

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-734

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 23, 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 October.

Very truly yours,

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	October	This Year	Total	On Par List	October	This Year
(In thousands of dollars)								
Boston	141	141	0	0	469,330	469,330	0	0
New York	224	224	2	9**	981,529	981,529	2,900	12,300
Philadelphia	225	225	1	4	550,836	550,836	900	3,900
Cleveland	475	474	2	21	577,670	577,367	2,500	33,500
Richmond	394	232	4	16	481,555	396,447	1,700	21,200
Atlanta	484	52	0	2	302,655	70,987	0	2,800
Chicago	1,219	1,079	9	51	1,114,286	1,054,464	20,700	60,300
St. Louis	664	434	3	18	428,385	309,111	800	10,000
Minneapolis	420	78	2	7	189,225	53,439	5,500	8,700
Kansas City	487	402	2	7	198,993	178,372	9,800	13,000
Dallas	282	174	0	19	154,549	110,025	0	12,200
San Francisco	194	182	0	3	545,398	541,768	0	5,000
Total	5,209	3,697	25	157	5,994,411	5,293,675	44,800	182,900

* 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 for which no deposits are shown.

R-733-b
November 23, 1940
Not for Publication

EXCERPTS FROM BANK RELATIONS REPORTS
FOR THE MONTH OF OCTOBER 1940

BOSTON

During the month of October 53 country banks were visited, of which 50 are members of the Federal Reserve System, and 3 nonmembers. Six of the banks are located in Connecticut, 19 in Massachusetts and 28 in Vermont. In addition the Bank was represented at the fall meeting of the New Hampshire Bankers Association.

Practically all of the banks visited are experiencing a somewhat better local demand for credit. At most of the banks the portfolios were made up largely of automobile loans (with and without dealers' endorsements), installment loans financing purchases of furniture, household equipment, etc., loans to municipalities, loans on real estate (including FHA mortgages), loans on marketable collateral and insurance policies, and in the case of a few banks in the farming and dairying sections loans are made also upon farm chattels. With the exception of loans to municipalities, which carry rates from 2 to 3-1/2 per cent and which at this season are being paid off, practically all loans are made at a 6 per cent rate.

Several of the Vermont bankers have been buying from dealers FHA mortgages on properties located in other States; some of the properties being as far away as Virginia, Michigan, Colorado, and Texas. No banker reported any delinquencies. Most of the bankers visited do not favor the purchase of real estate mortgages on properties located outside their own banking areas.

NEW YORK

During the month of October, our officers and representatives made 146 visits to banks--61 member and 85 nonmember institutions--located in various sections of the district. Our attention was concentrated chiefly upon the nonmember banks in order to stimulate their interest in membership, and in numerous cases follow-up visits were made to discuss the subject further with the boards of directors of those banks and to assist in the preparation of their applications. As a result nine applications were filed during the month and several other nonmember institutions are expected to take favorable action within the next few weeks.

Erie and Niagara Counties, Buffalo Branch Territory, New York

Banking services are provided by 31 commercial institutions (17 members and 14 nonmembers), 5 savings banks and 1 industrial bank, which, together with 75 branch offices, comprise a total of 112 banking offices.

Twenty-six of these banks originally issued preferred stock or capital debentures amounting to \$16,987,000 par value. Ten banks have since retired their entire issues aggregating \$11,965,000, and fifteen have made partial redemptions totaling \$1,260,974, leaving a balance outstanding of \$3,761,026 par value, retirable at \$3,947,078.

Security investments of the banks aggregate \$174,685,000, of which \$104,998,000, or about 60 per cent, are Government obligations, either direct or guaranteed. Aside from purchases of small amounts of Government and municipal obligations, the banks have been adding very little to their portfolios. A number of bankers mentioned that corporate bonds are being disposed of as favorable market conditions develop.

Bankers mentioned that loan demand continues light except in a few instances, with loans totaling \$118,287,000. Several banks have increased their loan totals through mortgage lending, but on the whole the demand for commercial loans is negligible, even in sections in which industrial activity has greatly increased.

PHILADELPHIA

During October 114 banks were visited, of which 80 are member and 34 nonmember institutions.

Investment accounts, principally because of holdings of railroad securities, are worth less than book value in most instances. Determined efforts are being made to eliminate all holdings of sub-standard bonds, and only Government bonds are being purchased at present.

Credit demand has been improving and loans show some increase since last year. The demand has been principally for small loans, and a few banks have incorporated personal loan departments with satisfactory results. Collections have been better, chiefly because of improved working conditions, but bankers in communities dependent upon bituminous coal mining report that liquidation is generally slow. Some increase has been noticed in the demand for mortgage loans and only a few banks are using the facilities of the FHA plan. Some institutions have purchased guaranteed mortgages and report that results to date have been most satisfactory. The 6 per cent lending rate prevails at most institutions.

