

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

R-693

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 21, 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 July.

In response to the inquiry made in the letter accompanying last month's summary of bank relations reports (R-678) as to whether the summary was useful to Federal Reserve Banks and should be continued, replies have been received from ten of the Federal Reserve Banks, copies of which are attached. It will be noted that of these ten all but three appear definitely interested in having the report continued. The two banks from which replies have not yet been received indicated in response to a similar inquiry a year ago that they favored the continuance of the report and copies of the letters written at that time are also attached.

The few suggestions made as to methods of improving the report seem to tend in different directions---in some cases there is interest primarily, if not exclusively, in relations with member and nonmember banks. In other cases the interest seems to be very largely in the general comment on business and banking conditions. In making up the summary, we are, of course, limited by the nature of the material submitted by the Federal Reserve Banks. In the absence of any suggestion that this material be submitted in a uniform manner, the reports come to the Board varying widely from one another in nature. Some of the Federal Reserve Banks submit a brief comprehensive statement, sometimes comprising less than a page, which is used practically in entirety in the summary. Other Reserve Banks submit long detailed reports of many pages from which paragraphs here and there are selected. The majority of the banks submit a single report for the month, but one of the Federal Reserve Banks submits copies of the separate reports of each bank representative making a visitation trip. Accordingly, whereas the report of one bank may be quoted almost in

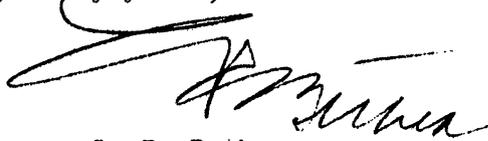
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entirety, only a small fraction or fractions of what another bank reports may be quoted.

In compliance with the expressed wishes of the majority of the Federal Reserve Banks, the summary will be continued.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written in a cursive style.

L. P. Bethea,  
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BANKS ELIGIBLE\* FOR FEDERAL RESERVE MEMBERSHIP ON DECEMBER 31,  
1939, AND BANKS WHICH APPLIED FOR MEMBERSHIP DURING 1940

R-693-a

Federal Reserve District	Number of Nonmember Commercial Banks Eligible* for Federal Reserve Membership on December 31, 1939		Number of Banks Which Applied for Federal Reserve Membership During—		Deposits of Nonmember Commercial Banks Eligible* for Federal Reserve Membership on December 31, 1939		Deposits of Banks Which Applied for Federal Reserve Membership During—	
	Total	On par list	July	This Year	Total	On Par List	July	This Year
(In thousands of dollars)								
Boston	141	107	0	0	469,330	256,010	0	0
New York	224	214	0	1**	981,529	956,874	0	-
Philadelphia	225	218	0	3	550,836	547,781	0	3,000
Cleveland	475	455	3	16	577,670	524,789	5,000	25,600
Richmond	394	220	1	8	481,555	313,805	300	16,600
Atlanta	484	49	0	1	302,655	70,881	0	1,800
Chicago	1,219	1,024	6	28	1,114,286	970,388	7,300	26,100
St. Louis	664	412	1	12	428,385	296,810	400	7,600
Minneapolis	420	74	0	4	189,225	53,167	0	2,800
Kansas City	487	334	1	4	198,993	154,327	500	1,600
Dallas	282	155	0	14	154,549	97,609	0	8,700
San Francisco	194	163	1	2	545,398	508,733	2,300	4,300
<b>Total</b>	<b>5,209</b>	<b>3,425</b>	<b>13</b>	<b>93</b>	<b>5,994,411</b>	<b>4,751,174</b>	<b>15,800</b>	<b>98,100</b>

\* By eligible banks is meant banks with sufficient capital stock to meet the minimum statutory capital requirements for Federal Reserve membership.

\*\*Newly organized bank.

R-693-b

August 21, 1940  
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS  
FOR THE MONTH OF JULY 1940

BOSTON

During July 35 member banks were visited, 31 in New Hampshire, 2 in Connecticut, and 2 in Vermont. Many of the New Hampshire banks occupy banking quarters jointly with affiliated mutual savings banks and this afforded in a number of instances the opportunity of joint conferences with officers of both banks.

With one or two exceptions--Berlin, New Hampshire notably--the communities visited are trading centers of various sizes and the sites of small manufacturing plants making either textiles, shoes or paper products. The principal source of income in most of these communities is the summer trade of vacationists and tourists. The pay rolls of the large paper mills at Berlin, New Hampshire, employing several thousand workers, are at present larger than at any time in the past several years. All other paper mills in the section visited are operating full time. Activity among the woolen mills and shoe factories was reported as being "spotty".

The summer or vacation trade throughout the entire section was not up to an average normal. Adverse weather conditions and the almost entire cessation of Canadian tourist trade into New England were said to have destroyed the hope of a profitable season at many points.

At practically all of the banks visited deposits and loans showed some slight increase, the loan increase being almost entirely due to the demand from small borrowers. Two member banks had borrowed recently, one from a Boston correspondent and the other from a local savings bank. Loan rates at practically all of the banks range from 5% to 6%, excepting loans to municipalities which have been made at rates ranging from .06% to 3½%.

