

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-674



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 8, 1940.

Dear Sir:

The Board receives a large number of special requests for articles appearing in the Bulletin, and it has been found convenient to prepare reprints of material apt to be of most general interest. These reprints have also been useful, where not specifically asked for, in answering inquiries on points which they cover.

The attached set of reprints includes all that have been made so far this year. Additional copies can be supplied if you desire them, and any suggestions as to their usefulness will be appreciated.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-675

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 13, 1940



Dear Sir:

There is enclosed a copy of a letter dated July 9, 1940, received by the Board from Mr. Louis F. Costuma, Chief Inspector, Police Department, City of New York, regarding the loss of twenty \$1,000 New York Federal Reserve notes, numbered B-00121446A to B-00121465A, inclusive.

In view of the large denomination of the above-mentioned notes, it appears that it would not be burdensome to the Federal Reserve Banks to comply with the request contained in Mr. Costuma's letter and, accordingly, it will be appreciated if you will notify his office if any of the notes are located at your Bank or branches, if any.

Very truly yours,

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

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-675-a

POLICE DEPARTMENTCITY OF NEW YORK

July 9, 1940

Federal Reserve Board,
Washington, D. C.

Gentlemen:

This department is investigating the loss, by theft on July 2, 1940 of twenty (20) \$1,000 Federal Reserve Notes, numbered from B-00121446A to B-00121465A inclusive. These bills bear the head of President Cleveland and were withdrawn from the Chase National Bank on or about May 17, 1940.

We would appreciate your causing the Federal Reserve banks throughout the country to be circularized with a view of stopping any of these bills, and notify this office should any be located.

Your cooperation is greatly appreciated and we thank you for anything you might do to aid us retrieve this money for the owner.

Yours very truly,

(Signed) Louis F. Costuma

Chief Inspector.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-676

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 16, 1940

Dear Sir:

The Board of Governors of the Federal Reserve System is advised that the following holidays will be observed by Federal Reserve Banks and branches during the month of August 1940:

August 1 (Thursday)	Nashville Memphis Denver	Primary election day Colorado Day
August 6 (Tuesday)	St. Louis Kansas City	Primary election day
August 24 (Saturday)	Dallas El Paso Houston San Antonio	Second primary election day
August 27 (Tuesday)	San Francisco Los Angeles	Primary election day
August 30 (Friday)	New Orleans	Birthday of Huey Long

On the dates mentioned the offices affected will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices concerned on each of the holidays with your credits for the following business day. No debits covering shipments of Federal Reserve notes for account of the head offices concerned should be made in your note settlements of August 6 and August 27.

Please notify branches.

Very truly yours,

F. A. Nelson,
Assistant Secretary.

TO PRESIDENTS OF ALL
FEDERAL RESERVE BANKS

R-677

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Thursday, July 18, 1940.

The following summary of general business and financial conditions in the United States, based upon statistics for June and the first half of July, will appear in the August issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve Banks.

Volume of industrial production increased rapidly during June and rose somewhat further in the first half of July. Distribution of commodities through retail and wholesale markets and by rail continued active.

Production

The Board's seasonally adjusted index of industrial production advanced from 106 in May to 114 in June. In that month, as in May, increases in activity were most marked in the iron and steel and textile industries where declines earlier in the year had been greatest.

Steel ingot production rose from 60 per cent of capacity at the beginning of May to 87 per cent in the latter part of June and was maintained at about that level in the first three weeks of July. Production of coke and pig iron showed similar sharp increases and iron ore shipments down the Lakes were at near-capacity levels. Demand for steel was general as most domestic steel-consuming industries were operating

at high rates. Exports of steel, which had declined in April, rose to earlier high levels in May and June, amounting to about 10 per cent of steel-producing capacity.

Automobile production, which had begun to decline in May, continued to decrease in June and the first half of July reflecting in large part seasonal influences. Retail sales of automobiles were in large volume and dealers' stocks of new and used cars declined from the high levels prevailing earlier.

In the textile industry there was a further sharp advance in activity at woolen mills, and at cotton mills output was reduced less than seasonally. Rayon production was maintained at earlier high levels while at silk mills activity remained near the unusually low rate reached in May.

Coal production continued in large volume during June, but output of crude petroleum declined in the latter part of the month, owing to reduced production in Texas fields.

Value of construction contract awards showed little change from May to June, according to F. W. Dodge Corporation figures for 37 eastern States. Awards for private residential building decreased more than seasonally, following a sharp rise in May, and contracts for private non-residential building also declined. Contracts for public construction increased further in June, owing in part to expansion in the construction of Army and Navy air bases.

Distribution

Department store sales in June were maintained at the May level, although usually there is a considerable decline, and the Board's seasonally adjusted index advanced to 93 as compared with 87 in May and a level of about 89 earlier in the year. Sales at variety stores showed little change from May to June, continuing at the advanced level that has prevailed since the beginning of the year. In the early part of July department store sales declined seasonally from the June level.

Freight-car loadings increased further in June. Shipments of coal and miscellaneous merchandise continued to expand and loadings of coke, which usually decline at this season, showed a substantial rise.

