

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-757

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 28, 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 November.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, with a prominent initial "L" and a long, sweeping underline.

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	November	This Year	Total	On Par List	November	This Year
	(In thousands of dollars)							
Boston	141	141	0	0	469,330	469,330	0	0
New York	224	224	2	11**	981,529	981,529	4,500	16,800
Philadelphia	225	225	1	5	550,836	550,836	1,100	5,000
Cleveland	475	474	2	23	577,670	577,367	2,400	35,900
Richmond	394	232	1	17	481,555	396,447	200	21,400
Atlanta	484	52	0	2	302,655	70,987	0	2,800
Chicago	1,219	1,079	11	62	1,114,286	1,054,464	13,900	74,200
St. Louis	664	434	0	18	428,385	309,111	0	10,000
Minneapolis	420	78	0	7	189,225	53,439	0	8,700
Kansas City	487	402	1	8	198,993	178,372	300	13,300
Dallas	282	174	4	23	154,549	110,025	1,100	13,300
San Francisco	194	182	1	4	545,398	541,768	400	5,400
Total	5,209	3,697	23	180	5,994,411	5,293,675	23,900	206,800

*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-757-b
December 27, 1940
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS
FOR THE MONTH OF NOVEMBER 1940

BOSTON

During the month of November 21 banks were visited, of which 18 are member and 3 nonmember institutions.

The Eighteenth Annual Meeting of the Stockholders of the Federal Reserve Bank of Boston was held on November 7, 1940, with 326 representatives from 210 member banks in attendance, and in addition certain invited guests--our former directors and officers, the members of the Industrial Advisory Committee, and the Bank Commissioners of the New England States--had been invited to attend. The principal speaker was Professor James Grafton Rogers, Professor of Law and Government at Yale University, who discussed changes in current economic conditions. The proceedings of the meeting are in process of publication and copies will be sent to the Board of Governors and our member banks.

All visits to banks were made closely following upon our letter to the bankers in the District asking for their cooperation in the matter of the financing of manufacturing concerns engaged upon or seeking defense contracts. There was a pronounced willingness on the part of bankers to cooperate. No banker visited reported recent demands made upon him for so-called "defense loans", nor did any banker look for an immediate demand. Several bankers indicated their willingness to make such loans wherever they could be obtained and requested that the Reserve Bank refer to them applicants from other sections of the District. Some of the larger banks of Boston and New York are actively soliciting defense loans throughout the District.

NEW YORK

During the month 87 banks were visited, of which 42 are member and 45 nonmember banks. Our attention continued to be concentrated chiefly upon nonmember banks in order to stimulate an interest in membership in the Federal Reserve System. Three applications were filed during the month and serious consideration is being given to the subject by several of the other banks visited. We also called upon some of the new member State banks to explain the procedure with respect to establishing and maintaining their reserve accounts and to assist their officers in using our various services, answering many questions,

and explaining our methods of operation. The officers of several of these banks have also been given special attention when they have called at our office.

Many banks have adopted schedules of lower rates on loans, especially for those on a secured basis, and this is tending to attract new business and keep loans from going out of the territory. A number of institutions are actively soliciting personal, automobile, and life insurance loans and in several of the larger villages an active mortgage demand is reported, but few loans are being negotiated under Titles I and II of the National Housing Act. One banker in a farming section expressed satisfaction with the competition of the Production Credit Association, stating that his bank has obtained some new business through refinancing farmers' current indebtedness to the Association and that the latter has on the other hand taken some poor loans which the bank was unable to grant and, in addition, he now finds it easier to obtain security from the farmers than heretofore.

PHILADELPHIA

During November representatives visited 22 member and 53 nonmember banks in various parts of this District. This total includes 22 special visits; 20 for the purpose of discussing membership in the System and two in connection with our services.

All banks in the State of Delaware were visited. Delaware's chief sources of income are: raising of grains, garden vegetables, fruit, and soy beans; poultry and poultry products; dairying; processing of leather; manufacture of paints, chemicals, fibre, airplanes, rayon, and dental supplies; shipbuilding; oil refining.