There was some complaint in certain localities in New Hampshire of outside bank competition for local business. There was no complaint of competition from governmental lending agencies--on the other hand several bankers referred to the friendly spirit of cooperation with their institutions which the management of governmental lending agencies were manifesting.

The situation abroad and its possible effect upon business and banking in this country was the principal topic of interest on

the part of many of the bankers visited.

No nonmember banker manifested any interest in membership in the Federal Reserve System and no criticism was offered by anyone interviewed with respect to the operations and policies of the System. The few complaints heard were of a routine nature and had to do with the attitude of individual examiners with regard to some technically slow loan, lack of borrower's statements, etc.

#### NEW YORK

During the month of July, our officers and representatives visited 131 banks--72 member and 59 nonmember institutions--located in various sections of the district. The following is a resume of the reports of visits to banks in one county in Connecticut and seven counties in New York State.

#### Fairfield County, Connecticut

Most of these banks appear to be hesitant about purchasing securities at this time, preferring to maintain a high cash position in view of uncertainties in connection with the European war, our national defense program, and the coming presidential election. One of the largest banks in the county which sold most of its investment portfolio (chiefly United States Governments) has approximately 59 per cent of its total deposits (\$26,100,000) in cash and bank balances. The president of another institution which has a bond account of only \$29,000 continues to hold more than half of his bank's deposits (\$2,200,000) in cash. In general the bankers appear to have adopted a very conservative policy with respect to high quality low yield securities and have in many instances eliminated most of the longer maturities from their portfolios.

The demand for credit is said to have improved slightly, especially for small installment loans and mortgages, and three institutions have established "broker" relationships with insurance companies for the purpose of arranging mortgage loans for them. Several of the larger banks in the county have advertised that they are prepared to cooperate fully with local firms participating in national defense projects, although as yet few applications have been received.

The subject of membership was again discussed at all sixteen nonmember banks with the result that six intend to review the matter at an early date, four indicate that they need more time to "clean house", and six appear indifferent, including one which is

not a member of the Federal Deposit Insurance Corporation.

Genesee, Monroe, and Orleans Counties, New York (Buffalo Branch Territory)

The demand for loans, particularly in the larger institutions, continues very light, with total loans of \$100,081,000, a reduction of about 4 per cent since January 1. Several bankers situated in the agricultural sections mentioned that the Production Credit Association is actively soliciting loans and, by offering lower rates than those prevailing in the banks, has taken a number of desirable borrowing accounts from these institutions. One bank officer remarked that the critical attitude of the examiners has prevented him from granting a number of loans which he otherwise would make.

Our member banks appeared well satisfied with our services, and no complaints or criticisms in connection with the Federal Reserve System were expressed. As our member bank representation in this area is small, the following information is submitted with relation to the nonmember institutions.

<u>No. of Banks</u>	<u>Reasons for Not Joining the System</u>
3	Members of a bank holding group, so that apparently any decision as to membership rests with the holding company affiliate.
1	Bank will shortly be taken over by another bank and operated as a branch, the Federal Deposit Insurance Corporation to purchase unacceptable assets.
4	Apparently could not qualify due to various unsatisfactory features.
5	These banks are apparently in satisfactory condition and could probably qualify; however, they are all small institutions and give as their reasons for not joining the System: (a) Correspondent banks are adequately serving their needs. (b) They can see no advantages to be gained, while on the other hand they would be subject to additional rules and regulations.
1	This institution is friendly to the System and would join except that the provisions of the Clayton Act prevent it from so doing at this time.

<u>No. of Banks</u>	<u>Reasons for Not Joining the System</u>
2	These are fairly large banks, which, although commercial institutions, do only a limited volume of commercial banking business; in practical effect, they are savings banks. The managements of these institutions feel that they would gain very little by becoming members.

### PHILADELPHIA

During July 53 banks were visited, of which 29 were member banks and 24 nonmember institutions.

#### Central Pennsylvania

Industrial conditions in the area covered by this report are somewhat better than a year ago. All nine furnaces at the Steelton plant of the Bethlehem Steel Company are in operation and at present this plant is working five days a week, employing about 3,800 workers.

The anthracite industry experienced good business last winter and in some sections operations have been fairly well maintained thus far this year.

Conditions in farming communities show little change during the past twelve months. Returns for milk are higher but prices for other farm products are considered low and profits generally are small. The 1940 crops, while late because of excess rain during the planting season, appear to be in good condition.

The real estate market is quiet. Desirable homes and apartments are well occupied at satisfactory rentals, but there is only a limited amount of new construction and few sales are being made. Several bankers in the larger mining towns reported that real estate prices in their respective communities are depressed because of the increasing number of homes being sold by the Sheriff at unusually low prices.

There is only a limited demand for credit and small loans constitute the principal credit extended. The executive officer at a nonmember bank with resources slightly in excess of \$1,000,000 stated that loans at his institution continue to decline in spite of the fact that the lending policy is much less rigid than it was a few years ago.

Investment accounts, principally because of holdings of railroad securities, are worth less than book value. At most institutions

a definite bond policy has been adopted and, with the aid of supervisory services, determined efforts are being made to eliminate all holdings of substandard and defaulted securities. Several bankers reported that new purchases are being confined almost entirely to Government obligations.