Formal request for examination was received from one nonmember trust company this month and examination of another applicant was completed. Interviews, specifically for the discussion of membership, were had with the executive officers of 10 institutions. Some of these officers were very friendly to the idea and we expect that future meetings with the directors of the several banks will result in a decision to become affiliated with the System. Officers at two institutions with whom our officers and representatives have had frequent discussions on the subject for the past two years have indicated that they expect to have the boards of directors take action in this matter shortly.

The interest which has recently arisen is gathering momentum and is aided somewhat by the fact that the uncertainty of the future with its threat of war causes many bankers to believe that they will be much better able to withstand whatever comes if their banks are members of the System.

CLEVELAND

During October 345 banks were visited, divided approximately equally between member and nonmember institutions. One State bank, having resources of approximately \$2,500,000, was admitted to membership in the System.

While there is ample evidence of interest on the part of banks in membership, it is difficult, in some sections, to translate interest into action. A number of member banks in the State of Kentucky which are subject to a strong seasonal demand for loans and an accompanying decline in deposits would find reserve requirements of the System burdensome. The Kentucky law permits nonmember banks to maintain the same reserves as were required of member banks prior to the passage of the Banking Act of 1935.

Under the Ohio law, a savings bank may maintain 60 per cent of its required reserves in the form of United States obligations. Interest in membership on the part of such banks is not keen since, as members, the income derived from the investment of a portion of their legal reserve would be lost.

Other banks are considering joining the System in order to be prepared for any emergency that may develop. One banker recalls that in 1932 and 1933 correspondent banks were not in a position to help his institution when help was badly needed.

RICHMOND

During the month of October 99 banks were visited, of which 46 were member and 53 nonmember banks.

The outstanding development, in the Fifth Federal Reserve District during October was the awarding of \$173,635,000 of defense contracts, on top of September awards of \$171,030,000. In addition to these, contracts of the Newport News Shipbuilding and Dry Dock Company with the Navy, Maritime Commission, and private customers increased \$371,586,000 between June 25 and September 30. There has been considerable plant expansion by private industry, including the DuPont Nylon plant at Martinsville, a synthetic ammonia plant projected for Morgantown, West Virginia, and power developments to cost \$75,000,000 for aluminum manufacture at Nantahala and Glenville, North Carolina.

In some parts of the district where agriculture contributes most of the people's incomes, there are a few communities where business is not so good as a year ago, but in most parts of the district business of all types is good and notably above last year.

Banks on the Eastern Shore of Maryland still have the larger part of their assets in loans, on which interest varying from 4 to 6 per cent is charged, though none of the communities can use all of their available funds locally.

In the part of West Virginia visited, there is a great deal of distance yet to be traveled before banks' resources can be utilized fully in local communities. Yet, in most of the communities visited the loan volume is the largest item of the earning assets, and in some places it is over half of the deposit total. Lending rates are mostly at 6 per cent, though in those communities where loan holdings are lowest some lending is done as low as 4-1/2 per cent. Interest of 2 and 2-1/2 per cent is paid on savings deposits by most institutions. One bank pays nothing on savings, while another (uninsured bank) is reported to be paying 3 per cent.

ATLANTA

During October 124 banks were visited, of which 69 were member banks and 55 were nonmember banks.

Western Florida is a general agricultural section where the principal money crops are tobacco, corn, cotton to a limited extent, peanuts, hogs, cattle, and lumber. Most of the crops this year were very good, and some improvement over last year's crops was reported,

particularly with respect to peanuts and tobacco. In view of the favorable crop situation, and good prices, liquidation of farm loans is said to have been very satisfactory on the whole. A number of bankers who were required to carry over agricultural paper last year because of poor crop conditions, reported that farmers had been able to liquidate their old indebtedness as well as current crop advances, and were in better condition this fall than they have been in many years. All the banks visited in this section reported satisfactory earnings for the year and appeared to be very optimistic over the future outlook.

Central and north central Florida comprise some of the most productive agricultural territory of the State in which citrus fruit, truck, peanuts, long staple cotton, cattle, and hogs are the principal money crops. It is claimed that the State of Florida now ranks third in the United States in the shipment of cattle.

Bankers appeared to be well pleased with business conditions in their respective areas. Retail trade and general business activity is reported to have held up unusually well throughout the normally dull summer months and present indications point to a splendid winter season. Bankers generally in this area reported increased deposits, favorable credit demand and satisfactory earnings for the year. Many of the bankers visited are devoting more attention to installment loans, which business they state is proving a very excellent source of income.

