

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-706

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 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 August.

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea".

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

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***	August	This Year	Total	On Par List***	August	This Year
	(In thousands of dollars)							
Boston	141	141	0	0	469,330	469,330	0	0
New York	224	224	2	3**	981,529	981,529	3,200	3,200
Philadelphia	225	225	0	3	550,836	550,836	0	3,000
Cleveland	475	474	2	18	577,670	577,367	4,600	30,200
Richmond	394	232	2	10	481,555	396,447	1,100	17,700
Atlanta	484	52	1	2	302,655	70,987	1,000	2,800
Chicago	1,219	1,079	6	34	1,114,286	1,054,464	6,200	32,300
St. Louis	664	434	1	13	428,385	309,111	600	8,200
Minneapolis	420	78	0	4	189,225	53,439	0	2,800
Kansas City	437	402	1	5	198,993	178,372	1,600	3,200
Dallas	282	174	4	18	154,549	110,025	2,000	10,700
San Francisco	194	182	1	3	545,398	541,768	700	5,000
Total	5,209	3,697	20	113	5,994,411	5,293,675	21,000	119,100

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

** Includes one newly organized bank having no deposits.

*** Revised. Figures shown in last month's statement did not include uninsured nonmember banks on the Par List which were eligible for Federal Reserve membership on December 31, 1939.

R-706-b
September 19, 1940
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS
FOR THE MONTH OF AUGUST 1940

BOSTON

During the month of August visits were made to 27 member banks and branches and 8 nonmember banks, the majority of banks visited being located in the State of Maine.

Production, employment, and pay rolls were reported to be increasing at the mills and factories (woolen, paper, and shoe) scattered throughout the sections visited and retail trade in these sections reflected this movement. The improved condition was more marked in and around Bath, Maine, than in any other section visited. Here the shipyards and plants manufacturing marine equipment and operating almost entirely against Government orders, have combined pay rolls of more than \$100,000 a week. One concern is erecting and equipping a large new factory. This activity is said to have resulted in a shortage of small residential properties and a mark-up of anywhere from ten to thirty per cent in sales values of this type of property. There is no speculative building going on and bankers report very few inquiries from builders of this type of property. A few small houses are being built by individual shipyard and factory workers and some are said to be financing the building through the Federal Housing Administration. It is understood that this type of Government loan is readily available through banks of the locality.

In farming districts the canning crops are reported to be good and early prices were said to be satisfactory to the growers. The summer tourist trade throughout the sections visited, while reported exceptionally light during June and July, was well above the August average at some points.

Loans and deposits were up slightly better than seasonally at most banks visited although many bankers complained of their inability to lend a greater volume of their available funds. Lending rates at most of the banks ranged from 6 per cent to as low as 5 per cent, excepting loans to municipalities which ranged from 3-1/2 per cent downward. Mortgage loans throughout the section carry 5-1/2 per cent rate. Several bankers referred to the possibility of reducing the interest rate on time deposits at the end of the present year. Reductions in the interest rate had been made by several banks.

Several bankers expressed concern over mounting excess reserves. At one or two points reference was made to the alleged

practice of certain outside banks soliciting local business, the competition coming from two of the larger Maine banks and one large bank outside the State.

NEW YORK

During the month of August, our officers and representatives visited 99 banks--56 member and 43 nonmember institutions--located in various sections of the district. The following is a resume of the reports of visits to banks in Suffolk County, New York, which comprises more than two-thirds of the area of Long Island and extends eastward to the end of the Island.

Investment portfolios of the commercial banks total \$25,600,000 showing a decrease of \$1,200,000 since last April, the holdings of United States Government obligations having declined about \$1,000,000 to the present aggregate of \$13,200,000. The bankers continue to be hesitant about purchasing securities in view of the war developments and prefer to retain their large amounts of idle funds. A number of bank officers are showing an increased interest in their railroad securities, particularly their speculative holdings, in view of the reports of better railroad earnings.

Loans and discounts aggregate \$21,600,000, reflecting little change in the total since last April. A number of bankers state that the income of their institutions is now so low that they intend to improve the earning capacity by endeavoring to obtain more loans from farmers through personal solicitation, a good many of such loans having gone in the past to the Government's credit agencies, and produce dealers.