The president of a nonmember bank with deposits of approximately \$1,900,000 complained about the R.F.C. increasing the interest rate from  $3\frac{1}{2}$  per cent to 4 per cent on preferred stock purchased from banks, on which no reductions have been made. He contends that earnings are meager because of low yields on the higher grade securities and that this increase in rate is a serious drain upon income at his institution. This same complaint was expressed by the executive officer of a nonmember bank with deposits of about \$900,000. That officer stated that he fails to see how the Government is aiding banks which are in difficulties by adding this burden.

In discussing membership with the board of directors of a nonmember bank having deposits of \$2,100,000 our representative was advised that one of the objections was that, because of differences between State and System regulations, the published reports would not be in conformity. To date the Department of Banking of Pennsylvania does not require reserves against depreciation or loans not charged off to be deducted when reporting at the call period. Our representative stated that we were endeavoring to have the Department of Banking of Pennsylvania adopt a uniform form and had hopes that this would soon be done.

#### CLEVELAND

During the month, 84 banks were visited, of which 47 were member banks and 37 nonmember banks.

With few exceptions, visits to member and nonmember banks in the Cleveland office territory were in agricultural communities, and very little of primary interest to the Board was developed from conversations with officers of these banks. Quite naturally, the war situation and the defense program were favorite topics for discussion, and it is impossible to avoid spending a considerable amount of time listening to different points of view with relation to national politics.

The only major criticism respecting System matters relates to the failure of banks in certain sections to receive notices of Treasury offerings in time to enter subscriptions before the books have closed. In connection with the recent offering of the  $2\frac{1}{4}$  per

cent issue of 1954-56, our Pittsburgh branch reports that banks in Washington, Butler, Punxsutawney, Somerset, Waynesburg, Pennsylvania, and others, reported at the close of business July 11 that they had received nothing on the offering. On the morning of the 12th, banks in Elizabeth, Kittanning, Scottdale, Parnassus, Export, and Zelienople, all in Pennsylvania, reported receiving subscription blanks and sale closing notices in the same mail. This has happened many times before, both in Pittsburgh and Cincinnati areas, as well as in main office territory, and introduces an element of dissatisfaction which can easily offset a substantial amount of constructive bank relations work.

This will continue to be a problem even in cities of substantial size, where mail service is not of the best, until such time as banks so situated have at least a reasonable opportunity to enter subscriptions before announcement is made that subscription books have been closed.

#### RICHMOND

During July 95 banks were visited, of which 47 were members and 48 were nonmember banks.

The economic consequences of the war upon the Fifth District have been quite uneven. As a result, there are both dark and bright spots so far as business conditions are concerned. With respect to the former, there are two important aspects--cotton and tobacco.

The price for the 1940 crop will depend to a large extent upon the amount of the Government loan. Trade circles anticipate a loan on 8.90¢ basis, but it is known that Senators from cotton producing States have sought to induce the Department of Agriculture to fix the basis at 10.25¢. The new crop has made up some of its earlier backwardness and it is expected that production will run close to 11,100,000 bales as against 11,817,000 bales last season. The outlook for cotton prices is quite obscure because of the export situation. However, trade circles hold that, if present expectations are met with respect to production, consumption, and exports, prices will necessarily reach the loan level, or insufficient cotton will be available to meet current requirements.

As for cotton textiles, operations were reduced in the latter part of July and the outlook as a whole is quite uneven. The future will depend largely upon the extent to which purchases for preparedness purposes offset the loss of export markets.

The outlook for tobacco is by no means satisfactory. The crop is likely to be about 40 per cent under that of 1939 because of compliance with the crop control program, but the diminished supply does not assure prices equal to those of 1939 without increased Government support. The Commodity Credit Corporation purchased 177,000,000 pounds last year and is now holding the bulk of that amount on option for foreign buyers. It is believed that, if the Corporation purchases about one-third of this year's crop, prices should approximate those of 1939. The tobacco market anticipates Commodity Credit Corporation purchases again this year, but with allowance for these and Government payments to planters under crop control programs, farm incomes from tobacco are likely to fall short of 1939 results.

Fortunately, there are some bright spots in the Fifth District partly due to international conditions. Shipbuilding and repairs have been going ahead at a high level both at Baltimore and in the area of Hampton Roads. Substantial amounts will also be expended by the Federal Government in connection with barracks, aviation fields, etc. In the first half of 1940 employment in Baltimore was at the highest level since 1937 and pay rolls were higher than at any time in the last decade. However, the situation has been and is developing unevenly, for 19 industries reported gains in both employment and pay rolls, May-June, 1940, while 16 reported declines. Among the latter are several adversely affected by loss of export markets.

The chemical industries have been stimulated in West Virginia because of war developments, and conditions in Kanawha County are considered quite favorable. Other industrial centers of West Virginia have also expanded production or anticipate such expansion and the production of coal has increased substantially over 1939 levels, with stimulating effect upon retail trade.