CHICAGO

During the month calls were made on 29 member and 61 nonmember banks. Nine State banks were admitted to the System. In Illinois one new national bank opened for business and one nonmember State bank converted to a national. In Wisconsin a nonmember State bank consolidated with a national bank under national charter.

Several banks were arranging to increase their capital stock on account of their increased deposit liability, it apparently being a little less difficult to raise capital locally than at any time since 1933.

Very few inquiries have been received at this bank regarding defense loans. However, chambers of commerce and similar associations are actively trying to secure information concerning the procedure to be followed to obtain Government contracts under the defense program.

There is some increase in building construction, partially due to defense activities. In Rock Island, Illinois, for instance, we are told it is practically impossible to rent a residence. The Government is now in the process of constructing 300 housing units there, as

well as 300 in Moline, Illinois. In Saginaw, Michigan, business conditions are reported generally satisfactory. Residential construction is on the increase and considerable demand exists for mortgage money. No desirable houses in the city are available for rent. A plant will be erected for the manufacture of machine guns. However, there is little demand from manufacturers in Saginaw for credit, and Detroit, Cleveland, and Chicago are stated to be keen competitors for business loans, quoting very low interest rates. In Jackson, Michigan, where there also has been an increase in residential building, we are told that the lumber merchants are having some difficulty in obtaining certain kinds of materials used in their building operations. A banker in Grand Rapids, Michigan, advises us that business in that city is the best that it has been in ten years and that this is not due to the defense program. The furniture business is by far the best that it has been for a number of years, and all of the Grand Rapids furniture factories are operating on a profitable basis.

ST. LOUIS

During October our officers and field representatives visited 273 banks, of which 73 are in Kentucky, 68 in Illinois, 45 in Missouri, 42 in Mississippi, 36 in Arkansas, and 9 in Indiana. The officers also called on 70 newspapers in towns where the banks are located.

While reports relative to demand for credit varied somewhat, taken as a whole, demand was apparently fair to good, reflecting in the main improvement in general business conditions. There is now, and has been throughout the season, an active call for funds to purchase and carry livestock, including sheep. It was noted that the trend was toward reduction of interest paid on time money, and some banks have discontinued paying any interest.

During the month two banks were admitted to the System, making 15 new State members since the first of the year. Several banks are in process of admission, two in Illinois and one in Indiana having been examined for this purpose.

At the request of a new member State bank, we sent a qualified senior employee to assist it in establishing its relations with this Bank. In the course of the conversation, it was inferred that immediately upon learning of the bank's intention to join the System, a representative of its correspondent in a neighboring city made a visit with the sole intention of discouraging membership.

During our visits to newspapers, a number of the editors in the smaller centers suggested that our Monthly Review of Agricultural

and Business Conditions be accompanied with a condensed press release of its contents. The first of these special summaries was mailed to the newspapers on October 30. It is believed that this will increase publication of the material, and thereby promote public good will for the Federal Reserve System.

MINNEAPOLIS

During the month of October 137 banks were visited, of which 64 were member and 73 nonmember institutions.

A number of bankers in nonmember, nonpar banks asked whether it is true that a great number of State banks are joining the Federal Reserve System.

During October 41 daily and weekly newspaper editors were visited and introduced to our new "local story releases". These were based on our bank debits, retail trade, and building statistical summaries. In accordance with our regular policy, they were also shown samples of our other releases and were invited to make requests to be placed on the mailing list for any or all of them. In every instance, the editor commented very favorably on our new style releases and asked to receive all of such material as rapidly as it was released. Several indicated that they would like to receive other releases as well but suggested that a ready-to-run story be sent them along with the full text of our Monthly Review, Annual Report, etc., similar to the story regarding the defense contracts.

One editor said that he would greatly appreciate receiving a mat of our Business Trends Chart and suggested that every editor would doubtless make use of mats if they were furnished. This matter was mentioned during subsequent calls and most editors said they could and would use them. In view of the small amount of work and the relatively low cost of providing every daily newspaper in the Ninth District with four or five mats a year and the apparent appreciation of this added service, we have decided to offer mats of our Ninth District Business Trends Chart whenever a cut of that chart is made for inclusion in our Monthly Review.

KANSAS CITY

During October 22 banks were visited, of which 8 were member banks and 14 nonmember banks in Kansas, Nebraska, and Missouri. Representatives of this Bank also attended 3 group meetings in Missouri, 9 in Kansas, and the two-day convention of the Nebraska Bankers Association, which was celebrating its fiftieth anniversary.

According to reports from south central Kansas, the defense program continues to have its effect on the labor situation, drawing many young men from the country and the smaller towns to Wichita and to the east and west coasts to work in airplane factories. Welders from the oil fields are said to be earning \$99 a week in airplane and other factories.

Kansas and Oklahoma bankers, on the whole, are greatly encouraged by the agricultural outlook.

One bank visited in northeastern Kansas with total loans of \$444,000 has \$115,000 in CCC wheat loans and \$114,000 in real estate loans. Another bank with total loans of \$464,000 has \$154,000 in CCC wheat loans and \$94,000 in real estate loans. Another bank with total loans of \$150,000 has two-thirds of this amount in CCC wheat notes and in cattle loans. The above bank, a State nonmember, plans to borrow on its Government bonds in order to meet the rising demand for funds to buy cattle and milk cows to utilize plentiful grain and feed supplies, while other banks have sold CCC wheat notes to city banks to secure additional funds to lend on cattle. These cattle and CCC wheat loans largely account for a sharp increase in deposits over a year ago. Some bankers, however, aware of the current cyclical upswing in cattle numbers, which may continue for the next two or three years, and of the ultimate effect on cattle prices, are not encouraging their customers to stock cattle because they feel that present prices are too high. In sections that produced a good corn crop, bankers expect to make a good many CCC corn notes this fall.

Bankers, reflecting the sentiment of their communities, are anticipating considerable stimulation to business from the armament program now in progress, although its effect in most places as yet is barely noticeable. Cash farm income, employment and pay rolls, and construction for some time have been running above a year ago but retail trade generally has been distinctly disappointing.

DALLAS

During October 57 banks were visited, of which 48 were member and 9 nonmember institutions.

Southeast Texas

This itinerary included visits to 11 member and 7 nonmember institutions in the agricultural and industrial areas adjacent to Houston.

Operating results of the banks visited varied widely (from net

operating losses to earnings of record proportions) depending upon the loan and investment policy of the management. The small institutions serving the industrial areas have a lucrative outlet for funds in the form of personal and installment advances upon which their experience has been especially satisfactory. As a consequence, it is not necessary to resort, to any considerable degree, to outside investments. Institutions in the predominantly agricultural sections continue to encounter an abnormally low demand for credit. If earning power is maintained, it is necessary to do so through the investment portfolio. Such recent changes as the contracted banks have made in their investment policies have been toward shortening maturities or lightening of accounts in anticipation of opportunity or obligation to take on new offerings of Government securities which they feel will eventuate from defense costs and fiscal policies.

East Texas

Eighteen member banks and one nonmember in the region known as the East Texas oil field were included in this itinerary.

Oil production in this area, which is one of the largest oil fields in the world, is being held down by proration restrictions, but business conditions are generally healthy and satisfactory. Banks complained of a lack of outlets for their steadily increasing deposits. The demand for loans is gradually diminishing, and the banks are placing increasing reliance on investments for the maintenance of their revenues. Many of them sold their Governments last year at a nice profit and are reluctant to go back into the market for replacements at the high price level currently prevailing. They are, however, subscribing to new issues from time to time, and steadily building up their holdings of high grade municipals.

SAN FRANCISCO

During the month of October 36 banks were visited, of which 27 were member and 9 nonmember banks.

West Sacramento Valley, California

Continued expansion of the Mare Island Navy Yard activities has created an acute housing shortage covering a considerable area in the vicinity of Vallejo. Houses, hotels, and auto camps as far away as Fairfield are being used. This tends to bring a certain amount of additional business to local merchants and offsets to some extent the depressing effect of the poor prices and lack of markets for much of the fruit.

Yields of barley and rice are large, but are offset by low prices. Farmers would like to hold their barley for a better price, as it is considered altogether too low, but few of them are financially able to do so. Results in the livestock business, particularly sheep, have been good, notwithstanding that it was necessary to feed longer than usual last winter.

Washington and Yamhill Counties, Oregon

West and southwest of Portland is a highly diversified agricultural district whose boundaries are approximately Washington and Yamhill Counties in Oregon. In recent years the crops of wheat, oats, and similar farm crops have been succeeded by widely diversified crops of walnuts, filberts, prunes, cherries, berries, potatoes, hay, and seed crops.

A part of the berry crop is dried and ultimately sold for processing to get the vegetable colorings used in gelatins and in inspectors' stamps on meat products. Dairying brings in the largest income annually to the district.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS
October 1940

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	50	3	53	2	1/	0	0
New York	67	94	161	5	2,000	2	200
Philadelphia	80	34	114	4	400	2	135
Cleveland	174	171	345	12	3,276	2	135
Richmond	46	53	99	8	1,500	4	400
Atlanta	69	55	124	10	725 1/	0	0
Chicago	29	61	90	19	3,925	3	165
St. Louis	86	187	273	16	9,560	6	826
Minneapolis	64	73	137	5	1,036	0	0
Kansas City	8	14	22	17	5,030	3	502
Dallas	48	9	57	4	750	2	315
San Francisco	27	9	36	21	1,780	2	85

1/ Not completely reported