Commodity prices

Prices of a number of industrial materials, particularly steel scrap, copper, rubber, and silk, declined from the middle of June to the middle of July. Wheat prices also showed decreases in this period, while prices of livestock and products advanced owing partly to seasonal influences.

Agriculture

Production of major crops this season, according to the July 1 report of the Department of Agriculture, may be slightly lower than last season. Tobacco production will be sharply reduced from last year, when the crop was unusually large. Domestic supplies of wheat and other field crops as well as of vegetables and fruit are expected to show little change from last season. Indicated hog production this year will be about 10 per cent smaller than last year.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities increased during the five weeks ending July 10, chiefly as a result of increases in holdings of short-term United States Government obligations and in commercial loans. Holdings of United States Government bonds and loans to security brokers and dealers declined.

The monetary gold stock increased by \$885,000,000 in this five-week period, the largest gold acquisition for any corresponding period on record. This inflow of gold was reflected in a growth of \$310,000,000 in foreign bank balances with the Federal Reserve Banks and in increased deposits and reserves of member banks. On July 10, excess reserves of member banks amounted to \$6,833,000,000.

Government security market.

Prices of Government securities, which had advanced sharply in June, showed further increases after July 8 when the Treasury announced a new bond issue for cash subscription. Between June 10 and July 15 the price of the 1960-65 bonds rose about 3 points, and the yield on this issue declined from 2.52 per cent to 2.34 per cent as compared with 2.26 per cent at the year's peak in prices on April 2.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-673

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 19, 1940

Dear Sir:

There are enclosed for your information a table showing applications for membership received by the Board during 1940, and a statement containing excerpts from the bank relations reports submitted by the Federal Reserve Banks for the month of June.

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

Very truly yours,

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

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Applications for Membership Received
by the Board during 1940

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

* Newly organized bank.

July 18, 1940
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS FOR THE
MONTH OF JUNE 1940

BOSTON

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

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

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

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

NEW YORK

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

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

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

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

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

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

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

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

Summary of Preferred Capital Issues

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

PHILADELPHIA

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

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

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

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

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

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

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

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

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

CLEVELAND

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

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

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

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

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

RICHMOND

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

Carroll, Cecil, and Harford Counties, Maryland

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

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

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

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

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

Halifax, Mecklenburg, and Pittsylvania Counties, Virginia

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

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

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

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

ATLANTA

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

Central Florida

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

Eastern Central Georgia

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

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

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

CHICAGO

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

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

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

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

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

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

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

ST. LOUIS

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

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

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

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

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

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

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

MINNEAPOLIS

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

Eastern South Dakota

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

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

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

Western South Dakota

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

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

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

West Central Minnesota

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

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

KANSAS CITY

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

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

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

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

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

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

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

DALLAS

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

West Texas

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

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

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

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

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

-13-

R-678-a

SAN FRANCISCO

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

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

June 1940

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

1/ Not reported

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-679

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 20, 1940

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of June 1940.

Please credit the amount payable by your Bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by mail the amount and purpose of the credit.

Very truly yours,

O. E. Foulk
O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-679-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JUNE 1940

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	25,011	816	25,827	\$ 468.65	\$ 288.37	\$ 180.28
New York	66,821	-	66,821	1,212.52	952.75	259.77
Philadelphia	16,742	849	17,591	319.20	249.17	70.03
Cleveland	30,425	827	31,252	567.09	262.51	304.58
Richmond	24,400	815	25,215	457.55	212.56	244.99
Atlanta	38,765	815	39,580	718.21	239.76	478.45
Chicago	59,839	882	60,721	1,101.83	1,225.58	123.75(a)
St. Louis	41,059	815	41,874	759.84	240.59	519.25
Minneapolis	20,333	814	21,147	383.73	198.91	184.82
Kansas City	40,306	815	41,121	746.17	273.06	473.11
Dallas	34,070	845	34,915	633.56	273.39	360.17
San Francisco	46,179	822	47,001	852.87	418.01	434.86
Board of Governors	374,426	-	374,426	6,794.25	10,180.81	-
Total	818,376	9,115	827,491	15,015.47	15,015.47	3,510.31 123.75(a) 3,386.56

(1) Based on cost per word (\$.018145780) for business handled during the month.

(2) Payments by Banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,495.11) and wire rental (\$8,685.70). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

(a) Credit--reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-680

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 20, 1940

Dear Sir:

In accordance with the customary procedure, there is transmitted herewith, for your information, a copy of the certificate of the auditor of the Federal Reserve Bank of Atlanta in connection with his audit of the accounts and records of the Board's Fiscal Agent for the period January 1 to June 30, 1940, inclusive.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-680-a

I, E. P. Paris, hereby certify:

- (a) That a complete audit has been made of all entries in the account - "Board of Governors of the Federal Reserve System - General Fund Account" for the period January 1, to June 30, 1940, inclusive.
- (b) That all cash received by the Board as shown by the Cash Receipts Book has been deposited by the Fiscal Agent and properly credited by the Federal Reserve Bank of Richmond.
- (c) That all remittances made direct to the Federal Reserve Bank of Richmond by the Federal Reserve banks, in compliance with the Board's instructions, have been properly placed to the credit of "Board of Governors of the Federal Reserve System - General Fund Account".
- (d) That each expenditure made by the Fiscal Agent was properly authorized by an administrative officer of the Board.
- (e) That the items of receipts and expenditures shown by the books of the Fiscal Agent have been reconciled with the items shown in the statements of the Board's account prepared by the Federal Reserve Bank of Richmond.
- (f) That the balance as shown by the books of the Fiscal Agent has been reconciled with the balance standing to the credit of the Board of Governors of the Federal Reserve System on the books of the Federal Reserve Bank of Richmond as certified to by the Auditor of that bank.