The subject of membership in the Federal Reserve System was brought up for discussion with officers of eight of the eleven non-member banks and in cases in which interest was stimulated, follow-up visits were made, with the result that three have since filed applications with us and three are planning to take favorable action within the next few weeks. The officers of the other two banks indicate that they will discuss the matter with their directors at an early date. The remaining three nonmember institutions appear to have problems to overcome, such as large holdings of other real estate and substandard bonds, before they will be in a position to qualify for membership.

Agriculture is the most important industry in the county. Large quantities of early potatoes have already been exported to foreign countries and shipped to distant points in the United States. The combined production of early and late potatoes is said to be

slightly in excess of last year's crops. During the last two weeks the price of late potatoes has increased from sixty-five to eighty cents per hundredweight. Approximately 1,080 farmers have enrolled in the 1940 Federal agricultural conservation program as compared with 1,047 last year. The Long Island Cauliflower Association, which in the past has imported cauliflower seed from Holland and Denmark, is now planning to grow seed in this country for the first time as its supply of seed on hand is only sufficient for next year's crop and it is believed improbable that seed may be secured from abroad in the near future. The duck farmers in the county expect to raise about 5,500,000 pounds of ducks this year and if current prices of thirteen and fourteen cents a pound prevail, a fair profit will be made.

This county is also one of the largest and best known oyster growing regions in the country and it is busily preparing for the season which starts the last week in August. Reports indicate that there will be a normal supply of oysters of excellent quality.

The summer resort areas report one of the best seasons since 1929, the two best known summering places, Southampton and East Hampton, enjoying an excellent season.

During the month of August, the bank relations work was concentrated to some extent on visits to nonmember banks in various parts of the district in an effort to interest them in membership in the Federal Reserve System. In addition to the three applications received from nonmember banks in Suffolk County, four banks in other sections of the district have filed applications, making a total of seven, and five others expect to adopt resolutions to apply for membership within the next month. Several nonmember bankers, while giving no definite answer regarding the course they may pursue with respect to filing an application, have shown enough interest to arrange for a further discussion of the subject at our bank.

PHILADELPHIA

During August representatives of this Bank visited 73 banking offices, comprising 43 member banks and 2 branches, and 28 nonmember banks. Seventeen special visits are included of which 12 were for the purpose of discussing membership.

The area (in southeastern Pennsylvania) covered by this report is served by 36 member banks and two branches having total resources of \$96,448,000, and 15 nonmembers with total resources of \$26,204,000.

Agricultural conditions are disappointing; severe dry weather in part of the area seriously reduced corn production while prevailing low prices for farm products are greatly curtailing farm income in general. A slightly higher price for milk only partially offsets the losses resulting from low prices of other products.

Industrial conditions are very good. Much of the increase in activity results from Government orders and the volume has necessitated expansion of some plants. A considerable increase in the number of workers employed either has taken place or is expected in the near future.

Retail trade is uneven.

Real estate conditions are fairly good. Considerable new construction is reported in progress with sales being made before completion of the structures.

Bank deposits, particularly of interest bearing classifications, continue to increase.

A majority of the bankers reported depreciation of investments but few stated that it was sufficient to cause impairment of capital. Loan demand is improving slightly, chiefly as a result of demand for small loans. Liquidation is considered satisfactory, particularly on the small loans which are usually made on a monthly amortization basis. Bankers stated that they were in a position to take care of any credit demand which might arise, even that from an unusually large increase in business.

The officers of twelve banks, selected because of their probable acceptability, were interviewed specially in an effort to influence a favorable decision toward membership in the Federal Reserve System. In most cases the subject has been under discussion for the past several years but no definite action has been taken. Several rather promising situations were developed and it is believed that applications will be received from some of these banks. All seemed interested in the discussion and were frank in their comments on the subject.

The president of an institution with deposits of about \$1,300,000 said he was a great believer in the Federal Reserve System but could see no advantage to be gained for his institution through joining. His institution has never borrowed money and he feels it is a practice which should not be followed except in emergencies.