Banking conditions show some improvement since last year. Most bankers report a somewhat better demand for credit but, in a majority of instances, it has been for small loans. Institutions in the southern part of the State reported a good demand for mortgage money. This is attributed to the residential building program which has been under way since the nylon plant of the I. E. DuPont de Nemours Company was started at Seaford in the latter part of 1938. However, the rate of building has been declining in recent months. Loan liquidation, while slow in farming communities, was reported to be satisfactory.

Real estate values continue to improve, although few sales are being consummated. Rentals have increased, especially in the southern part of the State, because of better working conditions, and

one banker reported that holdings of other real estate have netted a profit of 3-1/2 per cent for the year to date.

Visits were made to 20 banks for the purpose of discussing membership. At three banks this subject was discussed with and at the request of the boards of directors. As a result, a request was received from one of these institutions to conduct the necessary examination after January 15, and we have received assurance from the president of another institution that he is certain that the board of directors of his bank will take similar action this week. The members of the other board interviewed were subsequently reported to be very much interested in having their bank a member of the System.

CLEVELAND

During November 285 banks were visited, of which 142 were member and 143 nonmember institutions. Three banks having resources of \$4,053,000 were admitted to membership.

While there has been criticism over the past several years of the flood of Government releases of various types pouring in newspaper offices, we are informed that the volume of publicity matter now being received from governmental departments and agencies, particularly the War Department, was so great that "it had become a nuisance". We understand that this matter was the subject of discussion at a recent meeting of the Kentucky Press Association.

From a small interior Kentucky town comes the suggestion (from the chairman of the executive committee of the Kentucky Bankers Association) of the possibility that the demand for war finance credits might exceed the capacity of local banks to meet them, with the result that some governmental agency would have to take the overflow. He offers the suggestion that, if the Federal Reserve System wants to be of real service, they could "act as middle-man arranging for assignment of claims under contracts and distribute the loans among banks in sections where there is no local demand for such financing. In this manner the banks in general would find an outlet for excess funds and the entire banking resources of the country would be brought to bear on the problem of defense financing, in a systematic manner rather than the resources of only a small proportion of banks who happen to be located in industrial centers." He further suggested that "such procedure would prove the ability of the Federal Reserve System to coordinate the banking resources of the entire country, and make them effective in an emergency, failure of which might lend emphasis to the current trend toward governmental control of banking, and perhaps the elimination of the system of independent banking."

There seems to be prevalent among a number of smaller banks the idea that the Federal Government is "trying to force a 1-1/2 per cent loan rate on the banks" in order to finance the defense program. It is argued that despite the excess reserve position of many banks the cost of servicing defense loans plus the risk involved in rigid governmental inspection does not entitle borrowers to such a low interest rate.

RICHMOND

During the month of November 61 banks were visited, of which 41 were member and 20 nonmember banks.

Tobacco production in North Carolina is indicated to be 10 per cent larger than was estimated earlier in the season, but the crop is still 42 per cent smaller than last year. Money returns on North Carolina tobacco, however, are not affected in the same proportion as production, for prices are around 20 per cent higher.

Lint cotton and tobacco will bring South Carolina farmers approximately \$59,000,000 compared with \$63,000,000 last year. The value of cotton is up about \$3,000,000 because of a 10 per cent larger crop, but tobacco will bring about \$7,000,000 less, mainly because of a 39 per cent smaller crop.

Christmas Club savings of \$31,200,000 have been distributed in the Fifth District, and a good part of this will augment the already good retail trade figures.

Although the Government loan is giving temporary strength to cotton prices, thoughtful bankers and others interested in maintaining the southern farmer's cash income are apprehensive of the consequences in view of the foreign market outlook.

There was considerable letdown in the awarding of defense contracts in the Fifth District during November, but, nevertheless, the amount of \$47,956,000 awarded is an important contribution to the business of this District.

