadruplicate | 1-1-37 | 12-31-37 |
| 8 | P. D. 62 | Monthly coupon bond exchange report | Duplicate | 1-1-19 | 12-31-19 |
| 9 | P. D. 78 | Monthly transfer report | Duplicate | 1-1-19 | 12-31-19 |
| 10 | P. D. 79 | Monthly registered bond exchange report | Duplicate | 1-1-19 | 12-31-19 |
| 11 | P. D. 172 | $3\frac{1}{2}$ percent full paid interim certificate exchange report, monthly | Duplicate | 1-1-18<br>1-1-37 | 12-31-21<br>12-31-37 |

*Refers to item numbers shown in H.R. 1066, transmitted to Federal Reserve Banks with Board's letter, R-511, dated July 24, 1939.

| Item No. | Form No. | Title or Description | Kind of Copies | Approved for Destruction From | To |
|---|---|---|---|---|---|
| 12 | P. D. 206 | Requisition for bonds, notes or certificates | Duplicate | 1-1-37 | 12-31-37 |
| 13 | P. D. 465 | Monthly denominational exchange report | Duplicate | 1-1-19 | 12-31-21 |
| 18 | P. D. 560 | Monthly conversion report | Duplicate | 1-1-26 | 12-31-27 |
| 19 | P. D. 958 | Allotment report | Duplicate | 1-1-37 | 12-31-37 |
| 20 | P. D. 975 | Daily transfer of allotment advice | Duplicate | 1-1-37 | 12-31-37 |
| 21 | P. D. 977 | Monthly standard full paid interim certificate report | Duplicate | 1-1-27 | 12-31-37 |
| 22 | P. D. 1288 | Allotment report, Treasury bills | Duplicate | 1-1-37 | 12-31-37 |
| 23 | P. D. 1289 | Treasury bills report | Duplicate | 1-1-37 | 12-31-37 |
| 24 | P. D. 1296 | Advice of transfer of Treasury bills from general stock to stock with issue and series designation | Duplicate | 1-1-37 | 12-31-37 |
| 25 | P. D. 1317 | Monthly report temporary, permanent exchange account coupon bonds | Duplicate | 1-1-20<br>1-1-36 | 12-31-30<br>12-31-37 |
| 27 | P. D. 1328 | Stock requisition for coupon public-debt securities | Duplicate | 1-1-37 | 12-31-37 |
| 29 | P. D. 1340 | Daily C.P.D. transfer advice | Duplicate | 1-1-37 | 12-31-37 |
| 30 | P. D. 1379 | Monthly report Federal Farm Mortgage Corporation bonds | Duplicate | 1-1-37 | 12-31-37 |
| 31 | P. D. 1392 | Monthly report Home Owners' Loan Corporation bonds | Duplicate | 1-1-35 | 12-31-37 |
| 32 | P. D. 1399 | Monthly report consolidated Federal farm loan bonds | Duplicate | 1-1-37 | 12-31-37 |
| 33 | P. D. 1413 | Monthly report Home Owners' Loan Corporation bonds, general stock account | Duplicate | 1-1-37 | 12-31-37 |

| Item No. | Form No. | Title or Description | Kind of Copies | Approved for Destruction From | To |
|---|---|---|---|---|---|
| 34 | P. D. 1424 | Requisition for redemption of United States savings bonds | Duplicate | 1-1-37 | 12-31-37 |
| 35 | P. D. 1425 | Redemption schedule of United States savings bonds | Duplicate | 1-1-37 | 12-31-37 |
| 36 | P. D. 1437 | Monthly report, United States bonds | Duplicate | 1-1-37 | 12-31-37 |
| 37 | P. D. 1438 | Monthly report, United States notes/certificates | Duplicate | 1-1-37 | 12-31-37 |
| 39 | Treas. 11 | Daily statement of fiscal agent accounts | Duplicate | 1-1-37 | 12-31-37 |
| 40 | Treas. 14 | Monthly report of balances in qualified special depositaries | Duplicate | 1-1-37 | 12-31-37 |

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-612

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 12, 1940

Dear Sir:

There are enclosed for your information two copies of General Rules and Regulations recently issued by the Securities and Exchange Commission under the Trust Indenture Act of 1939, together with copies of Forms T-1, T-2, T-3, and Supplement S-T prescribed under such Regulations, and copies of the Trust Indenture Act of 1939. If you should require additional copies, they may be obtained upon request.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 12

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-613

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release February 15, 1940

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. George O. Boomer, Vice President, Girdler Corporation, manufacturers of freezing equipment, Louisville, Kentucky, as a director of the Louisville Branch of the Federal Reserve Bank of St. Louis for the unexpired portion of the three-year term ending December 31, 1942.

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,

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:

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

| No. of Banks | Rates |
|---|---|
| 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 certificates |
| 1 (private bank) | Does not accept savings deposits |
| 47 | |

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.

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 | 1/ | 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.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-615

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 16, 1940

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 January 1940.

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,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-615-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JANUARY, 1940

| 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 | 24,505 | 464 | 24,969 | $ 516.00 | $ 355.30 | $ 160.70 |
| New York | 75,617 | - | 75,617 | 1,562.68 | 948.52 | 614.16 |
| Philadelphia | 18,601 | 464 | 19,065 | 393.99 | 257.63 | 136.36 |
| Cleveland | 35,306 | 468 | 35,774 | 739.30 | 278.71 | 460.59 |
| Richmond | 28,042 | 462 | 28,504 | 589.06 | 222.71 | 366.35 |
| Atlanta | 47,820 | 461 | 48,281 | 997.76 | 242.93 | 754.83 |
| Chicago | 67,179 | 503 | 67,682 | 1,398.70 | 1,274.96 | 123.74 |
| St. Louis | 48,231 | 462 | 48,693 | 1,006.28 | 257.67 | 748.61 |
| Minneapolis | 20,592 | 462 | 21,054 | 435.10 | 187.13 | 247.97 |
| Kansas City | 50,245 | 462 | 50,707 | 1,047.90 | 273.06 | 774.84 |
| Dallas | 40,508 | 536 | 41,044 | 848.20 | 276.93 | 571.27 |
| San Francisco | 50,063 | 464 | 50,527 | 1,044.18 | 411.93 | 632.25 |
| Board of Governors | 216,879 | - | 216,879 | 4,481.96 | 10,073.63 | - |
| Total | 723,588 | 5,208 | 728,796 | $15,061.11 | $15,061.11 | $5,591.67 |

(1) Based on cost per word ($.020665742) 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 ($1,579.30) and wire rental ($8,494.33). 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.

R-616

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, February 19, 1940

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

In January and the first half of February industrial activity declined from the high level reached in the latter part of 1939. Retail trade, which had been in large volume, decreased more than seasonally, while merchandise exports were maintained.

Production

Volume of industrial production declined somewhat from December to January, and consequently the Board's index, which allows for a considerable seasonal increase, dropped sharply from the high level of 128 reached in December to 120 in January. Data available for the first half of February indicate a further sharp reduction in the index.

Steel ingot production, which had been above 90 per cent of capacity during most of the fourth quarter of 1939, has declined steadily since the turn of the year and by the middle of February was at about 69 per cent of capacity. Plate glass production, which also had reached high levels in the latter part of 1939, was reduced in January and lumber production showed a considerable decrease owing in part to unusually cold weather in the Southern regions. Automobile production in January was larger than is usual at this season. In the latter part of the month, however, and in the first half of February, as retail sales of new cars declined seasonally and dealers' stocks, which had been lower than usual at the beginning of the year, rose rapidly, the output of cars declined. In the machinery industries activity was generally sustained at the advanced levels reached in December.

Output of cotton textiles in January continued at about the high rate of other recent months but production of woolen textiles declined further from the peak levels of October and November, and output of silk products remained in small volume. Activity at meat-packing establishments was maintained in January at the high level prevailing for several months. Coal production rose sharply, following a marked reduction in December, and was at about the high level reached last October. Output of crude petroleum continued in large volume.

Value of contracts awarded for both public and private construction declined considerably in January, according to reports of the F. W. Dodge Corporation. Awards for private residential building showed a greater than seasonal reduction and were lower than the level prevailing a year ago. Contracts for other private work declined somewhat but remained in larger volume than in the corresponding period last year.

Employment

Factory employment and pay rolls, which had risen sharply during the latter half of 1939, declined by somewhat more than the usual seasonal amount from the middle of December to the middle of January, according to reports from leading industrial States.

Distribution

Sales at department stores, variety stores, and mail-order houses in January declined more than seasonally from the high level of December. Total freight-car loadings showed a seasonal decline; shipments of miscellaneous freight and grain decreased, while coal loadings increased considerably.

Foreign trade

Exports of United States merchandise, which usually decline in January, were maintained this year at the high level reached in December. Shipments of cotton, which have been large in recent months, rose further, while exports of many industrial products declined. Exports to the United Kingdom increased sharply, owing mainly to larger cotton shipments.

Reflecting principally acquisitions of foreign gold, the country's monetary gold stock increased by $287,000,000 during January and by $132,000,000 in the first two weeks of February.

Commodity prices

Prices of copper, lead, and silk showed marked declines from the middle of January to the middle of February and there were smaller decreases in prices of some other basic industrial materials, such as steel scrap, wool, and textile yarns. Prices of foodstuffs, on the other hand, showed little change in this period.

Government security market

Prices of United States Government securities declined slightly during the latter half of January from the recovery peak reached early in the month but regained part of these losses during the first half of February.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities rose during the five weeks ending February 7 as a result of increases in holdings of Government securities at New York City banks. Loans to security brokers and dealers and commercial loans declined. Demand deposits continued to increase during the period.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-617

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 19, 1940

Dear Sir:

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

| | | |
|---|---|---|
| March 2 (Saturday)<br>Texas Independence Day | | Dallas<br>El Paso<br>Houston<br>San Antonio |
| March 15 (Friday)<br>Andrew Jackson's Birthday | | Nashville<br>Memphis |
| March 22 (Friday)<br>Good Friday | Philadelphia<br>Pittsburgh<br>Baltimore<br>Jacksonville | Nashville<br>New Orleans<br>Memphis<br>Minneapolis |
| March 25 (Monday)<br>Maryland Day<br>Easter Monday | | <br>Baltimore<br>Charlotte |

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 affected on the respective dates with your credits for the following business day. No debits covering shipments of Federal Reserve notes for account of the Federal Reserve Banks of Philadelphia or Minneapolis should be included in your note clearing of March 22.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF
ALL FEDERAL RESERVE BANKS

R-618

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning newspapers of
Wednesday, February 21, 1940

February 20, 1940

The Federal Advisory Council of the Federal Reserve System held its annual organization meeting in Washington on February 18-20, and elected Edward E. Brown, President of the First National Bank of Chicago, as President of the Council, and re-elected Howard A. Loeb, Chairman of the Tradesmen's National Bank & Trust Company of Philadelphia, as Vice President. Walter Lichtenstein was reappointed Secretary.

In the course of its meetings the Council discussed business conditions, pending legislation affecting banking, and monetary policies, including gold and silver questions. On the subject of silver, the Council adopted the following recommendation:

> "The Federal Advisory Council has noted that the Senate Committee on Banking and Currency is considering at this time S. 785 which would discontinue the purchase of foreign silver by the Secretary of the Treasury. The Council is unanimously of the opinion that these purchases of foreign silver should be discontinued forthwith, particularly in view of the fact that silver purchases increase the already excessively large bank reserves."

The Council requested that the Board of Governors, with whom it met on Monday and again today, transmit a copy of the foregoing resolution to the Senate Committee on Banking and Currency.

The Council is composed of the following members:

Federal Reserve
District No. 1. Thomas M. Steele, of New Haven, Connecticut.

No. 2. Leon Fraser, of New York, New York.

No. 3. Howard A. Loeb, of Philadelphia, Pennsylvania.

No. 4. B. G. Huntington, of Columbus, Ohio.

No. 5. Robert M. Hanes, of Winston-Salem, North Carolina.

No. 6. Ryburn G. Clay, of Atlanta, Georgia.

No. 7. Edward E. Brown, of Chicago, Illinois.

No. 8. S. E. Ragland, of Memphis, Tennessee.

No. 9. John Crosby, of Minneapolis, Minnesota.

No. 10. John Evans, of Denver, Colorado.

No. 11. R. E. Harding, of Fort Worth, Texas.

No. 12. Paul S. Dick, of Portland, Oregon.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1940
R-619

Dear Sir:

Referring to the Board's letter R-593 of January 10, 1940, following is a statement of changes during February 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:

Addition*

France
Paris — Societe Generale pour favoriser le dévelopement du Commerce et de l'Industrie en France (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-593a).

Deletion

New Jersey
North Bergen — Woodcliff Trust Company

The Woodcliff Trust Company should be added with the following note to the list (R-593b) 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:

(Absorbed by Commonwealth-Merchants Trust Company, Union City, on February 3, 1940)

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-620

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1940.

Dear Sir:

It will be appreciated if you will obtain and furnish the Board for its files a copy of the rules and regulations of the clearing house associations in effect in your city and in each of the Federal Reserve branch cities, if any, in your district.

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-621

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1940

Dear Sir:

Reference is made to the Board's letter of February 19, 1940, R-617, concerning holidays during the month of March. The Federal Reserve Bank of San Francisco advises that the Governor of Utah has proclaimed Monday, March 25, a legal holiday in observance of Arbor Day and that the Salt Lake City Branch will be closed. Please notify branches.

Very truly yours,

J. C. Noell

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-622

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release March 8, 1940.

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. R. C. Rich, President, R. C. Rich Sheep Company, Burley, Idaho, as a director of the Salt Lake City Branch of the Federal Reserve Bank of San Francisco for the unexpired portion of the two-year term ending December 31, 1940.

R-623

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release March 8, 1940

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. Raymond C. Force, Chairman of the Executive Committee, Caterpillar Tractor Company, Oakland, California, as a Class "C" Director of the Federal Reserve Bank of San Francisco for the unexpired portion of the three-year term ending December 31, 1941.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-624

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 11, 1940.

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 February 1 to February 27, 1940.

Very truly yours,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-624-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
February 1 to February 27, 1940.

Federal Reserve Notes, Series 1934

| | $10 | $20 | Total Sheets | Amount |
|---|---|---|---|---|
| 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 | 3,000 | 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 | 4,000 | 14,000 | 1,288.00 |
| San Francisco | 46,000 | 24,000 | 70,000 | 6,440.00 |
| | 462,000 | 154,000 | 616,000 | $56,672.00 |

616,000 sheets @ $92.00 per M.............. $56,672.00

R-625

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release March 12, 1940

The Board of Governors of the Federal Reserve System today announced the appointment of Mr. Roger B. Shepard, President, Finch, Van Slyck & McConville, St. Paul, Minnesota, as Deputy Chairman of the Federal Reserve Bank of Minneapolis for the remainder of the current year.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-626

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 13, 1940

Dear Sir:

There is enclosed for your information a copy of the Board's Functional Expense Exhibit for the second 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 an additional column has been added to the Telegraph unit to show the amount of reimbursements received for messages sent over the leased wires for member and nonmember clearing banks.

Very truly yours,

E L Smead

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

TO THE CHAIRMEN AND PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-627

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For immediate release

March 13, 1940

The Board of Governors of the Federal Reserve System today announced the designation of Mr. Raymond C. Force, Chairman of the Executive Committee, Caterpillar Tractor Company, Oakland, California, as Chairman and Federal Reserve Agent at the Federal Reserve Bank of San Francisco for the remainder of the current year.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-628

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 15, 1940

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 February 1940.

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,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-628-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF FEBRUARY 1940

| Federal Reserve Bank | Number of Words Sent | Words Sent by N. Y. Chargeable to Other F.R. Banks | Total Words Charge-able | Pro Rata Share of Total Ex-penses (1) | Expenses Paid by Banks and Board (2) | Payable to Board of Gov-ernors |
|---|---|---|---|---|---|---|
| Boston | 22,189 | 658 | 22,847 | $ 515.51 | $ 279.89 | $ 235.62 |
| New York | 61,904 | - | 61,904 | 1,396.77 | 960.25 | 436.52 |
| Philadelphia | 15,313 | 661 | 15,974 | 360.43 | 245.20 | 115.23 |
| Cleveland | 29,602 | 667 | 30,269 | 682.97 | 223.02 | 459.95 |
| Richmond | 25,124 | 657 | 25,781 | 581.71 | 219.55 | 362.16 |
| Atlanta | 41,364 | 657 | 42,021 | 948.14 | 239.79 | 708.35 |
| Chicago | 55,725 | 705 | 56,430 | 1,273.26 | 1,237.50 | 35.76 |
| St. Louis | 41,222 | 657 | 41,879 | 944.93 | 254.93 | 690.00 |
| Minneapolis | 18,649 | 657 | 19,306 | 435.61 | 187.13 | 248.48 |
| Kansas City | 45,450 | 657 | 46,107 | 1,040.33 | 273.06 | 767.27 |
| Dallas | 37,275 | 798 | 38,073 | 859.06 | 268.03 | 591.03 |
| San Francisco | 43,393 | 662 | 44,055 | 994.03 | 451.93 | 542.10 |
| Board of Governors | 192,565 | - | 192,565 | 4,344.93 | 9,537.40 | - |
| Total | 629,775 | 7,436 | 637,211 | $14,377.68 | $14,377.68 | $5,192.47 |

(1) Based on cost per word ($.022563452) 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 ($1,542.53) and wire rental ($7,994.87). 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-629

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 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 February 1940 in response to the Board's letter of August 25, 1936 (X-9680).

It will be noted that a table has been attached to the enclosed statement showing the number of applications for membership received by the Board during the past two months and the aggregate deposits of the applying banks. With the thought that the Reserve banks would be interested in receiving current information with regard to membership activity in other districts, similar tables will be distributed in this way each month.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-629-a

Applications for Membership Received

by the Board during 1940

| District | February Number | February Deposits | This Year Number | This Year Deposits |
|---|---|---|---|---|
| Boston | - | - | - | - |
| New York | - | - | - | - |
| Philadelphia | - | - | 1 | $ 400,000 |
| Cleveland | 2 | $3,300,000 | 4 | 7,700,000 |
| Richmond | 4 | 4,800,000 | 4 | 4,800,000 |
| Atlanta | - | - | - | - |
| Chicago | 2 | 500,000 | 4 | 1,000,000 |
| St. Louis | 2 | 1,500,000 | 4 | 2,500,000 |
| Minneapolis | - | - | - | - |
| Kansas City | 1 | 600,000 | 1 | 600,000 |
| Dallas | - | - | 2 | 1,300,000 |
| San Francisco | - | - | - | - |

R-629-a
March 15, 1940
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS
FOR THE MONTH OF FEBRUARY 1940

BOSTON

Seventeen member banks were visited during February. No large cities are included in the itinerary, most of the points being small trading centers and sites of one or more manufacturing concerns.

Retail trade at most points was reported to have fallen off seasonally during the past sixty days; all manufacturing concerns were reported to be operating full time with no recent appreciable changes in pay rolls.

The reception was cordial and friendly at all banks visited. No general complaint was heard with respect to the loan demand, the investment market or the operations and policies of the Federal Reserve System.

NEW YORK

During the month of February 209 banks were visited, of which 149 were member banks and 60 were nonmember banks.

Essex County, New Jersey

Deposits of the commercial banks aggregate $470,439,000 and are approximately $35,000,000 higher than six months ago, the increase being quite well distributed among the banks in the group. The only bank which has shown any real downward trend in deposits is a small institution which discontinued paying interest on its savings deposits last year, the amount of the decrease being about $120,000. Deposits of the savings institutions on the other hand now total about $174,575,000 as compared with $179,808,000 on June 30 last, a decrease of approximately $5,233,000 which has affected all eight savings banks. The mandatory reduction in the interest rate on savings deposits to 1 per cent in New Jersey is given by the officers of these institutions as the principal reason for the withdrawals. They say that following the reduction in rate on July 1, 1939, there was a definite downward trend, much of the funds withdrawn finding their way into New York City savings banks or being placed in some form of investment yielding a higher return. An officer in the largest savings bank, the

Howard Savings Institution, estimates that their loss has been about 1.3 per cent and the average for all New Jersey savings banks 1.6 per cent, the percentage being higher in some of the smaller outlying banks. It is now believed that this downward trend has stopped, but there appears to be little prospect of a deposit increase in the near future in view of the low interest rate.

Commercial bankers in this area in general express approval of the action of the Commissioner of Banking and Insurance on July 1 last in fixing the maximum interest rate that may be paid on savings deposits at 1 per cent, and commend the move as a constructive one, believing it will give the banks a breathing spell during which many will have an opportunity to improve their condition and build up their capital funds. While some savings bankers concur in this viewpoint, others are decidedly opposed to the 1 per cent rate, feeling that it is too low and is not needed in their case.

Member bankers in this area are friendly toward the Federal Reserve System and offer no criticism of its policies. A few report that they have run into difficulties in checking back differences in our cash letters because the items have not been received in the same order as listed due to the new system we are trying out in connection with our transit department operations. Nonmember bankers in this county, while friendly, do not show any real interest in Federal Reserve membership at this time. Most of these banks probably could not qualify without making some immediate charge-offs which they prefer to do more slowly; and others have low capital ratios or insufficient capital. The executive officer of one nonmember bank stated that he could see no advantage in membership as it would mean additional work for him in the way of reports and in the observance of new regulations.

Bankers say that business in general is showing signs of slowing up due, they think, to the fear that this country may be drawn into the war and also to political uncertainties in connection with the coming national election.

Hudson County, New Jersey

According to the published statements as of December 30, 1939, the twenty-four commercial banks in this county had deposits aggregating $328,040,000 of which $214,250,000 was held by the fifteen member banks and $113,790,000 by the nine nonmember institutions, and the four savings banks had combined deposits of $75,107,000. The savings banks and most of the commercial banks have experienced a gradual seepage of savings deposits since the mandatory order reducing the interest rate to a maximum of 1 per cent became effective throughout the State last July 1; and it is said that the funds withdrawn have been invested in United States Savings Bonds to a considerable extent, or deposited in New York savings banks where the rate of interest paid continues at 2 per cent. Many officials indicate that the mandatory reduction in rate has been of great benefit to the earnings of their institutions and regard it as being a very constructive move on the part of the State banking authorities. The president of the largest savings bank in the county, however, remarked that his institution could easily afford to pay the 2 per cent rate and thereby meet the competition of the savings banks located across the Hudson River in Manhattan.

A number of commercial banks are limiting the amounts on which interest is paid on savings deposits, ten of them requiring a free balance of $100. The following rates are now being paid by the banks in the county:

| No. of Banks | Rate |
|---|---|
| 16 (including the 4 savings banks) | 1 per cent on the entire balance |
| 9 | 1 per cent above a free balance of $100 |
| 1 | 1 per cent on balances above $100 up to $5,000, and 1/2 per cent on any excess |
| 1 | 1 per cent on balances up to $10,000, and 1/4 per cent on any excess |
| 1 | 1 per cent on the first $5,000, 1/2 per cent on the next $5,000, and 1/4 per cent on any excess over $10,000. |
| 28 | |

United States Government securities continue to be the largest single item in the assets of most banks, and for a long period all new purchases have been confined largely to this class of securities. A number of bankers indicate a desire to increase the earnings of their institutions but hesitate to make new bond purchases at present high prices, preferring to hold sizeable amounts of idle cash so as to take advantage of any opportunity to purchase bonds at lower levels. In this connection the president of one of the largest trust companies in the county (deposits $54,000,000) remarked that his institution has sold some medium term United States Government bonds and reinvested a lesser amount in longer term Government obligations bearing a higher yield, the purpose of the switch being to increase cash without any sacrifice in earnings.

Loan portfolios which were formerly the most lucrative source of bank earnings continue to decline. The majority of banks report that their large industrial and business customers are not seeking any credit and that most loans granted are of relatively small amounts. Two banks in the county have adopted a new plan of granting personal loans up to $500 to people who have steady jobs, without co-makers, endorsers, or collateral. Under this arrangement the credit risk is investigated thoroughly and it is required that the applicant have an unbroken employment record for at least three years; otherwise a satisfactory endorser or other collateral must be furnished.

The president of a large member trust company referred to the fact that he has three directors whose joint service with other banking institutions comes within the prohibition of Section 8 of the Clayton Act, and expressed satisfaction that, under a recent extension of time, these men may continue to serve until June 1, 1940. He says he hopes in the meantime that the law will be amended so as to permit interlocking bank directorates in cases where the directors have served continuously since August 23, 1935. He remarked that, before the last extension of time was granted on February 1, 1940, he approached three individuals who are heads of corporations that are good customers of his bank to become directors, and said that all of them refused to serve, giving as a reason that they find it necessary to devote their entire time to their own business affairs. He contends that this is a good example of the present day difficulties of obtaining new directors of proper experience and capacity, and that banks should be permitted to retain the men now serving on their boards.

Another banker expressed the opinion that a good deal of the difficulty today with our banking system is over-regulation and supervision by the banking authorities, which he claims has hindered banks in making loans that would otherwise be granted to the smaller type business concerns, and that this has led to agitation for possible legislation such as is being discussed in connection with the proposed Mead Bill. He maintains that banks in this county are doing all they can to clean up their substandard assets and build up a satisfactory capital structure, but points out that earnings have been adversely affected by the easy money policy of the Government so that the return on investments is not as large as formerly, and that extra expenses have been incurred due to Social Security taxes, the Wage and Hour Law, etc.

<u>Greene, Orange, Rockland, Sullivan, and Ulster Counties, New York</u>

These five counties are situated in the southeastern part of New York State. Since our last report of visits to banks in this area, the Nyack National Bank and Trust Company has been converted (January 31, 1940) into a State institution, retaining its membership in the Federal Reserve System. There are seventy-six banking institutions in these five counties--fifty-nine members, five nonmembers, and twelve savings banks. One member trust company operates a branch in its home city.

Deposits of the sixty-four commercial banks total $109,213,000 of which $65,796,000, or approximately 60 per cent, are savings accounts. Deposits of the twelve savings institutions aggregate $80,712,000 and reflect an increase during the past year of about 1 per cent as compared with a gain of 2.8 per cent shown by the commercial banks. All the savings institutions continue to pay the maximum rate permitted by regulations of the New York State Banking Department--2 per cent on balances up to $7,500--but there have been further decreases in the rates paid by the commercial banks, which are now as follows:

| No. of Banks | Rate |
|---|---|
| 18 | 2 per cent on entire balance |
| 2 | Old accounts: 2 per cent on first $7,500, and 1½ per cent on any excess. New accounts: 1½ per cent on first $7,500, and 1 per cent on any excess |
| 2 | 2 per cent on first $3,000, and 1½ per cent on any excess |
| 1 | 2 per cent on first $1,000, no interest on any excess |
| 30 | 1½ per cent on entire balance |
| 2 | 1½ per cent on first $7,500, 1 per cent on next $7,500, no interest on any excess |
| 1 | 1½ per cent on first $7,500, no interest on any excess |
| 1 | 1½ per cent on first $5,000, no interest on any excess |
| 7 | Do not accept interest bearing accounts |
| 64 | |

The security accounts of the commercial banks aggregate $52,160,000 of which $29,970,000, or about 57 per cent, are obligations of the United States Government. Portfolios of the savings banks amount to $31,696,000 and include $19,355,000 United States Government issues representing approximately 61 per cent of the total. Compared with the figures of one year ago, total Government issues held by all banks have decreased 13.2 per cent and their holdings of other bonds 11.5 per cent. While these decreases are to some extent due to frightened selling just previous to, or at the time of, the outbreak of the European war, they are more generally attributed to a desire on the part of a considerable number of banks to dispose of certain substandard corporate issues and to offset the losses so incurred with profits taken on United States Government bonds. Officers of several institutions state that they are gradually disposing of all corporate issues in pursuance of a plan to eventually confine security investments to United States Government obligations. Among the smaller banks the United States Savings Bonds, up to the $7,500 maximum, are an increasingly popular investment medium; and a number of officers expressed satisfaction with the $5,000 preferred allotment feature which was provided for in the offering of United States Treasury bonds last December. Some, however, object rather strongly to the registered requirement and others to the delayed delivery, believing both of these provisions to be unnecessary.

Loans of the commercial banks now total $41,457,000 having increased 8 per cent during the past year, largely as a result of greater effort in reaching out for personal and consumer credit loans, as well as for those secured by mortgage or life insurance collateral.

Comments of bank officers regarding the Federal Reserve System and the Federal Reserve Bank of New York were favorable, their criticisms being generally directed at Governmental policies. The president of one bank expressed considerable pessimism as to the future of United States Government bonds, but another is of the opinion that, in view of the large amount of such issues which are closely held by individuals, institutions, life insurance companies, and other banks, the price can be controlled by the Treasury Department and the Federal Reserve Open Market Committee. Continued Government spending, the distribution of relief funds to unworthy individuals in the community, and the activities of various Federal lending agencies which compete with the banks, all come in for their share of criticism, one executive stating that practically every piece of recent Federal banking legislation has "cost the banks money". The president of one bank who is also vice president of a savings institution located in the same city, is very much perturbed over the failure of real estate to show any material recovery, and stated that in his opinion this is the most alarming feature of our present economic situation.

There appears to be general dissatisfaction with provisions of the Wage and Hour Law among bank executives in this territory, although the majority have so far been able to confine the work of employees to the present forty-two hour requirement, with the payment of little or no overtime. Objections are based principally upon the premise that the law unduly restricts ambitious employees who do not care to "watch the clock", and penalizes a class of employers who have always been accustomed to grant full pay to their help during periods of illness, vacations, and occasional days off. Practically all bank executives were astonished by the favorable reaction of their customers toward year-round Saturday closing, as evidenced by the recent vote taken under the auspices of the New York State Bankers Association; and many now hope that legislation to that end will be enacted. If this should come about, the bank officers generally feel that there will be no difficulty presented thereafter by the Wage and Hour Law, and that it will not become necessary to consider further the possibility of adjusting their present schedules of banking hours.

The nonmember banks of these counties do not appear to be giving serious thought to the subject of membership in the Federal Reserve System. The executive officer of one bank which a year ago seemed to be a likely prospect, has decided, after discussing requirements with some of our officers, that the necessary write-offs would be too drastic, and that he would prefer to distribute them over an extended period and perhaps apply for membership after this is done.

## PHILADELPHIA

During February 126 banks were visited, of which 80 were member banks and 46 were nonmember institutions.

### Delaware

With the exception of the strictly farming communities, conditions throughout the State show a substantial improvement as compared with those existing a year ago. Most industrial establishments have been operating full time and, although there has been a slackening in activity since the first of the year, bankers said they believed that the decline will be of short duration. At one of the larger plants, which sells the major portion of its output to foreign countries, production is expected to be curtailed because of the risks involved in ocean shipping.

Credit demand, generally, is only fair but those banks situated in the lower portion of the State are reported to be receiving a good demand for mortgage money. This is attributed to the large residential building program which has been under way since the new nylon plant of the E. I. du Pont DeNemours Company was started at Seaford in the latter part of 1938.

Total resources at all banks are approximately $42,000,000 greater than in April, 1939, reflecting the greatly increased corporation deposits at Wilmington banks.

Interest rates paid on time deposits are as follows:

18 banks pay 2-1/2 per cent,
32 banks pay 2 per cent.

Delaware County, Pennsylvania

This county is in the extreme southeastern corner of Pennsylvania. Many of its communities are within the Philadelphia suburban area and are primarily residential in character. Industrial activities have shown considerable improvement since a year ago. The Sun Shipbuilding Company is employing about 5,000 persons at present, and indications point to a heavy working schedule for some time to come. The Baldwin Locomotive Works is operating steadily and compared to a year ago shows an increase in the number employed. The oil refineries at Marcus Hook also are operating steadily.

Poor investment opportunities cause numerous comments by the individual bankers who are, for the most part, inclined to be somewhat pessimistic concerning the future. While depreciation still exists at some banks, most of the investment accounts show appreciation. New securities purchases are being confined largely to Government issues.

Total resources show an increase of $3,421,000 since last April, most of which results from increased time deposits. Savings accounts bear the following rates of interest:

1 bank pays 2 per cent on the first $1,000, 1-1/2 per cent on the next $4,000, and 1 per cent on all balances over $5,000.
4 banks pay 1-1/2 per cent.
10 banks pay 1 per cent.

Chester County, Pennsylvania

A large percentage of the loans being granted in this county are for small amounts and as a result, several bankers are considering the installation of small loan departments.

Total resources of all banks are about $1,700,000 greater than in April, 1939.

Interest rates paid on time deposits are as follows:

1 bank pays 2-1/2 per cent.
13 banks pay 2 per cent.
2 banks pay 2 per cent on the first $5,000 and 1-1/2 per cent on all amounts over $5,000.
3 banks pay 2 per cent on the first $1,000 and 1-1/2 per cent on all amounts over $1,000.
3 banks pay 1-1/2 per cent.

Montgomery County, Pennsylvania

Depreciation of securities continues to be the chief problem for most banks in this county. Several bankers reported that they were anxious to liquidate the bond portfolio, particularly railroad holdings.

Credit demand for the most part has been light. Several banks have been active in the small loan field and considerable attention is being given to new car financing. FHA mortgages are in general favor either as a loan on local properties or for purchase as an investment. Loan liquidation is generally satisfactory.

Deposits continue to grow and resources for the county show an increase of $6,846,000 since May of last year. The following rates of interest prevail:

16 banks pay 2 per cent on savings accounts
16 banks pay 1-1/2 per cent on savings accounts
2 banks pay 1 per cent on savings accounts
1 bank pays 1-1/2 per cent on $1,000 and 1 per cent on the balance
1 bank pays 1 per cent on $1,000 and 1/2 per cent on the balance

The secretary and treasurer of a nonmember trust company with deposits in excess of $10,000,000 said that his board of directors had often spoken of membership, but were unable to see any advantage in joining the System. This institution is permitted by State law to purchase preferred stocks and now holds a selected list which produces a good income and shows a handsome appreciation. Having to forego the privilege of such investments is probably the greatest barrier to membership. Furthermore, by conducting the bank in accordance with the general objectives and regulations of the System, the management feels that it is furthering good banking practice without subjecting itself to further restriction.

Membership was discussed with several nonmember bankers during the month and the reception accorded the subject was friendly. Several expressed a desire to discuss the matter further and at the request of one banker, two of our officers visited his bank to discuss membership with the management.

## CLEVELAND

During the month of February 182 banks were visited, of which 103 were member banks and 79 were nonmember banks.

One member bank has suggested (other banks have hitherto made the same suggestion) that it would be a fine service if all Federal Reserve banks worked together on safekeeping of securities, particularly if securities which member banks wished held for New York delivery could be deposited with Federal Reserve Bank of New York. The practical difficulties involved in working out such a plan were explained.

One bank has shown a sharp increase in loan totals attributed entirely from lowering the rate from 6 to 5%. This action, the member banker stated, is bringing back customers who have been borrowing from insurance companies and other lending agencies.

State member banks in Ohio are again complaining of the lack of uniformity in reports of condition to be filed with the Federal Reserve bank and the State Banking Department.

The president of a large trust company in Pennsylvania (uninsured) said it would not pay for his bank to belong to the Federal Deposit Insurance Corporation since his depositors would be insured for such a small proportion of deposits. He stated that if F.D.I.C. assessments were properly calculated he might join the Federal Reserve System.

Another large trust company in Pennsylvania has considered the subject of membership and said that they see no particular advantage in it at this time. They also expressed a fear of increasing the number of reports that may be required.

## RICHMOND

During February 35 banks were visited, of which 24 were members and 11 were nonmember banks.

### Maryland

Exports of Maryland tobacco formerly accounted for a large portion of the total crop, but successively recurring obstacles have all but eliminated that source of demand. The gradual loss of the export market, however, did not have an adverse effect on Maryland tobacco, for increased consumption of Maryland tobacco in the manufacture of cigarettes took up the slack.

Lending rates are mostly 6 per cent, although a few large, well-secured loans are made at 5 per cent. Washington and Baltimore banks and insurance companies are competing with local banks, offering rates of 4 and 4-1/2 per cent.

The principal loan activity at the present time is the financing of automobile purchases and personal loans, but neither of these outlets calls for any substantial volume of credit. Some banks could further increase loans on real estate but for the fact that such loans are already up to the legal limit, while other banks are quite actively competing for FHA business.

A few nonmember banks expressed some interest in membership for prestige purposes. These particular banks, however, considered the prestige of the "National" designation to be paramount to that of "Member of the Federal Reserve System".

## ATLANTA

During February 23 banks were visited, of which 10 were members and 13 were nonmembers.

Officers of the New Orleans Branch visited six member and twelve nonmember banks located in the State of Mississippi.