The chief executive officer of a bank with nearly \$3,000,000 on deposit has been irreconcilable on the subject of membership. His unfriendliness apparently results from his reaction to System efforts to enforce par clearance and direct remittance. He says he does not like what was done in the past and does not trust the System for the future.

The cashier of another institution with deposits of \$1,850,000 said his directors did not feel that membership would be of particular advantage to the bank inasmuch as it had always been able to get all necessary assistance from correspondents. It was pointed out to this officer that correspondents were able to help largely because of their membership in the System, which made available to them the facilities of the System and that membership of the subject institution would make these same facilities available to it at first hand. This apparently was a new idea and seemed to impress him considerably.

CLEVELAND

During the month of August 111 banks were visited, of which 61 were member and 50 were nonmember.

During the month, four Ohio State banks, having resources in excess of \$5,821,000, were admitted to membership in the System.

A small manufacturing town, in the western central part of the State, reports that two years ago 276 people were on relief at that point, and that at the present time there are no local people receiving relief checks. In this particular instance, the change in conditions is due to the establishment of a factory by the Goodyear Company, absorbing all local unemployment.

Another city in the same section reports that industry is going at top speed, with bonuses paid monthly to employees in some plants.

In the city of Dayton, one bank noted an increase in loans of fair size for plant expansion, traceable directly to the National Defense program. Another Dayton bank, based on information secured from the National Defense Procurement Bulletin, is visiting certain customers and noncustomers handling active lines described in the bulletin, which they hope will result in their making some loans in the reasonably near future.

In the City of Springfield, industry continues to show activity against a seasonal trend, despite the fact that industry there has not received much stimulus from orders related to national preparedness.

RICHMOND

During the month of August 69 banks were visited, of which 39 were member and 30 nonmember banks.

Industrial and mining activities in the Fifth Federal Reserve District are continuing to move toward higher levels. The cotton textile industry, after a period of curtailment, is again pointing upward. Rayon progress has been uninterrupted, and several new plant extensions are in prospect. Coal mining is unseasonably high, and still better levels are expected through the first quarter of 1941.

The cotton crop in North Carolina will be considerably larger than last year, but the tobacco crop in that State will show a greater loss than in other tobacco-growing States of this District.

Despite a marked fall in gross income, the improvement in tobacco prices will give the average grower about as much net profit as last year when production costs rose to a new high record.

Considerable damage by storms and high water was suffered by crops and property in the Carolinas, which damage in South Carolina has been estimated at \$5,000,000 for crops alone.

Construction is running at the best levels experienced since the late 1920's.

Deposits of banks in Allegheny, Amherst, Giles, Nelson, and Rockbridge Counties, Virginia, are at their seasonal low, but are higher than a year ago in most banks.

The new loan volume in several banks has been running somewhat higher than maturities, and in other banks new loans and maturities are about equal. The traditional 6 per cent lending rate has given ground for some borrowers in a few communities as a result of outside competition, and selected loans are made as low as 4 per cent. There is still fear of extending this practice, lest the entire loan-rate structure gravitate to the lower level. In an attempt to get

new loans and at the same time avoid the general lowering of customer rates at home, some banks offer to lend in communities other than their own.

Bank deposits (Union, West Virginia) are somewhat higher than usual at this time of the year, but there is not much demand for loans. Many of the farmers in this community were referred to as in the hands of the land banks, and it was stated that the Production Credit Corporation was constantly bidding for seasonal loans, in both instances at rates below the bank rates. Bankers say farmers are willing to pledge chattel liens on all stock and equipment to Government lending agencies, yet take exception to pledging the same collateral to the local bank. Loan demands are considerably better at Peterstown, where the people have better outlets for employment.

ATLANTA

During the month of August 61 banks were visited, of which 18 were member banks and 43 nonmember banks.

In the area (in Southeastern Mississippi) bounded by Meridian on the east, Philadelphia on the north, Jackson on the west, and McComb on the south, it is estimated that the current year's cotton crop will not exceed 50 per cent of normal. This area experienced six weeks of rain from the latter part of June until early August and it is reported that many farmers were unable to enter their fields for five consecutive weeks. As a consequence, the cotton fields are extremely grassy, and the cotton that will be gathered will be trashy and of the lower grades. In the main the corn crop is good and the farmers are also harvesting unusually large hay crops.