Taking the situation as a whole, with allowance for better than ten-year average yields for other crops as an offset for the unfavorable outlook for both cotton and tobacco, farm purchasing power should, in the 1940-41 season, come close to average. With this as a basis, when allowance is also made for increased industrial activity in lines other than cotton textiles sufficient or more to offset declines in the latter, one may safely say that the outlook for the District may be regarded as favorable, considering the unsettled national and international situation.

#### ATLANTA

During the month 40 banks were visited, of which 9 were members and 31 nonmembers.

Bankers in the sections visited generally reported favorable earnings during the first six months of this year. Although deposits of most banks are higher than a year ago, demand for credit is said to have been very favorable since the first of the year and very few bankers complained of excess idle funds. Although agricultural loans constitute the bulk of the business of most of these banks, many of them are devoting more attention to personal, automobile, and other installment loans which they are finding a splendid source of revenue.

Several of the banks visited have disposed of their Government securities since the first of the year and in most cases have not reinvested the proceeds. Officers of these banks stated that they are hesitant to purchase bonds at the present market since they expect to see bond prices decline before the end of the year.

Most of the banks visited have a good volume of savings accounts on which 2 per cent interest is paid. Although many of them stated that they would like to reduce the rate or discontinue savings accounts altogether, they hesitate to do so because of the fact that many of their depositors are young people, who are learning the value of thrift, or elderly people who have no other source of income, and, consequently, they feel that they are under obligation to their community to continue to carry these accounts. In most banks new savings accounts are only accepted from local people who are customers of the bank.

The average rate charged for agricultural loans by the banks visited is 8 per cent, while 6 per cent is charged on personal and consumer loans.

All nonmember bankers visited were found very courteous and appeared to regard the Federal Reserve System very highly. However, none of them showed any real interest in membership. Without exception nonmember bankers, when approached on the subject of membership, stated that the loss of exchange which would result from remitting at par was their principal objection to membership. A number of nonmember bankers stated that they are at present enjoying most of the benefits of Federal Reserve membership through the facilities offered by their city correspondents. All member bankers visited appeared to be highly appreciative of the attention shown them by our visits and all expressed entire satisfaction with the services of the Federal Reserve Bank.

#### CHICAGO

During the month of July 55 banks were visited, of which 19 were member banks and 36 nonmember banks.

Deposits continued to increase. In the larger cities there is some slight inquiry for loans. However, the manufacturers as a rule are only discussing the possibility of borrowing; they are not yet actually borrowing in any substantial amount. There has been some increase in loans in country banks, but this has been more than offset by the Government taking up the corn loans. Some of the banks are evincing interest in term loans. A group of bankers in one of the larger cities recently made a loan of \$18,000,000 due serially over a period of ten years. A number of the outlying banks in Chicago have shown a substantial increase in mortgage loans. This is a result mainly of the purchase of F.H.A. mortgages. Banks with substandard bonds continue in their efforts to dispose of them whenever practicable.

The question of bank offices is still one of current interest. An officer of a national bank with something over a million of deposits stated that they recently had an opportunity to establish a branch in a community where a former bank had approximately \$400,000 in deposits. As they were reluctant to give up their national charter and their membership in the System, he said, "We were forced to sit by and see our State bank competitor get it." The President of a State bank with \$1,250,000 deposits operating an office asked us within the last week, "When will a way be opened for us to join the System and retain the office?" He stated the office has \$250,000 in deposits which he feels is not enough to justify the organization of a bank at that point.

#### ST. LOUIS

During July 130 banks were visited of which 35 were member and 95 were nonmember banks.

Except in the new oil fields, where banking--along with other business--is relatively active, general banking conditions in Illinois show little change from those obtaining a year ago. Demand for credit is described as fair, with the trend of personal loans continuing upward. There was a fair volume of wheat production loans this season, much of which has been liquidated since harvest. Elevators, wheat handlers and mills apparently are borrowing less than is usual at this time of year, because much grain is going into storage on farms or into the Government loan. Interest rates on time deposits range from 1 per cent to the legal limit. In a number of instances banks are limiting the amount of time money on which they will pay interest. Rates received from customers range from 5 per cent to 7-1/2 per cent. There were the usual polemics on competition of Government loan agencies, severity of supervision, increasing costs of operation, taxes, etc. As elsewhere in the District, bankers in this area are becoming increasingly financial statement conscious. It was found that credit files are generally

in good shape, with virtually all lines of \$500 or over supported by statements. Nowhere was there a complaint heard of services rendered by the Federal Reserve, either from member or nonmember banks.

Taken as a whole, the status of banks visited in Missouri was somewhat more favorable than a year ago. Earnings in numerous instances are better, and demand for credit is slightly larger and more diversified. Rates paid on time deposits range from 1 per cent to 2-1/2 per cent, and on loans to customers from 5 per cent to 8 per cent is charged. Credit files were found to be in good shape, except in a limited number of cases.

Some months ago an Illinois State bank was examined for membership but the necessary transactions were never completed. It now develops that several of the bank's older directors decided against membership on the ground that Federal authorities may exercise undue control over member banks. The bank's cashier is still interested in membership and expressed the hope that eventually his board will see fit to join the System.

When the lack of membership signs was mentioned to the cashier of an Illinois national bank, he emphatically indicated that he was not interested and gave as his reason that he felt the public had not forgotten that membership had not helped his bank to take care of its depositors following the banking holiday. He did not, however, in any way indicate that he felt this was a criticism of the System.