The territory visited has experienced unusually cold weather this winter. The bankers interviewed believe that the boll weevil and other insects harmful to cotton were destroyed by the hard freezes of the past few weeks, and good crops for the coming season are expected. Cattle raising is increasingly important as a source of income to the farmers in the area visited. It was reported that no important losses of cattle had resulted from exposure to the cold.

A large member bank of Miami, Florida, has made available to the Federal Reserve Bank the results of a confidential survey of the damage to Florida citrus and vegetable crops occasioned by freezing weather in January. The survey indicated that an estimated 50% to 60% of the orange crop may have been destroyed, and that as much as 40% of the grapefruit crop may have been severely damaged. The financial loss is, of course, not nearly so great as that indicated by the destruction of the crop, for the reason that the price of citrus fruit has a little more than doubled since the freeze.

## CHICAGO

During the month of February 11 member banks and 4 nonmember banks were visited, a total of 15 banking institutions.

The movement on the part of banks in establishing small or personal loan departments continues. Three bankers expecting to open such departments in the near future called at this bank during the past week for the purpose of obtaining information relative to handling these loans. Some of the banks are adopting a plan in connection with their small loans under which a co-signer is not required and on which a flat service charge of $5.00 is made regardless of the amount of the loan, the notes being discounted at the legal rate of interest. A large finance company will establish five branches in the city of Chicago for the purpose of making small loans; this is a result of the activity on the part of banks in the installment loan field. Bankers seem to be of the opinion that long-term loans and consumers' credit are the only fields in which the large city banks can expect to increase their loans materially. As an illustration of the difficulty in keeping funds invested, one banker cited the fact that, notwithstanding they had loaned $25,000,000 during 1939, their loans had shown an increase of only about $200,000.

Operating ratios of member banks for 1939 are being prepared in this bank and will be ready for distribution at an early date.

The following comments and criticisms were heard during the month:

(a) Public service provided by banks:

One bank by diminishing its service to the community could reduce its expense in handling savings deposits by 50 per cent if it were to eliminate the accounts less than $100, which represent about 4 per cent of its total savings deposits.

A number of banks feel that it is an imposition to be asked to handle food stamps in connection with the distribution of surplus commodities.

(b) There seems to be a recurrence of complaints regarding the operation of currency exchanges in Illinois, especially in those instances where customers are permitted to check on the exchange.

(c) One banker suggested that the Open Market Committee diversify its portfolio by buying some Treasury bills--the committee could let these bills run off or dispose of them and thus be in a position to take care of any upset condition in the bond market. Another expressed himself as feeling that there should be a free gold market and that the public should again be allowed to have gold. Another stated that he felt that no one in his city had "any kick coming", as business is fairly normal; his bank made more money in 1939 than it did in 1929.

(d) At a group meeting in Iowa there was more complaint than for some time concerning competition from Governmental loan agencies, the statement being made that the supervisor in charge of the district was instructing the local managers of the Production Credit Corporation to "forget the small $500 and $1,000 loans and get the loans that the banks have." Another banker stated that one agent of the Production Credit Corporation secured a list of his borrowers and made a canvass among them for loans. On the other hand, a representative of the State Banking Department of Indiana informed us that there is less complaint than formerly about Government competition in the loaning field among the banks with which they come in contact; these banks apparently have become convinced that they must solicit loans just as they solicited deposits in the past. He stated that the State banks of Indiana are making more money than they have in some years past.

## ST. LOUIS

During the month of February, 101 banks were visited of which 23 were members and 78 were nonmembers.

With few exceptions, Arkansas banks reported a successful year. A number are improving their quarters, some by purchasing new buildings, others by reconditioning the present ones. Preferred stock is being retired. Loans carry rates of from 3% to 10%. Interest on time deposits ranges from 1% to 2-1/2%. Numerous complaints against Government lending agencies were registered. Some par nonmembers manifested interest in membership. However, most of the nonpar banks are reluctant to give up exchange on cash letters, which income they claim is necessary to the successful operation of their banks. The banking outlook for 1940 is in the main optimistic.

## MINNEAPOLIS

During the month of February 24 banks were visited, of which 13 were member banks and 11 were nonmember institutions.

## KANSAS CITY

During February 55 banks were visited, of which 26 were member banks and 29 were nonmembers.

Most of the bank visits were in southern and eastern Oklahoma. Banks and insurance companies are rather aggressively encouraging tenant farmers to buy small farms, mostly from insurance companies. The Farm Security Administration is also cooperating.

Some Oklahoma banks were found that have suffered appreciable losses in deposits in recent years. In one bank, deposits were 40 per cent under those of a year ago due to oilmen moving to Texas and Illinois fields. In the case of another bank, deposits last December fell off nearly one-third of a million dollars due to withdrawals on account of the new law that would tax bank deposits. In southern Oklahoma it is said oilmen are transferring their residences to Texas and shifting their bank deposits to that State. More recently it has been established that a nonresident can leave his money on deposit in an Oklahoma bank and not be taxed and it is now believed that some of this money may return. Late in February the State Supreme Court upheld the new intangible tax law which, among other things, attempts to tax cash on hand. Since United States notes--commonly known as Greenbacks--and Federal Reserve notes are direct obligations of the United States, interesting developments may result from this decision.

Up to a few weeks ago it had been believed that the State of Oklahoma could not issue nonpayable warrants when there were no funds to pay accruing obligations. But the State Supreme Court held such warrants could be issued to the amount of the difference between the funds duly appropriated by the legislature and the cash funds on hand to meet such appropriations. These nonpayable warrants bear 4 per cent interest and are paid out of tax receipts in the order they were issued. By the end of February such warrants to the amount of more than four million dollars had been issued. These warrants have been eagerly sought after by banks, insurance companies, and other investors.

## DALLAS

In February 76 banks were visited, of which 54 were member banks and 22 were nonmember banks.

One uninsured nonmember bank in this area, with deposits in excess of $6,000,000, was reported to be paying one-half of one per cent interest on daily balances of its correspondent banks.

Banks reported their earnings for the year 1939 showed an increase over the previous year. While agricultural and livestock producers have suffered from the effects of two years of drouth, general business conditions have remained fairly stable and satisfactory, due partly to the direct and indirect stimulation derived from the activities of local oil fields and refineries.

No complaints were voiced by the visited banks in regard to their Federal Reserve relationships, but a few repeated the oft-heard criticisms of the competitive activities of Governmental lending agencies.

Generally speaking the demand for credit in this section shows a tendency to increase. Cattle raising is gradually giving place to stock farming, creating new avenues for the extension of bank credit. Interest rates currently paid on time deposits range from 1 per cent to 2 per cent.

The change in the uniform instructions governing the protest of dishonored cash items seems to be meeting with almost universal approval in this section.

In McLennan County the Farm Security Administration has inaugurated its first important experiment, so far as Texas is concerned, in converting tenant farmers into farm owners through the purchase of a large tract of land which it is cutting up into blocks of 100 acres and selling to tenant farmers on long terms. It is estimated that the Government spends from $10,000 to $11,000 on each farm, including the cost of the land and improvements, before selling it to a farmer. The latter rents the farm from the Government for the first five years, paying his rent in the form of a percentage of his crops. At the end of that period if he has met the rental requirements he receives a deed to the farm and is allowed up to forty years to pay for it. In one community nineteen farms have been contracted for on this basis, but some doubts are expressed by local bankers as to the ability of the tenant farmers to carry out their contracts successfully.

## SAN FRANCISCO

During the month of February 17 banks were visited, of which 12 were member banks and 5 were nonmember banks.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

February 1940

| Federal Reserve Bank | Visits to Banks | | | Meetings Attended | | Addresses Made | |
|---|---|---|---|---|---|---|---|
| | Member | Nonmember | Total | Number | Attendance | Number | Attendance |
| Boston | 17 | - | 17 | - | - | 3 | 127 |
| New York | 149 | 60 | 209 | 13 | 3,815 | - | - |
| Philadelphia | 80 | 46 | 126 | 6 | 2,485 | 3 1/ | 700 |
| Cleveland | 103 | 79 | 182 | 5 | 3,022 | 9 | 926 |
| Richmond | 24 | 11 | 35 | 6 | 2,700 | 3 | 280 |
| Atlanta | 10 | 13 | 23 | 1 | 80 | 3 | 200 |
| Chicago | 11 | 4 | 15 | 4 | 1,650 | 3 | 440 |
| St. Louis | 23 | 78 | 101 | 8 | 2,190 | 7 | 519 |
| Minneapolis | 13 | 11 | 24 | 8 | 1,755 | 4 | 260 |
| Kansas City | 26 | 29 | 55 | 4 | 1,708 | 1 | 50 |
| Dallas | 54 | 22 | 76 | 10 | 6,100 | 2 | 2,200 |
| San Francisco | 12 | 5 | 17 | 10 | 545 | 1 | 20 |

1/ Includes one radio speech for which no audience number could be reported.

R-630

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1940

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:

| Number of copies | Form |
|---|---|
| | 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. |

No change has been made in any of the forms listed above except form F. R. 105. The changes in that form are not of substance and are all in Schedule D, "Miscellaneous". The items in that schedule have been rearranged and some of them subdivided so as to make it possible to cross check them with the controlling balance sheet items appearing on the face side of the report. The changes were made in order to obviate errors of the kind made in the October 2, 1939 call reports.

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

STATEMENT FOR THE PRESS

For release in morning papers, Tuesday, March 19, 1940.

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

Industrial activity showed a further sharp decline in February and a less marked reduction in the first half of March. Wholesale commodity prices generally were steady, following some decline in January and early February.

Production

In February the Board's seasonally adjusted index of industrial production was 109 per cent of the 1923-1925 average as compared with 119 in January and 128 in December. A further decline at a slower rate is indicated for March on the basis of data now available. In August 1939, the month prior to the outbreak of war, the index was 103.

Steel production, which had risen sharply in the latter part of 1939 and then decreased considerably in January, showed a further marked reduction in February to 69 per cent of capacity. In the first half of March output was steady at a rate of about 65 per cent. Plate glass production declined further in February and output of lumber, which had dropped sharply in January, showed less than the usual seasonal rise. Automobile production in February was maintained at the high level prevailing in January. Dealers' stocks of new cars rose to high levels in this period, notwithstanding the fact that retail sales of cars were in large volume for this time of the year. In the first half of March output of automobiles showed less than the customary sharp increase. In some industries not included directly in the Board's production index, particularly the machinery, aircraft, and rayon industries, activity continued at high levels.

Changes in output of nondurable goods were largely seasonal in February except at textile mills and sugar refineries. At cotton textile mills activity declined somewhat from the high levels prevailing since early last autumn. Activity at woolen mills, which had decreased considerably in December and January, declined further in February and output of silk products was reduced to an exceptionally low level. Sugar refining showed less than the sharp rise usual at this season.

Mineral production declined in February, owing chiefly to a considerable reduction in output of anthracite. Bituminous coal production declined somewhat, following a rise in January, while output of crude petroleum increased to new high levels.

Value of construction contract awards in February showed little change from the January total, reflecting a further decrease in contracts for public construction and a contraseasonal increase in private contracts, according to figures of the F. W. Dodge Corporation. The increase in private residential awards nearly equalled the decline that occurred in the previous month when severe storms curtailed building operations in many areas.

Distribution

Retail distribution of general merchandise showed little change from January to February and remained somewhat below the high level of the latter part of last year, with due allowance for seasonal changes. Sales at variety stores and mail-order houses showed about the usual seasonal rise in February, while at department stores, where some increase is also usual at this time of year, sales remained at about the January level.

Freight-car loadings declined considerably from January to February, reflecting for the most part a sharp reduction in coal shipments and some further decrease in loadings of miscellaneous freight.

Foreign trade

Exports of United States merchandise in February declined less than seasonally from the high levels reached in December and January. The principal decreases were in shipments of cotton, copper, and aircraft, which had been exceptionally large in previous months. Exports to Japan fell sharply and there were declines also in shipments to the United Kingdom, the Netherlands, and Russia, while exports to Belgium and the Scandinavian countries increased.

There has been little change in the rate of gold inflow.

The monetary gold stock increased by $246,000,000 in February and by $109,000,000 in the first two weeks of March.

Commodity prices

Prices of nonferrous metals advanced from the middle of February to the middle of March, while steel scrap and textile materials declined somewhat further. Most other commodities showed little change and in the week ending March 9 the general index of the Bureau of Labor Statistics was at 78.3 per cent of the 1926 average as compared with 78.5 a month earlier.

Government security market

Following a relatively steady market during February, prices of long-term Treasury bonds increased sharply after the announcement by the Treasury early in March that its operations during that month would be limited to the issuance of a five-year note to refund a note maturing next June.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities rose during the six weeks ending March 13, largely as a result of increases in investments at New York City banks. Following a reduction during January, commercial loans increased, mostly at banks in cities outside New York. Bank reserves and deposits continued to increase during the period.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-632

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 20, 1940

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by Federal Reserve banks and branches during the month of April 1940:

| | | |
|---|---|---|
| April 12 (Friday) | Charlotte | Halifax Independence Day |
| April 13 (Saturday) | Richmond<br>Birmingham | Thomas Jefferson's Birthday |
| April 19 (Friday) | Boston | Patriots' Day |
| April 22 (Monday) | Omaha | Arbor Day in Nebraska |
| | Oklahoma City | Anniversary of Opening of Oklahoma Territory |
| | Dallas<br>El Paso<br>Houston<br>San Antonio | In observance of San Jacinto Day, which falls on Sunday |
| April 26 (Friday) | Atlanta<br>Birmingham<br>Jacksonville | Southern Memorial Day |

On the dates mentioned 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 the offices affected on each of the abovementioned holidays with your credits for the following business day. No debits covering shipments of Federal Reserve notes for account of the head offices affected should be made in your note settlements of April 13, 19, 22, or 26.

Please notify branches.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-633

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 22, 1940

Dear Sir:

In reviewing the Minutes of the Meeting of Conference of Presidents held in Washington December 12, 1939, it is noted that after consideration of the topic "Acceptance of immediate-credit cash items without description" the Conference voted "That the question as to whether a Federal Reserve bank will accept immediate-credit cash items for collection without requiring that any description of such items be either sent to it or maintained by the bank forwarding such items to it should be left to the determination of each Federal Reserve bank in its discretion." This action of the Conference of Presidents goes beyond that recommended by the Standing Committee on Collections in its report dated September 20, 1938.

For the information of the Board it will be appreciated if you will advise us to what extent your bank and branches, if any, accept cash items for collection without description from member banks in your district, member banks in other districts, or other Federal Reserve banks, which are payable (a) in the city of your head office, or one of your branches, (b) in your district outside such cities, or (c) outside your district, and the arrangements, if any, you have with the forwarding banks for furnishing your bank with a description of the items in case description is needed by you.

Since the revised check collection procedure that went into effect September 1, 1939 has now been in effect for six months, it will be appreciated if you will advise the Board as follows with respect thereto:

1. What have been the reactions of member banks of the various sizes and locations in your district to the revised check collection procedure?

2. As a result of the changes made in the check collection procedure, are member banks making greater use of

your check collection facilities? Are any additional banks using such facilities?

3. In connection with the uniform provision contained in the check collection circular regarding the direct routing of cash items payable in other Federal Reserve districts, please advise (a) what average daily volume of items is considered sufficient to warrant your bank's declining to accept for collection such items unless they are routed direct to other Federal Reserve banks and branches, (b) the number of your member banks, if any, divided as between banks located in your head office and branch cities and banks located elsewhere in your district, that are depositing with you an average daily volume of items in excess of the number reported in (a) above, and (c) the largest average daily number of items payable in the territory of another Federal Reserve bank or branch being accepted from any bank in your district without requiring that they be routed direct, whether the bank is located in a Federal Reserve bank or branch city, and the total average daily number of items payable in all Federal Reserve districts (other than your own) which you receive from it.

4. If any basis other than volume of items is used in deciding upon the policy of your bank in connection with the direct routing of cash items by your member banks, please describe such basis.

5. Are any member banks now depositing interdistrict items with you which they formerly forwarded direct to other Federal Reserve banks? If so, how many banks and what volume of items are involved?

Any other information which you believe would be of interest to the Board in this connection will also be appreciated.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT SAN FRANCISCO

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-634

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 29, 1940

Dear Sir:

There is being sent to you under separate cover a supply of Regulation L which has been reprinted so as to incorporate all changes which have been made to date.

As you know, Regulation L has been amended on several occasions since it was last printed. You were advised of each of these changes when it was made (the last one was on February 1, 1940) and the reprint which is being sent to you at this time does not incorporate any changes other than those of which you have previously been advised.

Very truly yours,

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-635

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1940

Dear Sir:

Referring to the Board's letter R-593 of January 10, 1940, following is a statement of changes during March 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:

Addition

New York
New York City — J. P. Morgan & Co. Incorporated

Other Changes

Ohio
Change the location of the Milledgeville Bank from Milledgeville to Jeffersonville, and indicate by a footnote at the bottom of page 4 of the list R-593a that the subject bank changed its location on March 1, 1940.

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-636

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 8, 1940

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 March 1 to March 29, 1940.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-636-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
March 1 to March 29, 1940.

Federal Reserve Notes, Series 1934

| | $10 | $20 | Total Sheets | Amount |
|---|---|---|---|---|
| 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 | 3,000 | 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 | 4,000 | 14,000 | 1,288.00 |
| San Francisco | 46,000 | 24,000 | 70,000 | 6,440.00 |
| | 462,000 | 154,000 | 616,000 | $56,672.00 |

616,000 sheets @ $92.00 per M . . . . . . . $56,672.00

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-637

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 15, 1940

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 March 1940.

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,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-637-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF MARCH 1940

| 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 | 24,295 | 360 | 24,655 | $ 502.23 | $ 286.34 | $ 215.89 |
| New York | 77,427 | - | 77,427 | 1,577.21 | 947.88 | 629.33 |
| Philadelphia | 21,622 | 362 | 21,984 | 447.82 | 245.63 | 202.19 |
| Cleveland | 34,908 | 364 | 35,272 | 718.50 | 260.28 | 458.22 |
| Richmond | 29,349 | 360 | 29,709 | 605.18 | 232.91 | 372.27 |
| Atlanta | 45,896 | 360 | 46,256 | 942.25 | 239.55 | 702.70 |
| Chicago | 67,078 | 401 | 67,479 | 1,374.57 | 1,256.39 | 118.18 |
| St. Louis | 47,071 | 360 | 47,431 | 966.18 | 260.38 | 705.80 |
| Minneapolis | 23,443 | 360 | 23,803 | 484.88 | 187.13 | 297.75 |
| Kansas City | 51,847 | 360 | 52,207 | 1,063.47 | 273.06 | 790.41 |
| Dallas | 39,178 | 379 | 39,557 | 805.79 | 271.55 | 534.24 |
| San Francisco | 48,644 | 362 | 49,006 | 998.27 | 411.93 | 586.34 |
| Board of Governors | 217,638 | - | 217,638 | 4,433.35 | 10,046.67 | - |
| Total | 728,396 | 4,028 | 732,424 | $14,919.70 | $14,919.70 | $5,613.32 |

(1) Based on cost per word ($.020370305) 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 ($1,599.36) and wire rental ($8,447.31). 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.

R-638

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Thursday, April 18, 1940

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

Industrial activity continued to decline during March but at a somewhat slower rate than in the preceding two months, and in the first half of April there was little further decrease. Wholesale prices of basic commodities decreased somewhat in the latter half of March but recovered by the middle of April. Distribution of commodities to domestic consumers continued in large volume, and exports were at the high levels reached last December.

Production

The Board's index of industrial production, which is adjusted for usual seasonal variations and for the number of working days, was 103 in March compared with 109 in February. The decline reflected chiefly a further reduction in output of steel and considerable decreases in activity at cotton and woolen textile mills.

Steel ingot production declined from an average of 69 per cent of capacity in February to an average of 64 per cent in March. In the first half of April output was at around 61 per cent of capacity.

Automobile production in March and the first half of April was maintained at the high rate prevailing during January and February but did not show the increase customary at this season. Retail sales of automobiles continued in large volume, and dealers' stocks of new cars declined somewhat from the high level reached earlier. In the machinery industries activity showed some decline from the high rate of other recent months, while at aircraft factories and shipyards activity continued at peak levels. Output of lumber and plate glass advanced seasonally in March.

In the woolen textile industry, where activity had been declining from the high level reached last November, there was a further sharp reduction in March. Activity at cotton textile mills also declined considerably but remained at a somewhat higher level than prevailed a year ago. Shoe production likewise declined considerably in March. At silk mills activity remained at an exceptionally low level, while rayon production was large.

Mineral production was maintained in large volume in March. There was some further reduction in output of bituminous coal, but output of anthracite increased, following a sharp decline in February. Crude petroleum production continued at record levels.

Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, increased considerably in March, as is usual at this season. The increase was principally in awards for private work, which in March approximately equalled those in the corresponding period last year. Public awards increased somewhat, following declines in

January and February, but were in smaller volume than a year ago. Private residential building rose by about the usual seasonal amount.

Distribution

Sales of general merchandise at department and variety stores and by mail-order houses increased by about the usual seasonal amount from February to March, with allowance for the earlier date of Easter this year. In the first week of April sales at department stores were at a higher level than in March.

Freight-car loadings showed little change from February to March, although a rise is usual between these months. Shipments of miscellaneous freight showed considerably less than the usual seasonal increase, and there was some further decline in loadings of coal.

Foreign trade

Exports of United States merchandise in March continued near the high level reached last December. Agricultural exports, principally cotton, decreased from February to March, while there were substantial increases in shipments of commercial vehicles and in metal working, agricultural, and other types of machinery.

During March, the country's monetary gold stock increased by $256,000,000. In the first two weeks of April the rate of gold inflow was accelerated, acquisitions in this period amounting to $145,000,000.

Commodity prices

Prices of a number of basic agricultural and industrial commodities, which had declined in the latter part of March, advanced during the second week in April. Prices of certain finished steel products, on the other hand, were reduced, and prices of most other commodities showed little change.

Government security market

Prices of Treasury bonds moved sharply upward during March and the first few days of April to a new high level since last summer. On April 9, however, on receipt of news of the expansion of war activities in Europe, a decline of about one point occurred in long-term bonds. Subsequently the market recovered part of the loss. The yield on the 1960-65 Treasury bonds was 2.31 per cent on April 15, compared with a low of 2.26 per cent on April 2.

Bank credit

Reflecting continued heavy gold imports, excess reserves of member banks increased during the four weeks ending April 10 to a record high level of $5,950,000,000. Total loans and investments at banks in 101 leading cities, which had shown little net change during March, increased in the first two weeks of April, reflecting purchases of United States Government obligations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-639

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1940

Dear Sir:

On Thursday, May 30, Memorial 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 of Governors and all Federal Reserve Banks and Branches will be closed on that day except the Federal Reserve Bank of Atlanta and its Branches at Birmingham, Jacksonville, and New Orleans.

The Board is further advised that holidays also will be observed during the month of May by the following offices:

| | | |
|---|---|---|
| May 7 (Tuesday) | San Francisco<br>Los Angeles | Primary Election Day in California |
| May 10 (Friday) | Charlotte | Confederate Memorial Day |
| May 17 (Friday) | Portland | Primary Election Day in Oregon |
| May 20 (Monday) | Charlotte | Mecklenburg Independence Day |

Transit clearing credits for the offices mentioned on each of the holidays should be included with your credits for the following business day. No debits covering shipments of Federal Reserve notes for account of the Federal Reserve Bank of San Francisco should be included in your note clearing of May 7.

Please notify Branches.

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

R-640

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1940

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that, beginning Monday, April 29, and ending Saturday, September 28, the following Federal Reserve Banks and Branches will operate under daylight saving time:

Boston
New York
Buffalo
Philadelphia
Pittsburgh
Atlanta
Chicago

Please notify Branches.

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



R-641

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 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 March 1940, in response to the Board's letter of August 25, 1936 (X-9680), together with a table showing applications for membership received by the Board during the first quarter of 1940.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 2.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-641-a

Applications for Membership Received
by the Board during 1940
(through March 31, 1940)

| District | March | | This Year | |
|---|---|---|---|---|
| | Number | Deposits | Number | Deposits |
| Boston | - | - | - | - |
| New York | - | - | - | - |
| Philadelphia | 1 | $1,600,000 | 2 | $2,000,000 |
| Cleveland | - | - | 4 | 7,700,000 |
| Richmond | 1 | 200,000 | 5 | 5,000,000 |
| Atlanta | - | - | - | - |
| Chicago | 1 | 800,000 | 5 | 1,800,000 |
| St. Louis | 2 | 1,000,000 | 6 | 3,500,000 |
| Minneapolis | 2 | 1,700,000 | 2 | 1,700,000 |
| Kansas City | - | - | 1 | 600,000 |
| Dallas | 3 | 1,100,000 | 5 | 2,400,000 |
| San Francisco | - | - | - | - |

R-641-a
April 20, 1940.
Not for publication.

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE MONTH OF MARCH, 1940

## BOSTON

During the month of March 37 member and 2 nonmember banks were visited, making a total of 39.

In one large hardware center, a well-informed banker stated that local manufacturers had on hand sufficient volume of orders to warrant the assumption that existing employment and pay roll levels would be maintained throughout the balance of the year. In no community visited were any expressions of pessimism heard, although some bankers felt that the volume of new orders coming in in the case of certain concerns was gradually diminishing. Apparently these bankers felt no immediate concern as to the possibility of a reduction in the pay roll and employment levels in their communities. Retail trade throughout the area visited was reported as spotty. At most points complaints were heard regarding the volume of Easter trade.

Bankers generally complained of the lack of sufficient volume of loans, although apparently there was a slight increase in loans at most of the banks visited. The portfolios in most cases were made up largely of small installment loans and loans on real estate. The current demand was reported as coming largely from this type of borrower. In connection with the loan activities of the banks, there is a marked increase of interest in ways and means of expanding the local demand for loans, particularly the demand for small personal loans.

There is some slight indication of a general lowering of interest rates on savings deposits by member banks in Connecticut. The prevailing rates at the member banks are 1-1/2 to 2%--in most cases the latter rate is being paid. One bank has very recently gone to 1% and two others contemplate lowering their rates to 1-1/2% at the midyear. The experience of these banks and any decrease in earnings may influence other member banks to follow the lead noted. There is no indication that savings banks contemplate a rate change.

## NEW YORK

During March 154 banks were visited, of which 99 were member banks and 55 were nonmember banks.

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

Deposits of the fifty-seven member banks in this area amount to $359,300,000 and of the ten nonmembers $92,100,000, an aggregate of $451,400,000, reflecting an increase of about $31,000,000 since the last report of visits. The forty-five mutual savings banks have combined deposits of $1,769,000,000 as compared with $1,687,000,000 a year ago, showing an increase of $82,000,000. Of the twenty-one savings banks in the Borough of Brooklyn, sixteen are included among the one hundred largest savings banks in the country, according to a list recently published by the National Association of Mutual Savings Banks.

The security investments of both the commercial and savings banks are concentrated largely in United States Government securities and various State and municipal obligations. Most of the institutions have a fairly substantial net appreciation in their bond portfolios and a number of executives show an inclination to take advantage of present high prices, and sell some of their holdings.

The commercial bankers report a continued lack of demand for business loans and many of them indicate that the aggregate of their loan portfolios is only one-third to one-half of the 1929 volume. Most institutions are endeavoring to increase their loan accounts by advertising for consumer credit, automobile, and life insurance loans, and Federal Housing Title II insured mortgages. In a number of instances competition for these loans has resulted in banks cutting their rates of interest.

Several savings bankers voiced considerable opposition to the State mortgage moratorium law (prohibiting foreclosures if taxes and interest are not in arrears) which continues to be extended from year to year, this law having been enacted several years ago as an emergency measure for the purpose of restoring some degree of stability to the then demoralized real estate market. They believe that the primary purpose of the moratorium has been accomplished and that the best interests of the public will now be served by the passage of some modifying legislation looking toward its complete termination at an early date. It is pointed out that properties in general depreciate in value from year to year, that all savings banks and other lending institutions have many mortgage loans that are high as compared with present appraised values, and that many mortgagors are taking refuge behind the moratorium law although they could well afford to make periodic amortization payments.

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

Deposits of the commercial banks aggregate $120,500,000 ($75,750,000 being savings) and of the savings institutions, $17,900,000.

Demand deposits show an increase of approximately $4,000,000, whereas savings deposits (in the commercial and savings banks) show a decrease of about $1,000,000, which is due chiefly to the reduction in the interest rate to 1 per cent last July by order of the Commissioner of Banking and Insurance of the State of New Jersey. Most of the officers of these banks notice a slowing-up in new savings deposits, and banks within the commuting zones of Morris and Somerset Counties are losing some accounts to the savings banks in New York City, which continue to pay a 2 per cent rate. The earnings of all of these banks during the last six months of 1939 reflect some benefit derived from the lower interest rate, but several bankers still feel that a 1 per cent rate destroys the incentive for saving and will eventually prove costly to banks. Many officers, however, approve the action of the supervisory authorities in lowering the rate since it permits their institutions to place more emphasis on the quality of investments and less on income.

Security investments of all banks amount to approximately $65,500,000, of which $35,000,000, or 53 per cent, are United States Government issues, direct or fully guaranteed. The majority of these institutions show an increase in the amount of their holdings of Government bonds, the aggregate now being $1,700,000 greater than at the time of the last visits whereas other bonds have decreased nearly $5,000,000. One bank's account consists entirely of $900,000 United States Government issues. There is, in general, a preference for the shorter term securities, particularly United States Government obligations, and in several instances banks have switched from long- to short-term Government issues. The executive officer of one institution states that one-third of its $3,600,000 security account is in short-term Governments which with available cash will, he believes, enable his bank to take advantage of any drastic reaction which may take place in market values.

Officers of member banks are friendly and appear satisfied with membership in the Federal Reserve System. The officer of one member trust company referred to the difference in methods used by Federal Reserve examiners and those of the State Banking Department in valuing Group II bonds--the former using the eighteen months average price whereas New Jersey State examiners use current market prices--and he expressed the view that one method or the other should be used by both supervisory authorities. The executive officer of a national bank criticized the examiners for pressing him to sell substandard bonds when, he says, insured State banks in some instances are given five to ten years to dispose of large holdings of other real estate, on which the prospects of ultimate recovery appear to him to be less favorable than in the case of his bonds. Furthermore, he does not feel that the ratings of bonds by outside agencies should be accepted by the Comptroller's office as the final test as to the fitness of a security for bank investment. Officers of two banks say that the examiners are responsible to some extent for the decline in their loans, one saying that criticisms have caused his directors to be reluctant to lend money, and the other that the pressure for collections due to examiners' criticisms, has discouraged good borrowers.

The chief industrial area in these counties is centered around Bound Brook in Somerset County, in which are located such nationally-known concerns as Calco Chemical Company (a subsidiary of the American Cyanamid Corporation), the Johns-Manville Corporation, Bakelite Corporation, Sherwin-Williams Company (Insecticide Division), Ruberoid Company, and Pathe Laboratories. The combined pay rolls of all concerns in this vicinity amounted to approximately $9,000,000 in 1939, with between 8,000 and 9,000 workers employed. It is reported that business at some of these companies has "tapered off" somewhat since the first of the year but operations are being maintained at good levels and employment has been little affected.

## PHILADELPHIA

During March 71 banks were visited, of which 47 were member banks and 24 were nonmembers.

### Bucks, Northampton, Pike, Monroe, Wayne, and Susquehanna Counties, Pennsylvania

The six counties visited have an area of 3,710 square miles and a population of 364,000. Total resources of all banks are $164,900,000, an increase of $6,935,000 during the past year.

Conditions are satisfactory throughout the area and, although many bankers stated that there was evidence of a decline in industrial activity, they were satisfied that 1940 to date has been better than 1939. One prominent banker located in one of the larger cities said that factory operations in his community were dependent to such a great extent upon war orders that he was fearful of the effect if such orders should cease. In general, however, a continuance of the present good conditions is expected at least for several months.

Activity at the Bethlehem Steel Company at Bethlehem has increased to the point that 5,000 additional workers are being employed making the present total between 11,000 and 12,000. Some idle silk mills in this same community are being equipped to manufacture nylon hose and are expected to reopen about May 15th.

In one county two idle mills are to be reopened and are expected to employ about 500. Two other concerns located elsewhere were said to be increasing their forces as a result of the development of new products.

The condition of the farmer was said to be more favorable than a year ago, although it will be noted that many located in the northern counties suffered considerable loss by being unable to ship milk because roads were blocked by snow.

Railroad operations have increased to the extent that employees of the Erie Railroad, furloughed for as long as eight years, have been recalled to the Port Jervis, New York, yards, although at present some are on part time.

The real estate situation presents the major problem to many of the banks. The market in general is dull, although good rents are being obtained. The banks concerned are giving special attention to this problem but their success thus far has been small. There is but a negligible amount of new construction; in fact it is considerably less than a year ago and there are no indications of an early increase of this activity.

There has been an increase in credit demand, although the applications are usually for small amounts, and generally come within the classification of installment loans. Some FHA credit has been extended but only a few of the banks have been able to obtain a substantial volume of loans which meet the requirements.

Investment accounts were reported to be in much better condition than a year ago, the chief concern today being the poor investment opportunity resulting from present high prices. Several bankers expressed the opinion that present prices, particularly of Government issues, are too high and that there would shortly be some recession from these levels.

Nonmember bankers have been much more inclined to discuss membership in recent months than for several years. While they realize that little savings can be effected by the change, their sympathy with the general objectives of the System and the belief that there may come a time in the future when the facilities of the System will be of greater practical value are the chief factors prompting this revival of interest.

Officers of nine banks were interviewed this month specifically to learn why they had not expressed a desire to have their banks in the System. As a result, one institution has invited us to examine it for membership, two others are definitely interested, one bank will join if its present capital is found to be satisfactory, while one whose president is very friendly to the System said that the present attitude regarding Title Departments kept his board of directors from evidencing greater interest.

CLEVELAND

Of the 210 banks visited in March, 135 were member banks and 75 were nonmember banks.

During the month of March two State banks, with aggregate resources of $3,740,000, were admitted to membership.

A nonmember State banker in Kentucky has frankly stated that he is not interested in membership by reason of the difference between the Kentucky State reserve requirements and those of the Federal Reserve. His business is extremely seasonal, and at times the added reserve requirements would be burdensome.

In the State of Pennsylvania a nonmember State banker stated that "the main objection to membership is reports required and more supervision". Another banker in Pennsylvania stated that "if it was not for the worry over a lot of regulations and additional reports he would like to see his bank become a member of the System." Another banker in a small State nonmember bank has indicated that he is obligated to retain his two correspondents and does not have sufficient funds to maintain balances with them and with us. Still another banker contends that his bank "has made satisfactory progress without membership and does not believe that we could be more helpful than correspondent banks."

Another institution reports that it has lost several good real estate loans to insurance companies despite a reduction in their rate to 5%, which, however, they indicate is their minimum. This bank is refusing any new time deposits and is maintaining only time accounts of regular customers. A bank in north central Ohio reports that they have been solicited by out-of-town corporations to accept time deposits at their prevailing rate of interest. The officer interviewed stated that he had just replied to an insurance company and another corporation answering both requests in the negative. This is the second bank this week in which this situation was mentioned.

A Kentucky bank recently reduced interest on time deposits from 2-1/2 to 2%. It is reported that such deposits continue to increase despite the fact that banks in neighboring towns continue to pay the maximum rate.

## RICHMOND

Fifty-one banks were visited during the month of March, of which 25 were members and 26 were nonmember banks.

### Baltimore, Carroll and Frederick Counties, Maryland

A member bank in Baltimore County, having ventured into the field of personal loans, reports that results in that field have been quite satisfactory, with losses negligible. Opinion was ventured that the small loan field might become overcrowded.

Investments of this bank are almost wholly in Government, State, and municipal bonds. Of the holdings of Governments, practically all are short term. The policy of the bank is against the purchase of corporate bonds. Deposits are stable with interest of one per cent paid in the savings department.

A bank in Frederick County, where the chief source of income is derived from the B. & O. Shops, reports the employment has been large and steady for about six months.

### North Carolina

Cabarrus County, though an important agricultural area, derives its principal income from fifteen textile mills located in and around Concord, the county seat.

The textile mills--with the exception of four hosiery mills--had been operating full time for many months until recently, when operations underwent some curtailment. Practically all of the mills have discontinued the third shift concurrent with a reduction in demand and price of cotton yarn. The cotton mill which went into receivership in May 1939 is now operating the modern part of its plant under the receiver. It is understood that such operations are carried out on a profitable basis.