At Meridian the bankers advised that the farmers in that vicinity would probably not be as seriously affected by the poor crop conditions as might be expected because of the fact that many of them had surplus cattle to sell. Additional cash income will also be derived shortly from the sale of pulp wood. This is normally a quiet season for banks in the farming areas but merchants and bankers were unanimous in their reports of unusually good retail trade during the months of July and August.

Southeastern Alabama and southwestern Georgia are devoted largely to agricultural activities which provide the principal source of income to most of the communities visited. Cotton and peanuts are the principal money crops throughout this section and in several of

the southwest Georgia counties visited the tobacco crop is of considerable importance. Hog and cattle raising in most of the communities visited is also reported to be developing rapidly into an important source of farm income.

Bankers generally reported that business last year was considerably below normal because of poor crop conditions that prevailed throughout most of the area. Fall collections are said to have been only fair and in most communities banks were required to carry over considerable agricultural paper. Present crop conditions, however, are very favorable and bankers expressed considerable optimism over prospects for fall business. In several communities cotton and peanuts have begun to move and considerable agricultural paper is being liquidated. In a number of southwest Georgia counties visited, a marked improvement in business activity was reported since the tobacco markets opened early in August. Officers of two banks located in one of the principal market cities informed our representative that around 50 per cent of their farm loans had already been liquidated from the proceeds of tobacco sales alone.

With few exceptions bankers reported that demand for loans this year had been very satisfactory and earnings of most of the banks visited are said to be considerably better than a year ago. Very little complaint of competition from governmental lending agencies was heard--on the other hand a number of bankers commented on the friendly, cooperative spirit existing between their institutions and these agencies.

CHICAGO

During the month, calls were made on 58 banks, of which 45 were member and 13 nonmember.

Two State banks were admitted as members of the System in August, and six applications were received. Permission was granted for the organization of a new national bank in Illinois, for the conversion of one State bank to a national in Michigan, and for the conversion of one national to a State bank in Iowa. Two applications are pending for permission to organize national banks in Chicago. Several national banks have indicated their intention to surrender their rights to exercise fiduciary powers.

Excess reserves continue to be a problem. At present, the largest percentage in this district is shown in the country banks, which carry \$204,000,000 against a requirement of \$90,000,000. Pressure of idle money is being felt more and more through banks soliciting loans outside of their own territory; this, in addition to the

usual competition for loans from the Government lending agencies. Some country banks report a slight increase in loans. One large bank in Detroit states that its loans have increased \$2,000,000 in the last week or ten days, due principally to loans made to subcontractors for defense projects. Other banks in Detroit report that they are receiving inquiries from subcontractors and expect a loan increase in the future as a result. Banks in Indianapolis and Milwaukee report inquiries rather than actual loans. None of the bankers interviewed expect the demand for money to be sufficient to affect the prevailing interest rates. Four outlying banks in Chicago report that they are making some term loans in small amounts. In view of the proposed conscription bill, banks are carefully scrutinizing installment paper signed by makers under 31 years of age.

There is apparently a disposition on the part of some of the member banks to give prominence in their local advertising to their membership in the Federal Reserve System. In at least three instances that have come to our attention recently, reference was made by the member banks to the facilities and protection provided for their patrons as a result of membership.

Reports from the district show that normal trade is holding up very well, and it is expected that this will continue if present prices for agricultural products are maintained. Trade should also receive an added stimulus from defense needs.

Employment has shown some increase in the last month. At one plant manufacturing airplane engines, 5,000 people are now employed as compared with only a few hundred a year ago. There is considerable complaint in some sections, however, because relief rolls have not decreased as employment increased.

Production of 1941 model automobiles has been expanding gradually in recent weeks and is somewhat ahead of the same time a year ago. There has been a moderate decline in residential building.

ST. LOUIS

During the month of August 157 banks were visited, of which 39 were member banks and 118 were nonmember banks.