#### MINNEAPOLIS

During the month of July 218 banks were visited, of which 117 were member banks and 101 were nonmember institutions.

A departmental head of our bank was appointed chairman of the Minnesota Bankers Association's American Institute of Banking Committee, the activities of which are the extension of A.I.B. study groups into the less populated communities of the State. In addition to organizing the study groups throughout the sectional clearing house association, it is planned to stage a number of meetings of county key bankers in the larger centers (exclusive of Minneapolis, St. Paul, and Duluth) for the purpose of explaining thoroughly the facilities of the American Institute of Banking which are available to bankers and bank employees.

Through personal contacts with banks in this district, we have finally consummated arrangements to obtain immediate exchange from a group of banks which heretofore have always given us out-of-town exchange in payment of our cash letters.

### Southern and Western Montana

Calls were made on the editors of all weekly and daily newspapers with a circulation of 2,000 or more, of which there were 15. To assist in making these calls, some of the bankers introduced our representative but in other instances, calls were made direct. Usually the call was explained on the basis that our representative was in town gathering statistics from the merchants and bankers and thought the editor might be interested in seeing some of our news releases that he had not been receiving in the past. Samples of these releases were left with him for his later inspection but in some instances, he insisted on discussing them in detail on the spot. If he decided that he wished to see copies of any of these releases regularly, he was requested to drop a line to our Minneapolis office. To date, four requests for additional material have been received.

In a few instances, an editor commented on some of our releases that he had seen occasionally in the past but had not understood their import and consequently had made no use of them. In such cases our representative explained in detail how these figures were collected and how the reports were prepared, in such a way that the editor might see some possible news value to the material but without any suggestion that any of it should be published. In every instance, the editor was invited to feel free to write us regarding the significance of any figures in any of our reports and to call on us at any time that he might want any special information regarding business or banking conditions or about the Federal Reserve System.

### North and South Dakota

The Bank of North Dakota is said to be the only State owned bank in the United States. It now has deposits of \$23,000,000, making it the largest bank in this district west of Minneapolis. Most of its deposits represent public funds, but demand, time, and savings deposits of individuals are also received. It appears that most of the bank's activities center in the land department which handles State Rural Credit mortgage loans and operates farms owned by the State. Approximately 6,000 farms are so owned with total acreage of approximately 1,500,000 acres. The sales department in 1939 disposed of 266 farms, 57,000 acres, at an average price of \$10.25 per acre.

### Northeastern Minnesota

The bankers invariably are deeply concerned over the European situation, and many of them are very reluctant about employing their idle funds until the situation becomes more stable. Deposits have increased in virtually every bank visited, while the bankers as a whole

have increased their loans. Most of the increases in loans have come from advances on automobiles, tractors, washing machines, radios, etc., and, in addition, many banks have gone in for Federal Housing Administration mortgages, which they have not heretofore regarded with much favor. All banks visited have had good experience to date on all such loans. Earnings in most of these banks have shown an increase in 1940 to date over the same period in 1939. In fact, but very few bankers had much of anything to complain about.

### Central Minnesota

In two or three of the banks carrying substantial volumes of automobile paper, the officers are seriously considering withholding loans from young men who will be among the first called for military training. It seems to be an accepted conclusion that there will be a peacetime draft, and the bankers are worried about defaulted automobile payments by those called into service.

### KANSAS CITY

During July 91 banks were visited, of which 47 were member banks and 44 were nonmembers.

Visits to banks in July were confined largely to northern and western Oklahoma but scattered calls were made also in other parts of the District.

Out of 84 banks called on in the Oklahoma wheat belt, only 5 were found not making wheat loans at 1-1/2 per cent. Wheat loans entail a great amount of work and little profit, yet bankers feel an obligation to farmers and to their communities to make them. If the farmer sold his wheat, he would get about 55 cents a bushel while with a loan approximately 62 cents can be secured. Bankers feel that they should help farmers get these additional few cents. While nearly all banks are making these loans out of a feeling of obligation to their communities, they report that farmers are taking the funds secured at these abnormally low rates of interest and paying off bank loans that are very profitable to the banks. It is said that many of these loans are sold to city banks, the local bank retaining 1/4 of 1 per cent. City banks prefer these loans to any other available short time paper.

Many cases were reported of farmers getting a loan on their wheat and then depositing the money in the bank. Although they do not need the money, a loan is the only way farmers can "sell" their wheat above the market price. If the price of wheat advances the farmer can redeem his wheat and take the profit, while if it falls below the loan

rate, the Government gets the wheat. This practice is an important factor in increasing bank deposits. It is also responsible for an abnormally large amount of wheat going into storage with a consequent restriction of the supply for milling purposes.

In the sections of Oklahoma visited, most of the bank earnings usually come in the last half of the year. But nearly all banks have had very satisfactory earnings so far this year. Bankers are showing enterprise in developing new outlets for loans. Time payment loans nearly everywhere are on the increase. One banker was found who specializes in making loans on wheat warehouse receipts to noncooperating farmers. He lends up to 60 per cent of the market value at 6 per cent. Many banks want more bonds but hesitate to buy at present prices.