Demand for bank loans was active last fall, and while at present loan demand cannot be called active there is, nevertheless, a tendency for loan portfolios to expand. In one bank regular loans had declined $2,000 from a year ago but this had been more than offset by an increase of $12,000 in personal loans. The bank in question has been operating a personal loan department since 1924, and now has nearly 40 per cent of its loan portfolio in this type of paper.

Of the two banks interviewed in Rowan County, one making a practice of active solicitation and doing a good business in personal and mortgage loans, has shown a steady increase in loans outstanding over the past year. The other bank, adhering to traditional practice, has a loan volume 3 per cent below last year's level. The banks here at one time handled a large volume of farm paper, but this type of loan is now practically non-existent. This development is attributed to soil conservation and benefit payments rather than to competition from other lending agencies. These payments have relieved farmers of the necessity of borrowing.

## ATLANTA

During the month of March 70 banks were visited, of which 37 were member banks and 33 were nonmembers.

### Eastern Central and Central Alabama

With few exceptions, the banks visited reported favorable earnings in 1939, and a number showed an increase over the previous year. Deposits are generally higher than a year ago, and the demand for production loans is said to be satisfactory.

The interest rate on savings accounts was recently reduced by the Montgomery banks from 2-1/2% to 2% on the first $1,000 and 1% on amounts in excess of $1,000, and it is reported that very few accounts were lost as a result of this action. Although some of the banks continue to pay 2-1/2% on time deposits, 2% is the average rate throughout the area. The average rate charged on commercial, automobile, and personal loans is 6%, while 8% is generally charged on agricultural production loans.

### Western Florida

Pensacola bankers informed the representative that business conditions there have shown considerable improvement during the past year. Increased activity at the U. S. Naval Station and Aviation Training School has served to greatly stimulate retail trade and general business activity. Considerable residential building has been required to cope with the rapidly growing demand for housing facilities.

### Southwest Georgia

Crops were generally poor throughout this area last year because of unfavorable weather conditions. Most seriously affected were the counties in the extreme western section adjacent to the Alabama State Line, where it is reported the cotton and corn crops were practically complete failures. As a result, supply merchants and bankers experienced very poor Fall collections, and banks were forced to renew considerable numbers of crop loans. In some communities, as a result of decreased deposits and the unusually heavy "carry-over", the banks are pressed to meet the current seasonal demand for agricultural credit. A large number of farmers in these counties have obtained loans from the Disaster Loan Corporation, and disbursements of funds are being made to meet Spring requirements.

Considerably more favorable conditions were reported by bankers located in Grady, Thomas, Dougherty, and Sumter Counties. The crop shortage was less severe in this section, and, because of the highly diversified agricultural activity in these counties, farmers' incomes last year were said to have been entirely satisfactory. Principal crops of this section are tobacco, peanuts, cotton, corn, sugar cane, truck, and vegetables, while the cattle industry is rapidly growing into a most valuable asset throughout Southwest Georgia.

Most of the bankers in these counties reported good earnings last year and consider present conditions favorable. Fall liquidations were good, deposits are said to be generally higher than a year ago, and current demand for loans is good. Very little activity of Government lending agencies was reported in this section, and none of the bankers complained of competition from this source.

A number of member banks in this territory do not use the check clearing facilities of the Federal Reserve Bank but send all cash items direct to city correspondents. It was learned that this is done principally to avoid the necessity of assorting the checks.

Many of the nonmember country bankers feel that they are already enjoying most of the benefits of membership through facilities offered by their city correspondents.

## CHICAGO

During the month of March 42 banks were visited, comprising 31 member banks and 11 nonmember banks.

A banker in South Bend states that the Studebaker Corporation is unusually busy and is selling all the cars that it can make; that the Bendix Corporation is also very active, having a backlog of orders that will last for eighteen months. Practically all of the other manufacturing interests there are operating at normal or better;

in fact, one of the smaller companies reports that it has a backlog that will last for two years and that it has not accepted any war orders. This banker made the comment that he had not heard a retail merchant complain in six months. The opinion was expressed that a good deal of residential building was being entered into by so-called "uninformed buyers", men in the low earnings bracket who have never before given any thought to owning homes and who are susceptible to high-pressure salesmanship. Example: one loan of $4,900 was submitted to a bank--an appraisal by an experienced contractor disclosed that the material in the building could not possibly be worth more than $2,300.

Little change has taken place over recent weeks in the Chicago district steel industry. Where increases were reported, they could be ascribed chiefly to miscellaneous sources of demand, as the automobile industry appears to be pursuing a hand-to-mouth buying policy. Some of the major steel companies have advanced export prices to a level approximating domestic prices.

Production of automobiles held steady through March at a level averaging slightly over 100,000 units per week. Total output for the month is estimated at around 450,000 cars and trucks, which volume represents an increase of only 7 per cent over February but one of 17 per cent over last March. It is not expected that April production will show the usual expansion over March, because of the currently high level of dealers' inventories.

## ST. LOUIS

During March 194 banks were visited--29 member banks and 165 nonmember banks.

### Agricultural Conditions

In Mississippi cotton is the chief money crop, although feed crops for livestock are also produced. In the northwest section, last year's crops were poor because of drought. Marshall County, which raised 26,000 bales of cotton in 1938, produced only 5,000 bales in 1939. The unfavorable yield of feed crops here has led to unusually large purchases of hay and corn in Arkansas and Missouri. Farmers in Montgomery County, who usually furnish corn and other feed to the Delta section, were forced to use feed from the Delta section during the past winter. Crop conditions in Holmes County, which is near the center of the State, were reported as spotty, despite the fact that the 1939 cotton production exceeded the 1938 total of 43,000 bales. Some planters reported 1-1/2 bales per acre from land which formerly produced less than one bale. Conditions nearer the center of the State were reported as being better generally than those in the northwest section. Preparations for this year's activities are progressing nicely although the cold weather has been somewhat of a hindrance.

Bankers in counties located in the southeast corner of Missouri reported excellent crops for 1939. While cotton is the main crop, considerable wheat and feed crops are also produced. Much of the cotton was sold shortly after being picked instead of being held for a higher price. On the whole, farmers were satisfied with their 1939 income and are optimistic concerning the coming year.

In March the Federal Reserve Bank distributed the annual study of operating ratios of Eighth District member banks. The ratios of each bank were inserted on the form sent to its designated officer. There has been much favorable comment regarding this service.

The cashier of an Indiana nonmember voluntarily introduced the subject of membership and stated that he desired his institution to join, but was barred because of insufficient capital account operation of a branch. The cashier of another Indiana nonmember stated that his bank is in the same position. It was suggested to these officers that separate corporate entities be formed for the branches. They were disinclined to do this, but made the counter-suggestion that the present regulation be modified to cover contingencies such as theirs.

## MINNEAPOLIS

During the month of March 13 banks were visited, of which 10 were member banks and 3 nonmember banks.

At the request of the Northwestern National Bank & Trust Company of Minneapolis, there was placed in their windows in their bank building at Sixth Street and Marquette Avenue South, a Federal Reserve Bank display of currency operations, including a sorting and counting machine, the upper halves of cut currency, dummy packages of currency and coin from the Treasury Department, chart material, an illustrated map of the Ninth District, pictures of the Federal Reserve Building in Washington, photographs of the various operating departments, movie equipment used in exhibiting the talking picture "Back of Banks and Business", and the book distributed by the Board of Governors entitled "The Federal Reserve System--Its Purposes and Functions".

The Northwestern National Bank & Trust Company said that the display attracted very favorable attention. Their Lincoln Office is now using a part of the same display in the windows of its bank building on Eighth Street and Hennepin Avenue.

The third Member Bank Conference was held on Saturday, March 16, with a total registration of 953. Six hundred and forty-three out-of-town bankers registered at the Reserve Bank in the morning and devoted the forenoon to visiting with the officers and other bankers in attendance while many others toured the bank.

Mr. F. A. Amundson, Commissioner of Banks of Minnesota, called a meeting of the supervisors of credit unions of several of the northwestern States, and the facilities of the Bank were extended for this meeting on March 15, the day preceding the Member Bank Conference. State bank and credit union supervisors from the following States were in attendance: North Dakota, South Dakota, Minnesota, Wisconsin, Michigan, Iowa, Illinois, and Indiana. The Bank entertained this group at luncheon. At an informal dinner in the evening, the group just mentioned were guests of honor, and invitations were extended to the presidents, vice presidents, and secretaries of the State Bankers Associations within the Ninth District. The Bank had as its guests also the Federal Deposit Insurance Corporation supervising examiners from the St. Paul, Minnesota, and the Madison, Wisconsin, offices, and the Ninth District Chief National Bank Examiner.

An innovation in the operating ratio study was introduced this year. The Bank has attempted to show the range of certain ratios by taking the average percentage of the highest 25% of the banks in a given group for that particular ratio and the average percentage of the lowest 25% of the banks in the same group. It was felt that this addition to the study would be valuable. It will permit the individual bank to determine more closely the degree of variance between its figures and the averages.

## KANSAS CITY

During the month of March 84 banks were visited, of which 55 were banks belonging to the System and 29 were nonmember banks.

### Southwestern Oklahoma

Bankers call attention to great changes taking place in the cotton country that have an important bearing on the problem of operating banks. In the extreme southwestern part of Oklahoma the AAA program has reduced cotton acreage, and feed and other crops are being stimulated. Nearly all small farms have more cattle and sheep than a year ago. In particular, there has been a large increase in dairying and the Farm Security Administration has been helping former cotton tenant farmers to purchase milk cows. One by-product of this shift to livestock and diversified farming, bankers say, is that both deposits and loans do not fluctuate so widely as formerly.

Considerable dissatisfaction was found with the farm program. This program is said to be making small farming unprofitable, and small farms formerly operated by tenants are now being combined and farmed with tractors. The former tenants are either working on WPA projects or have gone to California. One banker said that 25 per cent of the farmers in his territory had quit farming in the last five years.

Banks in this region are not as a rule greatly interested in, or well informed regarding, United States Government securities. However, some disappointment was found that banks can no longer purchase savings bonds. A good many hold local municipal bonds and generally report a favorable experience with them. One banker, however, reported that on September 20, 1939, he purchased $100,000 worth of Government securities under par and recently sold them at a profit of $6,210.93. This profit was equal to 25 per cent of the bank's capital. This banker says he will not repurchase at present bond prices.

There is a great interest around Blair and Altus in irrigation projects. Government engineers have completed plans for one on which the Bureau of Reclamation will spend $5,000,000 and the WPA $2,000,000. The dam would be about seven miles north of Blair in the Navajo Mountains across the north fork of the Red River. The lake would be ten miles long and would hold about 163,000 acre feet of water, or enough to supply thirteen inches a year to the 70,000 acres in the district. It is estimated that the water will cost about $2.70 an acre per year. Bankers in that territory are greatly interested in this project and if it is completed they are agreed that it will greatly change farming conditions. One of the crops they are expecting to raise because of their long season is sugar-beet seed. The United States requires from 15,000,000 to 20,000,000 pounds of beet seed annually and at present secures its supply principally from Europe--mostly from Germany and Russia. Recently some irrigation from wells has been done in this region and the results are pointed to as evidence of what more water will do.

In the territory covered by the March visits quite a little wheat abandonment had already taken place. Where there is less than a third of a stand, the Government crop insurance appraisers are willing to call it a total loss and let the farmer plow it up. Already a good deal of this has taken place, the land being planted to oats and row crops.

## DALLAS

During the month of March 46 banks were visited, of which 27 were member banks and 19 were nonmember banks.

Northwest Texas

Fifteen member banks and four nonmembers located in the "Panhandle" region of northwest Texas were visited during the month. Cattle and cotton are the principal products and chief source of income in this area, although some wheat is produced.

The cotton crop last year was sharply curtailed both by unfavorable weather conditions and by acreage restrictions. As a result, there is a somewhat more active demand for credit this year in most of the communities visited, and business conditions are only fair.

The bankers feel that although the Government's farm program unquestionably benefited the producers greatly when it was first put in operation, it is now driving tenant farmers away from the farms in growing numbers and aggravating the relief problems in the towns and cities to which they have migrated in search of other means of support.

Drought conditions have adversely affected Southwest Texas for the past two years. However, present prospects are encouraging, as topsoil moisture is sufficient to start corn and permit planting of cotton early in April.

An increased demand for bank credit is in evidence, particularly on the part of farmers affected by drouth conditions.

## SAN FRANCISCO

In March 37 banks were visited, comprising 31 member banks and 6 nonmember banks.

Southeastern Washington and Northeastern Oregon

Reports from this section are that the winter wheat stand is in excellent condition and that seasonable weather has permitted the planting of large acreage of spring wheat. Assuming that the district will be favored, as it usually is, with rains in June, it is believed that more wheat will be produced this year than last year.

Livestock outlook is also bright, stock coming through the winter nicely, with one less month of feeding due to spring pasture and range furnishing feed earlier than in normal years. This will cut down the cost materially and if present prices continue it should result in a profitable year.

This same district annually cans peas which are grown on land which would normally be summer fallowed. The production last year of more than two million cases was equal to about 17 per cent of the national production of 16 million cases. The outlook for this year is for a larger production of canned peas, but also the national outlook is larger; therefore, the district may not maintain such a high percentage as a whole.

Small irrigation districts are located in the section and the outlook for the small farmers on irrigated tracts which produce turkeys, chickens, dairy products, early vegetables, etc., is normal for this time of the year.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

March 1940

| Federal Reserve Bank | Visits to Banks | | | Meetings Attended | | Addresses Made | |
|---|---|---|---|---|---|---|---|
| | Member | Nonmember | Total | Number | Attendance | Number | Attendance |
| Boston | 37 | 2 | 39 | - | - | 1 | 183 |
| New York | 99 | 55 | 154 | 9 | 3,432 | 5 | 635 |
| Philadelphia | 47 | 24 | 71 | 3 | 2,270 | 3 | 950 |
| Cleveland | 135 | 75 | 210 | 6 | 928 | 3 | 302 |
| Richmond | 25 | 26 | 51 | 6 | 1,378 | 3 | 500 |
| Atlanta | 37 | 33 | 70 | 3 | 1/ | - | - |
| Chicago | 31 | 11 | 42 | 2 | 1,050 | 5 | 390 |
| St. Louis | 29 | 165 | 194 | 4 | 935 | 2 | 65 |
| Minneapolis | 10 | 3 | 13 | 6 | 1,030 | 4 | 185 |
| Kansas City | 55 | 29 | 84 | 4 | 940 | 2 | 95 |
| Dallas | 27 | 19 | 46 | 1 | 800 | - | - |
| San Francisco | 31 | 6 | 37 | 16 | 1,053 | 6 | 543 |

1/ Not reported.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-642

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

April 25, 1940

Dear Sir:

The Board of Governors concurs in the action taken by the Conference of Presidents at their meeting held in Washington March 19, 1940 with respect to the Report of the Standing Committee on Collections dated February 19-20, 1940.

The Board has noted the action taken by the Conference relative to the adoption of a uniform size of paper for regulations, circulars and general letters of the Board of Governors and the Federal Reserve Banks. The Board may wish to take this matter up with the Reserve Banks at a later date.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-643

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 26, 1940

Dear Sir:

At the conference held in Washington on March 19, 1940, the Conference of Presidents approved in principle the proposal of the Standing Committee on Collections that the American Bankers Association bank numbering system be revised, and requested the Chairman of the Conference to appoint a committee of three members of the Conference to review, with power to approve in behalf of the Conference, such plan for the revision of the numbering system as may be recommended by the Standing Committee on Collections.

If a revision of the American Bankers Association bank numbering system is adopted that involves the printing on checks of numbers indicating the Federal Reserve Bank or branch territory in which a bank is located, subsequent changes in Federal Reserve branch territorial lines will cause considerable confusion in sorting and routing checks.

It will be appreciated, therefore, if you will discuss this matter with the Directors of your Bank at the first convenient opportunity and advise the Board whether the Bank feels that any changes should be made in branch territorial lines in your district before a change, if any, is made in the American Bankers Association bank numbering system.

Very truly yours,

L. P. Bethea

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT BOSTON, PHILADELPHIA, AND RICHMOND

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-644

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 1, 1940

Dear Sir:

It has been the custom for the Board of Governors, in response to requests from the Federal Advisory Council, to propose topics for consideration by the Council at its meetings in Washington. In accordance with this procedure, the Board has suggested that consideration be given to the following topics at the meeting of the Council which will be held on May 19-21, 1940.

The Board will appreciate it if your directors will also discuss these topics at their next meeting if convenient, and if you will let the Board have the benefit of the views of your directors with regard to both questions:

1. The Council has urged upon the Board the "modification of the policy of extreme easy money". The Board would like to have the opinion of the Council as to the more important causes of the "easy money" conditions; as to what actions within the power of the Board of Governors would be desirable and effective in the public interest; and as to the probable consequences of such actions.

2. What are the business prospects for the next 90 days and in the Council's opinion do such prospects justify any change in the System's present banking and monetary policies?

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM R-645
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 3, 1940

Dear Sir:

Referring to the Board's letter R-593 of January 10, 1940, following is a statement of changes during April 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:

Addition*

Switzerland
Zurich — Crédit Suisse (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-593a).

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-647

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 4, 1940

Dear Sir:

Effective June 1, 1940, the Board of Governors has approved an amendment to its Regulation F, relating to the administration of trusts by national banks, to permit the operation of Common Trust Funds composed principally of mortgages. A copy of this amendment is enclosed, together with a copy of a press release relating to the matter, from which it will be noted that announcement of the Board's action will be made in the morning papers of May 7, 1940.

As you know, this amendment resulted from a proposal by representatives of the Pennsylvania Bankers Association which has been under consideration by the Board for some time, and the Board's action has been taken in the light of comments and suggestions obtained from all of the Federal Reserve Banks and from other interested persons.

The amended regulation is being reprinted and a supply will be sent to you as far in advance of June 1 as possible.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-646

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers
of May 7, 1940

May 6, 1940

The Board, effective June 1, 1940, has approved amendments to its Regulation F, relating to the administration of trusts by national banks, to permit the operation of Common Trust Funds which are invested principally in mortgages. The Board for some time has had under consideration a proposal by representatives of member banks for such amendments to its regulation and the proposal was approved by representatives of banking associations. It was represented to the Board that smaller trust institutions may not have facilities for operating Common Trust Funds composed principally of securities, the operation of which is now permitted by the Board's Regulation F, but would have facilities for operating Common Trust Funds composed principally of mortgages. Under the amendments to Regulation F Common Trust Funds composed principally of mortgages may be operated only in States in which there is statutory authority for such operation, and these amendments will permit Funds operated under such statutes to obtain certain tax exemptions which are granted by the Federal revenue laws to Common Trust Funds operated in accordance with the Board's regulations.

R-646-a

Amendment to Regulation F to Permit
the Operation of Common Trust Funds
Composed Principally of Mortgages

This amendment will become effective on June 1, 1940.

SECTION 17. COMMON TRUST FUNDS

Amend the first paragraph of subsection (a) of section 17 of Regulation F by changing the period at the end thereof to a colon and adding the following:

> Provided, however, That funds shall not be invested in a Common Trust Fund of the type provided for in subsection (d) of this section unless such investments are specifically authorized by the State statutes.

At the end of section 17 add a new subsection (d) reading as follows:

(d) Common Trust Funds composed principally of mortgages (Mortgage Investment Funds). - Subject to all other provisions of this regulation except subsections (b) and (c) of this section[20], funds received or held by a bank in its capacity as trustee, executor, administrator, or guardian may be invested in participations in a Common Trust Fund administered pursuant to the provisions of this subsection (hereinafter referred to as a "Mortgage Investment Fund"). All admissions and withdrawals of participations in a Mortgage Investment Fund shall be made on the basis of the actual amount invested by each participant, and, except in final liquidation of a Mortgage Investment Fund, participants therein shall not have an interest in reserves accumulated or enhancement in the value of assets, except such as may be distributable as income.

(1) Mortgage Investment Fund to be operated under written plan. - Each Mortgage Investment Fund shall be subject to the provisions of subdivision (1) of subsection (c) of this section.

(2) Trust investment committee to approve participation. - No funds of a trust shall be invested in a participation in a Mortgage Investment Fund without the approval of the trust

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20/ Note, however, that certain provisions of subsection (c) are incorporated in this subsection by reference.

investment committee. Before permitting any funds of any trust to be invested in a participation in a Mortgage Investment Fund, the trust investment committee shall review the assets comprising the Mortgage Investment Fund; and, if it finds that the condition of the Mortgage Investment Fund is such that the funds of such trust might not lawfully be invested in a participation therein at that time, or that such investment would be contrary to the provisions of this subsection, funds of such trust shall not be so invested.

At the time of making the first investment of funds of a trust in any Mortgage Investment Fund, the bank shall send a notice of such investment to each person to whom a regular periodic accounting ordinarily would be rendered, except that such notices need not be sent to a court unless required by the court, and except that such notices need not be sent where the trust instrument specifically authorizes investments in Mortgage Investment Funds.

(3) Mortgage Investment Fund to be audited annually. - Each Mortgage Investment Fund shall be subject to the provisions of subdivision (3) of subsection (c) of this section.

(4) Value of assets to be determined periodically. - Not less frequently than once during each period of three months, the trust investment committee of a bank administering a Mortgage Investment Fund shall determine the value of the assets in the Mortgage Investment Fund. No participation shall be admitted to or withdrawn from the Mortgage Investment Fund except on the date of determination of such valuation or, if permitted by the Plan, within two business days subsequent to the date of such determination; and no participation shall be admitted to or withdrawn from the Mortgage Investment Fund unless, on the basis of such valuation, the value of the assets of the Mortgage Investment Fund, exclusive of accrued income, is at least equal to the amount of the outstanding participations. No participation shall be admitted or withdrawn unless, in accordance with the provisions of the Plan, prior to the date of the determination of such valuation, notice of intention to participate or to make such withdrawal shall have been given in writing to the bank administering the Mortgage Investment Fund, or a written notation of the contemplated participation or withdrawal shall have been made in the records of the bank.

The real estate securing each obligation contained in a Mortgage Investment Fund and any real estate contained in the Mortgage Investment Fund shall be appraised at least once every three years by two persons, one of whom shall not have participated in the last preceding appraisal of the particular property for the purposes of the Mortgage Investment Fund. Such persons shall be appointed by the bank's board of directors and shall, in the opinion of the board, be familiar with real estate values in the vicinity in which any such real estate is situated and qualified to make such appraisals. The persons appointed shall actually inspect such real estate and shall so certify in a written certificate of appraisal, which shall be filed and preserved in the bank's records.

The trust investment committee shall require more frequent appraisals of all properties or any particular property if such action is deemed by the committee to be necessary to enable it properly to discharge the duties imposed upon it by this subsection.

(5) Miscellaneous limitations. - No funds of any trust shall be invested in a participation in a Mortgage Investment Fund if such investment would result in such trust's having an interest in the Mortgage Investment Fund in excess of the sum of $1,200 or 2 per cent of the amount of the outstanding participations in the Mortgage Investment Fund, whichever is greater at the time of investment, or in any event in excess of the sum of $10,000. If the bank administers more than one Mortgage Investment Fund, no investment shall be made which would cause any one trust to have an interest in all such Mortgage Investment Funds in excess of the sum of $10,000; and, if the bank administers Funds under both subsections (c) and (d) of this section, no investment shall be made which would cause any one trust to have an interest in all such Funds in excess of the sum of $25,000. In applying the limitations contained in this paragraph, if two or more trusts are created by the same settlor or settlors and as much as one-half of the income or principal or both of each trust is payable or applicable to the use of the same person or persons, such trusts shall be considered as one.

No investment for a Mortgage Investment Fund shall be made in obligations of any one person, firm, or corporation which would cause the total amount of investment in obligations issued or guaranteed by such person, firm, or corporation to exceed 10 per cent of the amount of the outstanding participations in the Mortgage Investment Fund, provided that this limitation shall not apply to investments in obligations of the United States or for the payment of the principal and interest of which the faith and credit of the United States shall be pledged.

The unpaid balance of any obligation secured by real estate in which the funds of a Mortgage Investment Fund are invested shall not exceed $10,000 on the date of the investment therein unless the aggregate amount of all outstanding participations in the Mortgage Investment Fund exceeds $200,000, in which event the unpaid balance of such obligation shall not exceed 5 per cent of the amount of such outstanding participations or $50,000, whichever amount is less.

Any bank administering a Mortgage Investment Fund shall have the responsibility of maintaining in cash such part of the assets of the Mortgage Investment Fund as shall be deemed by the bank to be necessary to provide adequately for the needs of participating trusts and to prevent inequities between such trusts. No investment of the moneys of a Mortgage Investment Fund shall be made if following such investment the cash balance, exclusive of collected income on hand, in the Mortgage Investment Fund would be less than an amount equal to 5 per cent of the total amount of all outstanding participations in the Mortgage Investment Fund. Unless, upon computing the amount of the admissions and withdrawals which are to be made as of any valuation date pursuant to notice given as required in subdivision (4) of this subsection, the trust investment committee determines that there will be sufficient cash in the Mortgage Investment Fund to permit all such withdrawals, no admissions to or withdrawals from the Mortgage Investment Fund shall be permitted as of such valuation date.

Unless the trust investment committee determines that, after effecting the admissions and withdrawals which are to be made as of any valuation date pursuant to notice given as required in subdivision (4) of this subsection, the amount of investments of a Mortgage Investment Fund represented by assets in which moneys of the Mortgage Investment Fund could not then be invested under the provisions of subdivision (8) of this subsection will not exceed 10 per cent of the amount of the outstanding participations in the Mortgage Investment Fund, no admissions to or withdrawals from the Mortgage Investment Fund shall be permitted as of such valuation date.

(6) Reserve account and distribution of income. - In each Mortgage Investment Fund the bank shall establish and maintain a reserve account as part of the principal thereof, to which, to the extent available, all realized losses shall be charged. Any realized gain in the value of assets of a Mortgage Investment Fund, other than income, shall be credited to such reserve account.

At least semiannually a bank administering a Mortgage Investment Fund shall determine the net income of the Mortgage Investment Fund during the period since the last determination thereof. At the close of each earning period, if the total amount contained in such reserve account is less than 10 per cent of the total amount of all outstanding participations in the Mortgage Investment Fund, the bank shall transfer to the reserve account, out of the net income of the Mortgage Investment Fund, such amount as the bank shall determine to be proper under the circumstances. The total amount so to be transferred to the reserve account during any year shall not be less than 10 per cent of the amount of the gross income of the Mortgage Investment Fund for such year or more than one per cent of the average of the total amounts of all outstanding participations in the Mortgage Investment Fund at the close of each earning period. No such transfers to the reserve account shall be made which will cause the amount contained therein to exceed 10 per cent of the amount of all outstanding participations.

The balance of the net income remaining after transferring the appropriate part thereof, if any, to the reserve account, shall thereupon be distributed to the owners of the outstanding participations in the Mortgage Investment Fund in proportion to the amounts of their participations and the period of time owned since the previous determination of net income.

(7) Withdrawal of participation in a Mortgage Investment Fund. - Upon the withdrawal of a participation of any trust prior to termination and final liquidation of a Mortgage Investment Fund, such trust shall be entitled to be paid in cash the total amount of the funds of such trust invested in the participation, with net income thereon to the date of such payment, but such income shall not be paid until the amount thereof shall have been determined at the close of the current earning period.

Upon the termination and final liquidation of a Mortgage Investment Fund, all assets of the Mortgage Investment Fund shall be distributed among the owners of the participations at that time in proportion to the amounts thereof.

(8) Investment of moneys of Mortgage Investment Funds. - The moneys of a Mortgage Investment Fund shall be invested in--

1. Obligations secured by real estate which, at the date of the investment, are legal for investment of trust funds under the laws of the State in

which the bank is located and are insured by the Federal Housing Administrator, having been insured prior to the first day of July 1939, pursuant to the provisions of Title II of the National Housing Act, approved the 27th day of June 1934, as amended, or having been so insured thereafter, with like force and effect, pursuant to any revision or extension of the provisions of the said Act; or

2. Obligations secured by real estate which, at the date of the investment, are legal for investment of trust funds under the laws of the State in which the bank is located and are of the kind which might be acquired by a national bank under the provisions for making amortized loans contained in the third sentence of section 24 of the Federal Reserve Act; or

3. Obligations secured by real estate which, at the date of the investment, are legal for investment of trust funds under the laws of the State in which the bank is located, which are payable within 20 years, and which either provide for semiannual payments reducing the principal thereof annually in an amount equal to at least 5 per cent of the amount of the principal on the date of investment, or provide for the amortization of the total unpaid principal amount of such mortgage on the date of investment by equal monthly payments during the term of such mortgage, such monthly payments being fixed at an amount which will include the interest due on such mortgage on the date of such payments and an additional amount to be applied in the reduction of the unpaid principal amount of such mortgage. In the case of a renewal or extension of any such obligation held by a Mortgage Investment Fund, the date upon which the Mortgage Investment Fund originally acquired the obligation shall be considered the date of investment.

If in the judgment of the trust investment committee such obligations are not available for investment of moneys of a Mortgage Investment Fund, such moneys may be invested temporarily in obligations of the United States or of the State in which the bank is located or for the payment of the principal and interest of which the faith and credit of the United States or of such State shall be pledged, and which are legal for investment of trust funds under the laws of the State in which the bank is located. As soon as obligations secured by real estate in which the moneys of the Mortgage Investment Fund may be invested are available, such securities shall be disposed of and the proceeds invested in such obligations if this can be accomplished without disadvantage to the Mortgage Investment Fund.

(9) Management of Mortgage Investment Fund and fees. - Each Mortgage Investment Fund shall be subject to the provisions of subdivision (8) of subsection (c) of this section.

(10) Effect of mistakes. - Each Mortgage Investment Fund shall be subject to the provisions of subdivision (9) of subsection (c) of this section.

Make the Following Additional Amendments to Section 17 to Correlate the Existing Provisions of That Section with the Provisions of the New Subsection (d).

Amend subsection (b) of section 17 of Regulation F by deleting "subsection (c)" and inserting in lieu thereof "subsections (c) and (d)".

Amend the first sentence of subsection (c) of section 17 of Regulation F to read as follows:

Subject to all other provisions of this regulation except subsections (b) and (d) of this section, funds received or held by a bank in its capacity as trustee, executor, adminstrator, or guardian may be invested in participations in a Common Trust Fund administered pursuant to the provisions of this subsection.

Amend second paragraph of subdivision (2) of subsection (c) of section 17 of Regulation F to read as follows:

At the time of making the first investment of funds of a trust in any Common Trust Fund, the bank shall send a notice of such investment to each person to whom a regular periodic accounting ordinarily would be rendered, except that such notices need not be sent to a court unless required by the court, and except that such notices need not be sent where the trust instrument specifically authorizes investments in Common Trust Funds.

Amend second paragraph of subdivision (3) of subsection (c) of section 17 of Regulation F to read as follows:

The bank shall, without charge, send a copy of the latest report of such audit annually to each person to whom a regular periodic accounting of the trusts participating in the Common Trust Fund ordinarily would be rendered or shall send advice to each such person annually that the report is available and that a copy will be furnished without charge upon request.

Amend the second sentence of the first paragraph of subdivision (5) of subsection (c) of section 17 of Regulation F to read as follows:

If the bank administers more than one Common Trust Fund under this subsection, no investment shall be made which would cause any one trust to have an interest in all such Common Trust Funds in excess of the sum of $25,000; and, if the bank administers Funds under both subsections (c) and (d) of this section, no investment shall be made which would cause any one trust to have an interest in all such Funds in excess of the sum of $25,000.

R-648

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 7, 1940

Dear Sir:

We are in receipt of a letter from the Federal Reserve Bank of New York, enclosing a letter received from Mr. H. F. Browne, Director, Management Research Division, The National Industrial Conference Board, together with a detailed questionnaire on personnel practices which he asked the Federal Reserve Bank of New York to fill out.

The Board sees no objection to the Federal Reserve Banks' furnishing Mr. Browne with the information called for in the questionnaire.

If your Bank receives such a request, it will be appreciated if you will furnish the Board with a copy of your reply.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT
NEW YORK

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-649

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 8, 1940

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 April 1 to April 30, 1940.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-649--a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
April 1 to April 30, 1940.

Federal Reserve Notes, Series 1934

| | $10 | $20 | $5,000 | $10,000 | Total Sheets | Amount |
|---|---|---|---|---|---|---|
| Boston | 47,000 | 7,000 | - | - | 54,000 | $ 4,968.00 |
| New York | 158,000 | 39,000 | 50 | 300 | 197,350 | 18,156.20 |
| 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 | 3,000 | - | - | 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 | 4,000 | - | - | 14,000 | 1,288.00 |
| San Francisco | 46,000 | 24,000 | - | - | 70,000 | 6,440.00 |
| | 462,000 | 154,000 | 50 | 300 | 616,350 | $56,704.20 |

616,350 sheets @ $92.00 per M, . . . . $56,704.20

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-650

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 13, 1940.

Dear Sir:

There is enclosed a tabulation of the replies of the Federal Reserve banks to the Board's letter R-633 of March 22, 1940, regarding certain check collection operations of the Reserve banks.

Very truly yours,

L. P. Bethea,
Assistant 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

May 14, 1940

Dear Sir:

In order that the Board of Governors may have information as to the extent to which different lines of business and industry have applied for credit under the provisions of Section 13b of the Federal Reserve Act and the extent to which they have been granted such credit by the Federal Reserve banks, it will be appreciated if you will furnish the Board data up to May 31, 1940 regarding such applications in the form called for by the enclosed schedule.

It is desired that the information be tabulated separately for applications for industrial advances and for applications for commitments to make industrial advances, classified in both cases according to the enclosed classification by industries, and that the applications in each group be arranged in the chronological order of their receipt. In order to insure uniformity in the preparation of these lists a few hypothetical examples are shown on the enclosed schedule. It is planned to furnish a copy of the data, exclusive of names of applicants, to the National Bureau of Economic Research for use in a study that it has undertaken and, accordingly, it is requested that the information be furnished in duplicate. A supply of Form F. R. 508 for use in submitting the desired information, and of Form F. R. 508a for use in reporting action taken on applications received currently, as requested in the Board's letter S-187 of October 17, 1939, is being mailed under separate cover.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 5

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Form F. R. 508

APPLICATIONS FOR INDUSTRIAL ADVANCES AND FOR COMMITMENTS TO MAKE INDUSTRIAL ADVANCES

R-651a

F. R. Bank of ____________

| Name and address of applicant | Date of application (a) | Reported assets (thousands of dollars) | Amount applied for | Financing institution liability (b) (per cent) | Date of final action | Action taken (c) | If approved | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Amount approved | Amount actually advanced(d) by F.R. bank |
| **APPLICATIONS FOR ADVANCES** | | | | | | | | |
| **1. Manufacturing - Food and Kindred Products** | | | | | | | | |
| A.B.C. Corp., Detroit, Mich. | 6- 5-35 | $1,500 | $1,000,000 | P20 | 6-30-35 | A-2 | -- | -- |
| X.Y.Z Corp., Detroit, Mich. | 7-10-38 | 2,400 | 1,000,000 | G20 | 8- 5-38 | Approved | $1,000,000 | $500,000 |
| **2. Manufacturing - Beverages** | | | | | | | | |
| L.M.N. Co., San Francisco, California | 7- 1-34 | 50 | 10,000 | -- | 7-20-34 | Approved | 10,000 | -- |
| P.Q.R. Corp., Portland, Oregon | 3- 2-35 | 100 | 50,000 | P20 | 3-25-35 | Approved | 25,000 | 20,000 |
| **APPLICATIONS FOR COMMITMENTS** | | | | | | | | |
| **1. Manufacturing - Food and Kindred Products** | | | | | | | | |
| A.B.C. Co.,St. Louis, Mo. | 7- 1-34 | 50 | 10,000 | P20 | 7-25-34 | Approved | 10,000 | -- |
| X.Y.Z. Co., Memphis, Tenn. | 4-17-37 | 600 | 100,000 | G20 | 5-10-37 | Approved | 75,000 | X |
| Q.R.S. Co., Louisville, Ky. | 4-20-37 | 500 | 150,000 | G20 | 6- 2-37 | Approved | 150,000 | 100,000 |

(a) Indicate with an asterisk each instance where one or more applications from the same applicant had been acted upon previously.
(b) Distinguish between participations and guarantees by prefixing P or G respectively.
(c) If rejected, indicate that fact and reason for rejection by inserting appropriate sub-item designation listed under item 11 of Form F.R. 417.
(d) In case of an approved application for a commitment, if commitment was not executed indicate with the letter "X".