Respectfully submitted,

(Signed) E. P. Paris

E. P. Paris,
Auditor.

July 17, 1940.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, July 23, 1940.

The following ruling will appear in the Federal Reserve
Bulletin:

Obtaining Payment for Purchase of Securities in Cash
Account Under Regulation T

The Board recently considered several questions regarding the provisions of Regulation T which relate to the maximum time permitted for obtaining payment in a special cash account under section 4(c) of the regulation. The general rule on this subject is stated in subdivision (2) of the section. Subject to a number of exceptions stated in subsequent subdivisions of the section, this subdivision provides that:

"(2) In case a customer purchases a security (other than an exempted security) in the special cash account and does not make full cash payment for the security within 7 days after the date on which the security is so purchased, the creditor shall, except as provided in the succeeding subdivisions of this section 4(c), promptly cancel or otherwise liquidate the transaction or the unsettled portion thereof."

Paying by sale of another security. - One inquiry related to the application of this provision to a question that may be described as follows:

A customer effects a purchase in a special cash account established pursuant to section 4(c) of the regulation. On the same day the customer sells in the account

another security which he owns but which he has not yet deposited in the account. The proceeds of the sale, which was effected "seller 10", are sufficient to make full cash payment for the purchase, but such proceeds will not be available to the broker until after the time applicable under section 4(c) for obtaining payment for the purchase. May the sale be considered to constitute payment for the security purchased, and thus make it unnecessary to take alternative action?

It is to be noted that a similar question was considered by the Board in the ruling published at page 1043 of the December 1938 Federal Reserve Bulletin on the subject of "Paying for Purchase in Special Cash Account by Selling Another Security". In that case the security sold was deposited in the account prior to the expiration of the time permitted for obtaining payment of the securities purchased. In the present case, although the sale was made within the required period, the securities so sold were not delivered into the account within that time.

It is recognized that such transactions might be evidence of an effort to evade the regulation in violation of section 4(a) which provides that:

"A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation."

Naturally, any such transaction should be carefully scrutinized for any such possibility, and any repetition of such a method of making payment by a customer would be especially subject to question. Assuming, however, that there is no such evasion or circumvention of the regulation, it is the view of the Board that the broker may, at his option, treat

the customer as having made payment for the purchased security at the time when the other security was sold, and that this would be permissible even though the security sold had not been deposited in the account. The same conclusion would, of course, follow if the security sold had been deposited in the account but happened not to be in form for "good delivery".

Delayed offer of payment. - An inquiry was presented as to a situation in which a broker or dealer does not obtain full cash payment within the period applicable to the transaction but is offered payment promptly after the period and before he has cancelled or otherwise liquidated the transaction. The question was whether the broker or dealer in such circumstances may accept such payment and consider the provisions requiring cancellation or liquidation for failure to obtain payment to have been met.

The section provides various exceptions for cases where a period other than the seven-day period would be more appropriate. These exceptions do not include any provision for a payment which is offered promptly after the period applicable to the transaction, and it does not appear why any additional time should be permissible in such circumstances if there is no other ground for additional time. The provision for cancelling or otherwise liquidating the transaction when payment has not been obtained within the applicable period is explicit. There are various exceptions, including provision for an extension of time under certain conditions by an appropriate committee

of a national securities exchange, and it is the view of the Board that in the circumstances described the delayed payment by the customer may not be accepted as a substitute for the cancellation or liquidation of the transaction. This would be the case whether a brokerage or a dealer transaction was involved.

Additional time for shipment of securities. - Subdivision

(4) of section 4(c) provides that:

"(4) If any shipment of securities is incidental to the consummation of the transaction, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be deemed to be extended by the number of days required for all such shipments, but not by more than 7 days."

Questions were raised as to whether certain periods required for the shipment of securities were covered by this provision, and whether they might be added together (to a total such extension not exceeding the seven days specified in the provision). Such questions were presented as to the time of shipment from the place of purchase to the broker, from the broker to the customer, and to and from the transfer office.

Assuming that such shipments are not a subterfuge but actually are incidental to the consummation of the transaction, it is the view of the Board that each such period is covered by the provision. In addition, all such periods may be added together, provided, of course, that the total such extension for any transaction does not exceed the seven-day maximum specified in the provision.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-682

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 25, 1940

Dear Sir:

Referring to the Board's letter of July 19, 1940 (R-678), there is enclosed, for your information, a copy of the Board's letter of this date to all Class A, B, and C directors of the Federal Reserve Banks advising them that in future copies of the material showing applications for membership received and excerpts from the bank relations reports submitted by the Federal Reserve Banks will be forwarded to them individually.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 25, 1940

Dear Sir:

It has occurred to the Board that Class A, B, and C directors of the Federal Reserve Banks may be interested in receiving regularly copies of the material prepared each month showing applications for membership received and containing excerpts from bank relations reports submitted by the Federal Reserve Banks during the previous month. Accordingly, there is enclosed, for your confidential use, a copy of the Board's letter R-678 dated July 19, 1940, together with its attachments.