During August, visits made by the field representative were principally to banks located in northern Arkansas and southern Missouri. Agricultural activities and conditions in this general region are very similar in both States. There is relatively little industrial

activity in the area, and the population relies very largely on agriculture for its support. This year early crops, wheat, barley, oats, rye, hay, etc., were unusually favorable. The wheat harvest turned out better than expected, both in point of quality and quantity. Furthermore, weather was ideal for harvesting and threshing the crop. Considerable quantities of the wheat produced have gone into the Government 71 cent loan, so that the movement to market has not been as heavy as is ordinarily the case. Drouth and heat somewhat reduced prospects for corn, hay, and some other crops in June and late July, but rains since have served largely to correct this situation.

Accounts given by bankers, merchants and others interviewed indicate that general business at this time is better than a year ago, and best since 1937. While the number of industrial plants is limited and scattered, they have for the most part been operating on high schedules since late spring. Most of the plants are branches of large companies with headquarters in St. Louis or elsewhere. It has been a particularly favorable season for dairying. All whole milk produced has found ready sale at creameries and cheese factories. In the hilly sections there is a large lumbering industry, and demand for lumber has been the best in a number of years. Rural electrification is rapidly extending, as for example, more than 340 miles will be in service in Dallas County and adjacent counties within the next few weeks.

Taken as a whole, banking conditions were found to be satisfactory, with general improvement over a year ago. Demand for credit is more active, and there were fewer complaints of Government lending agencies. Quite generally there has been expansion in demand for funds to finance livestock operations. In many communities it was reported that farmers had quite thoroughly cleared up their 1939 indebtedness, and payments this year are expected to be still better. One Arkansas banker said that 96 per cent of his 1939 loans to farmers had been liquidated, and that he expected the 1940 payoff to be about 100 per cent.

In Arkansas there are many banks not on the par list. In discussing this phase a majority of bankers indicated that they could not at this time sacrifice revenue derived from cash letter exchange. Apparently the par collection factor is the main barrier against certain banks joining the System. Universally complete satisfaction was expressed relative to services rendered by the Federal Reserve Bank. It was found that even in small country banks credit files are quite complete and adequate. Generally banks visited are using the Federal Reserve Bank statement form. Interest rates charged on customer loans were reported from a minimum of 6 per cent to a maximum of 10 per cent. On time deposits interest rates paid vary from nothing to 2-1/2 per cent.

MINNEAPOLIS

During the month of August 101 banks were visited, of which 48 were member and 53 were nonmember banks.

Editors of 42 newspapers in southeastern Minnesota were visited and offered the Monthly Review and other press releases issued by the Federal Reserve Bank of Minneapolis.

The personal call on the editors of the daily papers and the larger weekly papers is effective. Editors of these papers took time to sit down and discuss whatever subjects occurred to them and, in several cases, became intimate enough to offer constructive criticism and suggestions on presentation of our material to newspapers. Most of these editors seemed to enjoy the visit and were grateful for the call and the offer of our services. Most of them have business men's viewpoints and with a little cultivation they could be made real friends of the Federal Reserve Banks.

The personal call on the small weekly paper editor, on the other hand, often appeared to be of little value, if it was not actually harmful. In the first place the small paper editor is a very busy man. He usually has learned his business through apprenticeship and has the viewpoint of a craftsman, mechanic, or manual worker more than that of a business man. He does not care about sitting down and spending ten, twenty, or thirty minutes talking about anything. To him, that time is wasted. Because he is a production man, however, he would be grateful for well prepared news releases that would have news value to his readers providing the releases were all ready to run.

Without a single exception, editors were primarily interested in local information. They are eager to get information, statistical or otherwise, about their own city or county. Occasionally they can use State, or section-of-State, figures such as southeastern Minnesota, but such information very seldom rates the front page.

In general we have adequate information for which the papers are hungry. We have been publishing a good part of it, but it has not been in the proper form. It was suggested frequently that we prepare subjective, newspaper-style releases from the information we have in our office and send them to the papers that might be interested. The newspaper man is busy and he does not have time to sit down and dig out a story from a mass of statistics. The story must be edited or he will throw the material in the waste basket. If we want editors to use our material and give us credit for it, both in their minds and in their columns, it must be set up in such form that it can be used with a minimum of effort.