# INDUSTRIAL CLASSIFICATION

A. MINING AND QUARRYING
- Metal mining
- Coal mining
- Petroleum
- Nonmetallic mining and quarrying

B. MANUFACTURING
- Food and kindred products
- Beverages 1/
- Tobacco and tobacco products
- Textile mill products
- Apparel and finished textile products
- Leather and leather products
- Rubber products
- Lumber and timber basic products
- Furniture and finished lumber products 2/
- Paper and allied products
- Printing, publishing and allied industries
- Chemicals and allied products
- Petroleum, coal, and natural gas products
- Stone, clay, and glass products
- Iron and steel and their products
- Nonferrous metals and their products
- Machinery and machine tools 3/
- Automobiles and equipment
- Other transportation equipment
- Other

C. WHOLESALE TRADE
- Merchant wholesalers
  - Food
  - Alcholic beverages
  - Apparel and dry goods
  - Drugs
  - Hardware, electrical goods, etc.
  - Lumber
  - All other

- Assemblers and buyers of farm products
- Petroleum, bulk tank stations
- Other

D. RETAIL TRADE
- Department and dry goods stores
- Food stores
- Package liquor stores
- Drugs
- Wearing apparel
- Home furnishings
- Restaurants
- Automotive
- Filling stations
- Hardware
- Lumber
- Other

E. SERVICE
- Hotels, apartments
- Laundries, cleaning and dyeing
- Automobile repair services and garages
- Other

F. MISCELLANEOUS
- Contractors and construction
- Transportation
- Other

1/ Includes non-alcoholic beverages.
2/ Includes metal office furniture.
3/ Includes electrical machinery and electrical appliances

Form F. R. 508

## APPLICATIONS FOR INDUSTRIAL ADVANCES AND FOR COMMITMENTS TO MAKE INDUSTRIAL ADVANCES

F. R. Bank of ____________

| Name and address of applicant | Date of application (a) | Reported assets (thousands of dollars) | Amount applied for | Financing institution liability (b) (per cent) | Date of final action | Action taken (c) | If approved | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Amount approved | Amount actually advanced (d) by F.R. bank |

For notes see last page.

Form F. R. 508

APPLICATIONS FOR INDUSTRIAL ADVANCES AND FOR COMMITMENTS TO MAKE INDUSTRIAL ADVANCES

F. R. Bank of ____________________

| Name and address of applicant | Date of application (a) | Reported assets (thousands of dollars) | Amount applied for | Financing institution liability (b) (per cent) | Date of final action | Action taken (c) | If approved | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Amount approved | Amount actually advanced (d) by F.R. Bank |

(a) Indicate with an asterisk each instance where one or more applications from the same applicant has been acted upon reviously.
(b) Distinguish between participations and guarantees by prefixing a P or G respectively.
(c) If rejected, indicate that fact and reason for rejection by inserting appropriate sub-item designation listed under item 11 of Form F.R. 417.
(d) In case of an approved application for a commitment, if commitment was not executed indicate with the letter "X".

Form F. R. 508a

Federal Reserve Bank of ____________

Date ____________

REPORT OF INDUSTRIAL LOAN APPLICATION

(Reference: Board letter S-187 dated October 17, 1939)

Name of applicant:

Address:

Type of business conducted:

Amount applied for:

Advance:

Commitment:

Amount of financing institution participation or guarantee, if any:

Type and value of collateral:

Proposed use of proceeds of loan:

Date of filing application:

Date acted upon: By Ind. Adv. Com: By F.R. Bank:

Action taken: By Ind. Adv. Com: By F.R. Bank:

If declined, reasons therefor:

Other pertinent facts concerning applications:

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-652

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 15, 1940

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 April 1940.

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,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-652-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF APRIL 1940

| Federal Reserve Bank | Number of Words Sent | Words Sent by N. Y. Chargeable to Other F.R. Banks | Total Words Charge-able | Pro Rata Share of Total Ex-penses (1) | Expenses Paid by Banks and Board (2) | Payable to Board of Gov-ernors |
|---|---|---|---|---|---|---|
| Boston | 23,474 | 469 | 23,943 | $ 466.10 | $ 277.31 | $ 188.79 |
| New York | 68,936 | - | 68,936 | 1,341.98 | 954.07 | 387.91 |
| Philadelphia | 16,990 | 481 | 17,471 | 340.11 | 247.56 | 92.55 |
| Cleveland | 34,320 | 483 | 34,803 | 677.51 | 255.07 | 422.44 |
| Richmond | 26,072 | 478 | 26,550 | 516.85 | 218.62 | 298.23 |
| Atlanta | 43,102 | 479 | 43,581 | 848.40 | 241.27 | 607.13 |
| Chicago | 64,019 | 521 | 64,540 | 1,256.41 | 1,257.85 | 1.44(a) |
| St. Louis | 46,183 | 500 | 46,683 | 908.78 | 239.12 | 669.66 |
| Minneapolis | 22,495 | 478 | 22,973 | 447.22 | 187.13 | 260.09 |
| Kansas City | 51,445 | 478 | 51,923 | 1,010.79 | 273.06 | 737.73 |
| Dallas | 38,960 | 491 | 39,451 | 768.00 | 272.67 | 495.33 |
| San Francisco | 50,728 | 481 | 51,209 | 996.89 | 411.93 | 584.96 |
| Board of Governors | 275,683 | - | 275,683 | 5,366.74 | 10,110.12 | - |
| Total | 762,407 | 5,339 | 767,746 | $14,945.78 | $14,945.78 | $4,744.82 |
| | | | | | | 1.44(a) |
| | | | | | | $4,743.38 |

(1) Based on cost per word ($.019467089) 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 ($1,487.42) and wire rental ($8,622.70). 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.

R-653

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Friday, May 17, 1940.

The following summary of general business and financial conditions in the United States, based upon statistics for April and the first half of May, will appear in the June issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve Banks.

Industrial activity was steady during April after three months of sharp decline, and in the first half of May increases appeared in some lines, particularly steel. Prices of basic commodities showed mixed changes toward the middle of May, accompanying the extension of active warfare in Europe, while stock prices declined sharply.

Production

The Board's seasonally adjusted index of industrial production for the month of April was 102, compared with 104 for March and 109 for February. Steel ingot production was steady during April at slightly over 60 per cent of capacity as compared with an average rate of 64 per cent in March; in the first half of May output rose sharply and currently is scheduled at about 70 per cent of capacity. Automobile production in April continued at about the March rate, although ordinarily there is an increase at this season, and in early May declined somewhat. Retail sales of new cars approximated production in April and dealers' stocks of both new and used cars remained at earlier high levels. Output of plate glass, used largely by the automobile industry, declined considerably in April, and lumber production showed somewhat less than the usual seasonal increase. In the machinery, aircraft, and shipbuilding industries activity continued at the high rate of other recent months.

In the textile industry activity at cotton and woolen mills declined somewhat further in April, following considerable reductions in March. At silk mills activity remained at a low level, while rayon production was maintained at a high rate. Output at meat-packing establishments continued in large volume. There was some further curtailment in shoe production in April; in most other industries producing nondurable goods changes in output were largely seasonal in character.

Coal production, which usually declines sharply in April, showed only a small decrease this year. Output of crude petroleum, which had reached record high levels in March, was largely maintained in April and the first half of May, although stocks of crude oil were increasing and gasoline stocks were unusually large.

Value of construction contract awards increased further in April, reflecting principally a rise in contracts for private building, according to figures of the F. W. Dodge Corporation. Awards for private residential building were in somewhat larger volume than a year ago. Private nonresidential building was about one third greater than at this season last year and was near the previous peak level reached in mid-1937. Awards for public construction, however, were considerably below the level of last spring.

Distribution

Distribution of commodities to consumers showed little change in April and the first half of May. The Board's seasonally adjusted index of department store sales was 90 per cent of the 1923-1925 average in April, about the level that has prevailed since the first of the year but below the peak of 96 reached last December.

Total freight-car loadings in April were in about the same volume as in March. Shipments of coal declined less than seasonally, while loadings of miscellaneous freight, which include most manufactured products, showed less than the sharp rise that is customary at this season. In the early part of May increases were reported in shipments of most classes of freight.

Foreign trade

Exports of United States merchandise, which have been at a high level since last December, declined somewhat in April. A large part of the decrease in April was accounted for by the complete cessation of shipments to northern European countries after outbreak of hostilities there, but declines were also reported in shipments to most other countries. Exports to Canada, the Union of South Africa, and France, however, increased.

Shipments of commercial vehicles declined sharply, following a considerable rise in March, and exports of iron and steel products, which had been increasing steadily since last summer, also showed a decline. Exports of cotton and copper decreased further from earlier high levels, while machinery and aircraft shipments continued in large volume.

During April, the monetary gold stock of the United States increased by $337,000,000, the largest increase since August 1939. Acquisitions of gold in the first two weeks of May totaled $169,000,000.

Commodity prices

Prices of a number of basic commodities, which had been declining after a rise in April, advanced from May 10 to May 14. Increases in this period were particularly marked for imported materials, such as rubber, tin, and silk. Grain prices rose at first but subsequently showed sharp declines. Price changes for other commodities were mixed; steel scrap advanced, while cotton declined considerably. Prices of certain steel products, which had been reduced early in April, were restored to earlier levels on May 1, and producers announced that steel purchased at the lower prices must be taken by the buyers on or before June 30.

Government security market

Prices of United States Government securities declined sharply from May 10 to May 14, accompanying the further spread of war in Europe. Prices of long-term Treasury bonds on May 14 were 3 3/4 points below the high point reached on April 2. The yield on the 1960-65 2 3/4 per cent bonds rose from 2.26 per cent on April 2 to 2.48 per cent on May 14.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities increased during the four weeks ending May 8. Most of this increase was at New York City banks and reflected purchases of United States Government obligations. Deposits and reserves of banks in leading cities continued at record high levels.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-654

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 16, 1940

Dear Sir:

One Federal Reserve bank recently advised us that it charges to the Treasurer's General Account unit in the functional expense report, Form E, postage incurred in collecting checks on nonpar banks deposited by postmasters, collectors and others for credit to the Treasurer's General Account. It further advises that an inspection of the functional expense report for the last half of 1939 indicates that most of the other banks and branches which have a large number of nonpar banks in their districts are apparently charging such postage to other expense units.

It will be appreciated if you will advise us of the unit on Form E in which such expense was included by your head office and branches during the last half of 1939, the amount thereof if readily available, and the changes you think should be made in the manual governing the preparation of functional expense reports to obtain uniformity in the reporting of postage on items sent to nonpar banks for collection and credit to the Treasurer's General Account.

Very truly yours,

E L Smead

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

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS EXCEPT BOSTON, NEW YORK, PHILADELPHIA AND ST. LOUIS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-655

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1940

Dear Sir:

There are enclosed for your information a table showing applications for membership received by the Board during 1940, and a statement containing excerpts from the bank relations reports submitted by the Federal Reserve Banks for the month of April.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-655-a

Applications for Membership Received

by the Board during 1940

| District | April Number | April Deposits | This Year Number | This Year Deposits |
|---|---|---|---|---|
| Boston | - | - | - | - |
| New York | - | - | - | - |
| Philadelphia | 1 | $1,000,000 | 3 | $ 3,000,000 |
| Cleveland | 4 | 3,600,000 | 8 | 11,300,000 |
| Richmond | - | - | 5 | 5,000,000 |
| Atlanta | - | - | - | - |
| Chicago | 5 | 7,100,000 | 10 | 8,900,000 |
| St. Louis | 1 | 300,000 | 7 | 3,800,000 |
| Minneapolis | - | - | 2 | 1,700,000 |
| Kansas City | - | - | 1 | 600,000 |
| Dallas | 5 | 3,500,000 | 10 | 5,900,000 |
| San Francisco | 1 | 2,000,000 | 1 | 2,000,000 |
| Total | 17 | $17,500,000 | 47 | $42,200,000 |

R-655-a
May 17, 1940
Not for publication.

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE MONTH OF APRIL, 1940

BOSTON

No visits made.

NEW YORK

During the month of April 181 member banks and 89 nonmember banks were visited, making a total of 270.

Allegany, Livingston and Wyoming Counties, New York (Buffalo Branch Territory)

Deposits show some slight decrease as compared to a year ago, and now total $33,502,000, of which $21,775,000, or 65 per cent, are time accounts. At the present time fifteen banks pay 2 per cent on the entire amount of their time deposits, four pay 2 per cent on balances up to $5,000 and 1-1/2 per cent on any excess, fifteen pay a straight 1-1/2 per cent, and one pays 1-1/2 per cent on all old deposits and 1 per cent on any new money. Of the seventeen banks in Allegany County, only one is paying less than the 2 per cent rate, and the managements of several others are giving consideration to lowering their rate to 1-1/2 per cent effective July 1. Several bankers commented that, owing to the satisfactory earnings of their institutions, they do not feel they would be justified in paying less than 2 per cent.

The investment portfolios have an aggregate book value of $14,471,000 of which $4,337,000, or 30 per cent, are Government obligations. Total securities have decreased approximately $600,000 within the last six months, and a number of bankers stated that maturing issues have not been replaced due to high prices of prime bonds. As a consequence many of the banks are carrying large amounts of idle cash. Bankers quite generally commented on the fact that they can no longer subscribe to United States Savings Bonds, feeling keenly the loss of this source of investment. Many of the institutions in this territory employ counsel to assist them in their investment problems, and a number of bankers questioned whether the results thereby attained have justified the expense.

In connection with its member banks, the New York Bank prepared charts which show the trend of each bank's earnings, expenses and various asset accounts over a period of years, and upon request a copy of this form was left at the bank. The bankers appeared very much interested and quite appreciative of having this information. Several commented on the satisfactory services received from the Bank, and no adverse comments were voiced either with reference to the Federal Reserve Bank of New York or the Board of Governors. The executive officer of one member bank displayed a copy of a letter which he had written to one of his customers in an attempt to correct some erroneous ideas which this individual had formed regarding the Federal Reserve System after listening to a prominent radio speaker.

Bergen and Passaic Counties, New Jersey

Although the maximum interest rate now permitted on savings deposits by all banks in New Jersey is 1 per cent, some institutions in Bergen County require free balances or have fixed maximum amounts on which they pay interest and in a few instances both restrictions apply.

Security investments of the banks total approximately $140,000,000 including about $86,000,000 in United States Government issues, direct and fully guaranteed, or slightly over 61 per cent of all holdings. There has been a tendency among some banks in recent months to sell United States Government bonds, particularly the longer term issues, due to fear of a downward trend in market prices. Many banks have established a firm policy of eliminating corporate securities from their portfolios and a few are buying State, county, and municipal obligations.

Loans of these banks aggregate $100,350,000, an increase of approximately 3 per cent since early last fall. While some of this increase is probably due to seasonal loans for business requirements, much of it is the result of the activity of banks in this area in the making of construction and Federal Housing Administration insured mortgage loans, and the aggressive manner in which an increasing number of banks are developing new business in the form of personal and consumer loans. A few bankers are still reluctant to broaden their loan operations to include some of these more recent developments in banking, but this attitude is gradually changing as the necessity of finding new sources of income increases.

Industrial activity, according to reports issued by the local chambers of commerce, is well ahead of a year ago although in some lines such as silk dying and finishing, and the manufacture of textiles, activities have slowed down and some departments in the woolen and worsted mills are now operating on a three-day week. The Wright Aeronautical Company in Paterson, manufacturing aeroplane motors, and its affiliate, the Curtis-Wright Corporation--propeller division--are two plants which show the most outstanding increase in industrial activity in this section; both have added new buildings to their plants during the past year, and the former has recently taken over a large plant in the nearby section of Fairlawn. This factory which was formerly operated by the Textile Dyeing and Printing Company had been idle for several years. The personnel department of the Wright Aeronautical Company is said to be searching the eastern section of the country for skilled mechanics who must be citizens of the United States.

## PHILADELPHIA

During April 81 banks were visited, consisting of 58 member and 23 nonmember institutions.

### Lehigh, Carbon, and Schuylkill Counties

The three counties covered in this report comprise 1,527 square miles with a population of 471,800. The total banking resources of $171,724,000 are distributed among 55 member banks which hold $143,447,000 and 14 nonmembers which hold $28,277,000.

The principal sources of income are the extraction of anthracite, the manufacture of cement, and the smelting and refining of zinc. Agriculture is important only in Lehigh County, and limited areas of the other counties. As a result of the long, cold winter, mining activity improved to the point that pay rolls for 1939 were the highest since 1931 with 1940 to date exceeding the comparable period for 1939. The cement mills are operating at about 60 per cent of capacity, a fairly satisfactory level, and it was stated that output is about 15 per cent ahead of last year. Indications are that at least the larger mills will continue steady operations during the summer. Crop yields and prices were good last year and as a result farm income was somewhat ahead of 1938. Retail trade is improving.

Demand for credit shows improvement at a large number of the banks visited. A considerable part of the increase results from banks' activities in extending personal and consumer credit, but increased industrial activity also is an important factor.

Improvement in industrial operations is also responsible for a better real estate market in a few communities, but for the most part real estate is slow moving and in the mining area this market is practically at a standstill with no prospect of any change for the better.

The problems of investment and correction of the present condition of investment accounts are of great concern to the bankers. Holdings of Government issues are increasing, although present high prices are cited by some bankers as their reason for not making additional purchases. Some officers state that it is their opinion a decline in Government bond prices will occur within the next few months. In general, the condition of the investment account is being strengthened at all banks.

Deposits continue to increase and total resources of all banks in this area are $5,781,000 greater than a year ago.

Interest rates on time and savings deposits are as follows:

10 banks pay 2 per cent
54 banks pay 1-1/2 per cent
5 banks pay 1-1/2 per cent on the first $5,000 and 1 per cent beyond that amount.

Meeting at the Federal Reserve Bank of Philadelphia

On April 11th, the Bank acted as host to a group of bankers, representatives of each county bankers association of the nine counties in New Jersey within the district, together with the Committee on Federal Reserve Relations for Southern New Jersey of the New Jersey Bankers Association. The President and Secretary of the New Jersey Bankers Association and the Chairman of the Committee on Federal Reserve Relations for Northern New Jersey also were present. The attendance at this meeting was 23, exclusive of the Bank's officers and representatives, and the visitors said that the meeting had been of great value. Membership was discussed and proved of great interest to the nonmembers present.

Comments Relative to Membership Made to Bank Relations Representatives on Visits to Nonmember Banks

While the officers interviewed are friendly to the System and its objectives, many say they prefer to retain their present status and thus be free from additional supervision and regulations. These bankers believe that their correspondent banks will be able to care for them in times of need and that they are in as good a position as though their banks were members for, while they receive the advantages of the System indirectly, they avoid additional regulation.

The fact that service comparable in many respects to that given by Reserve Banks is extended by correspondent banks and a disinclination to disturb relationships which have existed for many years are frequently advanced by nonmember banks as reasons for a lack of interest in the System.

CLEVELAND

During the month of April 195 banks were visited, comprising 118 member banks and 77 nonmember banks.

While no banks were admitted to membership in the Fourth District during the month of April the active campaign has been in progress, and a number of conferences have been had or arranged for. Opposition to membership in the System is still voiced, and follows the usual pattern.

In other sections of Pennsylvania, particularly in coal-mining areas, merchants are complaining about slow collections, and the banks report their beliefs that this is a result of a growth in instalment lending by banks and other agencies, the customers meeting their obligations at these institutions while neglecting the open account.

Five member banks of the Cincinnati Clearinghouse have agreed that effective June 1, 1940, the maximum rate of interest to be allowed on savings and other time accounts will be 1%. Three other Clearinghouse banks will continue with the present 1-1/2% maximum rate.

A nonmember banker in the Pittsburgh area, who reluctantly granted permission to the representative to include this in his report, stated that he had received during recent months three letters from Pennsylvania State member banks who were contemplating withdrawal from membership in the System, and were making inquiries of the nonmember as to its reasons for not joining the System. The reason given for the contemplated action of the three member banks was their belief that too much power was being centralized in the national capitol, and that they were not in sympathy with some of the ideas expressed by certain members of the Board of Governors. No further information could be obtained except it is understood that only one of the three banks is in the Fourth District. The name of this bank was not disclosed.

RICHMOND

During the month of April 63 member banks and 96 nonmember banks were visited, making a total of 159 institutions.

A substantial part of the member bank relations work in the month of April was devoted to nonmember banks with the view to bringing those who are sufficiently interested a little nearer to membership in the Federal Reserve System.

Maryland

Crops generally are backward, and this is especially true of Maryland tobacco. Frozen ground delayed the planting of tobacco seed beds, and at present the young plants are just pushing through the ground. This tobacco season is one of the most backward ever experienced by growers. However, it will remain for future developments to determine whether the lateness of the crop will prove to be an adverse factor.

West Virginia

About seventy-five different industrial plants are located in Parkersburg, producing such things as rayon, garden tools, glass, shoes, steel roofing, oil and gas equipment, silk yarn, porcelain, tile, etc. Employment at present is only slightly below that of a few months back, and is considered better than a fair level. Industrial pay rolls have been at a good level for more than a year, which is the most prolonged period of satisfactory business since 1929. Opinion is agreed that the immediate future looks good. Pay rolls in the first two months of 1940 were 20% higher than in similar months of 1939.

Rates paid on savings deposits are 2-1/2%, and 6% is charged for loans. Personal loans and mortgages are the chief outlets for loans. Deposits are showing only moderate expansion.

Many favorable comments were received in West Virginia regarding the Fifth District Bond Conference.

## ATLANTA

During the month of April 119 banks were visited, of which 63 were member banks and 56 were nonmembers.

An officer of the Birmingham Branch visited eight banks in central western Alabama during the month. These banks with the exception of those in Tuscaloosa are located in agricultural towns. Farm income in this section has been materially reduced the past two years on account of poor cotton crops, and bankers reported business only fair. The volume of farm production loans made by the banks is said to be annually decreasing on account of activity of governmental lending agencies.

All banks visited in this area pay 2% on savings accounts.

With few exceptions officers of banks visited said that they could use more good loans. Many of the banks are turning to personal, automobile, and other types of installment loans to compensate for their losses of farm production loans.

The nonmember bankers were all found very cordial and appeared to appreciate the visit of the representative. Exchange appears to be a vital source of income to these banks, and no interest was shown in membership.

South Central Georgia

Tobacco growers are seriously concerned at present over the prospect of a market and favorable price for their product this year, since England, the largest consumer of tobacco from this section, has been out of the market since the beginning of the war last September. A large portion of the 1939 crop is presently held in warehouses in this country under option to British buyers, and it is doubtful that it will be moved before the present crop goes on the market in July or, in view of the English tobacco embargo, even before the end of the war. South Georgia growers were almost unanimous in their approval of crop control for 1940. Under this plan the quotas allotted South Georgia represent a reduction of 38% in acreage. Farmers are being told that it may be extremely difficult to market a big crop at a reasonable price and that they should keep their acreage even below allotments and concentrate on quality. They are also being urged to put emphasis on food and feed crops to further the live-at-home program.

Many of the farmers in South Georgia are engaged in the naval stores industry which provides them with a near year-round cash income. Operators in this industry for generations have adhered to traditional practices and rather crude methods of production resulting in a low grade product, and, among other things, the growth of synthetic competitive products has resulted in a gradual decline in prices of rosin and turpentine.

Three years ago a group of South Georgia producers saw the necessity of reviving and modernizing the industry and with this object in view organized the American Turpentine Farmers Association Cooperative. Through the efforts of this organization the industry is making very satisfactory progress. Improved methods of production have resulted in a much higher grade product. During the past 12 months the price of turpentine has increased from 22-1/2 cents to 31-1/2 cents per gallon, and rosin prices have shown a marked increase as well.

Bankers visited were generally optimistic over conditions in their communities. Most bankers reported deposits equal to or higher than a year ago and stated that, although the demand for loans is lower than they would like, fair profits are being made.

Central and South Central Tennessee

The sections visited are mainly agricultural and dairying, augmented by beef cattle, mules, and hogs. In Marshall County, walking horses, a desirable class of saddle horse, are bringing in a good deal of money, some selling as high as $2,500.

The severe winter has caused farmers largely to exhaust their supplies of home grown feed, and they are now finding it necessary to buy hay, corn, and so forth. This has resulted in a more active demand for agricultural credit than is normal at this season.

The nonmembers visited, while having a high regard for the Federal Reserve System, have not given the subject of membership any serious consideration. They apparently do not feel the need for membership at this time.

## CHICAGO

During the month of April 38 banks were visited, of which 27 were member banks and 11 were nonmember banks.

Lending rates still remain at relatively low levels with some slightly better demand for local loans reported among country banks. Increases in loans are accounted for by cattle feeder loans, FHA, and personal loans. One bank at Flint, Michigan, reports that it has inaugurated a personal loan plan based on surety bonds and the elimination of endorsers or co-makers. This plan makes it possible for employed persons to obtain loans from the bank up to $1,000 on signature with payments extending over 18 months. Surety bonds are used in lieu of collateral. These bonds can be obtained at an average monthly rate of 28¢ per $100. Personal loans in this bank have shown a net increase of $600,000 in 18 months. An outlying Chicago bank states that its commercial loans are up $400,000 within the past six months. The President of one of the larger banks in Grand Rapids reports that their loans have increased $1,000,000 during the last year, while another Grand Rapids bank reports a smaller increase.

Excess reserves carried by banks in this district at the middle of April were approximately as follows:

| | |
|---|---|
| Country banks | - 100% |
| Reserve City banks | - 65% |
| Chicago banks | - 67% |

There is increasing comment from banks on Government competition in the lending field, the Government agencies being active competitors for business carried by the banks, who apparently are increasing their efforts to retain the business.

Building construction shows a favorable trend. Very little change in employment and pay rolls for the month. Milk strike in Chicago lasted three days and was settled by arbitration.

Announcement was made on April 25 of the complete restoration of the $4 reduction made April 11 on prices of sheets and strip, this restoration to be effective on sales for delivery from May 1 to September 1; prices of other major steel products were reaffirmed for this same period. Although business placed at the lower prices before May 1 was to be for shipment not later than June 30, no particular eagerness was shown by steel consumers to specify on the blanket orders which they previously had placed at the reduced prices.

Operations of automobile manufacturers have tapered off slightly in the past two weeks.

## ST. LOUIS

During the month of April 292 banks were visited, of which 78 were member banks and 214 were nonmember banks.

### Agricultural Conditions

Many farmers in Audrain and Sullivan Counties, Missouri, are selling their surplus corn at prices ranging from 55¢ to 60¢ per bushel. Some of the larger farmers, however, are holding their corn for higher prices. The general outlook for the coming season is favorable.

### Industry and Trade

Considerable of the industrial activity in the Missouri area consists of the operation of branches of St. Louis shoe and garment factories. Work has been fairly steady. The American Car and Foundry Company at St. Charles is operating only on a part-time basis, as present contracts have been filled and deliveries made. A cement plant at Cape Girardeau is being operated with an increased force. Prospects for immediate exploration for oil in Davies County are not encouraging.

Generally speaking, trade conditions are fair and there is considerable optimism regarding the coming season.

Commercial Banking

Many bankers in the Mississippi area visited are looking for good investment securities, as demand for credit is from customers who already owe the banks or from those with no suitable collateral or poor credit. Loan rate is generally from 6 to 8 per cent, but in some cases bankers have reduced their rate in order to compete with Government agencies. Interest rates on savings deposits ranged from 1-1/2% to 2%. Attitude of nonmembers toward the System was friendly, but the practice of charging exchange was a drawback to membership.

Most of the bankers in the Missouri area reported a fair demand for credit, with loan rates varying from 5% to 8%. Interest on time deposits was credited at from 1% to 2-1/2%, with many banks declining to accept any new money. A number of the bankers visited showed considerable interest in membership. Both member and nonmember bankers expressed satisfaction with services being rendered by the Bank and its branches.

Member and Nonmember Banks - Relations with Reserve Bank and Attitude toward System

The cashier of a Tennessee nonmember theoretically believes in the par collection of checks, but clings to the exchange revenue. He thinks the country should do away with the dual system of banking, and until that happens is not at all interested in membership. He stated that the bank's profit for the last three years had equaled its capital, but that the days of big profits were gone.

For a number of years it has been the practice of the Federal Reserve Bank to forward copies of its Monthly Review of Business Conditions and press releases regarding new members, elections of directors and officers, annual earnings, member banks' operating ratios, and other matters to various newspapers throughout the district. In an effort to promote continued good will and cooperation, the officers are calling on the newspapers in towns where they visit banks.

The president of a Mississippi nonmember told the representative that he recently withdrew his account from a Memphis bank when he was informed that the account was unprofitable. Another Memphis correspondent immediately solicited the $70,000 account.

## MINNEAPOLIS

During the month of April 136 banks were visited, of which 57 were member banks and 79 were nonmember banks.

The part of the district visited during the week of April 8 is situated in the three counties in southeastern Minnesota and the two counties in southwestern Wisconsin, which is devoted chiefly to dairying, raising of hogs, and growing of corn and small grains for feeding purposes.

LaCrosse, Wisconsin, is the only city in the territory visited where the interest rates are as low as 1%. In Winona, Minnesota, the second largest city visited, the rate is 1-1/2%, although there is some agitation on the part of one of the banks there to reduce the rate to 1%. Several bankers have presented the argument, however, that as their business was built up on time deposits, they feel that the depositors are entitled to a better return than 1%. This sentiment seems to prevail throughout the territory substantiated by the fact that in some instances smaller banks are paying as high as 2-1/2%. The argument was advanced by some of the bankers visited that some day they will need these same time deposits and that should they reduce their interest rate at this time, these deposits will disappear and never return to the community.

Because of the predominance of time deposits in this section of the country, bankers have been prone to purchase long-term bonds with their surplus funds. It may be a coincidence, but nevertheless it is a fact that most of the bankers in this territory have gone in for long-term railroad bonds which have resulted in many a headache. The representative was told that in 1936 and 1937, rail bonds were recommended by several of the bond services and that most of the bankers purchasing them still have them in their portfolios. Because of good conditions in this territory, however, banks have been able to show sufficient earnings to write these bonds down to market price. No bank has been forced to consolidate or close by reason of this particular problem, although one national bank has had pressure brought to bear to force a consolidation with a State member bank in the same town.

The banks visited are finding it exceedingly difficult to obtain satisfactory local loans. Virtually all of them have branched into the field of installment loans, Federal Housing Administration loans, loans on tractors, on electrical appliances, and on life insurance policies. To date, their experience with these types of loans has been very satisfactory.

Several bankers mentioned the fact that they were opposed to the ruling of the Treasury Department discontinuing the sale of United States Savings Bonds to banking institutions after April 1, 1940, for they felt that the average small-town banker was in no position to purchase bonds on the open market and that the United States Savings Bond was one that they could purchase without fear of a loss.

Considerable satisfaction was expressed by a number of the bankers visited over the operating ratios recently sent them. In a few instances, they even brought out the printed forms and showed how their banks compared with the average.

Many favorable comments were received in connection with the friendly relationships between the banks of the district and the Federal Reserve Bank. No criticisms or suggestions of consequence were made. It is generally considered that the services received from the various departments are quite satisfactory. A few nonmember banks expressed appreciation of the safekeeping service in connection with United States Savings Bonds.

Owing to loss of exchange, which is charged by all of the nonmember banks in the territory visited, there is but little interest at this time in Federal Reserve membership by these banks.

Bankers who attend the all-day conference in March said they never attended any large gathering where a program was dispatched with such ease and punctuality, and they marvelled at the handling of such a large group with no apparent effort and such splendid management.

Many referred to the radio broadcasts; they enjoyed them and derived benefits from the informative programs.

On April 27, 1940, the Helena Branch was host at a conference of member and nonmember Montana bankers and their wives. About three hundred registered, and in the morning visited with the branch officers and other bankers in attendance, and inspected the new building. In the afternoon, W. C. Coffey, Dean and Director, Department of Agriculture, University of Minnesota, and Chairman, Board of Directors, of the Bank, gave the principal address on "The Animal Industry". A round table discussion by six economists on current business and banking subjects followed. The bankers present were entertained by the branch at a luncheon, and at an informal dinner in the evening. All the officers, directors, and employees of all banks in the State of Montana, whether member or nonmember, together with their wives, were invited.

## KANSAS CITY

In April 80 banks were visited, of which 46 were member banks and 34 were nonmember institutions.

Resentment is still very much in evidence against Government lending agencies in general and against the Production Credit Corporation in particular. Where PCC loans have made serious inroads on the business to be secured from sound risks, banks are fighting back with competitive interest rates and are recovering some of the loans formerly lost to the PCC. Several bankers ventured the opinion that PCC competition was probably less severe now than it had been.

On the Western Slope of Colorado, there has been a considerable decrease in cattle numbers in recent years. Part of this is due to the fact that range permits for grazing in the national parks and forests have been curtailed and part to the good price obtainable for cattle, a combination which has tempted many feeders and operators to sell off their herds and get out of debt.

Nebraska bankers are somewhat concerned over a petition being circulated for a Constitutional amendment providing for a State-owned bank with a large capital, in which all public funds would be deposited and from which loans might be obtained at rates not exceeding 3%. The opinion seems to be that the approximately 50,000 signatures required to have the amendment placed on the ballot at the fall elections could easily be obtained.

Restrictions on cotton acreage have resulted in a pronounced shift from cotton to diversified agriculture and livestock, particularly along the northern edge of the cotton country. In northeastern Oklahoma, the Federal Security Administration has selected a few worthy and capable young men and is helping them to buy farms, and bankers say this experiment is working out satisfactorily.

## DALLAS

During the month of April 73 banks were visited, of which 58 were member banks and 15 were nonmember banks.

### East Texas

Government subsidies have offset, in part, the loss of income resulting from curtailed cotton acreage, and they have thus far kept the majority of farmers reconciled to the Government's farm program.

Bankers in this section continue to complain of the difficulty of keeping their funds employed and many of them were extremely bitter in denouncing the competitive activities of the Government-sponsored Production Credit Associations.

Some complaints were also registered with reference to the effects of the Wage-Hour Law on operations of country banks. The representatives were told that the law works a great hardship on the banks, particularly during the fall when the cotton crop is moving.

Crop prospects in this part of East Texas are not very encouraging, as rain is badly needed on most of its farms.

Just as the farmers are increasingly diversifying their production programs, most of the banks are diversifying their loan portfolios in order to augment their earnings. Both automobile loans and tractor paper are being used to furnish supplemental outlets for their funds.

Northeast Texas

The chief products of this area are cotton, corn, oil, lumber and a wide variety of vegetable and fruit crops. Cotton, however, is steadily losing its importance as a source of income and the agricultural population is becoming increasingly dependent upon Government subsidies, oil leases and royalties, stock farming and dairying. In short, the Government's farm program, whatever may be its disadvantages, is the acknowledged driving force that is bringing about a better balanced system of agricultural production. Reduced acreage requirements have caused the cotton farmers to cultivate their lands more intensively and energetically, with the result that per-acre yields are in many cases being increased.

In one county it was reported that certain of the Government's agrarian projects are being successfully carried out. A number of high-class tenant farmers in the county who have recently purchased farms through the Farm Security Administration were said to be three or four years ahead of their schedule of purchase price payments.

Interviewed bankers expressed satisfaction with current banking laws and regulations, though some continued to show a critical attitude toward Government lending agencies. The president of one country bank remarked that the loan facilities of the Federal Reserve Bank had saved his bank from ruin in 1920.

SAN FRANCISCO

During the month of April 93 banks were visited, comprising 79 member banks and 14 nonmember banks.

Santa Barbara County

Lompoc Valley - This valley is comparatively small, and as all suitable farming land is being utilized, there is no growth in population. Farmers have done well to break even, there are no housing activities, and merchants complain that collections are slow.

Santa Maria Valley - Conditions are described as fair. Owing to the oil prorate, there has been a decrease in the number of oil workers, which has had an effect on housing operations.

Northern San Joaquin Valley - Because of war conditions, it is reported that dehydrating plants in the Turlock area will not operate this year, and growers will of necessity have to dispose of their crops on the fresh fruit market and to wineries.

Prices of butter fat have recently declined, but are still 7 to 8 cents above the market last year at this time, and there is an abundance of hay and feed at reasonably low prices.

Southwestern Oregon

Banks report that lumber mills are more active than for some time, except for the occasional reduction of operations due to lack of shipping facilities. Lumber from this district is shipped by water, and not so many boats are calling as are needed to ship the orders on hand, making space unusually scarce.

The dairying industry is growing, and some cheese is manufactured. Many tourist cabins and cottages are established along the ocean and lakes which materially increases the income of the district.

Salt Lake County, Utah

There is reported a greater degree of employment in the mining industry in this section than was evident during the year 1939. This is due primarily to the production of a greater quantity of copper since the European conflict started last fall.