Although it is probable that copies of these reports are being made available to you by the Reserve Bank, it was thought that there would be some advantage in forwarding copies to you directly. In the event you prefer not to receive further copies of this material, or desire them forwarded to you at a different address, it will be appreciated if you will so advise us. In the absence of such advice, future copies will be forwarded to you at the above address each month until further notice.

Very truly yours,

Chester Morrill,
Secretary.

Enclosure

TO THE DIRECTORS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-683

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1940



Dear Sir:

Under date of June 20, 1940, we transmitted to you a copy of a letter dated June 19, 1940, addressed by Chairman Eccles to the Chairman of the Banking and Currency Committee of the United States Senate and also a letter addressed to the Chairman of the Committee by Mr. Jesse Jones, Federal Loan Administrator, under date of June 14, 1940. For your further information in this connection there is enclosed herewith a copy of the printed hearings before a subcommittee of the Committee on Banking and Currency of the United States Senate on June 12 and June 14, 1940, on the subject of business loans by Federal Reserve Banks, in which Chairman Eccles' testimony is included, beginning at page 14, and Mr. Jones' testimony is included, beginning at page 44.

Very truly yours,

Chester Morrill,
Secretary.

(Enclosure sent only with addressed copies)

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS AND
THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-684

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 30, 1940

Dear Sir:

On August 8, 1939, the Board wrote a letter (R-518) to all Federal Reserve Banks requesting that it be furnished with certain information with respect to the various classes of insurance carried, premiums paid, losses incurred, etc., since the establishment of the Federal Reserve System.

Replies to this letter have been summarized for the information of the Board of Governors and a copy of the summary is enclosed. It will be noted from the summary that the System has paid insurance premiums, other than those on group life insurance, since its establishment of approximately \$17,200,000 and that claims collected from insurance companies on such insurance have aggregated about \$5,100,000, an excess of premiums paid of over \$12,000,000. In 1938, the last year for which figures were obtained, total premiums paid for such insurance aggregated \$553,800 and claims collected from insurance companies, \$139,300, the premiums exceeding claims collected by over \$400,000. The ratio of claims collected to premiums paid for all types of insurance, other than group life, has averaged approximately 30 per cent. As will be noted from the attached memorandum, the Government's experience under the losses in shipment act has been favorable.

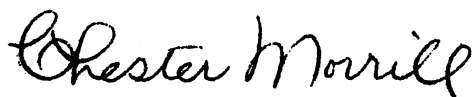
An analysis of these figures indicated to the Board that substantial savings could be effected if the Federal Reserve Banks by contractual agreements absorbed certain System losses instead of carrying insurance against them. While the Board has not attempted to work out any plan for this purpose, its General Counsel has advised it that, in his opinion, it is possible to work out an arrangement for this purpose which would be lawful. A copy of Counsel's opinion is enclosed for your information.

-2-

R-684

In these circumstances, the Board would favor the adoption of such an arrangement and is suggesting to the Chairman of the Presidents' Conference that he appoint a committee at his early convenience consisting of operating men and counsel to work out a plan under which insurance now carried against certain losses may be discontinued and such losses absorbed by the Federal Reserve Banks under contractual agreements entered into with each other. The Board will designate a representative from its operating staff and one from its legal staff to serve with the committee. Such a plan when worked out would, of course, be submitted to the directors of each Federal Reserve Bank, and to the Board of Governors, for their consideration and approval before becoming effective.

Very truly yours,



Chester Morrill,
Secretary.

(Enclosures sent only with addressed copies)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-685

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 2, 1940



Dear Sir:

To assist us in determining whether our present stock of the booklet, "The Federal Reserve System - Its Purposes and Functions", should be replenished at this time and in what amount, it will be appreciated if you will inform us how many copies you have on hand for distribution and what demand you anticipate this fall.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-686

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 5, 1940

Dear Sir:

Reference is made to our letter (S-221) of June 3, 1940, regarding the administration of Regulation U with respect to noninsured State banks. We are pleased to report that we are informed that the four States that had not been heard from have indicated their willingness to cooperate in the matter. In other words, all 48 of the State Bank Supervisors have now agreed to cooperate in the program, as outlined in the attachment to our letter of June 3, 1940, for the administration of the regulation with respect to noninsured banks.

The Board is very glad to see these arrangements completed and it very much appreciates the good offices of Mr. White and the cooperation of the State Banking Departments. As indicated in our letter of June 3, 1940, it is assumed that the Reserve Banks will cooperate fully with the State Banking Departments along the lines indicated.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-687

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 8, 1940



Dear Sir:

There are enclosed herewith copies of statement rendered by the Bureau of Engraving and Printing, covering the cost of preparing Federal Reserve notes from July 1 to July 31, 1940.