ATLANTA

During November 38 banks were visited, of which 23 were member banks and 15 nonmember banks.

The steel making rate for the Birmingham and Gadsden districts (Alabama) for the first nine months of this year was 86.8 per

cent as compared with the national average of 77.8 per cent for the same period. Reports indicate that the month of October holds the record for production in some plants and fabrication and distribution have struck high levels, there being little chance of accumulation of inventories.

With the expectation of an even larger tourist season in Florida than last year's banner season and with other conditions, with but one or two exceptions, showing more than average gains over last year, there is justification for an optimistic outlook for the immediate future. The 1940 census shows a gain of 28 per cent in population for Florida, which is the largest increase for any State.

Debits to individual accounts during September (1940) in banks of the four reporting cities in Florida--Jacksonville, Miami, Pensacola, and Tampa--were 9.6 per cent above the same month last year, as compared with an increase of one-tenth of 1 per cent in the Sixth Federal Reserve District (26 reporting cities) and a decrease of 7.6 per cent for the United States as a whole. For the first nine months of this year debits to individual accounts in the reporting Florida banks were 14.6 per cent greater than a year ago. The increase during the same period in the Sixth District was 10 per cent and for the country as a whole 3.4 per cent.

Bankers in southern Mississippi reported fair business activity despite the poor crop conditions prevailing this year. In most communities the loss of income from cotton is said to have been offset to an appreciable extent by the production and sale of beef cattle--an activity that is making progress throughout most of the State. Liquidation of farm paper is said to have exceeded expectations and very little carry-over was reported.

CHICAGO

In November calls were made on 50 member and 17 nonmember banks. Seven State banks were admitted to the System, bringing the total number of admissions for the eleven months of 1940 to 52. Membership as of November 30 consisted of 309 State and 542 national banks, a total of 851.

All indications point to a heavy liquidation of bank loans in the agricultural sections during the marketing season of the next few months. The great question in the minds of most of the bankers is whether or not they can find satisfactory reinvestment. The tendency is still toward reducing interest paid on time deposits; in fact, a number of banks are discontinuing the interest payments entirely.

In Detroit, the banks in the metropolitan area state that their loans are 25 to 30 per cent higher than on June 30, some of these being attributable to defense activities either directly or indirectly. Generally, the banks in this District have experienced comparatively little loan demand as a result of the national defense program. The larger manufacturers who have received Army and Navy contracts as a rule have adequate working capital, making it unnecessary for them to borrow. However, several of the larger banks have applications for emergency plant facilities loans. In a number of other instances, manufacturers are contemplating plant expansions under emergency plant facilities contracts. A few of the smaller manufacturers who have received Government contracts have called on local banks for assistance. Some of these loans are being secured by an assignment of claims accruing in connection with Government contracts, and the Federal Reserve Bank has been instrumental in assisting such banks in consummating the assignments. In one or two cases the general conditions have been such as to cause the local banks to feel it inadvisable to be a party to the financing, and the Federal Reserve Bank with a view to cooperating in the national defense program has agreed to make immediate advances on an assignment of claims for payment.

ST. LOUIS

During the month our officers and field representative visited 204 banks, of which 65 are in Illinois, 57 in Missouri, 54 in Kentucky, 21 in Arkansas, five in Mississippi, and two in Indiana. The officers also called on 33 newspapers in towns where the banks are located.

Owing to lateness of the crop, production loans to Arkansas cotton planters are liquidating in smaller than the usual seasonal volume. The volume of such loans as well as commitments for handling cotton are relatively light as contrasted with years prior to the competition of CCC and other Government lending agencies, according to bankers interviewed. The present status of industrial bonds in portfolios of certain banks is giving concern to officers and directors. Quite a few bankers have stated that their future policy will be to eschew industrial, utilities, and similar issues in favor of the United States Government, State and city obligations. General demand for credit varies considerably with the several localities and banks, but on the whole shows improving trends, particularly in the recent past. Loan rates range from 5 to 10 per cent, with a large part bearing the major figure of the spread. It was noted that the condition of credit files shows continued betterment.

During November two banks were admitted to the System, making seventeen new State members since the first of the year. Several banks are in process of admission.

MINNEAPOLIS

During the month of November 39 banks were visited, of which 24 are member and 15 nonmember institutions.

Most of the loans (southeastern Minnesota) were being made at 6 per cent and 7 per cent, some at 5 per cent and 8 per cent with a few real estate loans at 4 per cent. One banker was working on a \$30,000 loan to the city at 3 per cent.

Earnings were reported as being equal or better than last year. One small bank will have the best year since the bank holiday, while another (four-year old bank) informed our representative that the first year he broke even, the second year earned 10 per cent, third year 14 per cent, and this year 25 per cent; this, despite competition by the Production Credit Association, which competition some bankers seem bitter about. One bank in a town of less than 1,400 will earn \$4,800 this year on float and exchange charges. One bank reported that the demand for loans was so great, it had become necessary to borrow, while another bank with a similar demand had sold Government bonds.

For the purpose of making available to newspaper editors business statistics gathered by our research department and to build up a more friendly relationship with the press, during the month representatives of our Bank called on approximately twenty newspaper editors in the State of South Dakota. We found that these editors were not only unaware of the fact that we could make available to them newspaper stories of a localized nature, but also that they were very eager to use this material.

To implement our new function of field representative and operating agent for the small business activities section of the National Defense Advisory Commission, an industrial coordination department was established on November 18. Letters were written to all banks in the District and to available lists of procurement and purchasing officers. Some response has been received from both groups, but sufficient time has not elapsed to enable us to appraise the results.

KANSAS CITY

During the month of November 53 banks were visited, of which 22 were member and 31 nonmember banks.

Officers of this Bank and the managing directors of its three branches held numerous conferences with bankers in the larger cities of the District in connection with financing the national defense activities of small business concerns. In addition to Kansas City, conferences were held with bankers in Oklahoma City, Tulsa, Denver, Wichita, Topeka, Pittsburg, Joplin, St. Joseph, Lincoln, and Omaha. The purpose of these conferences was dual in nature. One was to urge banks to furnish the names of customers not now on invitation lists of the Army and the Navy but who are equipped to take a part in the national defense program. The other equally important purpose was to inform banks fully as to the procedure in financing business firms that receive Government contracts.

Everywhere a willingness to cooperate was found. Bankers seemed especially appreciative that recognition is being given to the fact that the task of financing the small business concern is primarily the job of the local bank and that the Federal Reserve Banks, instead of competing for these loans, are confining their activities to helping small manufacturing concerns get some of this business and in acquainting local banks as to the procedure in financing it.

There was some criticism of the very large amount of duplication of effort. The banks are now being asked for lists of their customers who are not on invitation lists for Government bids while the Army and Navy, the Department of Labor, chambers of commerce, and other local groups have already made similar elaborate surveys, the results of which are already available to everyone.

There was also criticism of the announcement that the interest rate on these loans would be limited to 1-1/2 per cent. Officials of the Reconstruction Finance Corporation later clarified this statement, pointing out that this rate should apply only to certain preferred risks. But while all bankers saw the first statement, not so many saw or fully understood the correction. Large city banks, holding not only the deposits of their own communities but also the redeposited funds of their far-flung correspondents, are in a position to merchandise credit in large quantities at comparatively low rates. But the country bank, collecting its deposits in dribbles and lending them to farmers and local merchants in small quantities, has a very high unit overhead cost for both deposits and loans. Operating under cost factors so radically different from those of large city institutions, country bankers feel that a 1-1/2 per cent rate for them is out of the question.

DALLAS

During November 25 banks were visited, of which 17 were member and eight nonmember institutions.

While oil production in southern New Mexico is among the first of the region's industries in importance, there is no drilling in the fields at the present time and the oil men are discouraged over prospects in the near future.

Cattle men are doing exceedingly well. All spring calves have been sold or contracts made at prices generally ranging at from nine to eleven cents a pound. At these prices, and with the favorable condition of the stock, the calves are bringing from \$35 to \$55 a head, which is very profitable. As a consequence, cattle loans are being reduced sharply and many of the banks are having difficulty in placing surplus funds.

Crops are good in the irrigated sections, cotton and alfalfa production being 10 per cent to 25 per cent greater than in 1929. The dry farmers did not fare so well, except in a few scattered communities, because of the dry season. The wheat crop was almost a total failure, row crops were only fair, while broom corn was below average with the price not much more than the cost of production.

There is no manufacturing or mining in this section and, although we brought up the matter repeatedly, we could find no demand for industrial loans. Most of the bankers expressed the view that while the preparedness program would be reflected in a general business expansion of which this territory would receive indirect benefits, its direct effect would not be great. The general feeling was that England could withstand any attack and would take the offensive as soon as we could supply her with sufficient material.

Many of the bankers were worried over the high price of Government bonds and some have sold a part of their holdings; most of them of the longer maturities. Interest rates on time deposits run from 2 per cent to 2-1/2 per cent, which in most cases is unprofitable. Loans are generally low and deposits high, the latter having reached a record in some banks.

SAN FRANCISCO

During the month of November 52 banks were visited, of which 35 were member and 17 nonmember banks.

Central Arizona

Building permits in Phoenix for September were greater than for any prior month this year or any month last year. Many residences are being erected by well-to-do easterners for winter occupancy. Motor travel into the State has been above last year, and a good winter tourist crop is anticipated.

Higher prices for copper and other minerals have stimulated activity in mining.

Total production of all cotton in Arizona is forecast at 197,000 bales as against 202,000 bales last year, with yield per acre 417 pounds lint cotton as against 514 last year. Average production for the ten-year period (1929-38) was 154,000 bales, with yield 382 pounds per acre.

Owing to unseasonable temperatures and with the groves receiving less water, condition of oranges and grapefruit was much below normal. With increased acreage coming into bearing, the 1940 Arizona orange crop is estimated at 600,000 boxes as against 520,000 last year. Grapefruit production is placed at 2,800,000 boxes as against 2,900,000 in 1939.

Imperial Valley, California

Agriculturally, the Valley had a fair year. The lettuce deal, the largest in the Valley, was only fair, the melon deal, the next largest, was poor, as was the carrot deal. Growers of other vegetable crops had a successful season. Beet acreage approximates 10,000 acres, with yields of 18-20 tons per acre. Flax acreage has expanded to 100,000 acres, with a yield of 25 bushels per acre. Carrot and lettuce acreage is increasing. More of the acreage is coming into possession of larger, more stable owners. Thus, there are more big operators, and this, coupled with a reduction in dairies the last few years from 800 to 300, accounts for the fact that the population in the Valley has not increased in the last decade.

On account of the stationary population, there is no particular building activity. The banks in this area do not generally lend on real estate, owing to the high bonded indebtedness per acre and the fact that, while irrigation water is ample, adequate provision has not been made for proper drainage, which accounts for a considerable acreage going sour. The Federal Land Bank makes no loans in this area.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

November 1940

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	18	3	21	4	<u>1/</u>	1	150
New York	42	45	87	13	4,522	3	135
Philadelphia	22	53	75	<u>1/</u>	<u>1/</u>	6	590
Cleveland	142	143	285	12	732	8	485
Richmond	61	41	20	7	1,353	1	500
Atlanta	23	15	38	10	1,130	1	75
Chicago	17	50	67	5	1,660	3	235
St. Louis	61	143	204	10	910	2	100
Minneapolis	24	15	39	8	940	5	1,006
Kansas City	22	31	53	7	2,170	3	1,685
Dallas	17	8	25	4	300	2	2,425
San Francisco	35	17	52	13	1,300	0	0

1/ Not reported.