Wenatchee Valley, Washington

At the time of the visit to the Wenatchee Valley, a committee of bankers and business men was endeavoring to complete a plan under which the smaller apple growers would obtain some direct benefits from Government agencies. The results of these conferences have been that the Wenatchee-Okanogan District has been designated as a distress area and loans up to $2,500 will be made to such growers by the Emergency Crop and Seed Loan Section of the Farm Loan Administration. Such action will be of benefit to a large number of growers, but is based on an average of ten acres to each grower.

## PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

April 1940

| Federal Reserve Bank | Visits to Banks | | | Meetings Attended | | Addresses Made | |
|---|---|---|---|---|---|---|---|
| | Member | Nonmember | Total | Number | Attendance | Number | Attendance |
| Boston | - | - | - | - | - | 3 | 575 |
| New York | 181 | 89 | 270 | 12 | 3,620 | 3 | 115 |
| Philadelphia | 58 | 23 | 81 | 3 | 930 | 3 | 1/ |
| Cleveland | 118 | 77 | 195 | 10 | 1,834 | 4 | 233 |
| Richmond | 63 | 96 | 159 | 21 | 3,568 | 3 | 1,000 |
| Atlanta | 63 | 56 | 119 | 5 | 1,690 | 1 | 60 |
| Chicago | 27 | 11 | 38 | 8 | 2,895 | 1 | 130 |
| St. Louis | 78 | 214 | 292 | 9 | 916 | 5 | 257 |
| Minneapolis | 57 | 79 | 136 | 7 | 795 | 8 | 505 |
| Kansas City | 46 | 34 | 80 | 13 | 2,038 | 4 | 700 |
| Dallas | 58 | 15 | 73 | 2 | 550 | - | - |
| San Francisco | 79 | 14 | 93 | 22 | 1,697 | 6 | 400 |

1/ Not completely reported.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-656
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 17, 1940

Dear Sir:

Under date of April 24, 1940, Senator Mead introduced in the Senate a bill, S.3839, to amend Section 13b of the Federal Reserve Act for the purpose of liberalizing the authority of the Federal Reserve Banks to make industrial loans. A companion bill, H.R. 9530, was introduced by Congressman Thomas F. Ford of California in the House of Representatives on April 25, 1940.

A copy of H.R.9530, an analysis of the changes which the bill would effect in the present law, and a brief statement with respect to legislation enacted and proposed on this subject are being sent to you with this letter.

You will note that the Mead bill would eliminate from Section 13b the requirements that loans must be for working capital purposes, that they may be made only to established business enterprises, and that maturities may not exceed five years. The bill would require each financing institution to obligate itself, to the satisfaction of the Federal Reserve Bank, for at least 10 per cent, instead of 20 per cent, as provided in the present law, of any loss which may be sustained on obligations acquired from it and would direct the Secretary of the Treasury to pay to each Federal Reserve Bank from time to time such amounts, up to the amount subscribed by the Bank for stock of the Federal Deposit Insurance Corporation, as in the judgment of the Board of Governors are necessary to enable the Federal Reserve Banks to grant the credit authorized by Section 13b.

The Board has no means of knowing whether these bills will be given active consideration by Congress during the present session, but would be glad to know whether, in the light of the experience of your Bank, your directors and officers would favor the Mead-Ford proposal, the Frank proposal, or some other type of legislation.

The Board would also appreciate receiving any comments with respect to this matter that you think would be helpful to it, even though they may relate to points not covered in either the Mead or Frank proposals.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosures 3

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-657

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

May 21, 1940

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by Federal Reserve Banks and branches during the month of June:

| | | | |
|---|---|---|---|
| Monday June 3 | Richmond<br>Atlanta<br>Birmingham<br>Jacksonville<br>Nashville<br>New Orleans | Louisville<br>Memphis<br>Dallas<br>El Paso<br>Houston<br>San Antonio | Confederate Memorial Day and Jefferson Davis' Birthday |
| Friday June 14 | Philadelphia | Pittsburgh | Flag Day |
| Monday June 17 | Boston | | Bunker Hill Day |

On the dates given the offices mentioned 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 affected on each of the holidays with your credits for the following business day. No debits covering Federal Reserve note shipments for account of the head offices affected on each of the holidays should be included in the note clearing of those dates.

Very truly yours,

J. C. Noell

J. C. Noell,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-658

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 3, 1940

Dear Sir:

There is enclosed, for your information, a copy of a letter from Mr. M. R. Loafman, Chief, Division of Public Debt Accounts and Audits, Treasury Department, dated May 24, 1940, advising the Secretary of the Treasury that an audit of the stock of completed Federal Reserve notes and Federal Reserve bank notes on hand in the Federal Reserve vault at the Bureau of Engraving and Printing was begun on May 16 and completed on May 17, 1940, as of the close of business May 15, 1940.

Mr. Loafman states that the amounts of Federal Reserve notes and Federal Reserve bank notes on hand, $2,813,100,000 of 1928 Series and $3,019,540,000 of 1934 Series Federal Reserve notes and $450,800,000 of Federal Reserve bank notes, were in agreement with the records of the Federal Reserve Issue and Redemption Division of the Comptroller's Office. Copies of detailed statements "A", "B" and "C" which accompanied Mr. Loafman's letter are also enclosed.

Very truly yours,

E. L. Smead

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

Enclosures 4

TO ALL FEDERAL RESERVE AGENTS

C O P Y

R-658a

May 24, 1940

The Honorable

The Secretary of the Treasury

Sir:

An audit has been made of the completed stocks of unissued Federal Reserve notes and Federal Reserve Bank notes charged to the Federal Reserve Vault in the Bureau of Engraving and Printing. The audit was begun May 16 and completed May 17, 1940, as of the close of business May 15, 1940.

The following tabulation reflects the amounts as disclosed by the audit:

| | |
|---|---|
| Under auditor's seal in Vault No. 1, Treasury Building | |
| Federal Reserve notes (Series 1928) ................ | $2,813,100,000 |
| Federal Reserve Bank notes (Series 1929) .......... | 450,800,000 |
| | 3,263,900,000 |
| On hand in Federal Reserve Vault, Bureau of Engraving and Printing | |
| Federal Reserve notes (Series 1934) ............... | 3,019,540,000 |
| Total ...................................... | $6,283,440,000 |

The above balance, comprising 93,892 packages, was in agreement with the records of the Federal Reserve Vault and those of the Division of Public Debt Accounts and Audit and with the statement submitted by the Federal Reserve Issue and Redemption Division of the Office of the Comptroller of the Currency. Detailed information with respect to each of the classes of currency is reflected in the attached statements "A", "B", and "C", respectively.

The entire balance of Federal Reserve notes (Series 1928) and Federal Reserve Bank notes (Series 1929) have been under the auditor's seal since 1937 at which time they were package counted and the seals inspected and no further inspection was made in connection with this audit except to inspect the seal on the compartment in Vault No. 1.

The entire stock of Federal Reserve notes (Series 1934) consists of sealed packages bearing the seal of the Bureau of Engraving and Printing and is under the joint custody of representatives of the Secretary of the Treasury, the Bureau of Engraving and Printing and the Federal Reserve Board. It was, therefore, not considered necessary to break the seals on the packages in making the verification but the brief on each package was examined with respect to the package number, serial numbers of the notes, bank and denomination. The packages were found in orderly arrangement and grouped in such manner as to permit the auditors to accomplish the verification without delay.

Prior to beginning the audit, the Chief of the Secret Service was notified and a representative of his office was present on May 16 and 17, 1940.

Appreciation is extended to the officials of the Bureau of Engraving and Printing and the representatives at the Federal Reserve Vault for the cooperation and assistance rendered during the conduct of the audit.

Respectfully submitted:

M. R. Loafman
Chief, Division of Public Debt Accounts and Audit.

STATEMENT "A"

R-658b

FEDERAL RESERVE NOTES (SERIES 1928) ON HAND IN THE FEDERAL RESERVE VAULT
IN THE BUREAU OF ENGRAVING AND PRINTING,* AS DISCLOSED BY AUDIT
AS OF MAY 15, 1940
(IN THOUSANDS OF DOLLARS)

| BANK | 5's | 10's | 20's | 50's | 100's | 500's | 1,000's | 5,000's | 10,000's | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| Boston . . . . . . . | $47,880 | $..... | $46,560 | $50,400 | $50,400 | $30,000 | $30,000 | $2,000 | $..... | $257,240 |
| New York . . . . . . | 87,560 | ..... | 25,200 | 30,000 | 87,600 | 64,800 | 54,400 | .... | 6,000 | 355,560 |
| Philadelphia . . . | 36,780 | 15,160 | 50,320 | 75,000 | 78,000 | 42,000 | 50,400 | .... | ..... | 347,660 |
| Cleveland . . . . | 37,040 | 19,120 | 107,440 | 41,400 | 28,400 | 39,300 | 31,600 | 6,000 | ..... | 310,300 |
| Richmond . . . . | 22,340 | ..... | ..... | 41,600 | 27,200 | 28,500 | 21,000 | 9,000 | 10,000 | 159,640 |
| Atlanta . . . . . . | 6,760 | 9,520 | 36,720 | 23,200 | 20,000 | 19,600 | 16,400 | 4,000 | 9,320 | 145,520 |
| Chicago . . . . . . | 65,280 | ..... | 114,000 | 88,200 | 96,800 | 108,900 | 135,200 | 16,000 | 20,000 | 644,380 |
| St. Louis . . . . . | ..... | ..... | 8,480 | 19,200 | 24,800 | 18,400 | 16,200 | ..... | ..... | 87,080 |
| Minneapolis . . . | 7,180 | 2,200 | 34,080 | 12,000 | 22,400 | 13,300 | 13,000 | ..... | ..... | 104,160 |
| Kansas City . . . | 27,640 | ..... | 26,720 | 22,600 | 26,000 | 25,500 | 23,600 | ..... | ..... | 152,060 |
| Dallas . . . . . . . | 7,760 | 9,240 | 22,640 | 22,600 | 20,000 | 24,600 | 23,400 | 1,000 | 2,000 | 133,240 |
| San Francisco . . | 12,260 | ..... | 13,440 | 11,800 | 26,400 | 21,600 | 17,200 | 3,720 | 9,840 | 116,260 |
| TOTAL | $358,480 | $55,240 | $485,600 | $438,000 | $508,000 | $436,500 | $432,400 | $41,720 | $57,160 | $2,813,100 |

*These notes are in Vault No. 1, Main Treasury Building, under auditor's seal.

STATEMENT "B"

R-658c

FEDERAL RESERVE NOTES (SERIES 1934) ON HAND IN THE FEDERAL RESERVE VAULT IN THE BUREAU OF ENGRAVING AND PRINTING, AS DISCLOSED BY AUDIT AS OF MAY 15, 1940 (IN THOUSANDS OF DOLLARS)

| BANK | 5's | 10's | 20's | 50's | 100's | 500's | 1,000's | 5,000's | 10,000's | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| Boston . . . . . | $25,200 | $109,440 | $65,040 | $23,000 | $38,000 | $5,200 | $4,400 | $6,000 | $2,000 | $278,280 |
| New York . . . . | 29,980 | 236,600 | 121,760 | 84,400 | 147,600 | 58,900 | 70,600 | 11,000 | 28,000 | 788,840 |
| Philadelphia . . | 27,600 | 80,440 | 72,080 | 33,600 | 38,400 | 4,400 | 4,600 | .... | .... | 261,120 |
| Cleveland . . . . | 11,000 | 64,200 | 76,800 | 13,600 | 11,600 | 1,700 | 800 | 4,000 | 8,000 | 191,700 |
| Richmond . . . . | 16,960 | 40,160 | 62,560 | 14,000 | 22,000 | 8,500 | 6,400 | 5,000 | .... | 175,580 |
| Atlanta . . . . | 8,260 | 29,200 | 28,720 | 5,600 | 14,000 | 6,400 | 8,600 | 5,000 | 4,000 | 109,780 |
| Chicago . . . . . . | 39,660 | 164,120 | 110,560 | 18,800 | 14,400 | 26,200 | 17,600 | 6,000 | 6,000 | 403,340 |
| St. Louis . . . . | 33,140 | 39,360 | 38,720 | 7,200 | 24,800 | 6,300 | 4,800 | 4,000 | 4,000 | 162,320 |
| Minneapolis . . . | 19,600 | 50,240 | 51,600 | 3,400 | 12,800 | 3,200 | 1,800 | ..... | ..... | 142,640 |
| Kansas City . . . | 11,700 | 45,520 | 48,560 | 5,400 | 23,200 | 4,700 | 11,200 | 6,000 | 4,000 | 160,280 |
| Dallas . . . . . | 4,000 | 20,400 | 9,280 | 1,400 | 8,400 | 7,400 | 6,800 | 5,000 | 4,000 | 66,680 |
| San Francisco . . | 37,420 | 77,920 | 85,840 | 8,200 | 33,200 | 10,000 | 11,400 | 9,000 | 6,000 | 278,980 |
| TOTAL . . . . . . | $264,520 | $957,600 | $771,520 | $218,600 | $388,400 | $142,900 | $149,000 | $61,000 | $66,000 | $3,019,540 |

STATEMENT "C"

R-658d

FEDERAL RESERVE BANK NOTES (SERIES 1929) ON HAND IN THE FEDERAL RESERVE VAULT IN THE BUREAU OF ENGRAVING AND PRINTING, * AS DISCLOSED BY AUDIT AS OF MAY 15, 1940 (IN THOUSANDS OF DOLLARS)

| BANK | 5's | 10's | 20's | 50's | 100's | TOTAL |
|---|---|---|---|---|---|---|
| Boston . . . . . . . . . | $5,020 | $5,000 | $5,040 | $----- | $----- | $15,060 |
| New York . . . . . . . . | 860 | 27,320 | 18,000 | 6,600 | 22,800 | 75,580 |
| Philadelphia . . . . . | 4,100 | 3,800 | 13,840 | ----- | ----- | 21,740 |
| Cleveland . . . . . . . | 10,020 | 10,080 | 1,520 | 23,800 | 23,600 | 69,020 |
| Richmond . . . . . . . | ----- | 10,840 | 21,600 | ----- | 15,600 | 48,040 |
| Atlanta . . . . . . . . | 5,040 | 5,880 | 15,520 | ----- | ----- | 26,440 |
| Chicago . . . . . . . . | 19,380 | 23,440 | 24,720 | 15,000 | 10,800 | 93,340 |
| St. Louis . . . . . . . | ----- | 2,120 | 5,040 | ----- | ----- | 7,160 |
| Minneapolis . . . . . | ----- | 1,880 | 11,280 | 6,600 | 14,400 | 34,160 |
| Kansas City . . . . . | 9,020 | 2,840 | 7,120 | 12,800 | 8,400 | 40,180 |
| Dallas . . . . . . . . . | ----- | ..... | 1,680 | 1,200 | 1,200 | 4,080 |
| San Francisco . . . . | ----- | 4,800 | ..... | 11,200 | ----- | 16,000 |
| TOTAL . . . . . . . . . | $53,440 | $98,000 | $125,360 | $77,200 | $96,800 | $450,800 |

*These notes are in Vault No. 1, Main Treasury Building, under auditor's seal.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-659

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 5, 1940

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 June 30, 1940. The form is unchanged from the one used in submitting reports for the six months ended December 31, 1939.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-660

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 6, 1940

Dear Sir:

Referring to the Board's letter R-593 of January 10, 1940, following is a statement of changes during May 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:

Deletions

| | |
|---|---|
| Indiana | |
| West College Corner (P.O. College Corner, Ohio) | The Farmers State Bank of West College Corner, Indiana |
| New York | |
| New York City | Banca Commerciale Italiana Trust Company |

The above banks should be added with the notes shown below to the list (R-593b) of banks which had in force agreements but which are no longer in operation as nonmember banks:

The Farmers State Bank of West College Corner, Indiana (admitted to Federal Reserve membership on May 28, 1940)

Banca Commerciale Italiana Trust Company (absorbed by Manufacturers Trust Company, New York, on February 14, 1939, and formally dissolved on May 6, 1940)

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-661

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1940.

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 May 1 to May 31, 1940.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-661-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
May 1 to May 31, 1940.

Federal Reserve Notes, Series 1940

| | $10 | $20 | $5,000 | Total Sheets | Amount |
|---|---|---|---|---|---|
| Boston | 47,000 | 7,000 | - | 54,000 | $ 4,968.00 |
| New York | 158,000 | 39,000 | 50 | 197,050 | 18,128.60 |
| Philadelphia | 20,000 | 10,000 | - | 30,000 | 2,760.00 |
| Cleveland | 78,000 | 42,000 | - | 120,000 | 11,040.00 |
| Richmond | 20,000 | 12,000 | - | 32,000 | 2,944.00 |
| Atlanta | 4,000 | 6,000 | - | 10,000 | 920.00 |
| Chicago | 232,000 | 162,000 | - | 394,000 | 36,248.00 |
| St. Louis | 8,000 | 3,000 | - | 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 | - | - | 10,000 | 920.00 |
| San Francisco | 46,000 | 24,000 | - | 70,000 | 6,440.00 |
| | 647,000 | 315,000 | 50 | 962,050 | $88,508.60 |

962,050 sheets @ $92.00 per M. . . . . $88,508.60

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R- 662

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1940

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the eight 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 (Call 84), Report of condition of State bank member. |
| | Form F. R. 105b (Revised August 1939), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates. |
| | Form F. R. 105e (Revised June 1939), Publisher's copy of report of condition of State bank member. |
| | Form F. R. 220 (Revised August 1935), Report of affiliate or holding company affiliate. |
| | Form F. R. 220a (Revised December 1938), Publisher's copy of report of affiliate or holding company affiliate. |
| | Form F. R. 220b (Revised February 1938), Instructions for preparation of reports of affiliates and holding company affiliates. |
| | Form 105h (Revised June 1939), Branch bank report of condition. |
| | Form B 3, Agriculture, Farm loans held and farm land owned. |

In the interest of clarity, minor changes have been made in the captions of items 32(b) and 32(c) on the face of Form F. R. 105 and in the caption of item 8(b) in Schedule B.

Form F. R. 105h, it will be noted, is unchanged from June 1939, when branch reports were last required. Reports on this form should be submitted in duplicate by each State bank member, which, according to Schedule DD, operates one or more domestic branches. No copies of this form need be sent, of course, to any State bank members that do not appear to have branches.

Form B 3, Agriculture, calls for data on farm loans held and farm land owned on the call date. Similar data were called for in connection with the condition reports rendered as of December 31, 1934. As indicated on Form B 3, only the original copy of the report on this form need be sent by member banks to their respective Federal Reserve banks. The original copy should, in turn, be sent by your bank to the Board after items 1, 2, 3(f), 4 and 5 have been reconciled with the corresponding items in the call report.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 8

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-663

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 12, 1940

Dear Sir:

There are enclosed copies of Forms F.R. 411 and F.R. 418, which have been revised in certain particulars to conform with the revised pages of the Board's Manual of Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements by the Federal Reserve Banks, which were sent you in January 1940.

Additional copies of these forms will be forwarded under separate cover. Please use the new forms beginning with statements submitted for the month of June.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Form F.R. 411
(Revised June 1940)



DEBITS AND CREDITS TO PROFIT AND LOSS ACCOUNT

Federal Reserve Bank of ____________________

For the Month of ____________ 19___

(List credits first and show cumulative total since January 1 for each item)

| | Total for month | Total since January 1 |
|---|---|---|
| Credits to Profit and Loss | | |

Form F.R. 418
(Revised June 1940)



FEDERAL RESERVE BANK OF____________________

NET EARNINGS ON INDUSTRIAL ADVANCES AND COMMITMENTS AND ON OTHER ASSETS IN WHICH FUNDS RECEIVED FROM THE SECRETARY OF THE TREASURY UNDER SECTION 13b ARE INVESTED

FOR THE MONTH OF____________ 19__

| | Total for month | Total since Jan. 1 |
|---|---|---|
| Earnings from industrial advances and commitments: | | |
| Loans, discounts, advances, and purchases | $............. | $.............. |
| Commitments | ............. | .............. |
| Other earnings on funds received from Secretary of the Treasury under Section 13b | ............. | .............. |
| Total earnings | | |
| Expenses: | | |
| Salaries: Officers | ............. | .............. |
| Employees | ............. | .............. |
| Contributions - Retirement system | ............. | .............. |
| Industrial Advisory Committee members - Expenses or per diem allowances | ............. | .............. |
| Traveling expenses (a) | ............. | .............. |
| Legal fees | ............. | .............. |
| Appraisers' fees | ............. | .............. |
| Registered mail insurance | ............. | .............. |
| Other insurance | ............. | .............. |
| Provision of space | ............. | .............. |
| Rental of furniture and equipment | ............. | .............. |
| Printing, stationery, and office supplies | ............. | .............. |
| Telephone and telegraph | ............. | .............. |
| Postage and expressage | ............. | .............. |
| Miscellaneous expenses (List on reverse side of report items of expense exceeding $50 in any one month) | ............. | .............. |
| Total expenses | | |
| Current net earnings | ............. | .............. |
| Add: Recoveries of losses charged to-- | | |
| Current net earnings | ............. | .............. |
| Reserves for losses | ............. | .............. |
| Net income--miscellaneous assets | ............. | .............. |
| Deduct: Additions to reserves for losses | ............. | .............. |
| Losses charged off (other than those charged to reserves) | ............. | .............. |
| Net expense--miscellaneous assets | ............. | .............. |
| Net earnings | ............. | .............. |
| Memoranda: | | |
| Expenses paid by applicants | ............. | .............. |
| Average daily amount of Federal Reserve bank funds advanced and under commitment | ............. | .............. |
| Average daily amount of funds received from the Secretary of the Treasury | ............. | .............. |
| Amount of funds received from the Secretary of the Treasury as of end of month | | .............. |

(a) Other than those of Industrial Advisory Committee members.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-664

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 14, 1940.

Dear Sir:

For your information in relation to Bill S. 4095 entitled "A Bill To amend the Federal Home Loan Bank Act, Home Owners' Loan Act of 1933, title IV of the National Housing Act, and for other purposes", I am sending you herewith a copy of the report of the Board of Governors submitted on June 13, 1940, to Chairman Wagner, of the Senate Banking and Currency Committee, in response to his request.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS
MEMBERS AND SECRETARY OF FEDERAL
ADVISORY COUNCIL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-665

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1940.

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 June 3 to June 14, 1940.

Very truly yours,

O. E. Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-665-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
June 3 to June 14, 1940.

Federal Reserve Notes, Series 1934

| | $10 | $20 | $50 | $100 | $1,000 | Total Sheets | Amount |
|---|---|---|---|---|---|---|---|
| **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 | 78,000 | 42,000 | 15,000 | 5,000 | - | 140,000 | 12,880.00 |
| Richmond | 20,000 | 12,000 | - | - | - | 32,000 | 2,944.00 |
| Atlanta | 4,000 | 6,000 | - | - | - | 10,000 | 920.00 |
| Chicago | 232,000 | 172,000 | 60,000 | 100,000 | 3,400 | 567,400 | 52,200.80 |
| St. Louis | 8,000 | 3,000 | - | - | - | 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 | 8,000 | - | - | - | 18,000 | 1,656.00 |
| San Francisco | 46,000 | 24,000 | - | - | - | 70,000 | 6,440.00 |
| | 647,000 | 333,000 | 75,000 | 105,000 | 3,400 | 1,163,400 | $107,032.80 |

1,163,400 sheets @ $92.00 per M . . . . . $107,032.80

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-666

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 17, 1940

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 May 1940.

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,

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 MAY, 1940

| 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 | 24,009 | 638 | 24,647 | $ 440.91 | $ 346.80 | $ 94.11 |
| New York | 70,958 | - | 70,958 | 1,269.37 | 955.91 | 313.46 |
| Philadelphia | 19,147 | 645 | 19,792 | 354.06 | 247.67 | 106.39 |
| Cleveland | 32,662 | 651 | 33,313 | 595.94 | 277.21 | 318.73 |
| Richmond | 26,010 | 638 | 26,648 | 476.71 | 215.11 | 261.60 |
| Atlanta | 44,686 | 638 | 45,324 | 810.80 | 241.60 | 569.20 |
| Chicago | 67,530 | 696 | 68,226 | 1,220.50 | 1,221.23 | .73(a) |
| St. Louis | 45,494 | 638 | 46,132 | 825.26 | 246.98 | 578.28 |
| Minneapolis | 22,789 | 638 | 23,427 | 419.08 | 187.13 | 231.95 |
| Kansas City | 46,051 | 638 | 46,689 | 835.22 | 273.06 | 562.16 |
| Dallas | 41,953 | 666 | 42,619 | 762.41 | 274.45 | 487.96 |
| San Francisco | 49,999 | 644 | 50,643 | 905.95 | 411.93 | 494.02 |
| Board of Governors | 357,107 | - | 357,107 | 6,388.30 | 10,405.43 | - |
| Total | 848,395 | 7,130 | 855,525 | $15,304.51 | $15,304.51 | $4,017.86 |
| | | | | | | .73(a) |
| | | | | | | $4,017.13 |

(1) Based on cost per word ($.017889027) 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 ($1,473.92) and wire rental ($8,931.51). 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

Statement for the Press

For release in morning papers,
Wednesday, June 19, 1940.

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

Industrial activity increased considerably in May and the first half of June, while prices of commodities and securities declined sharply in the middle of May and fluctuated near the lower levels after that time. Distribution of commodities to consumers was maintained at levels prevailing earlier this year.

Production

Volume of industrial production increased in May and the Board's seasonally adjusted index advanced from 102 to 105. The rise in May reflected chiefly sharp increases in activity at steel mills and woolen mills. Steel production in May was at about 71 per cent of capacity, as compared with 60 in April, and by the third week of June activity had risen further to 88 per cent. Lumber production also increased. In the automobile industry, where output had been at a high rate in the first four months of the year, dealers' stocks were in large volume and production was curtailed in May and the first half of June. Retail sales of automobiles continued at a high level during most of May, although in the middle of the month a temporary sharp reduction was reported.

In the woolen textile industry activity in May rose sharply from the low level reached in April. At cotton mills activity was maintained at about the rate prevailing in March and April and was somewhat lower than in the early months of the year. Rayon production continued large, while mill takings of raw silk declined to the lowest level in nearly twenty years. In other industries producing nondurable manufactures activity generally showed little change from April to May.

Coal production in May continued at a high level for this time of the year, reflecting in part increased exports and unusually large shipments of coal to Upper Lake ports. Iron ore shipments down the Lakes were also large for this season. Petroleum production in May declined somewhat from the high rate maintained in March and April.

Value of construction contract awards increased further in May, according to figures of the F. W. Dodge Corporation, reflecting principally continued growth of private building. Private residential contracts rose to the highest level in the past 10 years. Awards for commercial buildings advanced somewhat further while those for factory construction continued at about the level reached in April. Both were considerably larger than a year ago. Contracts for public construction increased slightly in May but were about one-sixth lower than a year earlier.

Distribution

Department store sales in May declined from the level prevailing in the past three months, while sales at variety stores and mail-order houses were largely maintained at earlier levels. In the first week of June department store sales increased considerably.

Volume of railroad freight traffic increased in May, reflecting larger shipments of miscellaneous merchandise, coal, and forest products. Loadings of grains declined.

Foreign trade

Total exports of United States merchandise showed little change from April to May. Increases were reported in shipments to Canada and Australia and to Italy and Finland, while exports to other European nations showed declines. Exports of industrial machinery in May declined somewhat from the high level reached in April, while exports of steel, copper, chemicals, and commercial vehicles increased, following declines in the previous month. Coal shipments, largely to Canada, rose to the highest level in recent years. Cotton exports continued to decline from the high level of last winter.

The monetary gold stock of the United States increased by $439,000,000 in May and by $250,000,000 in the first two weeks of June.

Commodity prices

Following a general decline in basic commodity prices around the middle of May, prices of industrial materials, particularly steel scrap, zinc, tin, and wool, advanced and by the middle of June were in some instances above the levels of early May. Raw cotton prices also increased, and in the second week of June prices of cotton gray goods likewise advanced as sales of these goods were in exceptionally large volume. Prices of a number of foodstuffs continued to decline.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities showed little net change during the four weeks ending June 5. Holdings of United States Government obligations increased further at New York City banks, while loans to security brokers and dealers declined considerably. Deposits and reserves of member banks continued to increase sharply as a result mainly of heavy gold imports.

Government security market

Prices of Government securities held relatively steady during the latter part of May and the first part of June, after a reaction at the time of the invasion of Belgium and Holland. Subsequently prices increased sharply, and on June 15 the yield on the 1960-1965 bonds was 2.40 per cent, compared with 2.52 per cent on June 10 and 2.26 per cent at this year's peak in prices on April 2.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-668

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 19, 1940.

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 two hundred and ninety-one thousandths of one per cent (.00291) 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 June 30, 1940, to defray the estimated expenses and salaries of the members and employess of the Board from July 1 to December 31, 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,

O E Foulk

O. E. Foulk,
Fiscal Agent.

Enclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

R-668-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 July 1, 1940, it is necessary that a fund equal to two hundred and ninety-one thousandths of one per cent (.00291) 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 two hundred and ninety-one thousandths of one per cent (.00291) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business June 30, 1940.

(2) Such assessment shall be paid by each Federal Reserve Bank in two equal installments on July 1, 1940, and September 2, 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 Interdistrict 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-669

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 20, 1940

Dear Sir:

On Thursday, July 4, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve Banks and branches will be closed in observance of Independence Day.

The Board has been advised that holidays also will be observed during the month of July by the following offices:

| | | |
|---|---|---|
| July 9 (Tuesday) | Oklahoma City | Primary Election Day |
| July 13 (Saturday) | Nashville<br>Memphis | General Forrest's Birthday |
| July 24 (Wednesday) | Salt Lake City | Pioneer Day |
| July 27 (Saturday) | Dallas<br>El Paso<br>Houston<br>San Antonio | Primary Election Day |

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

Please notify branches.

Very truly yours,

F. A. Nelson

F. A. Nelson,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-670

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

June 20, 1940

Dear Sir:

For your information there is enclosed herewith a copy of a letter addressed by Chairman Eccles of the Board of Governors to the Chairman of the Banking and Currency Committee of the United States Senate under date of June 19, 1940. This letter refers to and comments upon a letter addressed to the Chairman of the Committee by Mr. Jesse Jones, Federal Loan Administrator, under date of June 14, 1940, and for your convenience a copy of Mr. Jones' letter is also enclosed.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosures 2

TO THE DIRECTORS OF ALL FEDERAL RESERVE BANKS AND BRANCHES, THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS, THE MEMBERS AND SECRETARY OF THE FEDERAL ADVISORY COUNCIL, AND THE MEMBERS OF THE INDUSTRIAL ADVISORY COMMITTEES.

June 19, 1940

Honorable Robert F. Wagner, Chairman,
Banking and Currency Committee,
Room 301, United States Senate,
Washington, D. C.

Dear Senator Wagner:

The Board of Governors wishes to correct certain misinformation given to the Committee by Mr. Jesse Jones, Federal Loan Administrator, in his testimony before the Committee on June 14, 1940, and in his letter to you of that date regarding S. 3839.

Mr. Jones informed your Committee that he favored the amendments in S. 3839 to liberalize the types of industrial loans that may be made by Federal Reserve Banks. He coupled with this recommendation, however, a condition which would deprive the Federal Reserve Banks of the use of funds previously appropriated and specifically allocated by Congress six years ago for their use in making such loans. His proposal, if adopted, would in practical effect nullify the operations of the Federal Reserve Banks in this field.

The sum of $139,299,556.99 which Congress set aside for this purpose in 1934 is the exact equivalent of the amount which was originally taken from the surplus of the Federal Reserve Banks for part of the capital of the FDIC. The subsequent allocation by Congress of this amount, for the purpose of making industrial loans, would merely be continued by the pending measure, S. 3839. Accordingly this fund in effect represents money already provided out of the earned surplus of the Federal Reserve Banks and its use under S. 3839 would involve no charge against the Federal budget and no appropriation.

Mr. Jones' suggestion contemplates that the Federal Reserve banks be cut off from the use of this fund and be required to fall back upon further drafts upon their capital and surplus in order to continue to make industrial loans. The capital and surplus of the Federal Reserve Banks has already been reduced to a low level (less than 1-1/2 per cent) in relation to their liabilities. The making of loans to businesses that are without sufficient financial standing to obtain credit from the usual banking sources involves a considerable risk. The Federal Reserve Banks would hesitate, and could not be expected, to make any substantial volume of such loans which might further reduce their capital and surplus through losses. The Board of Governors believes that unless the present law is made more, not less, workable, it would be preferable to repeal it altogether.

Mr. Jones states that it has been "clearly proven that they (the Federal Reserve Banks) will not make" industrial loans. It is difficult to reconcile this statement with his proposal that Federal Reserve Banks make industrial loans out of their own capital and surplus. If it were a fact, as it is not, that they will not make such loans on the existing basis when one-half of the amounts used for the purpose are obtained from the fund set aside on the books of the Treasury, is it reasonable to suppose that they would make such loans wholly out of their capital and surplus? It seems Mr. Jones must have known that this proposal would in effect nullify the purposes of S. 3839.

Ordinarily the Board would not comment on statements made by the head of another Federal agency about its own operations. In this case, however, Mr. Jones quotes figures on RFC operations for the purpose of comparing them with the industrial loans activities of Federal Reserve Banks. It becomes necessary, therefore, to point out some aspects of Mr. Jones' letter that are misleading.

With respect to his statement that it has been "clearly proven that they (the Federal Reserve Banks) will not make" industrial loans, the facts are that from June 19, 1934, when both the RFC and the Federal Reserve Banks were given authority to make these loans, to January 31, 1935, when the RFC's authority was considerably liberalized, the Federal Reserve Banks made loans and participations of about 32 million dollars as compared with approximately 9 million dollars for the RFC. For the period of nearly four years ending April 1938, when practically all restrictions were taken off the RFC's authority, the Federal Reserve Banks had made loans and participations of approximately 111 million dollars as compared with approximately 105 million dollars for the RFC. It is clear from these figures, which I brought specifically to Mr. Jones' attention by letter dated September 29, 1939, not only that Mr. Jones' statement is not supported by the facts, but that during the period when the Federal Reserve Banks and the RFC operated on anything like a comparable basis the performance of the Federal Reserve Banks was better than that of the RFC.

While practically all restrictions on the RFC's authority were removed in April 1938, the Federal Reserve Banks have continued to make industrial loans in spite of the fact that none of the restrictions on their authority has been eliminated.

Mr. Jones states that the RFC was authorized to make business loans at the same time that the Federal Reserve Banks were, but that the RFC must lend "its own money, money which it borrows and repays with interest". If the Board is correctly informed, the capital of the RFC came directly from the Treasury and all additional funds come either from the Treasury or through borrowing on the basis of the Government's credit.

Far from drawing upon additional public credit to obtain funds, as Mr. Jones contends, and as in fact the RFC does, all this bill proposes is to utilize funds derived in effect from the earned surplus of the Federal Reserve Banks and already earmarked by Congress for this use.

As to the policy of the RFC in making business loans, it is to be noted that, as of June 28, 1939, of the total authorized loans of the Federal Reserve Banks only 8 per cent had been canceled, whereas of the total authorized loans of the RFC at that time approximately 20 per cent had been canceled. Mr. Jones' figures also show that to date more than 24 per cent of the RFC authorizations have been canceled--as he somewhat vaguely puts it--"for one reason or another". "Authorized" loans are canceled, of course, not so much because the borrowers procure funds elsewhere as for the reason that the conditions attached to the loans are such that the borrower cannot or is unwilling to meet them.

Mr. Jones informed the Committee that 83 per cent of the business loans of the RFC have been for $50,000 or less and that "small business has been the beneficiary of most of the RFC's business lending". He failed to point out, however, that of the 521 million dollars of loans authorized and commitments outstanding as as of December 31, 1939, less than 17 per cent in amount consisted of loans to small business, i.e., $50,000 or less. Mr. Jones stated that the RFC has disbursed to business borrowers about 305 million dollars, but according to page 8 of the RFC's report to Congress dated March 8, 1940, $82,900,000 of the disbursements made by it under section 5d of the RFC Act to the end of 1939 represented loans to public bodies, not to business enterprises.

In view of the fact that Mr. Jones' statements to the Committee may have raised many questions in the minds of its members, the Board requests that I advise the Committee of my readiness to appear at an early date to testify further on the matter, if the Committee desires me to do so. It will also be appreciated if a copy of this letter be included in the Committee's record of the proceedings on this bill.