Newspaper men are highly appreciative of stories that furnish them with good copy. If the Federal Reserve Bank would furnish them with edited releases, they would be grateful to the Reserve Bank. The editor of one of the largest dailies in the State (outside the Twin Cities and Duluth) said: "You have unlimited possibilities in getting publicity and good will out of this material if you just wanted to." He then went on to enumerate some of the reasons why the material we were now offering could not do the job. Every point hinged on the fact that the information was not presented in a usable form and the news man was not grateful for "data" but for a "story".

KANSAS CITY

During the month of August 61 banks were visited, of which 32 were member banks and 29 were nonmember banks.

Visits were made in August to banks in nearly every State in the District. The largest number, however, were in Colorado and Kansas.

In the western section of the District the favorable livestock situation is the principal factor accounting for the generally good condition found in those States. The crop situation is much less favorable than that of livestock as rainfall has been deficient and irrigation water is short. In sections of the northeastern part of Colorado it is said that the grain crops are only 25 per cent and other feed crops 50 per cent of normal.

The eastern section of Wyoming has also been dry, but again it is the livestock situation that is the dominating one in most sections of that State. In a general way, bankers seem to be advising livestock men to take advantage of present good prices of cattle and sheep to reduce their indebtedness. There is a tendency to feel that feeder cattle are too high. This is attributed in part to the fact that buyers from Illinois, Iowa, and other States that have an abundance of corn and other feed are seeking livestock to utilize these products. Because of this situation, some bankers in Colorado feel that feeding operations may be curtailed.

Wyoming banks as a rule do not have large holdings of Government bonds as judged by standards in other parts of the country. These banks are interested in higher rates than found in Government securities and there has been a good demand for livestock loans. Some Wyoming banks are holding municipal obligations that are giving them a fair return and these banks would be glad to get rid of all their Governments in favor of municipals if they could find them.

Government lending agencies in Wyoming are reported much less competitive than in some places and bankers in that State are not greatly concerned about them. A very different situation, however, seems to exist in western Nebraska. Considerable complaint was heard regarding the position of FSA borrowers. It is said that everything such borrowers have is tied up by these loans with the result that bank loans go unpaid. In some cases these borrowers cannot pay the taxes on their real estate and, where banks have loans secured by such assets, the banks find it necessary to pay the taxes to protect themselves.

A good deal of apprehension is found regarding the war situation. The drift toward war is deplored but, at the same time, a condition of helplessness so far as doing anything about it is felt. Considerable concern is expressed about the amount of skilled labor that is being drawn away from many communities to other centers.

Banks called on in Colorado appear to be making all of the wheat loans being placed in their communities. The banks, however, as a rule do not retain these loans but tend to send them either to their correspondents or to a Government agency. Deposits nearly everywhere seem to be increasing. A good many small towns were visited that seem gradually to be giving way to county seat towns. Automobiles and good roads are concentrating retail trade in the larger centers and the town with a population of less than 1,000 is losing ground. The future of banks in such communities seems a very uncertain one as rural people tend also to do their banking where they do their shopping.

DALLAS

During August 30 banks were visited, of which 23 were member and 7 nonmember banks.

Southwest Texas

Visits were made to 19 banks in the 9 counties of southwest Texas which are tributary to San Angelo, the "sheep and wool capital" of the State of Texas.

This rich agricultural region, which is one of the most important centers of wool and mohair production in the United States, is enjoying an unusually prosperous year which is attributable in a large measure to the heavier-than-normal rainfall which its ranges and pastures have received in recent months. Sheepmen are reported to be in excellent financial condition, although the unsettled conditions that

have recently prevailed in the wool market have slowed up the sale of the spring wool clip and a large portion of it is being held in warehouses awaiting a more active market demand.

Several of the banks in this section of the State are using the credit facilities of the Federal Reserve Bank. Every member bank which was visited expressed complete satisfaction with Federal Reserve services and relationships. Even the subject of the competition of Government lending agencies, which has been a favorite target of criticism heretofore, came in for very little adverse comment on the part of this group of member banks. The president of one such institution did say that the local Production Credit Association had captured some of his bank's choice accounts. His complaint, however, lost some of its force when, a few minutes later, in recounting some of his personal farming operations, he inadvertently mentioned that he himself had obtained a production loan from that agency this year.