During July population figures were released for Oklahoma and these figures were attracting much attention. A decrease of nearly 75,000 in the ten-year period was shown, and a decrease in population is something new to Oklahoma people. In the forty years between 1890 and 1930, the population of that State increased more than nine fold, the increase between 1910 and 1930 alone being nearly three-quarters of a million. The population decline occurred for the most part in the central and western counties of the State, extreme eastern and south-eastern counties rather uniformly showing an increase. This population change, however, is not peculiar to Oklahoma as Kansas and Nebraska experienced very similar declines. The number of farms in Oklahoma decreased 24,890 in the ten-year period.

#### DALLAS

In July 38 banks were visited, of which 30 were member banks and 8 nonmember banks.

#### North Louisiana

Among the significant trends in bank credit policies noted in this section of the district is a tendency on the part of many member banks--even in the smaller communities--to withdraw from or greatly restrict lending operations for the purpose of financing cotton farming. The banks are either finding competition from Government lending agencies for this class of loans too strong to cope with or have decided that tenant farmers are too hazardous as credit risks.

One member bank, which has so far successfully withstood these deterrent factors and continues to lend liberally to the cotton farmers, has inaugurated a unique and successful scheme to protect itself against the abnormal risks which such loans involve. It has

induced its farmer customers to form themselves into a private cooperative bank credit association. By mutual agreement the bank deducts 6 per cent of the proceeds of each of its loans to members of the association and sets this amount aside in a reserve fund to cover (or be applied on) any member's indebtedness that the bank is unable to collect. In this way the bank has been able to minimize its losses on agricultural loans. The plan was put in operation originally as the only available means of making bank credit available to certain impoverished tenant farmers whom the better class of farmers were willing to assist by pooling their credit resources in a cooperative organization.

A great many of the member banks were found to be carrying only nominal amounts of Government bonds in their portfolios, although substantial holdings of municipals were in evidence. Some banks sold off their Governments last fall when the war flurry occurred, others took profits by selling this year, and in both types of these cases there is evident a reluctance to repurchase pending further developments in the European war.

#### Southeast Texas

Earnings for banks in this section range from the break-even point to excellent, depending largely upon the amount and maturity of investment securities being carried. None of the institutions visited has made any recent addition to long-term bond holdings. On the other hand, a number of them have recently either actually shortened maturities or are giving serious consideration to such a move. This action was motivated by the extremely low yields now obtaining and the increased offerings which defense costs and other Government expenditures will necessitate.

Loan demand continues at abnormally low levels with the usual indications of an enlarged participation in the installment and personal category. No instance of the need for additional or outside credit to handle defense or Government orders was revealed. In fact, no definite information was obtained of any successful bids for Government orders. Except in an isolated case, no more than 1 per cent is paid on time or savings deposits with several banks reporting no interest-bearing deposits whatever.

#### SAN FRANCISCO

During the month of July 36 banks were visited, of which 17 were member banks and 19 were nonmember banks.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

July 1940

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	35	-	35	0	0	1	50
New York	72	59	131	2	85	0	0
Philadelphia	29	24	53	0	0	0	0
Cleveland	47	37	84	2	550	2	51
Richmond	47	48	95	7	1,580	0	0
Atlanta	9	31	40	1	125	0	0
Chicago	19	36	55	0	0	0	0
St. Louis	35	95	130	1	450	<u>1/</u>	<u>1/</u>
Minneapolis	117	101	218	1	350	<u>1/</u>	<u>1/</u>
Kansas City	47	44	91	2	<u>1/</u>	0	0
Dallas	30	8	38	1	75	0	0
San Francisco	17	19	36	3	196	0	0

1/ Not reported

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August 21, 1940

REPLIES RECEIVED FROM TEN OF THE FEDERAL RESERVE BANKS  
TO BOARD'S LETTER R-678 OF JULY 19, 1940, MAKING INQUIRY  
CONCERNING THE DESIRABILITY OF CONTINUING  
THE MONTHLY BANK RELATIONS REPORTS

(Replies to the above-mentioned letter have not yet been received by the Board from two of the Federal Reserve Banks, but copies of their responses to letter R-506 of July 19, 1939, which contained a similar inquiry, are attached hereto as pages 11 and 12.)

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FEDERAL RESERVE BANK OF BOSTON

July 23, 1940

Mr. L. P. Bethea, Assistant Secretary,  
Board of Governors of the Federal Reserve System,  
Washington, D. C.

Dear Mr. Bethea:

This will acknowledge receipt of the Board's letter R-678, dated July 19, 1940.

While I attempt to keep our Directors thoroughly informed about everything, nevertheless I do not feel that I am justified with burdening them unduly, with the result that I spend no small portion of my time centering upon those things I believe our Directors would be particularly interested in. The details of the bank relations report I have not passed on to our Directors. I have, however, on different occasions mentioned things that I thought might be of interest to them.

Personally, I read the report and know that I profit by it, and would prefer to have it continued. However, at one Conference at least, there seemed to be a majority opinion of the Presidents that the report be discontinued. I know that the compilation of the report involves labor and must be expensive, and if the replies to your inquiry should disclose that only a few of us want this information, I think it can be properly discontinued.