I am authorized to say that the views expressed herein are the views of the Board of Governors of the Federal Reserve System.

Very truly yours,

(Signed) M. S. Eccles

Marriner S. Eccles,
Chairman.

R-670-b

FEDERAL LOAN AGENCY
Washington

JESSE H. JONES
Federal Loan Administrator

June 14, 1940

Dear Senator Wagner:

In connection with your consideration of S. 3839, which deals with loans to business by the Federal Reserve Banks and the Federal Treasury, beg to advise that I favor credit to all deserving business and without too specific Congressional restrictions.

While I doubt that any great amount of good will be accomplished through the passage of this law, I would favor its enactment amended as follows:

(1) By striking out all of the first sentence of section (c) after the words "shall not exceed" (page 3, line 9) and substituting the words "the amount of the paid-in capital of said banks, plus the surplus."

(2) By striking out all of section (d).

(3) By adding a new section requiring the Federal Reserve Banks to repay to the Treasury, as collections are made, the money heretofore advanced to them by the Treasury for making industrial loans, and requiring the balance of the fund of $139,000,000 to be covered into the working balance of the Treasury.

The Treasury needs all of its available resources, and it should not be required to hold in reserve this $139,000,000 with which to make advances to the Federal Reserve Banks, which are tantamount to grants, to encourage them to make loans which it has been clearly proven they will not make.

With these corrections in the proposed bill, Federal Reserve Banks will be in a position to make loans direct to business and industry, lending their own funds to the extent of their capital and surplus. I believe that, if the responsibility is placed squarely upon the management of the Federal Reserve Banks, cooperating with their own members in meeting credit demands, without too many restrictions, they can and will be helpful, particularly in emergency periods.

By Act of Congress, approved June 19, 1934--six years ago--Federal Reserve Banks were authorized to make loans direct to business to the extent of approximately $280,000,000. To enable the Federal Reserve Banks to make these loans the Federal Treasury was authorized to advance to them an aggregate of $139,299,557. This money was to be returned to the Treasury by the Banks at the rate of 2% a year if earned--at best in 50 years without interest.

In these six years, according to the latest Federal Reserve Bulletin, all Federal Reserve Banks combined have authorized loans aggregating $195,351,000, but it is my understanding that they have never had outstanding at any one time more than approximately $32,000,000. The Treasury advanced the Banks $27,546,311, which the Banks retained in their own surplus accounts, notwithstanding they only have business loans outstanding aggregating $11,371,000. The net result of the Federal Reserve Banks' business lending has been to build up an unearned surplus for themselves, rather than to be of any substantial help to business.

The RFC was authorized to make business loans at the same time the Federal Reserve Banks were, but it must lend its own money--money which it borrows and repays with interest--and whatever losses it makes must come out of its own surplus and earnings rather than from the Federal Treasury.

The RFC has authorized more than 9,000 loans to various and sundry business enterprises aggregating $550,158,688. Of these loans banks throughout the country have agreed to take participations in 2,497 aggregating $67,793,895.

Of the 550-odd million dollars authorized by RFC and participating banks, 134-odd million dollars was canceled for one reason or another, and $129,644,772 remains available to borrowers. Including bank participations the RFC has disbursed approximately 305 million dollars to business loans. 37% in number of these loans have been for $5,000 or less; 53% for $10,000 or less; and 83% for $50,000 or less. In other words, small business has been the beneficiary of most of RFC's business lending.

306 loans aggregating $18,535,801 have been foreclosed, and on these we expect to have approximately a 50% loss. Something over 900 loans aggregating approximately $25,000,000 are in default. The estimate of RFC directors and executive force is that losses on

business and industrial loans will aggregate not less than 10% of the total amount of such loans.

Sincerely yours,

(Signed) Jesse H. Jones

Administrator

Honorable Robert F. Wagner
Chairman
Banking and Currency Committee
United States Senate
Washington, D. C.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-671

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 20, 1940.

Dear Sir:

There is transmitted herewith, for the information of the officers and employees of your Bank and its Branches (if any), a copy of a letter dated June 14, 1940, with enclosures, addressed to Chairman Eccles by Mr. Lowell Mellett, Director of the Office of Government Reports, outlining the procedure to be followed in handling complaints and prosecutions of violations of laws relating to neutrality, espionage, sabotage and kindred offenses.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-671-a

EXECUTIVE OFFICE OF THE PRESIDENT
Office of Government Reports
Washington, D. C.

June 14, 1940.

Honorable Marriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Mr. Eccles:

Many questions have arisen as to the procedure to be followed in handling complaints and prosecutions of violations of laws relating to neutrality, espionage, sabotage, and kindred offenses. There are enclosed a copy of the President's statement of September 6, 1939, and a release of the Department of Justice, dated June 11, 1940, outlining in detail the procedure to be followed on matters of this character.

This material is being brought to your attention for your information and for such distribution within the Federal Reserve System as you may consider appropriate. The procedure is to be uniformly followed by all Federal departments and agencies, both in Washington and in the field.

Very truly yours,

(Signed) Lowell Mellett

Lowell Mellett,
DIRECTOR.

Enclosures.

R-671-b

Statement of the President issued September 6, 1939, with reference to the investigation of charges of violations of Federal laws relating to neutrality, espionage, sabotage, subversive activities and kindred offenses.

"The Attorney General has been requested by me to instruct the Federal Bureau of Investigation of the Department of Justice to take charge of investigative work in matters relating to espionage, sabotage, and violations of the neutrality regulations.

"This task must be conducted in a comprehensive and effective manner on a national basis, and all information must be carefully sifted out and correlated in order to avoid confusion and irresponsibility.

"To this end I request all police officers, sheriffs, and all other law enforcement officers in the United States promptly to turn over to the nearest representative of the Federal Bureau of Investigation any information obtained by them relating to espionage, counter-espionage, sabotage, subversive activities, and violations of the neutrality laws."

FOR RELEASE AFTERNOON PAPERS
TUESDAY,
JUNE 11, 1940

DEPARTMENT OF JUSTICE

The Attorney General announced today that he had issued instructions to the United States Attorneys and Marshals in the United States and its Territories and Possessions outlining in detail the respective functions of the citizens, the Federal Bureau of Investigation, the United States Attorneys and the Department of Justice in Washington, D. C., in handling complaints and prosecutions of violations of laws relating to neutrality, espionage, sabotage and kindred offenses.

Noting that in connection with the existing international situation, United States Attorneys and Marshals would doubtless receive considerable information from individuals and groups concerning espionage, sabotage, subversive and similar activities in the United States, its Territories and Possessions, he pointed out that a definite procedure had been established under which the citizens and the various law enforcement agencies each play an appropriate part. In this respect the instructions stated:

> "The duty and function of the citizen is to report to local representatives of the Federal Bureau of Investigation all information relating to violations of this character and not to engage in investigative activity relative thereto. United States Attorneys and Marshals are likewise requested to refer reports, information and any persons having or claiming to have information of violations in this category to the nearest representative or field office of the said Bureau."

The Attorney General requested that this procedure be adhered to strictly so as to avoid confusion and irresponsibility and to bring about an orderly and correlated handling of information received.

While the cooperation of every citizen in turning over useful information to the Federal Bureau of Investigation was welcomed, Federal law enforcement agencies were instructed to discourage as far as possible individuals or groups from engaging in counter-espionage or activities of an investigative nature, as follows:

> "Certain of these individuals and groups may offer their active cooperation and propose the formation of volunteer associations and citizen counter-espionage units. Counter-espionage activity by individuals or groups, without official status or responsibility, and the unauthorized assumption of any investigative functions by such groups should be discouraged. The cooperation of your office is requested to see to it that in no instance should any representative of your office directly or indirectly place the Department in the position of approving, encouraging or sponsoring activity of an investigative nature upon the part of any individuals or organizations."

The protection of the civil liberties of loyal and innocent citizens and aliens, as well as the maintenance of a sound public attitude, was emphasized, the instructions stating:

> "While it is important that those engaged in illegal acts hostile to the best interests and welfare of the American people be promptly detected and the country protected against their activities, it is equally important that the civil liberties of loyal and innocent individuals be not invaded. Care should be taken to assure aliens of complete and friendly protection under the law. The law enforcement officers of the Federal Government have important responsibilities in helping to maintain a reasonable and healthy attitude on the part of citizens of this country and in the turning of their energies and patriotism into useful and efficient channels."

The procedure contained in the instructions in brief contemplates that the citizen's function is to turn over all information relating to the existence of improper activities in this field to the Federal Bureau of Investigation. The Federal Bureau of Investigation will collect and act as a clearing house of information respecting violations, make the necessary investigations and whenever it appears that a violation of a Federal law may have been committed, will bring the circumstances to the attention of the United States Attorney in the district for the purpose of taking action. The United States Attorney, while having the primary responsibility in the determination of cases for arrest and prosecution, will, except in cases of emergency, secure the prior approval of the Department of Justice in Washington before taking prosecutive action. Within the Department in Washington, a separate unit, known as the Neutrality Laws Unit, has been established to give prompt action on cases submitted to the Department by the United States Attorneys, to coordinate such matters in relation to the Government's other activities and to establish uniform and effective standards which will not only safeguard the national interests but will also secure the rights and civil liberties of the individual.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-672

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1940

Dear Sir:

There are enclosed for your information a table showing applications for membership received by the Board during 1940, and a statement containing excerpts from the bank relations reports submitted by the Federal Reserve Banks for the month of May.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-672-a

Applications for Membership Received

by the Board during 1940

| District | May Number | May Deposits | This Year Number | This Year Deposits |
|---|---|---|---|---|
| Boston | - | - | - | - |
| New York | - | - | - | - |
| Philadelphia | - | - | 3 | $ 3,000,000 |
| Cleveland | 2 | $ 900,000 | 10 | 12,200,000 |
| Richmond | 1 | 700,000 | 6 | 5,700,000 |
| Atlanta | - | - | - | - |
| Chicago | 4 | 2,300,000 | 14 | 11,200,000 |
| St. Louis | 1 | 2,400,000 | 8 | 6,200,000 |
| Minneapolis | 2 | 1,100,000 | 4 | 2,800,000 |
| Kansas City | 1 | 300,000 | 2 | 900,000 |
| Dallas | 3 | 2,500,000 | 13 | 8,400,000 |
| San Francisco | - | - | 1 | 2,000,000 |
| Total | 14 | | 61 | |

R-672-a
June 22, 1940
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE MONTH OF MAY 1940

BOSTON

During the month of May, visits were made to 26 member banks and 11 nonmember banks, located mostly in western Massachusetts.

The downward movement in security prices was the matter of principal concern among the bankers visited. No particular concern was expressed by any bankers with regard to the Government bond market. Here and there a banker referred to the President's armament program and some were inclined to want to speculate on the method of its financing, rates, etc. Only one or two bankers indicated that they contemplated averaging down the price of their Government portfolios in the event of a decline to levels which would warrant such action.

Retail trade in the section visited was reported as being only fair. There is some indication of a tendency to lower interest rates on savings deposits in this section, such as was found in Connecticut recently. One member and one nonmember bank will reduce rates at the end of the present quarter. One other bank may lower its rate if its earning position does not improve. All along the line a greater demand for loans was seen, the demand coming from small borrowers.

NEW YORK

During the month of May 261 banks were visited, of which 189 were member banks and 72 were nonmember banks.

Middlesex and Union Counties, New Jersey

The majority of bankers state that their commercial deposits are showing a tendency to decline gradually but that there has been an upward trend in savings deposits. The continued increase in savings deposits and idle cash is affecting the earning power of banks in this territory, and in addition there has been a tendency during the last few years for many banks to switch from long to shorter bond maturities, resulting in lower income from their investments. Several bankers state that they sold substantial blocks of long term Government bonds at the high prices prevailing prior to the German invasion of the Low Countries, and have held the funds uninvested. The banks in general have favored maintaining a high cash position and have also spaced the maturities of their bond portfolios so as to have sizeable blocks of securities falling due within the next five years in order to take advantage of opportunities to purchase bonds at lower levels.

Many bankers commented favorably about the new system the New York Bank is trying out in connection with Check Department operations in preparing cash letters, and practically all of them said that their institutions have experienced little or no difficulty since the plan was put into effect several months ago.

Cattaraugus and Chautauqua Counties, New York (Buffalo Branch Territory)

Security investments of the banks aggregate $38,876,000, of which $20,449,000, or 53 per cent, are United States Government obligations. Few investments are being purchased by the banks at this time. A number of bankers remarked that they regret the privilege of subscribing to United States Savings Bonds has been withdrawn and several stated that they are confining their purchases to State, municipal, and United States Government obligations, with a rather heavy concentration in municipals in some of these institutions.

The demand for loans was reported light except in a few small banks in the agricultural sections.

Cayuga, Ontario, Oswego, Seneca, Schuyler, Steuben, Wayne, and Yates Counties, New York

A majority of the banks continue to maintain a highly liquid position, holding a large proportion of idle cash and United States Government obligations. One small State member bank sold practically all of its bonds at the outset of the European war and has since held $355,000 of its $370,000 deposits in cash, although the cashier says that the State Banking Department examiners have suggested that he should reinvest the funds.

Loans and discounts show only a slight increase (1-1/2 per cent) as compared with the figures of a year ago although quite a number of banks are soliciting personal and consumer credit loans. While the majority continue to adhere rather rigidly to a 6 per cent rate for ordinary commercial borrowing, there are many who are granting well secured loans at rates of 5 and even 4 per cent. The president of one State member institution has recently granted to practically all borrowers an unsolicited reduction to 5 per cent, as a good will gesture.

Other real estate owned by the seven savings institutions in these counties amounts to more than $3,000,000 and continues to be their chief problem. Officers of these banks state that their present policy is to accept any reasonable offer for properties, taking losses up to 25 or 30 per cent rather than to hold them for an indefinite period. The State Banking Department, it is said, is requiring rather drastic write-downs in the case of all real estate held for five years or more, and present holdings reflect a decrease during the past year of almost 13 per cent as a result of sales and charge-offs.

Herkimer, Jefferson, Lewis, St. Lawrence, and Schoharie Counties, New York

A number of bank officers visited early in May stated that the unsettled conditions abroad have prompted them to adopt a policy of making no investments whatever, despite the fact that their banks have an unusually large amount of idle cash. Many of the smaller institutions indicate a desire to increase their holdings of Government securities but say they cannot afford to pay high premiums and that they will buy only when prices go lower. Following the German invasion of Holland and Belgium, some concern was expressed over the extent of the decline in bond prices, but the feeling prevails among some bankers that the Government bond market will be supported if a crisis brings a drastic and sustained drop in prices.

The loan accounts of a majority of these banks are higher than six months ago. Two of the larger institutions have adopted a policy of granting lower rates and meeting the competition of banks in New York City and Albany, which has resulted in a gratifying increase in their loan totals. Many bankers comment that their personal loan departments are especially active, and that an increased volume of installment loans on farming implements and automobiles has been developed this year. Municipal and school district borrowings increased during the late winter and spring, and in areas where drought conditions prevailed last summer the banks report a heavier demand for loans for the purpose of buying hay and fodder.

## PHILADELPHIA

In May representatives of the Philadelphia Bank visited 86 banks, comprising 63 member and 23 nonmember banks. The area covered was 2,166 square miles in the southeastern part of Pennsylvania. Sixty-two member banks with resources of $173,096,000 and 19 nonmembers with resources of $56,487,000 serve the 496,000 residents. These totals represent an increase of $13,500,000 since June 1939.

This area is an important producer of both agricultural and manufactured goods. Industrial activity is at a high level in nearly all lines except the manufacture of shoes, which is seasonally slack. Agricultural ventures were generally satisfactory last year. Tobacco sold for 18 cents a pound, a good price, and dairy prices have been well maintained. Prices for beef cattle have declined somewhat, although it is estimated that there is still a margin of profit. Low prices prevailed for many other farm products but farmers at least broke even.

Prospects for the coming year are indefinite at present because of the lateness of the season. In an effort to offset lost time, farmers have equipped tractors and other farm implements with lights and are working night and day.

Demand for credit is improving, partly because of a greater utilization of the special types of credit such as FHA, personal, and automobile loans, and partly because of a stronger commercial demand. Investment accounts show the effects of recent decline, but most of these accounts appear to be receiving proper attention. The trend toward concentrating investments in Government issues has continued during the past year.

The real estate market is dull and, although housing shortages exist in several cities and towns, there is a relatively small amount of new construction. This is due partly to the threat to values presented by the large amount of old real estate held by the Closed Bank Division of the Pennsylvania Department of Banking. These properties were said to be offered at sacrifice prices and to deter the sale of real estate in general.

Comments by nonmember bankers relative to membership were very friendly and three of the bankers interviewed said that they were now ready seriously to discuss having their banks become members of the System.

One of the arguments often advanced against membership is that vault cash counts as reserve under the laws of the three States in this District but does not when banks become members. However, one banker stated that he considered the vault cash requirement of his State a source of danger and he had long been apprehensive of hold-up or burglary. He said that he realized that from the bank's published statement anyone knowing the legal reserve requirements could easily determine the minimum amount of cash in the bank, and thus estimate the possible booty to be obtained. The fact that this condition would be changed if the bank became a member was one of the reasons why this officer is anxious to have his bank in the System. This is the first time in the representatives' experience that so favorable a construction has been placed upon this difference in reserve requirements.

## CLEVELAND

During the month of May 125 member and 86 nonmember banks were visited, making a total of 211.

During May four Ohio State banks, having a total in resources of $4,064,000, were admitted to membership.

In a manufacturing center of some 40,000 in the Ohio River Valley the two principal commercial banks reported an improvement in the demand for loans for commercial purposes, largely to replenish inventories. One of these banks with a loan total at the end of the year slightly under two million dollars has since that time increased its loans about $200,000; part of this is attributed to the installation of a small loan department; the bulk, however, comes from commercial interests.

In two other towns in the Ohio River Valley, not far distant from the one mentioned above, banks are meeting severe competition in making loans, particularly from insurance companies. At one city the local banks recently agreed to reduce interest rates on time and savings deposits from 2 to 1% effective July 1. It was stated that the next step would be to discontinue the payment of interest altogether, and to reduce the loan rate. The banks have operated as a unit in refusing to make loans at a rate less than 6%. Insurance companies in this territory are soliciting mortgage loans at 4-1/2%.

At the other town the banks are adhering strictly to a 6% rate, as a result of which they have recently lost several loans (one single loan amounted to $20,000) to insurance companies. One banker stated that it was becoming more difficult to make new loans because of outside competition. If such competition continues, one banker suggests that local banks follow the general trend and reduce the rate of interest on loans.

In a discussion of the advantages of membership with a banker in Kentucky it was stated that the bank had continued to mark time until it is definitely determined whether the Government will make farm loans at a 3% rate and force country bankers to liquidate. The officer interviewed was very pessimistic about the future of banks, and believes the trend is toward nation-wide Government-sponsored branch banking.

A few banks have within the past month taken profits on Government bonds and their principal worry now is what to do with the money.

## RICHMOND

In May 40 banks were visited, of which 23 were member banks and 17 were nonmember institutions.

### Maryland

Allegany and Garrett Counties comprise the greater part of the Maryland panhandle. Eighty-seven per cent of those gainfully engaged in

Allegany County are occupied in a diversified list of industries, and thirteen per cent in agriculture. Garrett County, on the other hand, supports forty-six per cent of its income earners on farms and fifty-four per cent in industry, of which coal mining affords the largest employment outlet.

Coal mining, though still a large employment outlet in both counties, is waning in importance due to a loss of market to the lower cost fields further south. Retail trade reports from the area for April reveal a gain of twelve per cent over a year ago.

Deposits of banks interviewed are at or near all-time high levels, and a substantial portion of the deposits are of the savings variety. Interest paid on savings deposits since December 1939, has been mainly 1-1/2 per cent, though one bank is still paying 2 per cent. There was no noticeable loss of deposits by any of the banks following the reduction, and savings deposits have since continued their normal rate of increase. Bankers here are of the opinion that the rate of interest is of little consequence to a saver, and that security and ready availability are the prime considerations.

In contrast with deposits, loans are materially below their peak levels. This is said to be in part due to a dearth of outside commercial paper procured through correspondents, which was formerly an important part of the loans of these banks. Local loan demand is primarily on real estate and personal commitments, and the former is in declining volume in a number of towns owing to a decline in population. Loss of loan volume has been for the most part offset by investments, largely Governments. Loan rates are generally at 6 per cent. Earnings have been meager and, with reluctance, service charges are being initiated.

South Carolina

Chester and York Counties located in the northern part of the State have 53 and 57%, respectively, of their income earners engaged in agriculture. Cotton is the chief cash crop, of which 16,800 bales were raised in 1939. The growing season has not been favorable to cotton this year. Much replanting was necessary, and present indications point to a smaller crop than last year.

Industrial activity in Rock Hill, which has been at a good level for some months, turned somewhat erratic on the war developments, and in general curtailment has ensued. Industrial activity in Chester has been declining in recent months.

Deposits in all of the banks interviewed are higher than a year ago. Savings deposits are a minor part of the total. Some banks have refused to accept new savings accounts. Rates of 1 and 2% are paid on savings, and some bankers say the lower rate tends to discourage the formation of savings accounts.

Loan volume runs between 20 and 30% of deposits, with several banks showing a larger loan portfolio than a year ago. Average lending rates are between 5-1/2% and a little over 6%. Investments of most banks are notably higher than last year.

## ATLANTA

In May 88 banks were visited, comprising 49 members and 39 nonmember banks.

Most of the bankers interviewed in central and southern Alabama reported favorable earnings during 1939 and good spring demand for agricultural credit. In southeastern Alabama, however, crops were almost a complete failure last year and banks were required to carry over a large volume of farm loans. As a result of reduced farm income in this area, bank deposits failed to show the usual seasonal increase and a number of the banks have been hard pressed to meet current demands for agricultural credit. Many of the farmers have obtained loans from the Disaster Loan Corporation.

The average interest rate paid on savings accounts is 2% while 8% is the usual rate charged for agricultural loans throughout this section.

Business conditions throughout north Georgia are reported to have been exceptionally good during the first 4 months of this year, but during the last 30 days an appreciable decline in practically all lines has been noted. Bankers attribute this to the general nervous tension caused by the turn of events in the European situation. Bank deposits are generally higher than a year ago, and demand for agricultural credit during the planting season is said to have been favorable. In some communities bankers complained of competition from Governmental lending agencies, but on the whole the aggregate of loan portfolios is higher than last spring.

The average rate charged for agricultural loans is 8% while 4% to 6% is charged on commercial loans. Several banks located near Atlanta have been forced to reduce their commercial loan rate in order to meet competition from the large city banks. Many of the banks have also reduced the rate on automobile loans to 5% to compete with the finance companies.

All the nonmember banks visited charge exchange on incoming checks and in many instances it was reported that income from this source constitutes a large portion of the banks' earnings. While officers of these banks were found very cordial and friendly toward the Federal Reserve System, none of them showed any interest in membership. In each case the loss of exchange was the principal objection mentioned.

## CHICAGO

In May 89 banks were visited, of which 36 were member banks and 53 were nonmember banks.

Notwithstanding the disquieting news from the European war zone, bankers interviewed displayed a feeling of caution rather than one of fear. They are apparently not worried regarding their holdings of U. S. Government bonds nor do they appear to be unduly concerned about other high-grade securities. A number stated that they did not intend to sell their better bonds; in fact, a few purchases have been made at the market. The disposition is apparently to hold the good bonds and build up their cash position by new deposits and funds received in payment of called bonds. Several bankers expressed interest in possible new financing by the Treasury Department.

In the corn belt a great deal of sealed corn is being released and disposed of locally due to the shortage of free corn for feeding purposes. Reports are received from some sections that banks which have large cattle feeder loans are insisting on prompt liquidation of these at maturity due to the price uncertainty. In the last week of May corn planting over the Seventh District was practically completed, and reports indicated that the crop was off to an excellent start, although growth has been delayed by cool weather. However, in some quarters in the western part of Iowa considerable concern is felt about the recent dry and extremely hot weather and some minor dust storms have been reported.

The drastic mid-May decline in many important Seventh District farm commodities will be an important factor in reducing farm income in this area, providing that prices remain at the lower levels. However, the major marketing season is yet to come and in these days of swift change, anything can happen to the price structure in a few weeks. Bankers from various parts of the district feel that prices will go up.

Activity in the steel industry of the Chicago district continues its rapidly rising trend. Mill operations are averaging 85 per cent of capacity, or better, the current rate representing an expansion of almost 30 points in the past 6 weeks. In the last week of May large tonnages had been entered on the books in nearly all products, with sheets and strip, semi-finished steel, and bars the most active products. Though few orders for machine tools have been received for use in making actual war materials, increased inquiries indicate that the war influence has been a major factor. May pig iron shipments were well ahead of April. The scrap market is still quite strong, because of increased steel mill operations.

## ST. LOUIS

During the month of May 40 member and 101 nonmember banks were visited, making a total of 141 banks.

### Agricultural Conditions

In the sections of Missouri visited, agriculture, dairy products, livestock and poultry are the chief sources of income. On the whole, Missouri farmers are optimistic and look for a fairly profitable season in 1940.

### Industry and Trade

In the Illinois area visited, production of oil is the principal industry. Salem, in Marion County, continues as the chief oil center of the State. Production has far exceeded expectations and almost daily new wells are brought in. Housing facilities in Salem are inadequate and plans are now under way for construction of small homes, encouraged by FHA. Local business conditions are the best in several years and retail sales have reached an all-time high.

### Commercial Banking

Illinois bankers reported a fair demand for credit with loan rates ranging from 4% to 7%. Time money is credited with interest from 1-1/2 to 2%. One bank reported that it accepts only a limited amount of time money from each customer.

Some of the Missouri banks visited are having difficulty meeting provisions of the Wage and Hour Law, and several banks criticized the Government for interfering with business. Several bankers complained of small earnings, but expressed the opinion that the situation is improving. Interest on time deposits ranged from nothing to 2-1/2% One bank pays no interest on time deposits less than $500 and limits the amount on which interest will be paid to $2,500 per customer. Loan rates varied from 6% to 8%, with demand for credit only fair.

### Member and Nonmember Banks - Relations with Reserve Bank and Attitude Toward System

The president of a Kentucky nonmember, who spoke in generalities and was not truly unfriendly, said that he sees evidences of the System becoming humanized. He was surprised when told that there are more State members in the System today than there were in December 1929. He stated that not long ago he received a letter soliciting membership in an organization of independent nonmember banks, but was not inclined to discuss the details.

He admitted that his bank was obtaining many indirect benefits of membership. The assistant cashier of a Missouri national bank stated that it was necessary to use a commercial correspondent for custody service to a certain extent because we do not accept, for safekeeping, securities which belong to his customers.

## MINNEAPOLIS

During the month of May 348 banks were visited, comprising 123 member banks and 225 nonmember banks.

Field work in the form of visits at banks expanded sharply during May with the coming of suitable weather. Eight representatives of the head office and all of the officers of the Helena Branch paid visits to banks totaling 348 during the month. In addition, officers of the head office and the Branch attended numerous bankers' meetings.

An interesting development of the month was visits by 942 students to the head office and the Helena Branch. A year ago only 230 students visited the Bank.

### Eastern Minnesota and Western Wisconsin

Loans were reported in satisfactory and growing volume by most banks, although the bankers claimed that they were not reaching for risky loans. No particular type of loan seems to predominate. Bond portfolios are generally small in these banks. The bankers expressed only a mild interest in the effects of the war on interest rates. One banker asked whether the Federal Reserve System would prevent Government bonds from going below par. There seemed to be no anxiety as to the Federal Government's ability to finance the defense program.

Deposits are rising throughout this district and are crowding the 10 to 1 capital ratio in some banks. Earnings in this area are generally excellent, although there were a few bankers who complained of their inability to earn a satisfactory income.

The bankers were uniformly friendly and several commented on the change in the Federal Reserve officers' attitude toward the country banker in recent years. The national bankers liked the last Member Bank Conference.

Several bankers complained about Father Coughlin's activities in discrediting the present banking system. Most of them had no constructive ideas to offer but, since the Federal Reserve System is the chief target, they thought that we should lead the way in combatting the Coughlin influence. One banker commended the radio programs last winter as a move in the right direction.

One banker in a French-Canadian community is doing an interesting job of combatting the Coughlin influence in his community, which has been a Coughlin hotbed for many years. In cooperation with the village priest and the principal of the high school, the banker has conducted an educational campaign in the community. He encourages people with questions to come to the bank where he discusses these questions in simple language. He also furnishes the priest and the teachers with banking information. The high school principal is an excellent assistant in this project.

The president of one bank stated that he has not joined the System, even though he is on the par list, because, up to the present time, the Coughlin influence in his community was strong enough to make Federal Reserve membership a detriment. However, he stated that the Coughlin sentiment was wearing out under the educational backfire which he was conducting.

Southeastern South Dakota

There is a fair demand for local loans in most banks. A great number of bankers have a large amount of corn loans. Bankers in this section made special reference to the recent Member Bank Conference, considering it a most noteworthy event in which they reap great profit.

Northwestern Minnesota

Generally speaking, banking business has been good and a healthy demand for loans is evident. The interest rate is being maintained at 8% with some shading here and there where competition makes it necessary. Banks are paying 2 to 2-1/2% for time money, but are not accepting time funds from outside points.

East Central South Dakota

In 1939 this section had one of the finest crops that has been produced in more than twelve years. The bankers and the farmers are in a buoyant frame of mind, not only because the proceeds from last year's crop liquidated many old debts, but also because the prospects for 1940 are even brighter than they were last year at this time.

Good prices received for farm commodities, with the exception of hogs, have increased bank deposits, and most of these banks which found themselves with surplus funds have fine-combed their communities in search for good loans. This past winter, the majority of the banks lent considerable money on corn. One bank with deposits of but $365,000 lent over $200,000 on corn. With the liquidation of these corn loans, banks are going more heavily into loans secured by tractors, automobiles, washing machines, radios, etc. Experience with this class of paper has been remarkably good, but observation shows significantly that the banker is careful to pick only favorable risks. Every banker visited said that he had made money in 1939, while many of them said it was the best year in their history for earnings.

## KANSAS CITY

During the month of May 72 banks were visited, comprising 42 member banks and 30 nonmember banks.

The serious turn in the war situation in May created a profound impression. This concern was particularly noticeable in discussions at the meetings as to what should be done with the investment account. Although no bankers were found who were panicky about Government bonds, there seemed to be some tendency to defer buying these securities during the war crisis and the general opinion expressed privately by these bankers was that bankers should be exceedingly careful and cautious at this time not only with respect to municipals and corporations but with Governments as well. Bankers are especially skeptical of long-term bonds and isolated cases were found where banks, although reluctant to dispose of earning assets, were cashing in on some of their profits and reducing holdings of Government bonds because of unsettled conditions. A few instances were found where banks were tightening up on loans because of the war situation. The general feeling is that the defense program will be financed with cheap money and that yields on securities will be unusually low for years. While there was no hysteria, the attitude toward the war was generally one of great uncertainty.

Many cases were found of good bank earnings. In Nebraska the large banks especially seem to be doing well while small banks appear to be much less profitable. Considerable discussion of consumer credit loans was heard at the meetings. Bankers who have already entered this field expect to increase the volume of business and many bankers who have not heretofore thought it advisable to make consumer credit loans are now seriously considering doing so because of the outstandingly satisfactory results others have obtained. A few bankers felt it absolutely necessary in order to provide an outlet for funds and thereby a return to pay expenses and dividends. At one bank 85 per cent of its loans were installment loans. All of these notes bear a minimum $1 a month interest and service charge. In some localities a good many of these loans are tractor and combine loans. It was reported that examiners have criticized rather sharply some of this paper. In some localities banks are hungry for loans while in others it is said there is a good demand for money. One Oklahoma banker said he had been writing large numbers of letters to eastern bankers soliciting blocks of $5,000 time deposits at 2-1/2%. His competitor across the street, on the other hand, said he had turned down $30,000 or $40,000 of time deposits.

Bankers report great changes in their communities over a period of time. One Oklahoma town in 1925 had six banks with deposits of approximately $8,000,000 and loans of $4,000,000. Now this town has only two banks with deposits of $1,340,000 and loans of only $834,000. In north central Oklahoma, wheat and other crops are taking the place of cotton. It seems to be the local opinion that the movement away from cotton raising has been greatly overdone.

## DALLAS

In May 46 member banks and 14 nonmember banks were visited, making a total of 60 banks.

### North Texas

Banks in this area report that the farmers are well satisfied with the Government's farm program. The bankers themselves feel that it has, on the whole, proved beneficial to them in many ways.

In contrast with the situation prevailing in most sections of the State the banks in this area are not particularly disturbed by the competition of production credit associations and other Federal lending agencies. In most cases the local banks and the agencies seem to be dispensing credit harmoniously and without friction. There appears to be a slightly increased demand this year for bank credit in the communities served by the banks visited.

### Southeast Texas

Crop restrictions here, as elsewhere in the Dallas district, are forcing farmers to seek ways and means of diversifying their production efforts, and as a result there has been a sharp increase in cattle and poultry raising.

The familiar complaints against the Government's production credit associations still continue. It is asserted that the lending operations of these agencies are not only injurious to the banks because the latter cannot compete with the low interest rates offered by these agencies, but it is claimed that in many cases they are ruining the small farmer by making advances to him so large that he cannot possibly repay them in the two-year period allowed. Cases were cited where the farmers have been closed out by the Government's agency and are now unsafe risks for the banks.

Some of the larger banks expressed the hope that the Fair Labor Standards Act would be amended so as to permit banks to average working hours over a period of about four weeks.

## SAN FRANCISCO

During the month of May 42 banks were visited, comprising 31 member and 11 nonmember banks.

### Weber County, Utah

Precipitation has been very low during the month of May; however, irrigated crops are doing well, in fact are above normal. Beet acreage is estimated slightly under that of last year, being approximately 6500 acres as against 7000 in 1939. Livestock are reported doing nicely. The low ranges are showing the effects of the lack of rain, but the high ranges are still in good condition.

Sheep receipts at Ogden during April were considerably below shipments for April 1939; however, it is reported that May receipts were considerably larger this year than last since California shipping was moved up about a month last year due to the excessive dryness of grasses. Prices were about the same in April as those of last year, although weights averaged around 6 or 7 pounds per head heavier this year and prices strengthened as the month progressed and May prices have held. Wool prices are remaining firm and sales have been delayed in some sections in anticipation of better prices. Retail sales are somewhat in advance of last year.

## PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

May 1940

| Federal Reserve Bank | Visits to Banks | | | Meetings Attended | | Addresses Made | |
|---|---|---|---|---|---|---|---|
| | Member | Nonmember | Total | Number | Attendance | Number | Attendance |
| Boston | 26 | 11 | 37 | 3 | 1/ | 3 | 400 |
| New York | 189 | 72 | 261 | 10 | 2,985 | 2 | 155 |
| Philadelphia | 63 | 23 | 86 | 4 | 1,980 | 3 | 466 |
| Cleveland | 125 | 86 | 211 | 14 | 3,348 | 5 | 356 |
| Richmond | 23 | 17 | 40 | 9 | 2,129 | 4 | 293 |
| Atlanta | 49 | 39 | 88 | 3 | 1,150 | 1 | 110 |
| Chicago | 36 | 53 | 89 | 21 | 7,667 | 3 | 1,002 |
| St. Louis | 40 | 101 | 141 | 15 | 5,122 | 2 | 110 |
| Minneapolis | 123 | 225 | 348 | 6 | 2,790 | 4 | 2,245 |
| Kansas City | 42 | 30 | 72 | 12 | 5,630 | 1 | 40 |
| Dallas | 46 | 14 | 60 | 2 | 1,400 | 3 | 1/ |
| San Francisco | 31 | 11 | 42 | 28 | 3,355 | 3 | 143 |

1/ Not reported

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-673

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 28, 1940.

Dear Sir:

There are being forwarded to you today under separate cover copies of page 48 of the "Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E)", revised as of July 1, 1940. An additional copy of page 48 is enclosed for your information.

Page 48 was revised in order to clarify the instructions relating to the reporting of postage and expressage, particularly on items sent to nonpar banks for collection and credit to the Treasurer's General Account. It will be noted that, with certain exceptions, both postage and express charges on outgoing shipments are to be included in the revised "Postage and Expressage" function.

Very truly yours,

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

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-195
Reg. F-23

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

December 19, 1939

Honorable Preston Delano,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Delano:

This refers to Mr. Upham's letter of February 13, 1939, relating to inquiries by national banks with respect to whether certain proposed transactions will violate provisions of section 11 of the Board's Regulation F. Our reply has been delayed pending the consideration of possible amendments to pertinent provisions of the regulation and a copy of the regulation as amended effective November 20, 1939, is enclosed herewith.