A great many of the banks were found to be carrying reduced holdings of Government securities. One institution with cash resources of \$750,000 and deposits of \$1,000,000, is carrying no securities whatever. The general attitude of these bankers, with regard to the Government bond market, is one of cautious waiting to see how the market will react to developments in the immediate future in connection with the fall elections, the war in Europe, and the national defense program.

One banker expressed the hope that the Federal Reserve System would permit Government bond rates to find a level where the yield would be attractive to the smaller banks.

New Mexico and Arizona

One banker expressed satisfaction over the prospect of a comprehensive revision of banking laws and banking supervision as a result of the Wagner Committee's hearings. He deplored the piecemeal type of banking legislation that has been enacted in recent years, saying that the frequent revisions and amendments of existing laws have tended to confuse rather than strengthen the banking situation.

One nonmember explained its failure to join the System by referring to its operation of a profitable out-of-town branch, which it would have to close if it joined the Federal Reserve System or be forced to increase its capital to such an extent that the additional taxes on its capital structure would be prohibitive. The other nonmember intimated that its preference for remaining outside the System was based on its fear of Government control.

SAN FRANCISCO

During the month of August 104 banks were visited, of which 73 were member and 31 nonmember institutions.

Santa Barbara County

Business in Santa Barbara is reported to be as good as could be expected, considering present conditions and agricultural prices. The "tourist" crop has not been up to expectations, although a number of wealthy refugees have taken up residence.

Of the orchard crops in the county, lemons constitute the bulk. This county is noted for the quality and high yield of its lemons, and the growers should make some money. Not a great many oranges are raised, and the results to the growers, due to disappointing prices, are problematical. A considerable quantity of sugar beets, of high sugar content, are raised, and the growers should have a successful year. Growers of mustard seed are contracting at high prices, due to the war abroad. Beef cattle are bringing fair prices. Lima bean growers will probably break a little better than even. Growers of flower seeds should have a good year. Growers of vegetable crops on the whole are receiving poor prices.

A considerable amount of housing is in evidence, and the banks are beginning to participate in F.H.A. loans. Heretofore, most housing operations have been financed through building and loan associations, as there apparently was an aversion on the part of builders to build under the auspices of the F.H.A.

San Diego County

This county has enjoyed a healthy increase in population over the last ten years. San Diego City itself increased 36 per cent, to 202,000, and the beach and inland towns report moderate growth in a very desirable type of people.

Agriculturally, the county did only moderately well. The avocado crop this year was larger than 1939, and better prices were obtained, so the growers should make some money. However, increased acreage is coming in each year. Orange growers should break better than even, but results to lemon growers are problematical. Grape acreage is decreasing yearly. Bean growers should do fairly well. Raising of thoroughbred horses is developing on a small scale.

There is considerable activity in building throughout the county, building operations in 1940 to date greatly exceeding last year. There

is a shortage of low income houses in San Diego, and it is reported that the Government intends to erect a large number of houses for families of enlisted men.

The three plants in San Diego manufacturing airplanes and parts are operating at capacity, with personnel at a peak and backlog of unfilled orders amounting to many millions. Extensive additions are in progress. It is estimated that Government expenditures for military purposes in the San Diego area, not including those for airplanes, will run up to \$25,000,000, and the expenditure of these vast sums should be of great benefit to the area during the next few years. Absence of the Fleet, which normally has an expenditure of \$2,500,000 a month, has quite an effect upon the merchants.

The tourist crop this year has been disappointing, although at the present time the hotels, etc., are doing a large business due to the current racing season at Del Mar.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

August 1940

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	27	8	35	0	0	0	0
New York	56	43	99	3	290	0	0
Philadelphia	45	28	73	1	110	0	0
Cleveland	61	50	111	4	1120	2	190
Richmond	39	30	69	4	345	0	0
Atlanta	18	43	61	0	0	0	0
Chicago	45	13	58	2	112	3	162
St. Louis	39	118	157	3	268 ^{1/}	0	0
Minneapolis	48	53	101	3	990	1	90
Kansas City	32	29	61	0	0	0	0
Dallas	23	7	30	1	100	0	0
San Francisco	73	31	104	3	154	0	0

^{1/} Not completely reported