Yours very truly,

(Signed) R. A. Young

President.

FEDERAL RESERVE BANK OF NEW YORK

July 24, 1940

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

Gentlemen:

In the absence of Mr. Harrison, I wish to acknowledge receipt of the Board's letter of July 19, 1940, R-678. The Board asks whether, in our opinion, the present practice of distributing excerpts from bank relations reports should be continued. We assume that the Board will wish to continue to receive monthly reports from the Federal Reserve Banks and, if this is the case, we are definitely of the opinion that the summary prepared from these reports is worthwhile. A number of our officers look over the reports each month, and those having to do with the Bank Relations Department give them close study. I think it is quite desirable to have our men know how similar activities are conducted in the other Federal Reserve Banks and what the trend of banking opinion is in other parts of the country, and we have felt that the summaries give us some very interesting light on these subjects.

Very truly yours,

(Signed) R. M. Gidney

R. M. Gidney,  
Vice President.

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FEDERAL RESERVE BANK OF PHILADELPHIA

August 1, 1940

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

Dear Sirs:

Reference is made to your letter of July 19, 1940, R-678, in which you request an opinion from this bank as to whether or not the Board should continue its present practice of sending monthly to each Reserve Bank a statement containing excerpts from the bank relations reports submitted by the various banks for the previous month and a table showing applications for membership received by the Board during the current year and in the preceding month.

We have found these compilations quite informative and of value in helping us to keep posted on developments in the other districts and we should not like to see them discontinued or made too brief.

Very truly yours,

(Signed) John S. Sinclair

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FEDERAL RESERVE BANK OF CLEVELAND

August 19, 1940

Mr. Chester Morrill, Secretary  
Board of Governors of the  
Federal Reserve System  
Washington, D. C.

Dear Mr. Morrill:

Consideration has been given to the request contained in letter R-678, dated July 19, 1940, regarding the distribution of excerpts from monthly reports of bank relations activities of the Federal reserve banks.

The subject was also discussed at a meeting of our board of directors held on August 15, 1940. It is the opinion of the directors and officers of this bank that the detailed reports are not of sufficient value to justify their preparation except for the tables showing the applications for membership received and the public relations activities conducted by each Federal reserve bank.

The excerpts from reports of visitations by representatives of Federal reserve banks are primarily of local interest and it is believed they could be discontinued. We are interested in the information regarding applications for membership and the number of visitations and addresses made by representatives of the banks, also the number of meetings attended.

In the report of bank relations activities for June 1940, this information is shown on the first and last pages of the report designated R-678-a.

Very truly yours,

(Signed) M. J. Fleming

President

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FEDERAL RESERVE BANK OF RICHMOND

July 27, 1940

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

Dear Sirs:

Referring to your letter of July 25, 1940, R-682, relative to material showing applications for membership received and excerpts from the bank relations reports submitted by the various Federal Reserve banks, I think your practice of sending copies to the Federal Reserve banks is well worth while and should be continued. For some time I have been sending a copy to each of the directors of this bank and its two branches, as well as to certain members of our staff. I always read the summary with interest, as do some of our other officers and some of our directors.

It is my intention to study the reports that are sent to you by this bank to see if they can be improved.

Very truly yours,

(Signed) Hugh Leach

Hugh Leach,  
President.

FEDERAL RESERVE BANK OF ATLANTA

July 23, 1940

Mr. L. P. Bethea, Assistant Secretary,  
Board of Governors of the  
Federal Reserve System,  
Washington, D. C.

Dear Mr. Bethea:

Reference is made to the Board's letter of July 19, 1940 (R-678).

We at this bank are of the opinion that the distribution of excerpts from bank relations reports serves a useful purpose. The compilations are read by all of the officers, and they are carefully studied by those who are the more actively engaged in bank relations work, such as visiting member and nonmember banks. We think that we are benefited by information concerning conditions and developments in other Federal Reserve districts. We also feel that we are better able to do the work in this district through reports of what is being done by other Federal Reserve banks.

Mr. Malcolm H. Bryan, Vice President, who has immediate supervision of our bank relations work, concurs in what is said herein.

Very truly yours,

(Signed) Robt. S. Parker

Robt. S. Parker,  
President.

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FEDERAL RESERVE BANK OF CHICAGO

July 22, 1940

Mr. L. P. Bethea,  
Assistant Secretary,  
Board of Governors of  
the Federal Reserve System,  
Washington, D. C.

Dear Mr. Bethea:

In answer to your letter of the 19th instant, R-678, concerning the value of a monthly statement showing excerpts from bank relations reports, would state that we in Chicago question very much the value of this release, with the exception that we do find the statement of applications for membership received by the Board from the various districts, both for the current year and the last preceding month, of great interest; also the statement on the last page giving the public relations activities of various Federal Reserve banks, including visitors to the banks, meetings attended, and addresses made.

Sincerely yours,

(Signed) Geo. J. Schaller

President.

FEDERAL RESERVE BANK OF MINNEAPOLIS

July 22, 1940

Mr. L. P. Bethea, Asst. Secretary  
Board of Governors of the  
Federal Reserve System  
Washington, D. C.