In one type of case described by Mr. Upham, a national bank holds a real estate mortgage loan in its commercial department and proposes to loan trust funds to the mortgagor upon the same security, the proceeds of such new loan to be used to satisfy the old loan. In the other, a national bank holds a real estate mortgage loan as a trust investment and proposes to make a commercial department loan to the mortgagor upon the same security, the proceeds of such new loan to be used to satisfy the old loan. In both instances, it is assumed that there is no objection to the quality of the loans either as trust investments or as commercial department investments.

Subsection (a) of section 11 of Regulation F provides that a national bank shall not invest trust funds in "property acquired from" the bank. With an exception not pertinent here, subsection (b) of such section provides that trust assets shall not be "sold or transferred" by a national bank to itself. The language of such provisions is broad enough to prohibit a bank from doing by indirection that which it cannot do directly and, therefore, in the Board's opinion, transactions of the kinds described above are prohibited by the regulation unless they come within the exception contained in footnote numbered 12 of the amended regulation under which transactions otherwise prohibited are permitted if they are required by the instrument creating the trust or are specifically authorized by court order.

Very truly yours,
(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.

S-196
Reg. Q-40

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

December 19, 1939

Mr. ____________, Vice President,
Federal Reserve Bank of ________,
_______________, _____________.

Dear Mr. _______:

This refers to your letter of December 7, 1939, with enclosures, requesting the Board's opinion with respect to the question whether the payment and absorption by member banks in Michigan of a tax upon deposits imposed by Senate Enrolled Act No. 166, passed by the 1939 Michigan Legislature, constitutes a payment of interest on demand deposits in violation of section 19 of the Federal Reserve Act and of the Board's Regulation Q.

It appears that by virtue of the Michigan statute and the regulations of the State Tax Commission issued thereunder, depositors are subject to a tax upon their deposits, based upon the amounts of deposits as of the close of any month or other accounting period as fixed by the Commission retroactively after the close of the tax year. Among other deductions, the law allows the deduction of deposits in banks up to the amount of $3,000. It appears further that the statute permits any person having intangible personal property of another on deposit to pay the tax imposed by the Act and also permits, but apparently does not require, such person to charge such payments against the property of the owner; and that the regulations of the Commission expressly provide that banks may pay the tax on bank deposits.

In 1933, the Board had under consideration the Indiana Intangibles Tax Acts which imposed a tax upon depositors in Indiana banks, to be computed according to the amounts on deposit in such banks on the last day of each month in each year. Under this statute, each bank, at its election, was permitted to pay the taxes assessed against its depositors or to deduct the amount thereof from the deposits against which such taxes were assessed. In a letter dated December 9, 1933 (X-7714), the Board took the position that the absorption by member banks of the Indiana tax on deposits as an operating expense of each bank does not, in itself and in the absence of special factors in particular cases which might indicate the contrary, constitute a payment of interest by such banks and is not inconsistent with that provision of section 19 of the Federal Reserve Act which forbids any member bank, directly or indirectly, to pay any interest on any deposit which is payable on demand.

It is believed that the provisions of the Michigan statute, while not identical, are substantially similar to those of the Indiana statute involved in the above case, and that the views expressed by the Board in that case are equally applicable in the present instance. Accordingly, it is the opinion of the Board that the payment and absorption by member banks in Michigan of taxes upon deposits imposed by Senate Enrolled Act No. 166 of the Michigan Legislature would not constitute a payment of interest in violation of the law or of the Board's Regulation Q.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-197

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 2, 1940

Dear Sir:

This refers to the Board's letter of April 15, 1938, (R-225), relating to the desirability of reducing to $10,000 the amount of the individual surety bonds required of each Federal Reserve Agent, Assistant Federal Reserve Agent, Alternate Assistant Federal Reserve Agent, and Federal Reserve Agents' Representative. With one exception, the Federal Reserve banks advised the Board that they favored such a reduction, but no action was taken pending the revision of the uniform bankers' blanket bond for Federal Reserve banks by the Insurance Committee of the Presidents Conference and a committee representing the Surety Association of America.

The revision of the uniform bankers' blanket bond has been completed and, after further consideration of the question, the Board has reached the conclusion that it is justified in reducing to $10,000 the amount of the individual surety bond required of each Federal Reserve Agent, Assistant Federal Reserve Agent, Alternate Assistant Federal Reserve Agent and Federal Reserve Agents' Representative, with the understanding that the bankers' blanket bond carried by the particular Federal Reserve bank is the revised uniform bankers' blanket bond for Federal Reserve banks referred to above or affords the United States substantially equivalent protection.

Very truly yours,

S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

TO CHAIRMEN AND FEDERAL RESERVE AGENTS AT
ALL FEDERAL RESERVE BANKS

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

January 8, 1940.

Mr. ____________, Vice President,
Federal Reserve Bank of ________,
______________, ______________.

Dear Mr. __________:

Reference is made to your letter of December 22, 1939, with respect to the service of Mr. __________ as director of the First National Bank of _____________ and as officer and director of the ______ Loan and Savings Corporation, both of ___________, ______________.

The question presented is whether or not the Corporation is a "bank" within the meaning of section 8 of the Clayton Act. Apparently it was organized for the purpose of engaging in the Morris Plan of banking, and your Counsel, in his opinion, a copy of which you enclosed, discusses the question in the light of the Board's letter of October 19, 1939 (S-189-a). He states that the Corporation was organized under a (State) statute providing for the organization of industrial loan corporations, and that although he is not sure that the State Corporation Commission of __________ had the power to grant it such a charter, its charter authorizes it to sell "certificates of investment and other evidences of indebtedness; to receive deposits from persons, firms or corporations, to issue certificates or evidences of deposit for the same, and to pay interest upon such deposits". He adds that it is exercising these powers without objection from the State authorities.

Among the exhibits which were attached to your Counsel's opinion were recent statements of condition of the Corporation which show "savings deposits" of $1,290,000 and "assigned deposits" of $424,000, out of total liabilities of $2,227,000. Your Counsel states that he understands that although the savings deposits consist of two classes, namely, certificates of investment and savings accounts, there are very few of the former now outstanding. The savings accounts consist of deposits received under the rules and regulations stated in the passbook, a specimen of which he attached. The rules are substantially the same as those used by commercial banks receiving savings deposits. The cover of the book is headed

"Savings Department", and before the place where "Withdrawals" and "Deposits" are entered is the statement that "This book is accepted and all deposits are made subject to the Rules and Regulations of the Corporation as herein printed and made a part of this deposit Contract." The "Rules and Regulations" begin with: "Deposits will be received and accounts opened in the sum of one dollar and upwards." Your Counsel has been advised that the institution receives no deposits subject to check, but that withdrawals are permitted from savings accounts in the manner prescribed by the rules, which is in effect on demand.

Your Counsel reviews some of the other factors which were discussed in the Board's letter of October 19, 1939 (S-189-a), but in view of what has been said above it appears that these factors are not important. As your Counsel points out, one of the most significant elements in determining whether a financing institution should be classified as a bank within the meaning of the Clayton Act is the receipt of deposits, and since it seems that the great bulk of the business of this institution is the receipt of deposits under a plan identical with that employed by banks receiving savings deposits, he concludes that it is a "bank" within the meaning of the Clayton Act.

The Board sees no reason to differ with this conclusion, which, moreover, is the same as that which your Counsel reached in 1934 and on the basis of which the Board issued a Clayton Act permit to Mr. _______ covering the relationships now involved, which the Board of course could not have done if the Corporation had not been a bank within the meaning of the statute.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-199

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 17, 1940

Dear Sir:

Some thought has been given to the possibility of publishing from time to time in the Federal Reserve Bulletin photographs of head office and branch directors of Federal Reserve banks, with brief biographical sketches. In order that the Board may be in a position to publish such material at some appropriate time in the future, it will be appreciated if you will obtain a photograph of each of your present directors and forward them to this Office, with brief biographical statements in form suitable for publication. Inasmuch as our files would not be complete without photographs of the chief executive officers of the Federal Reserve banks, it is requested also that you forward a recent picture of yourself with a brief biography which you feel would be suitable for publication.

Our printer advises us that, in order to get the best results, all photographs furnished should be clear pictures on white paper, which should be carefully packed for mailing so that they will not be creased or mutilated in any way in transmission. It is suggested that, if possible, the biographical statements be confined to not exceeding two hundred words.

In order that pictures and biographical statements for possible publication of directors and officers elected or appointed in the future may be received as a matter of routine, it is requested that they be forwarded simultaneously with the biographical sketches (forms 242 and 243) and oaths of office as required by the Board's circular letters dated January 29, 1936 (X-9470), and October 28, 1936 (X-9727), respectively.

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-200

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1940

Dear Sir:

There are enclosed a copy of a circular from the Director of the Bureau of the Budget to the heads of executive departments and a copy of a letter from Chairman of the Central Statistical Board to Chairman Eccles concerning the establishment of a quarterly reporting service to provide information on new, revised, or discontinued report forms of Federal agencies. Through this quarterly reporting service it is planned to keep up to date information such as that sent to us in August by the research department of your bank.

The provisions in the circular of the Director of the Bureau of the Budget do not extend to the Federal Reserve System but we feel that the System should cooperate with the Bureau in this project. To facilitate the preparation of a quarterly report to the Bureau of the Budget covering the forms used by the System and also to provide for greater uniformity and value of statistics collected by the Federal Reserve banks, it is requested that hereafter you submit to the Board for advance approval any new or revised report forms proposed for regular use by your bank in obtaining data for statistical or research purposes from banks, individuals, business enterprises, and others, also any proposed discontinuance of regular report forms of a similar character now in use by your bank. Questionnaires intended for a single inquiry in connection with the program for expanding current business information need not have prior approval inasmuch as this might cause undue delay, but copies of such report forms should be sent to the Board. In acknowledging this letter, please advise what, if any, changes in regular report forms of this character were made during the three months ended December 31, 1939.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

C O P Y

S-200-a

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET

Washington, D. C.

Central Statistical Board

November 10, 1939

The Honorable
Marriner S. Eccles, Chairman
Board of Governors of the Federal
Reserve System
Washington, D. C.

My dear Mr. Eccles:

By Budget Bureau Circular No. 351, dated November 1, 1939 the Director of the Budget has directed the Central Statistical Board to establish a quarterly reporting service to provide information on new, revised, or discontinued report forms of Federal agencies. A copy of this circular is attached for your information.

The Director recognizes that the provisions of the circular do not extend to the Board of Governors of the Federal Reserve System, but inasmuch as a number of important reports are collected by several divisions operating under the jurisdiction of the Board of Governors, it would be appreciated if arrangements could be worked out to receive reports on the same basis as those from other agencies.

Mr. Goldenweiser, as your representative on the Central Statistical Board, has been fully informed of our plans for establishing and conducting the quarterly service. I should be most grateful if you would discuss the matter with him and inform me whether it will be possible to work out a reporting service for the various divisions of the Board of Governors.

Sincerely yours,

(Signed) Stuart A. Rice

Stuart A. Rice
Chairman

Enclosure

COPY

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C.

Circular No. 351

November 1, 1939

TO THE HEADS OF EXECUTIVE DEPARTMENTS,
INDEPENDENT ESTABLISHMENTS, AND OTHER
GOVERNMENT AGENCIES, INCLUDING CORPORATIONS:

1. In order to promote more effective coordination of the statistical and report collecting activities of the Federal Government, it is necessary for the Bureau of the Budget to be informed currently on the number and kinds of forms used by Federal agencies in requesting information. The term "forms" will be deemed to include: (a) any application form or other administrative report form and any questionnaire or other request for information sent to or required of individuals, business enterprises, and other non-Federal organizations in the continental United States, including State or local governmental agencies, whether the replies thereto are mailed, filed in person, filled in by a Federal agent or enumerator, or returned by the respondent in any other way; and (b) any questionnaire or report form sent to agencies of the Federal Government, the answers to which may be used to provide statistical compilations of general public interest.

2. To facilitate the securing of this information, the Central Statistical Board in the Bureau of the Budget will establish a quarterly reporting service to provide pertinent summary information.

3. Beginning with the quarter July 1 to September 30, 1939, each agency of the Federal Government making use of forms will supply information on (a) new forms; (b) forms revised; and (c) forms discontinued from active use. Reports rendered in the form attached hereto will be due within thirty days after the close of each quarter, except that the report for the quarter July 1 to September 30, 1939 will be due not later than November 30, 1939.

4. Each such agency of the Government will designate for the agency as a whole or for each appropriate subdivision thereof, an officer who will be responsible for making the reports herein called for. Such officer should also be made responsible, insofar as practicable, for approving all new, revised, and discontinued forms of the agency. The Bureau of the Budget should be promptly notified in writing of such designations.

5. A supply of the forms to be used by the Federal agencies in rendering their reports may be obtained from the Central Statistical Board Room 491, State Department.

HAROLD D. SMITH
Director

(Circular No. 351)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-201
Reg. D-13

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 24, 1940

Dear Sir:

Under date of April 11, 1938 the Board furnished each Federal Reserve bank a copy of a letter (S-89) which had previously been sent to the Chief Examiner of one of the Federal Reserve banks, to the effect that pledged "balances due from banks" do not constitute "Balances due from other banks (except Federal Reserve banks and foreign banks)" within the meaning of the tenth paragraph of Section 19 of the Federal Reserve Act. The Board's letter also stated that in condition reports such pledged balances should be reported in "Other Assets".

This question has again been considered, and you are advised that such balances should hereafter be included with "Other balances with banks in the United States (including private banks and American branches of foreign banks)", item 4 of Schedule D in condition reports. Such balances, as you know, may not be deducted from demand deposits in determining the amount of net demand deposits subject to reserve. Pledged time balances on deposit with banks should also be included in item 4 of Schedule D. Member banks should be advised to this effect if a question is raised as to the manner in which pledged balances should be reflected in condition reports. It is understood that the office of the Comptroller of the Currency will advise national banks to the same effect when such questions are raised.

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-202

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 24, 1940

Dear Sir:

A number of instances have come to our attention where Federal Reserve banks have been requested to issue officers' checks or to certify checks drawn on them where the checks were to be held for a period by other banks, to be pledged as collateral to deposits, or to be turned over to depositors in member or nonmember clearing banks who had no intention of promptly presenting them for payment. Such use of the checks may have an effect upon the amount of deposits subject to reserve under Section 19 or to insurance assessments of Section 12B of the Federal Reserve Act.

In order that the Board and the Federal Deposit Insurance Corporation may be kept informed to the extent to which such checks are issued or certified for these purposes, it will be appreciated if you will kindly furnish the Board with a monthly report on the enclosed form (F.R. 494), a supply of which is being sent to you under separate cover. No check need be included where there appears to have been no delay in its presentation for payment nor need any check for less than $100,000 be reported if it is outstanding for less than one week. If you have information as to whether the member or nonmember clearing bank reduces its deposit liability at the time it obtains an officer's check from your bank or has its own check certified for either of the purposes stated above, or if there are unusual bank endorsements, it will be appreciated if you will so indicate in the last column of the report, and explain the nature of the transaction in a footnote or otherwise where you think the information would be of interest to the Board.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-203
Reg. O-38

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

January 22, 1940

Mr. C. E. Upham,
Deputy Comptroller of the Currency,
Washington, D. C.

Dear Mr. Upham:

This refers to your letter of January 6, 1939, inquiring as to the applicability of section 22(g) of the Federal Reserve Act and the Board's Regulation O to the indebtedness of Mr. ________________, President of the _______ National Bank in ________, _______.

It appears from your letter that President ____________ is directly indebted to his bank in the amount of $2,650, which is the balance due on an obligation which he owed to the old _______ National Bank of ________, and which was acquired by the present institution when it took over the acceptable assets of the old bank on August 27, 1934. It also appears that the indirect indebtedness of President _______ in the amount of $490 was incurred in August 1936. Your letter states that the direct indebtedness is apparently not considered a loan or extension of credit within the meaning of section 1(c)(iii) of Regulation O, and you inquire whether the additional indebtedness is held in violation of the law and the regulation or whether President _____ is entitled to incur an obligation up to and not exceeding $2,500 in addition to the indebtedness amounting to $2,650.

Section 1(c)(iii) of Regulation O provides that the terms "loan" and "extension of credit" do not include "the acquisition of any note, draft, bill of exchange, or other evidence of indebtedness, through a merger or consolidation of banks or a similar transaction by which a bank acquires assets and assumes liabilities of another bank or other organization, . . . ".

Under section 22(g) of the Federal Reserve Act an executive officer, with the prior approval of a majority of the entire board of directors, may become indebted to his bank "in an amount not exceeding $2,500." Section 3 of the Board's Regulation O provides, among other things, that the provisions of section 2 of the regulation shall not apply:

"(1) To any loan or extension of credit by a member bank, provided that, as a result of such loan or extension of credit, an executive officer of the member bank does not become indebted to it in an amount in excess of $2,500 . . . ".

In the circumstances, it is the view of the Board of Governors that the indebtedness of President ________ in the amount of $2,650, which was acquired by the _____ National Bank in _______ from the old ______ National Bank of _____, is excepted from the prohibition of the law, but that any subsequently incurred addition to such indebtedness is not permissible under the law if such additional indebtedness increases the aggregate to an amount in excess of $2,500. Accordingly, it is the view of the Board that the indirect indebtedness of President _______ in the amount of $490 incurred in August 1936 is prohibited by the law.

The above conclusion is predicated upon the assumption that President __________ is an executive officer of the bank within the meaning of the definition of that term as contained in the Board's Regulation O. There is some indication in your letter that President ________ may be inactive. If it is provided by resolution of the board of directors or the bank's by-laws that President ________ is not authorized to participate in the operating management of the bank and he does not actually participate therein, then, of course, the provisions of the law and the Board's Regulation O would not be applicable to him.

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)

February 12, 1940

Mr. ______________, Chief Examiner,
Federal Reserve Bank of __________,
_______________, __________________.

Dear Mr. _______:

This refers to your letter of January 25, 1940, requesting a ruling as to whether loans secured by shares of Federal savings and loan associations are subject to the provisions of section 11(m) of the Federal Reserve Act. You state that a State member bank in your district has made a loan secured exclusively by such shares which would be excessive if the provisions of section 11(m) are applicable.

Among other things, section 11(m) authorizes the Board to fix for each Federal Reserve district the percentage of individual bank capital and surplus which may be represented by "loans secured by stock or bond collateral" made by member banks within such district, and provides that:

> ". . . no such loan shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank."

Although shares of a Federal savings and loan association do not have all of the attributes of shares of stock of an ordinary corporation, it would seem that shares of such an association, particularly if such shares are paid up, so closely resemble the stock of an ordinary corporation that they should be regarded as stock for the purposes of section 11(m).

In this connection, the Comptroller of the Currency has taken the position, for the purposes of section 5136 of the Revised Statutes, that a national bank has no power to "deposit" funds with a Federal savings and loan association for the reason that such "deposit" must be made in the form of a purchase of matured stock, and a national bank has no power to purchase stock of any kind, except where such purchase is expressly authorized by statute. The Board also has taken the position, in its letter of June 6, 1938 (S-100), that the provisions of section 5136 of the Revised Statutes forbid the purchase by member banks of shares of stock of Federal savings and loan associations, and the exemptions stated in such section do not cover shares of stock of Federal savings and loan associations. Accordingly, it is the view of the Board that loans made by a member bank secured by shares of Federal savings and loan associations are subject to the provisions of section 11(m) of the Federal Reserve Act.

In the circumstances, it is assumed that you will wish to take steps to have the member bank referred to in your letter bring its loan within the limitations of section 11(m) when it is practicable for it to do so.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-205
Reg. L-10

INTERPRETATION OF LAW OR REGULATION

(Copies to be Sent to all Federal Reserve Banks)

February 27, 1940

Mr. R. A. Young, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Young:

Receipt is acknowledged of your letter of February 12, 1940 regarding the applicability of the Clayton Act to Mr. ________ who is a director of the ___A___ Trust Company, Guilford, Maine, and a director of The ___B___ Trust Company, Bangor, Maine.

The ___B___ Trust Company has a branch in the "Town" of Dover-Foxcroft, the corporate limits of which touch the corporate limits of the "Town" of Guilford. Accordingly, the question presented is whether the ___A___ Trust Company and the branch of The ___B___ Trust Company are located in "contiguous or adjacent" towns within the meaning of exception numbered (5) in section 8 of the Clayton Act, in view of the fact that footnote 8 in Regulation L says that "The Board has interpreted the term 'contiguous' as referring to cities, towns, and villages whose corporate limits touch or coincide at some point * * * ."

You have furnished detailed information regarding the two towns and a map which shows that a "Town" in Maine is merely a subdivision of a county, and is not, as in many other States, an area drawn so as to include a large cluster of houses. For example, the nearby "Town" of Garland has in it no large community, but contains nearly a dozen scattered groups of houses with different names such as Twin Brook, Gordon Corner, etc.

Although the corporate limits of the "Towns" of Guilford and Dover-Foxcroft touch, the communities in which the ___A___ Trust Company and the branch of The ___B___ Trust Company are located are actually eight miles apart, the intervening area being composed of wild land and scattered farms. Each has its own Chamber of Commerce, motion picture theatre, and hotel. Prior to 1915, Dover and Foxcroft were two separate "Towns" although a community of some size was located on the dividing line. In 1915, the two "Towns" were made into one and the names were hyphenated. The name now applies to the community, which has an area of a little more than one square mile, as well as to the "Town" which has an area of about 48 square miles.

Counsel for The ___B___ Trust Company in their opinion dated February 5, 1940, which you enclosed, state their belief that the Clayton Act should be construed in the light of the abuses it was designed to correct, and, to this end, should be construed to prohibit interlocking relationships "between two institutions existing in the same collection of people, whether that collection of people legally constitute an incorporated town or not, * * * and even if they constitute two towns or cities or villages or even more, provided such a collection of people is residing in cities, towns, or villages contiguous or adjacent to each other so that altogether they make one collection of people." It is believed that the point is well taken. See footnote 8 in Regulation L.

As you point out, a ruling that the corporate limits control in all cases would be capable of more precise application than a ruling requiring each case of this kind to be determined individually in the light of the facts and circumstances involved. However, the Board is of the opinion that the word "town" in section 8 of the Clayton Act does not refer to a "Town" such as Guilford, and that the question whether two communities such as those herein discussed are "contiguous or adjacent" is similar to the question which would be presented in the case of two unincorporated villages in another State having a different system of subdivisions. In such a case, unless the two communities were, geographically, a single community, as Dover and Foxcroft were before their names were hyphenated in 1915, it would be necessary to apply the principles stated in footnote 8 of Regulation L for determining whether or not two places are "adjacent".

In view of the information which you have submitted the Board is of the opinion that the communities of Guilford and Dover-Foxcroft are not "contiguous or adjacent" within the meaning of the Clayton Act.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-206

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1940

Dear Sir:

It appears that there has been some confusion and lack of uniformity with respect to the approval of compensation paid to regular and special counsel by Federal Reserve banks, especially with reference to fees for extraordinary services paid to counsel regularly retained by the Federal Reserve banks; and the purpose of this letter is to eliminate any misunderstanding by stating the practices which should be followed with respect to the compensation paid to attorneys employed by Federal Reserve banks in all classes of cases.

The annual salaries or retainers paid by the Federal Reserve banks to regular full time counsel should be submitted to the Board for approval annually along with the salaries of the banks' officers, in accordance with the practice which has been followed heretofore.

Where counsel for a Federal Reserve bank is on an annual retainer basis and he also receives additional fees for extraordinary services, the annual retainer should be submitted to the Board for approval annually along with the salaries paid to officers, in accordance with the practice which has been followed heretofore; and no additional fee should be paid to him without first obtaining the Board's approval.

Where a Federal Reserve bank finds it advisable to employ special counsel to represent it in litigation or otherwise to assist the bank's regular counsel, it is not necessary to take the matter up with the Board if it is clear that the employment will not involve the payment of compensation in excess of $1,000.

Where the initial fee to be paid to such special counsel does not exceed $1,000 and there is reasonable expectation that the case will be disposed of without the necessity of paying fees exceeding $1,000 in the aggregate, the Federal Reserve bank may employ such special counsel without first submitting the matter to the Board, subject to the following conditions:

1. That an agreement be obtained from such special counsel that the fee will be subject to final review and approval by the Board; and

2. That, before paying any fee which, together with fees already paid, will exceed $1,000, the Federal Reserve bank shall submit the same to and obtain the approval of the Board.

Where a Federal Reserve bank finds it advisable to employ special counsel whose services appear likely to involve an expenditure by the Federal Reserve bank in excess of $1,000, the matter should be submitted to the Board before he is actually employed with a request that the Board approve the payment of compensation to the attorney up to a stated amount. This may be done by telegraph and will receive prompt attention by the Board. No fees aggregating more than the amount so approved should be paid without first obtaining the Board's approval.

In requesting the Board's approval of the payment of fees to either regular or special counsel, the Federal Reserve bank should furnish the Board with a clear statement of the nature and extent of the services rendered or to be rendered, including the amounts involved in any litigation, the difficulty or importance of the questions involved, and any other information which will aid the Board in estimating the value of such services.

This letter supersedes the Board's letters of February 15, 1926 (X-4531) and April 15, 1936 (X-9548).

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-207

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 5, 1940.

Dear Sir:

The Board of Governors has now adopted regulations governing the operations of the branches of the Federal Reserve banks in the form enclosed herewith, to become effective April 1, 1940.

A few suggestions were received from the Federal Reserve banks with regard to these regulations pursuant to the Board's letter of December 20, 1939, S-194; and, accordingly, certain changes have been made in the regulations. In this connection, it will be observed that the regulations as adopted are so worded as to permit the designation of the chairman of the board of directors of the branch from among the members appointed by the Board of Governors to be made either by the Federal Reserve bank or the branch board, as the bank may deem advisable. This provision, of course, is not intended to affect in any way the service or terms of branch chairmen now in office.

Before the effective date of the regulations or as soon thereafter as practicable, it is requested that each Federal Reserve bank having branches review the existing by-laws of its branches and make such modifications as may be appropriate in the light of the new regulations enclosed. As indicated in S-194, it will not be necessary for a Federal Reserve bank to obtain the approval of the Board of Governors of by-laws and instructions issued pursuant to section 5 of the regulations, but it is requested that copies of any such by-laws or general instructions regarding operation of branches, as well as copies of any future amendments thereof, be furnished promptly to the Board of Governors for its information.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

# REGULATIONS
# RELATING TO
# BRANCHES OF FEDERAL RESERVE BANKS

(Effective April 1, 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 designated by it as the active manager of the branch. He shall have the title "Managing Director" and shall perform such duties as may be prescribed by the Federal Reserve bank. The term of office of the Managing Director shall be one year and he may be reappointed from year to year.

(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 provide for the annual designation, in such manner as it may prescribe, of one of the members of the board of directors of each branch appointed by the Board of Governors as the chairman of the board.

(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 time to time 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.

(1) 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.

S-208
Reg. L-11

INTERPRETATION OF LAW OR REGULATION

(Copies to be Sent to All Federal Reserve Banks)

March 13, 1940

Mr. ______________, Vice President,
Federal Reserve Bank of __________,
________________, _________________.

Dear Mr. ________:

Reference is made to your letter of January 26, 1940, regarding the Clayton Act status of Mr. _________, who is serving as a director of Commercial Trust Company of _________, ____________, as chairman of the board of The Corporation Trust Company, New York, New York, and as chairman of the board of The Corporation Trust Company, Jersey City, New Jersey.

You have submitted information to the effect that Commercial Trust Company of _________ is a member of the Federal Reserve System and does a general banking and individual trust business. On the other hand, The Corporation Trust Company of New York and The Corporation Trust Company of New Jersey are members of a group of associated companies organized primarily to furnish domestic and foreign statutory representation to organizations throughout the country and to assist counsel in the organization of new corporations. The activities of the companies cover a wide field of specialized services for corporations including furnishing information and official forms pertaining to the organization of corporations under the laws of the various States; conducting organization meetings; procuring necessary stock books and seals; keeping stock books in regular form; holding annual meetings of the corporations and supplying inspectors of elections and filing reports and statements; qualifying corporations to transact business in foreign States; informing attorneys of all taxes and required reports affecting corporations which they represent.

The Corporation Trust Company of New York showed approximately $30,000 of deposits in a recent published report of condition, but Mr. ________ has explained to you that these moneys were not "deposits", that they were not subject to check and that they represented principally funds left with the Company to pay dividends for several corporations and some minor items connected with corporations which the Company represents. He further advised that deposits of approximately $71,000 shown by a recent report of condition of The Corporation

Trust Company of New Jersey are of substantially the same nature as those of the New York corporation.

All three Companies which Mr. _______ is serving act as transfer agent and registrar for a number of different corporations. The Commercial Trust Company acts as dividend paying agent for six corporations and both Corporation Trust Companies do so for approximately the same number. As far as corporate trust business is concerned, the situation seems to be as follows: Commercial Trust Company does not act as corporate trustee, having discontinued such business many years ago, the only exception being that the Company was substituted as trustee for two bond issues of the Erie Railroad Company when it was placed in bankruptcy and the New York banks which had been trustees had conflicting interests. The two Corporation Trust Companies did at one time engage in this class of business "in a rather small way" but do not solicit it at present, being now indenture trustees only in one and two instances, respectively.

You state that you do not believe that it was intended that the Clayton Act should prohibit an interlocking relationship between Commercial Trust Company of __________, which does a general banking and individual trust business, and the two nonmember institutions, which do not engage in the banking business as that term is generally understood since they do not accept deposits or make loans of any kind. You point out that the only activities engaged in by the two nonmember institutions which are engaged in by Commercial Trust Company are those described above and that if their activities as transfer agent and registrar are eliminated as merely an adjunct to the kind of business in which they are engaged and not the kind of business contemplated by the Clayton Act, there would be little left. In fact, all that would be left would be the instances in which the three Companies act as dividend paying agents, and the instances, which have practically reached the vanishing point, where they act as indenture trustee.

The Corporation Trust Companies are a special type of organization operating in a special field, and the Board agrees with you that it was not intended that the Clayton Act should prohibit interlocking relationships between such organizations and member banks. Accordingly, the Board is of the opinion that the statute is not applicable to Mr. _______'s relationships described above.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-209
Reg. T-90

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

April 3, 1940

Mr. ______________,
______________________,
______________________,
______________________.

Dear Mr. ________:

Reference is made to your letter of March 20 addressed to Dr. Parry in which you request a ruling on a question relating to Regulation T.

You describe a case in which a customer plans to deliver certain registered nonexempted stocks to a broker with the understanding that the broker will offer to lend this stock in the "loan crowd" on a national securities exchange. Questions are presented as to how the transaction must be handled under the regulation, including the question of what restrictions the regulation imposes on the customer's later withdrawal of the shares.

You state that the customer has no intent to use this stock as collateral for brokerage transactions. In view of this fact it should be stated at the outset that the regulation would permit the broker to receive the securities in a special miscellaneous account under the provisions of section 4(f)(6) if the customer desires merely to deposit the stock with the creditor for lending purposes and also is willing to leave with the broker the funds received by the broker on lending the stock. Such an arrangement in which the stockholder received no funds as a result of depositing the stock with the broker would clearly be authorized under section 4(f)(6), which provides that in a special miscellaneous account a creditor may "(subject to any other applicable provisions of law) receive from or for any customer, and pay out or deliver to or for any customer, any money or securities". If such procedure were followed, the regulation would permit the stock to be freely withdrawn at any time.

If the stockholder wishes to receive funds from the broker as a result of depositing the shares, further questions arise. He could receive the standard maximum loan value of the stock, now 60 per cent of current market value, in a general account. Assuming no other transactions in the account which cause any demand for margin under the regulation to be outstanding, the stock could be withdrawn at any time by depositing in the account the then maximum loan value of the shares withdrawn, or enough to reduce the adjusted debit balance of the account to the maximum loan value of the securities in the account, whichever deposit would be smaller. The regulation does not permit any less restrictive arrangement if the stockholder wishes to obtain funds for the general purpose of purchasing or carrying or trading in securities.

However, section 4(f)(8) and its related provision, section 7(c), provide that:

> "4(f) Special miscellaneous account. - In a special miscellaneous account, a creditor may--
>
> "(8) Extend and maintain credit to or for any customer without collateral or on any collateral whatever for any purpose other than purchasing or carrying or trading in securities."

* * * * * * * * *

> "7(c) Declaration as to purpose of loan. - Every extension of credit on a registered security (other than an exempted security) shall be deemed to be for the purpose of purchasing or carrying or trading in securities, unless the customer shall file with the creditor a written declaration signed by the customer which shall state the use to be made of such credit and which shall state specifically that such credit is neither for the purpose of purchasing or carrying or trading in securities nor for the purpose of evading or circumventing the provisions of this regulation. In connection with any extension of credit, a creditor may rely upon such a written declaration unless he knows the statement to be false or has information which would put a prudent man upon inquiry and if investigated with reasonable diligence would lead to the discovery of the falsity of the statement."

Under these provisions the broker could receive the stock in a special miscellaneous account and could advance to the customer all or any part of the funds the broker received in lending the stock, but in such event the advance to the customer could not be for the purpose of purchasing or carrying or trading in securities, and since the securities are registered and nonexempted the broker would have to obtain an appropriate declaration in accordance with section 7(c).

The question whether a particular loan is for the purpose of purchasing or carrying or trading in securities and whether the broker is justified in accepting a declaration under section 7(c) in a particular case is necessarily a question of fact that must turn on all the relevant circumstances involved in the case.

It appears that although the present customer might as a matter of policy prefer not to leave the funds with the broker, he nevertheless might not wish to use the funds for any purpose except to withdraw them and put them in safekeeping pending the return of the stock. If such is the case and the customer keeps the funds in a safe deposit box, special deposit, or other similar form until the return of the shares, the broker would clearly be justified in accepting a declaration under section 7(c).

If, on the other hand, the customer does not treat the funds in this manner and also purchases or carries or trades in securities near the time of the loan, it would seem that as a general proposition the broker should assume the loan to be for such purpose. While it is of course conceivable that in some such circumstances the loan might not be for the purpose, there is a very strong likelihood that it is, and it should be carefully scrutinized as probably being unable to qualify under sections 4(f)(8) and 7(c).

You suggest in your letter the possibility that the loan of the stock might be regarded as a sale and the return of the stock as a purchase by the customer, so that the entire transaction might be handled by the broker in a special cash account subject to the provisions of section 4(c) of Regulation T. In the opinion of the Board, however, such a use of a special cash account is not permitted by the regulation.

It is understood that the national securities exchange on which the stock is registered has requested the issuing corporation, of which the customer is a substantial stockholder, to use its best efforts to make reasonable amounts of the stock available for loaning purposes, and that the customer's placing of the stock with the broker would be the result of such request. This fact, however, does not seem to affect the views expressed above.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

S-210
Reg. O-39

INTERPRETATION OF LAW OR REGULATION

(Copies to Be Sent to All Federal Reserve Banks)

April 10, 1940

Mr. ________________, President,
Federal Reserve Bank of ________,
________________, ________________.

Dear Mr. _______:

This refers to your letter of March 25, 1940, and previous correspondence regarding the status of Mr. _______, Vice President and Director of The ______ National Bank, of _______, ________, under the Board's Regulation O.

The board of directors of the bank in July 1939 adopted a resolution to the effect that Mr. ______ is not authorized to participate in the operating management of the bank. A question was raised by the examiner concerning his status, however, because of the fact that he was also serving as a member of the discount committee, which, under the by-laws, consisted of the "President, Cashier, and three directors". It appears from your letter of March 25, quoting a letter received from the Cashier of the bank, that Mr. ______ has now resigned his position on the discount committee and is no longer a member of the committee. While it is understood that he is a member of the examining committee, it is assumed that the duties of this committee are not such that members thereof are to be considered as participating in the operating management of the bank by reason of such membership.

Since Mr. ______ is no longer a member of the discount committee, it is not necessary for the Board to express any opinion with regard to the question which was raised by reason of such membership. It is understood that under the resolution adopted by the board of directors Mr. ______ is not authorized to participate in the operating management of the bank and that he does not actually participate therein. In the circumstances, he is not an executive officer within the meaning of Regulation O.

While it appears that President ______, with respect to whom a like resolution was adopted by the board of directors, is a member of the discount committee, it is not understood that he is borrowing from the bank or that any question regarding his status has been raised at this time.

Very truly yours,
(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.

S-211
Reg. L-12

INTERPRETATION OF LAW OR REGULATION

(Copies to Be Sent to All Federal Reserve Banks)

April 18, 1940

Mr. ________________, President,
Federal Reserve Bank of ________,
__________________, ____________.