Very truly yours,

A handwritten signature in cursive script, appearing to read "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
July 1 to July 31, 1940.

Federal Reserve Notes, Series 1934

	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>\$500</u>	<u>\$1,000</u>	<u>\$5,000</u>	<u>\$10,000</u>	Total Sheets	Amount
Boston	70,000	12,000	-	16,000	800	650	100	100	99,650	\$ 9,237.56
New York	53,000	3,000	31,000	104,000	-	-	-	-	191,000	17,705.70
Philadelphia	24,000	4,000	25,000	13,000	-	-	50	50	66,100	6,127.47
Cleveland	5,000	20,000	27,000	5,000	500	500	-	-	58,000	5,376.60
Richmond	28,000	11,000	18,000	8,000	-	-	-	-	65,000	6,025.50
Atlanta	17,000	2,000	6,000	7,000	-	-	-	-	32,000	2,966.40
Chicago	75,000	42,000	54,000	31,000	-	-	-	-	202,000	18,725.40
St. Louis	9,000	7,000	5,000	7,000	-	-	-	-	28,000	2,595.60
Minneapolis	7,000	9,000	1,000	1,000	-	-	-	-	18,000	1,668.60
Kansas City	13,000	3,000	4,000	6,000	-	-	-	-	26,000	2,410.20
Dallas	10,000	6,000	2,000	4,000	-	-	-	-	22,000	2,039.40
San Francisco	<u>20,000</u>	<u>5,000</u>	<u>15,000</u>	<u>13,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,000</u>	<u>4,913.10</u>
	<u>331,000</u>	<u>124,000</u>	<u>188,000</u>	<u>215,000</u>	<u>1,300</u>	<u>1,150</u>	<u>150</u>	<u>150</u>	<u>860,750</u>	<u>\$ 79,791.53</u>

860,750 sheets @ \$92.70 per M \$79,791.53

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-688

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 9, 1940

Dear Sir:

The Presidents' Conference Committee on Member Bank Operating Ratios has recommended that ratio analyses covering the year 1940 be made along substantially the same lines as for 1939. Accordingly a revision of form F.R. 456, used at most Federal Reserve banks last year as a combination work sheet and reporting form, is being prepared and a supply will be sent you under separate cover. A specimen copy is enclosed. It will be appreciated if, as soon as the tabulations usually made from the work sheets have been completed, you will return the forms to the Board for its temporary use.

Several Federal Reserve banks, to avoid the inconvenience of lending the completed 1939 forms to the Board, prepared duplicate copies of the desired figures on additional forms provided for that purpose. If it appears desirable at your bank to use duplicate copies of the form in supplying the requested data, please let us know in the near future approximately how many additional forms will be needed.

It is anticipated that the Board will again be in a position to supply aggregates of the operating ratios, by size groups and States or part-States within districts, to any Reserve bank which requests them. The data can also be furnished by various other groupings if desired. As nearly as can be foreseen now, it will take from four to six weeks from the time the work sheets are received to supply such aggregates.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



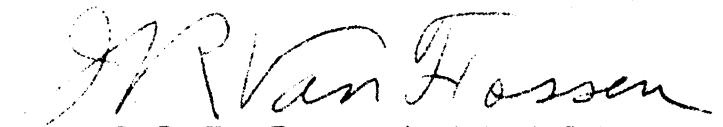
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 12, 1940

Dear Sir:

There are being forwarded to you today under separate cover copies of page 37 of the "Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E)", revised as of August 15, 1940. This page was revised in order to clarify the operations of the registered mail and express section of the Mail and Express unit, particularly with respect to shipments of currency and coin. An additional copy of page 37 is enclosed for your information.

Very truly yours,


J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-690

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 15, 1940

Dear Sir:

On Monday, September 2, Labor Day, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve Banks and branches will be closed.

The Board is advised that the following holidays also will be observed by Federal Reserve Banks and branches during September:

September 9 (Monday)	San Francisco Los Angeles	Admission Day in California
September 12 (Thursday)	Baltimore	Defenders' Day in Maryland

On the dates given the offices concerned will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices mentioned on each of the holidays with your credits for the next business day. No debits covering shipments of Federal Reserve notes for account of the Federal Reserve Bank of San Francisco should be included in your note clearings of September 9.

Please notify branches.

Very truly yours,

F. A. Nelson,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning papers,
Monday, August 19, 1940.

The following summary of general business and financial conditions in the United States, based upon statistics for July and the first half of August, will appear in the September issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve Banks.

Volume of industrial output was steady during July and the first half of August, after a rapid expansion in May and June. Employment continued to increase. Reflecting mainly awards for national defense projects, construction contracts rose to the highest level in ten years. Prices of basic commodities declined somewhat further.

Production

In July the Board's revised index of industrial production stood at 121 per cent of the 1935-39 average, according to preliminary data. This is the same as in June and 17 points above the level prevailing a year ago before the outbreak of war. In most lines activity was maintained at the levels reached in June or increased further.