Dear Mr. Bethea:

I have considered the suggestion made in your letter of July 19, 1940. I find that the excerpts from bank relations reports which you have been accustomed to send us have some value. I am particularly interested in those hints which creep into the reports dealing with public relations methods in the different banks. Possibly the report could be further condensed with little loss if more public relations matter were inserted.

Every now and then I find some bank has an idea which is well worth adopting. It occurs to me that the reports might be of even more value if each bank were encouraged to insert in its report those definite actions which it may have taken to encourage good will, increased membership, or additional services in its district. You might well consider the possible advantages of reporting on a separate sheet such procedures, without naming the individual banks reporting. This would give every Federal Reserve bank a chance to digest the ideas and would eliminate the feeling that any individual bank was unduly aggressive in presenting its case.

It even occurs to me that it might be desirable to have each Federal Reserve bank make a separate report on each item of this character that it has tried, with a resume of the results. Each bank could digest such a resume with the view of adopting feasible ideas. I do think it is highly essential that the name of the individual Federal Reserve bank be withheld in such original resumes.

Please take this in the spirit in which it is intended--merely a reaction to your inquiry.

Regards,

(Signed) J. N. Peyton

President.

FEDERAL RESERVE BANK OF DALLAS

August 2, 1940

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

ATTENTION: Mr. L. P. Bethea  
Assistant Secretary

Gentlemen:

The Board's letter R-678, dated July 19, 1940, has been carefully considered and it is the unanimous opinion of the officers of this bank that excerpts from the bank relations reports of the various Federal Reserve banks are of considerable interest and value and that their distribution to the Reserve banks should be continued.

The only suggestion we have to offer is that the reports be condensed still further, if practicable, by excluding information and comments that are of a purely local nature.

I find the reports very helpful, as they keep me advised about things that are happening and being discussed in other districts, and I am sure the other officers of the bank feel the same way about them.

Very truly yours,

(Signed) R. R. Gilbert

R. R. Gilbert  
President

FEDERAL RESERVE BANK OF SAN FRANCISCO

July 25, 1940

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

Dear Sirs:

In its letter of July 19, 1940, R-678, the Board invited our opinion as to whether or not the compilation and distribution of excerpts from the bank relations reports of the twelve Reserve banks is sufficiently interesting and informative to justify its continuance.

In answer to a similar inquiry on July 19 a year ago, we expressed our views in a letter dated August 3, 1939. A current review of the situation finds us in an unchanged state of mind, and we suggest that the bank relations report, as well as the Board's dissemination of excerpts from such reports, be subject to trial of suspension.

For convenience, a copy of our letter of August 3, 1939 is enclosed.

Yours very truly,

(Signed) Wm. A. Day

President.

FEDERAL RESERVE BANK OF SAN FRANCISCO

August 3, 1939

Air Mail

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

Dear Sirs:

Receipt is acknowledged of your letter R-506,  
which was held pending my return to San Francisco.

On many occasions, our officers have attempted to appraise the value of the summaries of the bank relations reports. The consensus seems to have been that most of the important facts presented are repetitions of what has been learned through other channels.

On occasion we have found that it was not until a report had been discontinued that its usefulness was properly measured. May we not suggest that the bank relations report be subjected to the trial of suspension? If its need subsequently should become apparent, there would be no difficulty in renewing its preparation. In the meantime, so that the Board could know whether or not Reserve banks were maintaining appropriate public relations activities, it might be desirable to have the Federal Reserve examiners review the activities of the respective banks when they are under examination.

Yours very truly,

(Signed) W. A. Day

W. A. Day  
President

FEDERAL RESERVE BANK OF ST. LOUIS

August 7, 1939

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

Attention: Mr. S. R. Carpenter, Asst. Secretary

Gentlemen:

Replying to your letter of July 19, I believe the summary of bank relations reports submitted by the several Federal Reserve banks, which is sent to us each month, is of considerable interest and value, and I am decidedly in favor of its continuance.

It gives us, and doubtless the other Federal Reserve banks, a vivid picture of what is transpiring among member banks in all parts of the country. We have gotten many useful suggestions and much information from reading the summary, which material is available from no other source.

You ask whether we would rather have it shortened to the length of the June issue or made more inclusive. Personally I would like it in the more comprehensive form of previous issues. A number of officers and employees of this bank find the summary interesting and informative reading.

Very truly yours,

(Signed) F. Guy Hitt

F. Guy Hitt,  
First Vice President.

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FEDERAL RESERVE BANK OF KANSAS CITY

July 25, 1939

Mr. S. R. Carpenter  
Assistant Secretary  
Board of Governors of  
the Federal Reserve System  
Washington, D. C.

Dear Mr. Carpenter:

I certainly think that the summary of bank relations reports which the Board has been sending to the several Federal Reserve banks are very much worth while and should not be discontinued.

The summary which accompanied your letter of July 19 (R-506) is sufficiently brief and should not be shortened further, but on the whole I believe it is better in this form than in the more comprehensive report which you formerly issued.

Yours very truly,

(Signed) Geo. H. Hamilton

Geo. H. Hamilton  
President