Dear Mr. ____________:

Reference is made to your letters of March 15 and April 1, 1940, transmitting a copy of a letter from Mr. (A), President of The ______________ National Bank of __________, and a petition by Mr. (B), President of The __________ Bank, relating to the applicability of the Clayton Act to Mr. (C) and Mr. (D) who are directors of both banks.

Both Mr. (A) and Mr. (B) contend that the two banks are not engaged in the same class or classes of business within the meaning of paragraph (6) of section 8 of the statute, and Mr. (B) also petitions the Board to amend its Regulation L so as to except these relationships.

Virtually all of the deposits of The __________ Bank are classified as "savings deposits, including time accounts," although a portion of such deposits are subject to withdrawal by check. The time deposits of the national bank are about equal to its individual demand deposits. Both banks maintain trust departments, although Mr. (B) states that the trust department of The __________ Bank as well as the checking privileges accorded to its customers are merely incidental to the savings business which it conducts as its principal function.

In view of the fact that both banks receive savings and other time deposits, hold accounts which are subject to withdrawal by check, maintain trust departments, and make real estate loans, the Board is of the opinion that the exception contained in paragraph (6) of the statute, relating to banks not engaged in the "same class or classes of business" is not applicable since they are both engaged in several of the classes of business enumerated in footnote 9 in Regulation L.

However, Mr. (B's) petition requests an amendment to Regulation L which would make an additional exception similar to that now contained in paragraph (7) of the statute relating to mutual savings banks, and similar to the exception in section 3(a) of Regulation L relating to

Morris Plan banks. Mr. (B's) arguments are based on the points of similarity which he finds between his bank and these two types of institutions. He relies principally on its similarity to mutual savings banks; and the similarity to Morris Plan banks need not be discussed further in view of the fact that the Board has eliminated, effective June 1, 1940, the exception which it had previously made in its regulation with respect to such banks (the reason for this action being, as you know, the fact that many of such banks are now conducting a business similar to that conducted by commercial banks).

Mr. (B) suggests that mutual savings banks and savings banks having capital stock should not be treated differently under the Clayton Act, because both conduct substantially the same kinds of business, and the details of their internal organization do not affect the matters contemplated by the Clayton Act. Mr. (B) discusses this point in detail and makes an argument which deserves very careful consideration. However, the Board has consistently taken the position that its authority to make additional exceptions by regulation should be used only to fill out the pattern established by Congress in the statute, and not to alter it. In the statute Congress specifically excepted mutual savings banks, and made the prohibition of the statute specifically applicable to other savings banks. Therefore, an exception applicable to other savings banks would be clearly inconsistent with the pattern laid down by Congress, and the Board for this reason believes that it should not amend its regulation as suggested.

Furthermore, in the present case where the savings bank also conducts a trust business and permits withdrawals by check, even though these two functions are merely adjuncts to its principal business, an exception which would permit directors of this bank to serve a national bank with a trust department would be an even greater departure from the pattern established by Congress than an exception of the kind discussed in the preceding paragraph. The Board has on numerous occasions considered cases where the principal business conducted by two institutions was different, but where both, as incidents to their principal businesses, conducted other types of business which were the same. Under the statute as it existed prior to the Banking Act of 1935 the Board in many cases had great difficulty in determining whether the degree in which two institutions were engaged in the same classes of business was sufficiently small as to justify a finding that they were not in substantial competition. However, the Clayton Act was amended in 1935 so as to prohibit interlocking directorships if a member bank was engaged "in a class or classes of business" in which the other bank was engaged, thus eliminating the question of degree. If the Board should make an exception, by regulation, which would again make the applicability of the statute depend upon this question, its action would be a direct reversal of the change made by the Banking Act of 1935.

The Board appreciates Mr. (A's) desire to retain these two directors whose services he regards as being of great value and as necessary to his bank under the existing circumstances. However, if the Board should make an exception which would permit these directors to serve both banks, the exception, being of general applicability, would permit a large number of other relationships which are now prohibited and would thus materially alter the effect of the statute, which, as stated above, the Board believes would not be a proper exercise of its authority.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

S-212
Reg. H-15

INTERPRETATION OF LAW OR REGULATION

(Copies to Be Sent to All Federal Reserve Banks)

April 19, 1940

Mr. ________,
First Vice President,
Federal Reserve Bank of ______,
________, ________.

Dear Mr. ________:

This refers to your letter of April 12, 1940, to Mr. ________, regarding ______ Banking Company, ______, ______, an uninsured bank which has indicated an interest in membership. You report that the bank was organized in 1905, has a capital of $25,000, and is located in a town having a population of 641, and ask whether it would have to be examined by the Federal Deposit Insurance Corporation in order to be admitted to membership in the System. In submitting the question, you refer to the fact that prior to the admission of ______ Bank, ______, ______, to membership last year, it was considered necessary for the Federal Deposit Insurance Corporation to make an examination of ______ National Bank, which was to be succeeded by the newly organized ______ Bank.

As your counsel has correctly pointed out, the two cases are not comparable, the distinction arising from the fact that ______ Bank was organized subsequent to June 16, 1933, and ______ Banking Company was organized prior to that date. In order to be eligible for membership, it was necessary for ______ Bank to be entitled to the benefits of insurance under section 12B of the Federal Reserve Act at the time of its admission. That is not required in the case of ______ Banking Company and, thus, while it was necessary for ______ Bank to comply with the provisions of subsection (f)(2) of section 12B under which a State nonmember bank may become an insured bank "upon application to and examination by the [Federal Deposit Insurance] Corporation and approval by the board of directors", ______ Banking Company may be admitted to membership without action by the Federal Deposit Insurance Corporation.

Although there is no necessity for action by the Federal Deposit Insurance Corporation except in the limited class of cases like that of ______ Bank, the Board has consistently endeavored to cooperate with the Federal Deposit Insurance Corporation in acting upon applications for membership by noninsured as well as insured banks. In this connection, reference is made to circular letter S-10 of June 26, 1937 (F.R.L.S. #3477). In the case of ______ Banking Company, since the bank was at one time an insured bank but withdrew, it would be expected that the information submitted to the Board with the application would contain full information concerning the circumstances involved.

Very truly yours,
(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.

S-213
Reg. F-24

INTERPRETATION OF LAW OR REGULATION

(Copies to Be Sent to All Federal Reserve Banks)

March 11, 1940

Mr. __________, President,
Federal Reserve Bank of __________,
__________, __________.

Dear Mr. ______:

This refers further to your letter of January 24, 1940, submitting a request of representatives of the ______ National Bank of ______ for advice as to whether, in the view of the Board, the operation of a Common Trust Fund under a plan which is being considered by that bank would conform to the requirements of the Board's Regulation F. It appears that, disregarding details, the point upon which the Board's views are desired is whether the operation of a Common Trust Fund under the proposed plan would be contrary to the following provisions of subsection (a) of section 17 of Regulation F:

> "The purpose of this section is to permit the use of Common Trust Funds, as defined in section 169 of the Internal Revenue Code, for the investment of funds held for true fiduciary purposes; and the operation of such Common Trust Funds as investment trusts for other than strictly fiduciary purposes is hereby prohibited. No bank administering a Common Trust Fund shall issue any document evidencing a direct or indirect interest in such Common Trust Fund in any form which purports to be negotiable or assignable. The trust investment committee of a bank operating a Common Trust Fund shall not permit any funds of any trust to be invested in a Common Trust Fund if it has reason to believe that such trust was not created or is not being used for bona fide fiduciary purposes."

It appears that the creation of the Common Trust Fund is part of a plan under which the bank proposes to solicit the public (through paid solicitors or agents of the bank, newspaper advertisements, circulars, etc.) to create uniform revocable trusts designed specifically to participate in the Common Trust Fund. With this in view, the bank has prepared an application and receipt form and a so-called "Participating Trust Agreement" form. Under such trust agreement form, the creator of a trust is to deposit with the bank, as trustee, a stated principal sum in 120 equal monthly deposits and the bank is directed to invest such deposits, less authorized deductions, in participations in the Common Trust Fund. The trust is to terminate upon revocation, death of the creator, notice delivered by the trustee to the creator after continued default in making deposits, or the expiration of 10 years (i.e., the expiration of the period during which the deposits are to be made). In addition to an acceptance fee of $10, an annual fee of 6 per cent of the income of the trust, and a termination fee of 2 per cent of the then cash value of the trust assets, the bank is to receive the first year a fee of 2 per cent of the stated principal sum and each year thereafter a fee of $5. Among other things, it is also noted that the trust agreement form refers to the fact that "other trust estates have been or are to be established under participating trust agreements respectively, substantially similar to this instrument". In the application form, the person desiring to create such a trust applied for the execution of a Participating Trust Agreement, such "participation" to be in a stated principal sum. Such application form recites that there is paid therewith a stated sum, consisting of an acceptance fee of $10 and the first of 120 equal deposits, and also that the bank will be empowered to invest the net deposits of the applicant in a Common Trust Fund to be held and managed by the bank as Collective Trustee pursuant to a Collective Trust Plan of a specified date. The bank's representative receiving the application is to give a receipt for the money but there is to be no binding agreement until the application is accepted by the bank and a Participating Trust Agreement is executed by the bank and the applicant.

In view of these facts and the other details of the matter discussed in the comprehensive opinion of your counsel, the Board agrees with the conclusion reached by your counsel that the proposed Common Trust Fund could not be considered as being operated in conformity with the Board's Regulation F and particularly that part of the regulation quoted above.

As you know, it is not the practice of the Bureau of Internal Revenue to make advance rulings on a hypothetical basis. However, the Board has no doubt that, if the proposed Common Trust Fund should be operated as contemplated, the Bureau of Internal Revenue would deny such Fund the tax exemption granted to Common Trust Funds operated in conformity with the Board's regulations.

It is requested that you advise the ______ National Bank of the Board's views in the premises. In view of the full opportunity which representatives of your bank have afforded representatives of the ______ National Bank to present fully all facts and arguments involved, it would not seem that it would serve any useful purpose for representatives of the bank to come to Washington to discuss the matter. However, if upon consideration of the views expressed herein representatives of the bank should desire to submit any further information in the premises or should still desire to come to Washington to discuss the matter with representatives of the Board, the Board, of course, will be glad to have them do so.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-214
Sec. 5136 R.S.-15

INTERPRETATION OF LAW OR REGULATION

(Copies to Be Sent to All Federal Reserve Banks)

March 13, 1940

Mr. ____________________, President,
Federal Reserve Bank of ____________,
__________________, _______________.

Dear Mr. ___________:

Reference is made to your letter of March 5 regarding the ________________ Bank, ________, ________, a prospective applicant for membership in the System.

It is the Board's view that the provisions of Section 5136 of the Revised Statutes do not make it necessary for a bank applying for membership to reduce excessive holdings of individual issues of securities to within the limitations prescribed for member banks or to dispose of nonconforming issues acquired prior to membership. Furthermore, it is not the general practice of the Board to require, as a condition of membership, that banks bring their securities account into conformity with Section 5136 and the regulations issued thereunder. Whether requirements should be made in an individual case depends upon the circumstances in that case.

With regard to the ________________ Bank, it appears from the information submitted by you, and from the latest report of examination of the bank by the Federal Deposit Insurance Corporation, that the bank is in good asset condition except for its securities account, and the securities account does not seem to present an insurmountable problem. The total carrying value of securities represents a relatively small portion of the bank's total assets and provision has been made for probable losses in the account. Therefore, if your office is satisfied with the character of the new management and with its ability to effect the improvements needed, the Board would not make any requirements of the bank regarding the securities account, unless, of course, the bank is now subject to requirements imposed by the Federal Deposit Insurance Corporation or the State authorities in this connection.

S-214
Sec. 5136 R.S-15



With respect to the other question presented in your letter, the Board is not inclined to the view that the filing of the application for membership by the ______________ Bank should necessarily be deferred pending the outcome of present efforts of the bank to adjust and improve its securities portfolio. Such conclusion is based on the fact that the bank is apparently in acceptable asset condition and under capable management, and on the assumption that better progress can be made by the bank within the System than without.

If the bank files its application for membership, it will, of course, be necessary to clear the case with the office of the supervising examiner for the Federal Deposit Insurance Corporation and it is assumed that you will ascertain, also, whether the bank is subject to any requirements which the State authorities may have imposed.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-215
Reg. U-28

INTERPRETATION OF LAW OR REGULATION

(Copies to Be Sent to All Federal Reserve Banks)

April 24, 1940

Mr. _______, Vice President,
Federal Reserve Bank of _______,
_______, _______.

Dear Mr. ______:

Reference is made to your letter of April 8, 1940, regarding Regulation U.

You describe a case in which a borrower who has a loan subject to Regulation U has sold part of the stock securing the loan and left the proceeds with the bank as a cashier's check securing the loan. Nevertheless the amount of the loan exceeded the maximum loan value of the collateral even after the sale. Several weeks later, when the amount of the loan still exceeded the maximum loan value of the collateral, the borrower wished to repurchase the stock, using the cashier's check to make payment. The question is whether such purchase could be made without the borrower depositing additional cash or collateral.

As you indicate in your letter, the purchase would, in effect, be a substitution of the stock for the cashier's check, the replacement of collateral having 100 per cent loan value by collateral having 60 per cent loan value. This would cause a reduction in the maximum loan value of the collateral, would therefore increase the deficiency in such maximum loan value, and hence would seem to be forbidden by section 1 of the regulation.

You point out that although the purchase would increase the deficiency, the entire series of transactions would in this particular case produce a slight reduction in the deficiency. You then raise the question whether this fact would not, in such a case, dispense with the need for obtaining additional cash or collateral for the purchase.

However, the regulation does not seem to offer any practical basis for giving the purchase such a privileged status because of its relation to the sale that occurred at a considerably earlier time, and it is the view of the Board, as indicated in its letter of September 3, 1937, (S-32; Loose-Leaf Service #8163), that the purchase would not comply with the regulation unless the borrower deposited sufficient additional cash or collateral. This conclusion not only appears to be the correct interpretation of the regulation but also, upon further consideration and in view of all the circumstances, is believed to represent the most workable general rule for various situations. Therefore, while the Board agrees with your view that the problem should be considered by the Board in the light of the facts which you describe, it feels after such consideration that it would not be desirable to alter the requirements of the regulation on the point.

It may be noted with respect to the general problem, however, that when stocks are sold the bank may permit the borrower to withdraw a sum equal to the difference between the maximum loan value of the stocks and their market value. Under present requirements this would permit a withdrawal equal to 40 per cent of such market value. Such a withdrawal in connection with a sale would, of course, make it possible for the borrower to have the margin required for a subsequent purchase of securities at the same or any lower price. It is recognized that this procedure might be impractical in certain circumstances, but it seems that it might present a means of facilitating the transactions in some situations of the type to which you refer.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-216
Reg. T-91

INTERPRETATION OF LAW OR REGULATION

(Copies to Be Sent to All Federal Reserve Banks)

April 24, 1940

Mr. ____________________,
_________________________,
____________, __________.

Dear Mr. ______________:

This is in reply to your letter of April 6 in which you present some further inquiries with respect to the questions discussed in the Board's letter of April 3, 1940, regarding the effect of Regulation T on a stock-lending transaction.

Assuming that a broker has received registered nonexempted stocks from a customer and has loaned these stocks in the "loan crowd" on a national securities exchange, you inquire as to the application of Regulation T to payments by the broker to the customer in connection with premiums received on the lending of stock, in connection with the payment of a cash dividend on the stock, in connection with the stock being "marked to the market" in case it increases in value, or in connection with the payment of a stock dividend on the stock.

With respect to the broker's payment to the customer of a sum equal to a premium which the broker received on the lending of the stock, it is assumed that the customer is not to return such amount when he receives his stock back from the broker. If this is the case, it may be stated as a general proposition that such a payment by the broker would not be limited by any provision of the regulation. So far as concerns the procedure or mechanics of the matter, it may be noted that if the premium is credited to a general account and is not withdrawn on the same day it may, as a part of the account, become subject to withdrawal restrictions at a later date; but any difficulty on this point could be avoided by transferring the sum on the same day from the general account to a special miscellaneous account pursuant to section 4(f)(6) of the regulation.

It is assumed that any amounts paid by the broker to the customer in connection with a cash dividend on the stock also would not be repaid by the customer to the broker. If such is the case, their status would be the same as that of payments connected with a premium on the lending of the stock, with the minor exception that in case the dividends had been credited to a general account section 6(g) would permit the withdrawal of such dividends at any time within 35 days thereafter if the crediting had not served in the meantime to permit any transaction which could not otherwise have been effected in the account.

A different situation would, however, be presented by any payments which the broker might make to the customer as a result of the stock being "marked to the market", since it is assumed that the customer would repay such funds to the broker when his stock was returned to him by the broker. Accordingly, such payments to the customer would be subject to the same requirements as those indicated in the Board's letter of April 3 for payments in connection with an original deposit of the stock.

With respect to stock dividends, the result would depend on whether the broker delivers to the customer the actual stock dividend, or cash based on the stock dividend. If stock is delivered, presumably the customer would not return it to the broker. If this is the case, it would have the same status as that discussed above in connection with a premium on the lending of the shares, since section 6(g) allowing 35 days for the payment of cash dividends does not apply to stock dividends. However, if the broker advances cash to the customer on the basis of the stock which was received as a dividend and the customer is later to repay such amount and receive the stock, the requirements stated in the Board's letter of April 3 with respect to the original deposit of stock would apply.

As the basis for a further question, you state that the customer here involved has not purchased or carried or traded in securities through the lending broker or to his knowledge within several months. You ask whether this would justify the broker in concluding that the customer is able to qualify under sections 4(f)(8) and 7(c) of Regulation T, and whether, if this is the case, the customer could deposit the proceeds in his general account. The answer to this must be in the negative. The mere fact that the customer has not purchased or carried or traded in securities through the lending broker or to his knowledge within several months in the past would clearly not be sufficient to justify a conclusion that a future extension of credit would not be for such purpose. As indicated in the Board's letter of April 3, this is a question of fact which must turn upon all the relevant facts of the case, of which that stated in your inquiry is but one. In addition, the fact that the customer deposited the proceeds in his general account would be a strong indication that the funds were obtained for the purpose of purchasing or carrying or trading in securities.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-217

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 10, 1940

Dear Sir:

Enclosed herewith for your information is a copy of the Board's letter of May 10, 1940, to the Secretary of the Retirement System of the Federal Reserve Banks approving the report of the Retirement Committee relative to the Retirement System status of employees who may be called for military or related United States Government or affiliated service, which was adopted by the Board of Trustees of the Retirement System at its annual meeting on April 16, 1940. Under the Board's approval, payment by the Federal Reserve Banks is authorized of the additional cost, if any, of allowing service credit for previous service as provided for in the resolution on page 3 of the above mentioned report.

Very truly yours,

L. P. Bethea,
Assistant Secretary

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
To Mr. J. S. Sinclair, Chairman, Board of Trustees
To Mr. L. R. Rounds, Chairman, Retirement Committee

S-217-a

May 10, 1940

Mrs. Valerie R. Frank, Secretary,
Retirement System of the
Federal Reserve Banks,
33 Liberty Street,
New York, New York.

Dear Mrs. Frank:

This is to advise you that the Board of Governors of the Federal Reserve System on May 10, 1940, approved the April 16, 1940 report of the Retirement Committee relative to the Retirement System status of employees who may be called for military or related governmental or affiliated service, which was adopted by the Board of Trustees of the Retirement System at its annual meeting on April 16, 1940, as reported in your letter of April 25, 1940. It is understood that the report of the Retirement Committee and the resolution of the Board of Trustees on this subject contemplate a special additional benefit only in the case of an employee who has discontinued service for an employing bank for a period in excess of two years, and who otherwise would receive no service credit for service rendered prior to his entrance into the military or related Government service.

Copies of this letter are being sent to Mr. J. S. Sinclair, Chairman of the Board of Trustees, to Mr. L. R. Rounds, Chairman of the Retirement Committee, and to each Federal Reserve Bank.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-218
Reg. F-25

INTERPRETATION OF LAW OR REGULATION

(Copies To Be Sent To All Federal Reserve Banks)

May 9, 1940

Mr. ____________________,
First Vice President,
Federal Reserve Bank of ________,
______________, _________________.

Dear Mr. _______________:

It has been noted from the reports of examination of The ______________ Trust Company, ___________, __________, as of December 3, 1938, and October 28, 1939, that such bank had deposited real estate mortgage loans with its trust department with the view of complying with the following condition of membership:

> "If trust funds held by such bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers."

As you know, the securities used for this purpose must come within one of the following classes of securities approved by the Board in section 9(b) of Regulation F:

> "(1) Bonds, notes, bills, certificates of indebtedness or other direct obligations of the United States, or obligations fully guaranteed by the United States as to principal and interest; or
>
> "(2) Other readily marketable securities of the classes in which State trust companies or State banks exercising trust powers are authorized or permitted to invest trust funds under the laws of the State in which such national bank is located; or
>
> "(3) Other readily marketable securities of the classes defined as 'investment securities' pursuant to section 5136 of the Revised States of the United States, as amended."

The examiner apparently considered the real estate mortgage loans as coming within the second class of approved securities. However, in view of the fact that the securities are required to be readily marketable, the Board has frequently expressed the view that real estate mortgage loans do not qualify unless they comply with the requirements relating to marketability contained in the regulation of the Comptroller of the Currency concerning investment securities, and that the usual real estate mortgage loan does not comply with such requirements.

It is requested that at the time of the next examination of The ____________ Trust Company, or prior thereto if you deem it desirable, the matter be discussed with the bank in order that it may, as soon as practicable, take such action as may be necessary to comply with the condition of membership as so construed.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-219

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 24, 1940

Dear Sir:

Referring to our letter, B-1188, of January 7, 1937, the submission of monthly reports on Federal Reserve bank notes, Form F. R. 44, may be discontinued until further notice.

Very truly yours,

E L Smead

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

TO ALL FEDERAL RESERVE AGENTS EXCEPT RICHMOND, CHICAGO
AND SAN FRANCISCO.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-220

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 29, 1940.

Dear Sir:

The form of memorandum to accompany applications for membership has been revised with a view to simplification. It will be appreciated if the memoranda submitted by the Reserve Banks with applications for membership are prepared in the revised form, as outlined in attached memorandum. Ten copies of the revised form are enclosed, and we shall be glad to furnish additional copies if desired.

This supersedes letter X-7572 (Federal Reserve Loose-Leaf Service #3472).

Very truly yours

Chester Morrill

Chester Morrill
Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Exam 2.
(Revised June 1940)

# GENERAL STYLE OF MEMORANDUM TO ACCOMPANY APPLICATIONS FOR MEMBERSHIP.

Reasonable uniformity in the arrangement and form of memoranda forwarded by the Federal Reserve Banks covering applications for membership facilitates the handling of the applications at the Board. This outline is intended only to further such uniformity. It is not intended to limit the scope of information to be submitted, and each memorandum should contain the information appropriate for proper consideration of the application.

It is requested that the memoranda be prepared on letter-size paper, that the textual matter be double-spaced, and that an original and three copies be forwarded.

## HEADING

The name of the bank as given in the heading should be the correct legal title.

It is important that membership records contain the correct corporate titles. Difficulties have occasionally arisen because of conflicts and uncertainties in this respect. It is requested, therefore, that care be exercised to see that the name of the bank as given in the heading of the memorandum and in Counsel's certificate on the application is, in fact, the full, complete and correct legal name of the bank.

## 1. CONDENSED STATEMENT OF CONDITION
(Give date and source.)

It is suggested that, where practicable, the statement be substantially in the form shown on the following page.

**Assets** | **Liabilities**

(It is suggested that figures be shown in even hundreds. In the case of the larger banks 000 may be omitted if desired.)

| Assets | | | Liabilities | | |
|---|---|---|---|---|---|
| Cash and bank balances | | ......... | Demand deposits | ......... | |
| | | | Time deposits | ......... | |
| U.S.Gov't securities | | ......... | Public funds | ......... | ......... |
| Other securities: | | | Borrowed money | | ......... |
| Group 1 | ......... | | Other liabilities: | | |
| Group 2 | ......... | | | | |
| Defaults | ......... | | Capital account: | | |
| Stocks | ......... | ......... | | | |
| | | | R.F.C. Preferred | .........(a) | |
| Loans and discounts | | ......... | Other Preferred | .........(a) | |
| | | | Common stock | .........(b) | |
| Bank premises | ......... | | Surplus | ......... | |
| F & F | ......... | | Res. for contingencies...... | ......... | |
| Other real estate | ......... | ......... | Und. profits | ......... | |
| (P.O.R.E. | .........) | | Other segregations of capital account (itemized) | ......... | ......... |
| (R/E carried in | ) | | | | |
| (other accounts | .........) | | | | |
| Other assets | | ......... | | | |
| | | ......... | | | ......... |

(a) Indicate whether preferred stock or capital notes or debentures. Show also total amount at which preferred stock is retirable if that is in excess of par.

(b) Show also total par amount if common stock is shown on the books of the bank and in the statement at less than par.

2. SUMMARY OF EXAMINER'S CLASSIFICATIONS

Below the schedule taken from the report of examination show appreciation or depreciation in investment account based on market quotations.

3. SUMMARY OF EARNINGS AND DIVIDENDS

Record for five years in the following form:

| | 19-- | 19-- | 19-- | 19-- | 19-- |
|---|---|---|---|---|---|
| Total current earnings | | | | | |
| Total current expenses | | | | | |
| Net current earnings | | | | | |
| Profits and recoveries | | | | | |
| Losses and depreciation | | | | | |
| Net before dividends | | | | | |
| Dividends and interest on capital: | | | | | |
| Preferred stock or capital notes or debentures | | | | | |
| Common stock (do not include stock dividends) | | | | | |
| Net additions to profits | | | | | |

Comment on any unusual items of nonrecurring nature. If the bank has any preferred stock or debentures outstanding and dividends or interest thereon are not being currently paid, comment as to the situation and give amount of arrearages.

4. TREND OF DEPOSITS

From the schedule on page 5 of the report of examination.

5. GENERAL INFORMATION

Give population of city or town in which the bank is located and, where appropriate, the approximate population of the trade area served.

Include a brief discussion of the business activities of the town and community and of local conditions which have affected or may affect the condition or future prospects of the bank.

Comment on the bank's competitive position, giving names, locations and approximate deposit liabilities of competing banks and state whether banking facilities in the territory appear to be adequate or excessive.

If the bank does a trust business, comment also on the competitive situation and local conditions affecting that phase of the business.

6. ORGANIZATION AND HISTORY OF APPLICANT

Include date institution was originally organized. If any reorganizations have been effected since 1930, give full information. If, in any such reorganization a deposit waiver was obtained, give total waived, amounts repaid, and prospects for further payments. Mention should also be made under this heading of any mergers or consolidations.

If the bank was ever a member of the System, give period of membership and reasons for discontinuance of membership.

7. BRANCHES

List any branches, branch offices, agencies or receiving stations. Give date of establishment of each office, the population of the town in which located and any other information deemed appropriate.

8. POWERS

Enumerate powers, other than those usual to commercial banking, which the applicant is authorized to exercise under its charter or State laws. State whether or not bank is exercising any such powers. If any are exercised (other than trust powers, which will be discussed under Item 9), comment as to the situation, particularly as to the nature and extent of the activities and the effect upon the bank.

9. TRUST DEPARTMENT

Comment as to trust powers authorized and those exercised and indicate size and importance of the department. Comment on the general condition of the department and the manner in which it is being operated. State whether any probable liabilities appear to have accrued against the institution as a result of its fiduciary activities.

10. AFFILIATIONS

If institution is controlled by a holding company, give name of company and discuss extent of its control and supervision over bank. If bank owns, controls or is closely affiliated in any way with other corporations, give such information regarding the nature of the affiliation and the effect of the affiliation upon the bank as is appropriate in the circumstances.

11. CHARACTER OF MANAGEMENT

Discuss fully. Cover commercial and trust departments in separate discussions. Comment also on the ownership of the bank (unless ownership or control is by a holding company, in which event the discussion will be under Item 10).

12. SUMMARY OF EXAMINER'S COMMENTS

This should be a summary of the examiner's important comments. It is not necessary to copy verbatim the comments from the report of examination nor to refer to minor matters which have no real bearing on the condition of the bank or significance in consideration of the application.

13. COMMENTS OF OFFICER IN CHARGE OF THE BANK EXAMINATION DEPARTMENT

(See Note at the end of the memorandum.)

14. RECOMMENDATION OF THE FEDERAL RESERVE BANK

Include specific mention as to any special conditions recommended. If no special conditions are recommended, so state.

15. F.D.I.C.

Refer to circular letters X-9647 and S-10 regarding clearance with the Supervising Examiner for the F.D.I.C. (Federal Reserve Loose-Leaf Service #3476 and #3477.)

SIGNATURE

The memorandum should be signed by the Vice President in charge of the Bank Examination Department or some other senior officer.

Either the memorandum or the transmittal letter should indicate what officers or committees concurred in the recommendation.

NOTE
(Item 13)

In passing upon an application the Board, as stated in Regulation H, gives special consideration to the following matters:

(1) The financial history and condition of the applying bank and the general character of its management;

(2) The adequacy of its capital structure and its future earnings prospects;

(3) The convenience and needs of the community to be served by the bank; and

(4) Whether its corporate powers are consistent with the purposes of the Federal Reserve Act.

The memorandum should include sufficient information regarding each of the above matters for proper consideration of the application. Any points not covered elsewhere in the memorandum should be covered under Item 13. On close questions the Reserve Bank officer should supplement with his own views the information and opinions set forth elsewhere in the memorandum.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-221

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 3, 1940

Dear Sir:

The Board's letter of March 16, 1939 (S-149) (F.R.L.S. #8212) outlined the general principles agreed upon by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation with respect to the administration of Regulation U as applicable to national banks, State member banks, and nonmember insured banks.

Subsequently the cooperation of the State Banking Departments was sought in extending the administration of the regulation on a somewhat similar basis to noninsured State banks. The matter was discussed with Mr. William R. White, Superintendent of Banks of New York and Chairman of the Executive Committee, National Association of Supervisors of State Banks. We have now been advised that thus far 44 of the State Bank Supervisors have agreed to cooperate in the administration of Regulation U in accordance with the program outlined by Mr. White in his letter of February 5, 1940 to the members of the National Association of Supervisors of State Banks. The four States which remain to be heard from are Louisiana, Mississippi, New Jersey, and Pennsylvania.

Enclosed for your information is a copy of Mr. White's letter and it is assumed that the Reserve Banks will cooperate to the fullest extent with the State Banking Departments in this work along the lines indicated. The Board has expressed to Mr. White its appreciation of his good offices and the cooperation shown by the members of the National Association of Supervisors of State Banks. It is suggested that you might wish to express to the heads of the State Banking Departments in your district your own appreciation of their cooperation.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-221-a

NATIONAL ASSOCIATION OF SUPERVISORS OF STATE BANKS

Executive Committee

Office of the Chairman
80 Centre Street
New York.

February 5, 1940.

TO MEMBERS OF THE ASSOCIATION:

Section 7(a) of the Securities Exchange Act of 1934 directs the Board of Governors of the Federal Reserve System, for the purpose of preventing the excessive use of credit for the purchase or carrying of securities, to prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. The act applies to all banks, state or national, whether incorporated or not, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under Section 11(k) of the Federal Reserve Act.

Pursuant to these provisions, the Board of Governors has issued Regulation U, "Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange." A copy of this regulation as amended to September 1, 1937, together with a supplement dated November 1, 1937, is enclosed.

Representatives of the Board sometime ago called the attention of the State Bank Supervisors to the fact that while procedure for administering the regulation with respect to all insured banks has been developed, no such procedure has thus far been worked out to cover noninsured banks. The matter was referred to the Executive Committee at its December 1st meeting, and it was the sense of the Committee that the State Supervisors should cooperate with the Federal agencies with respect to Regulation U. The number of noninsured banks having any substantial amount of loans subject to Regulation U is doubtless small. Nevertheless, the gap in administrative procedure exists so far as noninsured banks are concerned. Both the Board of Governors and the Securities and Exchange Commission have certain powers and responsibilities under the Securities Exchange Act. It seems preferable that the State Bank Supervisors should assume responsibility with respect to Regulation U loans so far as noninsured banks are concerned.

It was the opinion of the Executive Committee that State Supervisors in the regular course of their examination of noninsured banks could examine loans subject to Regulation U for the purpose of determining whether violations exist, and where found, to take steps to correct such violations.

If you are willing to cooperate with respect to the administration of Regulation U, the following procedure is suggested:

(1) The problem is one largely of education. Compliance should be obtained, so far as possible, by persuasion.

(2) If an individual institution refuses to comply with the provisions of the Securities Exchange Act and Regulation U, or continues to make loans illegal under such act and such regulation after the examiner has urged compliance, the Supervisor should report the case to the Reserve Bank of the district in which the State capital is located, or, if he prefers, to the Reserve Bank in the district in which the bank in question is located. The Reserve Bank will in turn report to the Board of Governors. The Board will refer the case to the Securities and Exchange Commission or to the Attorney General, depending upon whether civil (injunction) or criminal action seems desirable in the light of all circumstances.

(3) If a State examiner should be unfamiliar with the procedure followed by the Federal agencies to determine whether a loan does or does not conform to Regulation U, a local Federal Deposit Insurance or Federal Reserve Bank examiner will no doubt be glad to explain the method used in the case of insured or member banks.

I shall appreciate your advising this office whether or not your Department will cooperate with the Federal agencies along the lines suggested above, in order that we may advise the Board of Governors that the State Banking Departments in their examination of noninsured banks will seek to obtain compliance with the provisions of the Securities Exchange Act and Regulation U, if any violations of such act or regulation are discovered.

I am sending this letter with the approval of the Executive Committee given at a meeting in Washington on February 2nd at which twenty-one States were represented.

Sincerely yours,

(Signed) William R. White

Chairman.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-222

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

June 11, 1940

Dear Sir:

In view of the large volume and wide distribution of excess reserves of member banks, it will not be necessary for you until further notice to prepare or submit to the Board the semi-annual reports on form F.R. 409 (formerly B-5) of deficiencies in reserves of member banks. These reports were requested in the Board's letter B-875 of February 1, 1933.

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-223
Sec. 5136 R.S.-16

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1940.

Dear Sir:

The Board of Governors recently received an inquiry with regard to the amount of obligations of the Commodity Credit Corporation, the Reconstruction Finance Corporation, the United States Housing Authority, and the Federal Intermediate Credit Banks which may be held by a member bank of the Federal Reserve System. The following is an excerpt from the Board's reply to the inquiry:

> "As you know, under the provisions of the Federal Reserve Act, State member banks are subject to the same limitations and conditions with respect to the purchasing, selling, underwriting and holding of investment securities and stock as are applicable in case of national banks under section 5136 of the United States Revised Statutes. The latter section provides that the limitations and restrictions therein contained as to dealing in, underwriting and purchasing investment securities by a national bank for its own account shall not apply to obligations of the United States and certain other types of obligations specifically mentioned. We are advised by the office of the Comptroller of the Currency that obligations of the Commodity Credit Corporation, the Reconstruction Finance Corporation, and the United States Housing Authority in the form of investment securities which, in accordance with law, are unconditionally guaranteed as to principal and interest by the United States, are considered by the office of the Comptroller as 'exempted securities'. Accordingly, a national bank or a State member bank may purchase such obligations for its own account without regard to the limitations and restrictions of section 5136, United States Revised Statutes.
>
> "Debentures of the Federal Intermediate Credit Banks are obligations issued under the authority of the

Federal Farm Loan Act, as amended, and therefore are also 'exempted securities' by reason of the specific provisions of section 5136, United States Revised Statutes."

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-224

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 15, 1940.

Dear Sir:

It has been the general practice of the Board for several years to prescribe a condition of membership requiring the bank to make adequate provision for depreciation in banking house and furniture and fixtures. At first the condition specified the minimum rates to be taken annually, but some time ago the more general form now in use was adopted.

The Board still feels that, as a matter of sound banking practice, all banks should make adequate provision for depreciation in their banking houses and furniture and fixtures, but has decided to leave it to the Federal Reserve Banks to see to it, in the regular course of supervision, that proper provision is made for such depreciation. Accordingly, the general practice of prescribing a condition of membership with respect to depreciation in banking house and furniture and fixtures will no longer be followed.

Since the elimination of classified losses is followed by the Reserve Banks as an administrative matter, the condition is not essential for the accomplishment of the end sought and discontinuance of the practice of prescribing the condition does not represent any departure from the position that banks should make adequate provision for depreciation in their fixed assets.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS