

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-673

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 19, 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 June.

A representative of one of the Federal Reserve Banks recently raised the question informally whether these compilations are of sufficient interest and value to the Banks to justify their continuance. The Board has no inclination to continue the distribution of excerpts from bank relations reports unless they are of some value in apprising your Bank of conditions and developments in the other Federal Reserve Districts. It will be much appreciated, therefore, if you will give the Board the benefit of your frank opinion whether or not the present practice should be continued.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, with a long horizontal stroke at the end.

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Applications for Membership Received
by the Board during 1940

<u>District</u>	<u>June</u>		<u>This Year</u>	
	<u>Number</u>	<u>Deposits</u>	<u>Number</u>	<u>Deposits</u>
Boston	-	-	-	-
New York	1*	-	1*	-
Philadelphia	-	-	3	\$ 3,000,000
Cleveland	3	\$ 8,400,000	13	20,600,000
Richmond	1	10,600,000	7	16,300,000
Atlanta	1	1,800,000	1	1,800,000
Chicago	8	7,600,000	22	18,800,000
St. Louis	3	1,000,000	11	7,200,000
Minneapolis	-	-	4	2,800,000
Kansas City	1	200,000	3	1,100,000
Dallas	1	300,000	14	8,700,000
San Francisco	<u>-</u>	-	<u>1</u>	2,000,000
	<u>19</u>		<u>80</u>	

* Newly organized bank.

July 18, 1940
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE
MONTH OF JUNE 1940

BOSTON

During June the annual meetings of bankers' associations of Connecticut, Vermont and Maine were attended and visits were made to twenty country member banks and four nonmember banks located in scattered sections of Massachusetts and New Hampshire.

With two exceptions all member banks visited reported a better loan demand--the demand coming mostly from small borrowers. Most of the banks are aggressively seeking to increase their loan portfolios and the result in several instances has been the recapture of a considerable amount of local business that had been allowed to drift out of the communities to neighboring banks or into the larger cities of the district. One or two bankers, whose loan portfolios are increasing, expressed the view that the conduct of an active campaign to increase local loans is more profitable and perhaps more desirable in the long run for a country bank to pursue than to engage in corporate bond buying. The banks' loan rates are from 6% downward, most loans carrying the former rate and few carrying a rate lower than 5%, excepting "town loans" made in anticipation of tax receipts.

In one community, conversation with a local banker led to the inquiry as to what Reserve Bank or governmental financing facilities are available to small concerns which might secure Government contracts. In cases of this character it is urged that the matter be taken up promptly with Federal Reserve Bank officials.

Retail trade throughout the sections visited was reported to be only fair with the exception of two communities benefiting from large Army and Navy pay rolls. In these communities retail trade was reported as being brisk with prospects of it continuing so for the next year or two in view of the increased activities at the Government bases in connection with the national defense program. In the opinion of the bankers, past experience of these communities with fluctuating Government pay rolls precludes any likelihood of a considerable expansion of existing business plants and housing facilities.

NEW YORK

During the month of June, our officers and representatives visited 136 banks--96 member and 40 nonmember institutions--located in various sections of the district. The following is a resume of the reports of visits to banks in sixteen counties in New York State.

Albany, Fulton, Hamilton, Montgomery, Rensselaer, and Schenectady
Counties, New York

Even though the continued increase in savings deposits is represented largely in idle cash, a number of commercial bankers report that earnings for the first half of the year have been about the same as during the first half of 1939, chiefly because of a further lowering of the interest rate paid on savings deposits and the curtailment of other expenses.

The loan accounts of a majority of the commercial banks have decreased in the past six months due largely to repayments of State of New York obligations. Many bankers commented that their advertisements for personal, automobile, and other installment loans have resulted in a substantial increase in the volume of this class of paper. One of the largest banks in this area advertised during the last week in June that it is prepared to assist industries participating in the national defense program in every way possible. The officers of a number of savings banks say they are not able to obtain enough new mortgages to offset the amount of amortization payments now being made.

Broome, Chemung, Chanango, Cortland, Delaware, Tioga, and Tompkins
Counties, New York

Some banks have disposed of their longer term Government obligations in recent months, and in most instances the proceeds remain uninvested in the expectation that the time is not far distant when lower prices will prevail in the Government bond market. There is a disposition on the part of many bankers to either stay out of the market entirely for the present or to confine their security investments to short term Government issues. A few say they are adding an occasional high grade corporate issue to their portfolios. There appears to be some hesitation at this time to continue the liquidation of railroad issues, especially where such companies show signs of improved business, the expectation being that this condition will be reflected later in higher prices for railroad securities.

The demand for credit is said to be somewhat better and a number of banks report higher loan totals. In the larger centers the increased demand is said to be chiefly due to the growth of personal and other types of installment loans, although a few bankers say they have had a better demand for business loans. In the rural area which was hard hit by the drought last summer, farmers started borrowing in the early winter for the purchase of feed and hay to carry through until summer. This borrowing has been in addition to the usual spring seasonal requirements for crop purposes and cattle replacements. During the spring months, there was also quite a demand for loans by the school districts

in anticipation of their allotments of State funds. While the 6 per cent interest rate is still a fixed policy with some of these banks except on school and other public loans, the tendency of fixing rates according to the risk involved is spreading.

Summary of Preferred Capital Issues

In the sixteen counties covered by this report, there are 103 commercial banks, 66 of which have issued preferred stock or capital debentures aggregating \$14,119,280 par value. Up to the present time 25 have paid off their entire issues amounting to \$6,350,000, 32 have made partial redemptions aggregating \$2,307,555 and 9 have not retired any--leaving 41 banks with a total still outstanding of \$5,461,725 par value, retirable at \$8,071,945 reflecting a redemption premium of \$2,610,220.

PHILADELPHIA

During June representatives of this department made visits to 55 member and 10 nonmember banks.

The four counties covered in this report comprise 1,959 square miles with a population of 515,900. The total banking resources of \$225,808,000 are distributed among 50 members, which hold \$204,824,000, and 8 nonmembers, which hold \$20,984,000; an increase of \$5,838,000 since the previous visits last year.

Conditions show an improvement over those of a year ago. Industrial activity has been slackening since January in several communities, but at Berwick, the plant of the American Car and Foundry Company has been operating steadily and this has kept business conditions stable in that vicinity. The company is producing tanks for the United States Army. It was reported that the plant is being prepared to increase its output.

The anthracite industry experienced good business last winter and in most sections operations have been fairly well maintained. The stock of coal carried above ground at this season of the year has been greatly depleted, principally because of a heavy demand from Canada. Operators are confident that markets once lost to Russia will be regained and thus provide another outlet for their product. Most of the mines are operating three days a week, but operators in the Hazleton district report a five day week schedule.

Conditions in the agricultural sections are fairly satisfactory. Dry weather had an adverse effect upon crops last year, while prices generally did not show much improvement over those of the previous year. Potato prices advanced somewhat but the crop was short and

of an inferior quality. Crops generally appear satisfactory this year to date, despite the delay in planting because of the late season.

The demand for credit has improved since last year with most extensions being for small amounts. Earnings continue to be the chief problem for the bankers. Automobile financing is being done by an increasing number of institutions, and FHA mortgages are being purchased in efforts to bolster earnings.

Realty values have shown little advance, but holdings of real estate by the banks in this section show a reduction from last year.

A visit was made to one nonmember bank concerning membership and as a result that bank is expected to apply for membership shortly.

CLEVELAND

During the month of June 84 banks were visited, of which 33 were member and 51 were nonmember.

Most of the banks visited during the month are located in main office territory and in areas where a large number of nonmember banks may be found. Usually these areas are close to Reserve cities where the principal banks have been active in soliciting correspondent accounts. This is especially true of the territory lying southwest of Toledo and the area immediately surrounding the city of Columbus.

Special efforts were made in the territories covered to interest banks in membership in the System. In no case has there been an indication of unfriendliness to the System although the majority of the nonmember banks appeared indifferent to membership. They maintain that correspondent banks can furnish every service that a Reserve Bank can furnish; they insist that maintenance of the required reserve with the Federal Reserve Bank would necessitate closing of accounts with correspondents which have been established and maintained over long periods of time, and which they are reluctant to do. They express a fear of additional supervision and regulation; in other cases a certain amount of "house cleaning" is needed before banks feel that they can qualify for membership.

Generally speaking, earnings of banks in this district for the first six months of the year will be satisfactory, and in many cases will establish new high records. This appears to be the net result of the institution of service charges, reductions in the rate of interest paid on time and savings deposits, the installation of personal or installment loan departments, and an increase in high-rate real estate

mortgage loans, or a combination of these factors. Banks in the smaller manufacturing centers visited during June report either an increase in loan totals or no difficulty in maintaining loan accounts at present levels.

RICHMOND

During the month of June 27 banks were visited, of which 16 were member and 11 nonmember banks.

Carroll, Cecil, and Harford Counties, Maryland

The primary income of these counties is derived almost wholly from agriculture. Cecil and Harford Counties have become important locations in the summer resort trade.

The agriculture of the counties is predominantly livestock and dairying and the supplementary crops that go along with them. Grain and forage crop outlooks indicate a production somewhat larger than last year. Truck and canning crops (corn in particular) are of considerable importance.

Banks in these counties have become largely deposit institutions instead of lending institutions. Deposits of all banks interviewed were at or near their all-time high level. Time deposits in these banks constitute over 65 per cent of all deposits on which interest is paid at the rate of 2 per cent per annum. There is some agitation, however, for reducing this rate to 1-1/2 per cent. Service charges in the majority of banks consist of a flat charge of 2 cents for each check debited by the banks.

Agriculture no longer contributes any important volume of loans to bank portfolios, and this is attributed to the development of the dairy industry. Monetary returns from dairying are in good volume and are paid at frequent intervals. From these returns farmers are able to finance the crops of a more seasonal nature without recourse to bank credit.

Canneries now under local control offer a good seasonal loan business, but frequently loan demands of the canners are greater than local banks can legally extend. At such times local banks convey the excess of loans to their correspondents.

Halifax, Mecklenburg, and Pittsylvania Counties, Virginia

These counties, located in the southern part of Virginia, on the North Carolina border, are predominantly agricultural (about 70

per cent of the employment comes from this source), but lumber, textile, and tobacco manufacture afford important sources of income in some localities. To these counties some importance must be attached to dairying, poultry raising, sweet potato and fruit growing, and cotton, but the important source of farm income in this area is tobacco.

Present indications point to a large tobacco crop despite the 20 per cent curtailment in acreage. Opinion is widespread that tobacco farmers in these counties will vote almost unanimously in favor of the proposed three-year AAA control program.

The reduction of tobacco acreage finds a good deal of land lying fallow, but many more grain and corn fields are to be found than usual. Every farm now seems to have a truck garden, and a great deal more self-sufficiency is in evidence.

ATLANTA

During the month of June 72 banks were visited, of which 32 were member banks and 40 were nonmember banks.

Central Florida

The main purpose of this trip was to discuss with officers of several eligible banks the question of membership in the Federal Reserve System and although no definite commitments were made, the managements of these banks agreed to give the matter serious consideration. All of the banks visited reported increases in deposits and satisfactory earnings during the past season and look forward to increased activities and continued growth of their communities. From reports, the cold weather last winter and early spring had some serious effects on the vegetable and citrus crops and in some instances considerably damaged the citrus groves. The crops throughout this section have suffered from a drouth of several weeks' duration, but it is thought that rains early in June came in time to prevent serious damage. None of the banks visited had any criticisms or suggestions to make regarding the Federal Reserve System.

Eastern Central Georgia

Bankers in all the communities visited reported good business activity in the spring and early summer. During the past thirty days, however, business has registered the usual summer slump characteristic of farming communities. Bank deposits are generally higher than a year ago and while most bankers reported satisfactory earnings, the common complaint of lack of investment for idle funds was voiced. Bankers in

13 of 21 counties visited complained of keen competition from governmental lending agencies in the agricultural field. Most of this complaint was directed at production credit associations which are said to be becoming more aggressive each year. In a number of counties, bankers claimed that these organizations are getting as high as 50 per cent of all agricultural loans made.

No criticisms of the services of the Federal Reserve Bank were offered by any of the member banks visited. While the nonmember bankers were very cordial and apparently appreciative of a visit from our representative, none of them expressed any particular interest in membership. Exchange on incoming checks at many of these banks was reported to range from "30 per cent to 50 per cent" of the total net income and none of them feel that they can afford to give up this source of revenue under present conditions.

CHICAGO

During the month of June 36 banks were visited, of which 10 were member banks and 26 were nonmember banks.

A few of the banks have expressed some interest in the proposed Mead Bill and have inquired as to the likelihood of Government contracts being made available as collateral for loans.

The president of one of the State bankers associations in this District in his address to the convention recommended membership in the Federal Reserve System for all banks that could qualify. The president of another State association is planning a campaign on service charges and will attempt to induce the nonpar banks who do not have a service charge to install such a charge and to par their own checks. He also stated that the dual banking system would more likely be preserved if all banks were to join the Federal Reserve System, and that he will give consideration to stressing this during his administration.

In the last full week of June, Chicago district steel mills continued to operate for the third consecutive week at practically capacity levels--92 per cent. Numerous orders for all kinds of steel were still being received by sales offices, and new business exceeds production despite the maintenance of the high level of operations. Although mill backlogs, as a result, are being built up, deliveries on most products are not yet very slow. Bars, sheets and strip, and semi-finished steel, as in other recent weeks, are contributing most to the volume of incoming business. Tin plate mills continue to operate at near capacity, as do machine tool plants. In the case of the latter,

backlogs in some instances are the largest since 1929. The railroads have made further purchases of rails and cars. It is the general feeling that considerable buying is for inventory purposes.

Production of 1940 model automobiles was nearing an end as June came to a close, and output in the current week probably will cover only three days, as most plants will close over the July 4 holiday through the end of the week. Aggregate production of automobiles for June, though falling below May as expected, nevertheless held up relatively well and was much above that for last June. Sales for the first two-thirds of the month compared favorably with the corresponding May volume. Retooling for 1941 models is now nearing completion at several companies.

The new corn crop has progressed under favorable conditions, and cash corn prices have held fairly firm in the face of a confused weakness in the wheat market. Prices of hogs have been unusually weak, holding around the five dollar level at Chicago, although within the last few days these prices have strengthened slightly. With cash corn at around 65 cents at Chicago, feeding of corn to hogs still remains an unprofitable operation. Prices of fed cattle have held fairly firm and higher than last June.

ST. LOUIS

During the month of June 142 banks were visited, of which 53 were member banks and 89 were nonmember banks.

Illinois banks are paying up to 2 per cent on time deposits and their loan rates are from 5 per cent to 7 per cent with a light demand for credit. Earnings are off compared with last year. A member banker stated that he is hesitating about buying additional Governments, because of the European war situation.

In the Missouri banks visited, interest rates of from 1-1/2 per cent to 2-1/2 per cent is credited on time money. The loan rate varies from 5 per cent to 8 per cent, with a fair demand for credit.

In response to inquiry by our representatives, the member banks uniformly reported that their relations with the Federal Reserve Bank were entirely satisfactory. They had no suggestions as to how we could be of greater service to them.

The cashier of a Kentucky nonmember has been connected with the bank for 37 years and has not forgotten what he claims to have been unfair methods used by the Reserve System years ago to enforce par collection of checks. He said this enforced method of collections caused

an exchange loss to his bank of about \$1,200 per year and that no other form of income had been found to replace this loss. He was very much opposed to the application of the Wage and Hour Law and thought that generally, the Government was interfering too much with private business. Membership was discussed, but he said that he had never given it serious consideration.

The cashier of another Kentucky nonmember referred to what he called stern tactics used by the Reserve System in the par campaign some years ago and said that he was glad to note the more friendly attitude of the System during the past few years. He appeared somewhat interested in membership and inquired as to what services he could get from the Reserve Bank that he could not get through his correspondent.

MINNEAPOLIS

During the month of June 256 banks were visited, of which 103 were member banks and 153 were nonmember banks.

Eastern South Dakota

Banks within this district generally received as high as 8 per cent on their loans. Most of the banks hold few or no farm real estate loans. Generally there is little F. H. A. financing. There was not much repairing or repainting. Not much farm land was being sold, except that the Federal Land Bank and the South Dakota Rural Credit Board had made some sales at what were said to be low prices.

Mostly, the banks carry more or less installment paper on cars, tractors, etc., make barnyard loans and to quite an extent make advances against assignments of conservation payments. One banker said he thought banks should be more careful on tractor paper; he thought it very probable that some banks would suffer losses on such paper.

Most of the banks did not appear to feel that Postal Savings or Production Credit Associations offered much competition. One banker indicated that the local demand for loans was such that he turned some of the larger loans to the Production Credit Association.

Western South Dakota

Most of the bankers are concerned about the high cattle prices and fear a violent drop. A few weeks ago eastern wool buyers commenced to contract for wool at 28 to 30 cents a pound, good prices. Then came the blitzkrieg in Flanders and the buyers withdrew. Consequently, those

with wool to sell are disturbed about the situation. Sheep shearing is well under way and the wool crop is expected to be at least an average one. Proceeds of the sale of the wool clipped in the next thirty days will reduce loans somewhat. Several bankers said they are unable to accommodate many ranchers and farmers in their territory because they are so involved with Federal advances for seed and feed that the status of the security is uncertain. They do not want to take the risk which may attach in such cases.

There has been a fair demand lately for loans, mostly on sheep and cattle. A number of bankers spoke of the futility of the Government making rehabilitation loans. Although the idea of such loans is commendable, it was stated that almost without exception the recipients of Federal money were the shiftless, lazy individuals who had always been failures and who regard the funds as Santa Claus money. The bankers who mentioned this matter said that very heavy losses appear to be a certainty.

West Central Minnesota

The subject uppermost in the minds of the bankers visited is the European war situation and its probable effect on conditions in this country. The territory visited is essentially agricultural and the bankers feel a deep concern as to the effect of the war on prices of agricultural products. They are also very much interested in its effect on bond prices and the probable trend of interest rates on new security offerings by the Treasury Department. A few bankers displayed some concern as to the gold holdings of the United States Government and are hopeful that such holdings can be used advantageously. These bankers are strongly in favor of the immediate adoption of a preparedness program by the United States Government which will insure adequate protection for the people of this country regardless of any eventuality.

Real estate loans by the banks, usually on a very conservative basis, are made in most instances at interest rates of 5 per cent or 6 per cent. Chattel mortgage loans and installment paper for farm equipment and household appliances ordinarily bear a 7 per cent or an 8 per cent rate, the latter being the most common. In some communities, the banks are experiencing keen competition from individuals who are lending money directly to other individuals. This is sometimes referred to as "sandbagging" and constitutes a real problem for some banks in the small communities.

KANSAS CITY

During the month of June 80 banks were visited, of which 37 were member banks and 43 were nonmember banks.

The visits to banks in June were confined, for the most part, to southeastern Nebraska and northeastern and north central Oklahoma.

Bankers complained in many communities that people have the war jitters. A good many cases were found where bankers said they were making loans with much more care and caution due to the rapid change in the war situation following the invasion of the Low Countries. A good deal of concern is met with regarding general conditions in this country as a result of the European war. The opinion was expressed that the armament program will be financed with cheap money. Some bankers express great faith in long-term Government bonds, yet few care to buy them at present prices. Other bankers just "wonder" what Governments will do. One banker thought the Federal Reserve System was getting rich manipulating the Government bond market.

The membership situation has changed little. On the whole, bankers ask many questions about the System and membership. In Nebraska a number of good prospects said they would join the System if they did not have to go on the par list. Others say they will join when their earnings get to the place where they will not need exchange charges. Some overbanked communities were found and the eligible State banks, while friendly, said they would not think of membership until satisfactory consolidations could be worked out. In other cases, capital structures block membership.

Several of the banks in eastern Nebraska that were visited were institutions where depositors had waived a part of their deposits some years ago when banks were in difficulty. A few banks are having a real struggle with these obligations, but in most cases gratifying progress is being made in paying back these deposits.

A variety of opinion is still found regarding the competition of governmental agencies. A Nebraska banker complained that these agencies were running many small banks out of business, while a banker in Oklahoma said this competition was becoming less severe as many of his former customers who had been borrowing from the Production Credit Association were coming back to him.

Great differences are found in bank loans. In some instances nearly half the note case is made up of FHA loans, while other banks have none of this paper. Some banks make no personal loans on a time-payment basis, while others are increasingly expanding this business and finding it very profitable. There are banks in rural communities that still lend the bulk of their funds to farmers in much the same way as they did two decades ago. A Nebraska banker was found who actively solicits clerks and salaried persons, urging them to buy homes. He loans 75 per cent of the purchase price at 5 per cent.

DALLAS

During the month of June 65 banks were visited, of which 58 were member banks and 7 were nonmember banks.

West Texas

Banking conditions in this region are satisfactory and steadily improving. Loans, deposits and earnings are, on the whole, showing a steady growth, largely because of the progress made in the development of a better balanced and more diversified agricultural system, aided by the surprising stability and high levels of cattle prices.

One banker told our representatives that the farmers of west Texas are in better financial condition than they have enjoyed for many years. He attributed this happy situation very largely to the Government's crop control program which, by reducing the production of cotton and wheat, has forced farmers into new avenues of productive effort, principally livestock raising.

Banks throughout the territory reported a sharp expansion of loans and a consequent increase in earnings over last year. The growth of the loan volume was caused in a large measure by an increasing demand for credit to finance purchases of calves and stock cattle, the farmers being anxious to utilize lands withdrawn from cultivation and also to take advantage of the abundant rains that have recently fallen in west Texas and made possible exceptionally fine pasturage and feed crops.

Another factor which has aided the growth of bank loans and earnings in this region is the determined efforts that many banks are making to recapture a portion of the business which they had lost to Government lending agencies, particularly the Production Credit Associations. The banks are at last beginning to meet this competition successfully by lowering interest rates, a step which most of them were at first slow and reluctant to take.

Against the background of generally favorable reports in regard to agricultural and banking conditions in west Texas, there is an increasing sentiment of uneasiness and pessimism among the interviewed bankers in regard to the continued high market prices of cattle. Beef prices, in their opinion, are unduly high in relation to the price of hogs, and are due for a decline. Although the persistently high level of cattle values is not fully understood by the banks that are financing the cattle raisers, it is felt that it may be accounted for, in no small measure, by heavy and widespread buying of cattle by farmers for the purpose of shifting a large part of their production program from cotton or wheat to livestock.

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SAN FRANCISCO

During the month of June 17 banks were visited, of which 15 were member banks and 2 were nonmember banks.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

June 1940

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	20	4	24	4	<u>1</u> /	2	390
New York	96	40	136	14	2,320	0	0
Philadelphia	55	10	65	1	128	0	0
Cleveland	33	51	84	10	2,947	2	210
Richmond	16	11	27	7	3,736	3	516
Atlanta	32	40	72	0	0	0	0
Chicago	10	26	36	3	1,192	2	115
St. Louis	53	89	142	5	2,020	<u>1</u> /	<u>1</u> /
Minneapolis	103	153	256	9	6,450	3	370
Kansas City	37	43	80	6	923	2	135
Dallas	58	7	65	4	2,445	1	1,600
San Francisco	15	2	17	14	2,364	1	90

1/ Not reported