Steel production in July was at about 85 per cent of capacity and in the first half of August there was an increase to about 90 per cent. Production of pig iron and coke and output of nonferrous metals were also in large volume. In the machinery, shipbuilding, and aircraft industries, where new orders had been large during the first half of the

year and a considerable backlog of unfilled orders had accumulated, activity was maintained at high levels in July, although ordinarily there are declines at this season. Lumber production declined sharply early in July but has subsequently increased accompanying a considerable rise in new orders.

In the automobile industry output declined sharply in July and the first half of August as plants were closed to prepare for the shift to new model production. The decline was greater than at this season in other recent years, reflecting the fact that production had been at high levels during the first half of 1940 and large stocks had accumulated. These stocks were reduced considerably in July as production was curtailed and retail sales continued large.

Textile production increased considerably further in July, reflecting chiefly a marked rise in activity at woolen mills where output is still below the levels of a year ago. Production of cotton and rayon textiles was maintained in July and was in larger volume than last summer, while activity at silk mills increased somewhat from the exceptionally low level reached in June. Shoe production increased seasonally, while output of manufactured foods, which in June had been unusually large for that time of year, showed less than the customary increase in July.

Coal production has risen further and shipments of iron ore down the Lakes have continued at near-capacity rates. Petroleum production has been curtailed sharply, however, reflecting partly a continued high level of stocks of petroleum products.

Value of new construction work undertaken increased sharply in July, owing mainly to a further rise in public construction, and was at the highest level in the past decade, according to reports of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. Awards for both residential and nonresidential private building increased somewhat, although some decline is usual at this season.

Increases were most pronounced in the Atlantic, Gulf, and Pacific Coast States, reflecting awards of additional contracts for naval air station and shipyard construction. In the central portions of the country there were generally small increases, although in some areas awards were lower.

Distribution

Distribution of commodities to consumers was sustained in July at about the levels prevailing in the first half of the year. Sales at department stores declined more than seasonally, while sales at variety stores showed little change, although a decline is usual in July.

Total freight-car loadings increased seasonally in July. Shipments of grain showed a considerable rise and loadings of coal and coke continued to advance, while shipments of miscellaneous freight, which include most manufactured products, declined by somewhat more than the usual seasonal amount.

Commodity prices

Prices of basic commodities declined somewhat further from the middle of July to the middle of August, with decreases chiefly in prices of commodities influenced by foreign supplies, such as lead, rubber, cocoa,

and coffee. Prices of steel scrap and zinc, on the other hand, advanced somewhat in this period.

Agriculture

Prospects for most crops showed little change in July, according to the Department of Agriculture. Production this year is expected to approximate the 1929-38 average and, considering carryovers, supplies of most crops will be large. Conditions for wheat and oats improved during July, while the corn crop showed some deterioration. A cotton crop of 11,429,000 bales was indicated for this season as compared with 11,817,000 bales last season.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities increased substantially during the five weeks ending August 14, owing mainly to purchases of direct and guaranteed securities newly issued by the United States Government. Sale of these securities caused a large increase in Treasury balances with the Federal Reserve Banks. As a result of this temporary development, excess reserves declined by \$450,000,000 in this period despite an increase of over \$500,000,000 in monetary gold stock.

Government security market

Prices of United States Government securities were relatively steady during July and the early part of August but declined slightly around the middle of August accompanying news of intensification of European warfare. The yield on the 1960-65 bonds increased to 2.39 per cent on August 14 compared with 2.34 per cent on July 1 and 2.26 per cent on April 2 at the year's peak in prices.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-692

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1940



Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of July 1940.

Please credit the amount payable by your Bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by mail the amount and purpose of the credit.

Very truly yours,

A handwritten signature in cursive script that reads "Josephine E. Lally".

Josephine E. Lally,
Deputy Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-692-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JULY 1940

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	29,518	792	30,310	\$ 527.97	\$ 338.52	\$ 189.45
New York	83,116	-	83,116	1,447.80	950.90	496.90
Philadelphia	21,474	804	22,278	388.06	248.67	139.39
Cleveland	34,014	815	34,829	606.69	283.65	323.04
Richmond	31,241	793	32,034	558.00	211.19	346.81
Atlanta	44,906	792	45,698	796.01	242.04	553.97
Chicago	64,284	856	65,140	1,134.67	1,234.70	100.03(a)
St. Louis	46,983	790	47,773	832.16	257.18	574.98
Minneapolis	22,300	794	23,094	402.27	187.17	215.10
Kansas City	42,686	793	43,479	757.36	273.01	484.35
Dallas	37,888	883	38,771	675.35	272.49	402.86
San Francisco	49,672	807	50,479	879.29	411.89	467.40
Board of Governors	360,955	-	360,955	6,287.47	10,381.69	-
Total	869,037	8,919	877,956	\$15,293.10	\$15,293.10	\$4,194.25 100.03(a) \$4,094.22

- (1) Based on cost per word (\$.017413982) for business handled during the month.
- (2) Payments by Banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,476.78) and wire rental (\$8,904.91). Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.
- (a) Credit--reimbursable to Chicago.

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

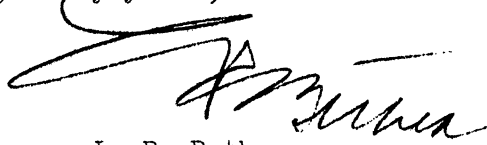
-2-

R-693

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
Total	5,209	3,425	13	93	5,994,411	4,751,174	15,800	98,100

* 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

R-693-c

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.)

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.

R-693-c
Page 3

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

R-693-c
Page 4

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

R-693-c
Page 5

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.

R-693-c
Page 7

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 rela-
tions 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 un-
til 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 rela-
tions activities, it might be desirable to have the Fed-
eral 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.

R-693-c
Page 12

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-694



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 22, 1940.

Dear Sir:

For your information there is enclosed a recapitulation of an audit submitted to the Secretary of the Treasury by Mr. M. R. Loanman, Chief, Division of Public Debt Accounts and Audits, showing the stock of incomplete face printed Federal Reserve notes, Series of 1928 and Series of 1934, and of uniform backs allocated to Federal Reserve notes, on hand at the Bureau of Engraving and Printing at Washington as at the close of business June 30, 1940.

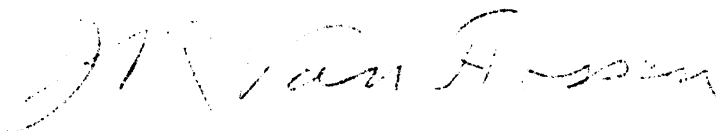
In his letter transmitting the report to the Secretary of the Treasury, Mr. Loanman stated that: "The audit extended from June 27 to July 1, 1940, inclusive. Except for the greater portion of Federal Reserve notes of Series 1934 of the \$5.00 denomination which had previously been placed under Auditor's seal, all stocks of notes of this series, including those held for specimen purposes by the Bureau, were piece counted. The small quantity of the \$5.00 denomination which had not been previously placed under Auditor's seal, was placed under such seal immediately after being piece counted during the audit. This resulted in all stocks of the \$5.00 denomination (except those held for specimens) being placed under Auditor's seal. All seals previously placed were properly inspected at that time. All stocks of Federal Reserve notes of Series 1928, except those held by the Bureau for specimen purposes, had previously been placed under Auditor's seal. An inspection was made of the seals on the various bins containing such stocks and the seals were found to be intact. The notes of this series held for specimen purposes, were piece counted.

"In view of the fact that a recent piece count has been made by this office of the entire stock of each denomination of uniform backs on hand in the Bureau, a package count and an inspection for denominations of the uniform backs allocated to Federal Reserve notes was deemed sufficient at this time.

- 2 -

"The total sheets of all denominations on the whole of Federal Reserve notes, faces and backs were found to be in excess of the total required reserve of 4,250,000 sheets."

Very truly yours,

A handwritten signature in cursive script, appearing to read "J. R. Van Fossen".

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

Enclosure

TO ALL FEDERAL RESERVE AGENTS

R E C A P I T U L A T I O N

FEDERAL RESERVE NOTES AND UNIFORM BACKS ALLOCATED TO FEDERAL RESERVE NOTES, SHEETS OF 12 SUBJECTS EACH
AS AT THE CLOSE OF BUSINESS JUNE 30, 1940

R-694-a

Series of 1928

Federal Reserve Bank	\$5	\$10	\$20	\$50	\$100	\$500	\$1,000	\$5,000	\$10,000	Total
Faces:										
Boston	68,660-2/3	1	--	6,663-2/3	11,343-1/3	1,535	293	15	24	88,535-2/3
New York	--	--	--	--	--	300	345	--	--	645
Philadelphia	--	--	--	30,105-1/3	9,974	399	100	--	--	40,578-1/3
Cleveland	76,711-1/3	--	1	24,026	12,306	30	252	50	25	113,401-1/3
Richmond	34,638-2/3	--	--	15,448-2/3	8,124	170	224	24	77	58,706-1/3
Atlanta	--	--	8,000	3,743	5,851-1/3	200	--	34	34	17,862-1/3
Chicago	1	--	61,858-1/3	36,341-2/3	30,660	698	402	79	32	130,072
St. Louis	--	--	--	5,423	3,982-1/3	474	300	--	--	10,179-1/3
Minneapolis	--	--	--	4,546	5,024-1/3	245	68	--	--	9,883-1/3
Kansas City	28,040-2/3	--	--	4,465	7,582-1/3	152	102	11	13	40,366
Dallas	--	27,871	23,712-1/3	2,989-2/3	3,001	60	250	9	7	57,900
San Francisco	--	--	92,731-1/3	8,922	12,251	200	226	40	48	114,418-1/3
Total Faces	208,052-1/3	27,872	186,303	142,674	110,099-2/3	4,463	2,562	262	260	682,548

Series of 1934

Faces:										
Boston	12,841-1/3	125,931-2/3	46,277-1/3	1,161	8,714	191	197	46	41	195,400-1/3
New York	144,966-2/3	158,833-2/3	158,495-1/3	54,285-1/3	52,940-1/3	307	993	182	110	571,113-1/3
Philadelphia	76,633-1/3	75,857-1/3	48,385	1,111	1,150	80	100	--	--	203,316-2/3
Cleveland	7,966-2/3	52,788	85,253	1,933-1/3	1,359	100	100	25	25	149,550
Richmond	7,766-2/3	39,500	43,633-1/3	11,385	8,794-2/3	400	230	99	51	111,859-2/3
Atlanta	31,675	32,900	23,800	7,375	1,055	400	401	90	46	97,742
Chicago	128,066-2/3	132,141	79,866-2/3	11,873-1/3	12,270-1/3	502	400	90	90	365,300
St. Louis	57,342-2/3	21,906-2/3	20,366-2/3	4,402	2,400	400	230	90	49	107,187
Minneapolis	26,132-1/3	19,866-2/3	23,300	325	1,474	200	100	--	--	71,398
Kansas City	8,366-2/3	22,036-2/3	21,166-2/3	901	300	400	300	99	48	53,618
Dallas	27,166-2/3	25,466-2/3	6,833-1/3	377	778	400	200	90	45	61,356-2/3
San Francisco	35,100	36,860	9,600	10,452-1/3	2,083	401	300	100	46	94,942-1/3
Total Faces	564,024-2/3	744,088-1/3	566,977-1/3	105,581-1/3	93,318-1/3	3,781	3,551	911	551	2,082,784

Backs:

Uniform Backs allocated to
the various denominations
of Federal Reserve Notes

568,500	656,500	630,500	106,000	120,500	--	--	--	--	2,082,000
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-695

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 23, 1940

Dear Sir:

There is enclosed for your information a copy of H.R. 10365, "A bill to facilitate preparation for national defense by amending section 3477 of the Revised Statutes", which was introduced in the House of Representatives on August 15 by Mr. Sumners, Chairman of the Judiciary Committee; together with a copy of the Board's letter of August 21, 1940, to Mr. Sumners expressing the belief that the enactment of the bill is desirable and in the public interest for the reasons stated therein and calling attention to the fact that the Federal Advisory Council had advised the Board prior to the introduction of this bill that it favored a proposal of this character.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures 2

(Copy of bill sent only with addressed copies)

TO THE PRESIDENTS AND CHAIRMEN OF ALL FEDERAL RESERVE BANKS
AND THE MEMBERS AND SECRETARY OF THE FEDERAL ADVISORY COUNCIL

R-695-a

August 21, 1940

Honorable Hatton W. Summers, Chairman,
Committee on the Judiciary,
House of Representatives,
Washington, D. C.

Dear Mr. Summers:

This is in response to your letter of August 19, 1940 requesting the views of the Board of Governors of the Federal Reserve System on H. R. 10365, "A bill to facilitate preparation for national defense by amending section 3477 of the Revised Statutes".

The bill would amend section 3477 of the Revised Statutes so as to permit the assignment of the entire amount of any claim of \$10,000 or more upon the United States to a bank or other lending agency as security for a loan or credit whenever such claim is based upon a contract entered into on behalf of the United States by the War Department, the Navy Department or the Procurement Division of the Treasury Department.

Section 3477 of the Revised Statutes makes assignments of claims against the United States null and void unless they are made after the claims have been allowed and warrants issued. This statute, which dates back to 1846, was enacted solely for the protection of the Government; but it is so strictly worded and has been so strictly construed that an attempted assignment which does not comply with the exact terms of the statute has been held void even as between the assignor and the assignee, so that it confers no rights in the assignee as against a trustee in bankruptcy of the assignor. National Bank of Commerce v. Downie, 218 U. S. 345. As a consequence, banks and other lending agencies which might otherwise be willing to extend credit to finance the performance of contracts with the Government are unable to rely upon assignments of amounts payable under such contracts as security, because they would find themselves in the position of general creditors of the contractors in the case of bankruptcy even though the funds which they advanced may have made the fulfillment of the contracts possible.

There are many manufacturers and other businesses, particularly the smaller ones, which may be deterred from bidding on

contracts arising out of the program for national defense because they have inadequate amounts of working capital and may encounter difficulties in financing the performance of such contracts. If such businesses could offer security in the form of assignments of claims against the Government growing out of such contracts, they would in many instances be able to obtain the necessary credit from their own local banks and other financing institutions, which have large amounts of idle funds awaiting employment. In many instances such credit could be obtained more simply and quickly from local institutions than from the lending agencies of the Government, whose commitments usually have to be passed upon in Washington.

The Federal Advisory Council, established under section 12 of the Federal Reserve Act, advised the Board, prior to the introduction of this bill, in regard to a proposal of this character, as follows:

"The Council believes this suggested amendment to the law especially important at this time, since the Government's preparedness program whenever put into effect will result in the necessity of placing large orders for materials of all kinds. Many small and medium sized business enterprises would be in a better position to accept and execute Government orders if they were able to use assignments of their claims against the Government as collateral for loans."

It is believed, therefore, that the enactment of this bill would facilitate financing the performance of Government contracts, would encourage additional business concerns to bid for such contracts and, by increasing the number of bidders, would tend to expedite, and reduce the cost of, the defense program.

For these reasons, the Board of Governors of the Federal Reserve System believes that the enactment of the bill H. R. 10365 is desirable and in the public interest.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R- 696
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1940

Dear Sir:

There is enclosed a copy of a "Proposal for a More Economical Method of Effecting the Interdistrict Settlement Fund Transit Clearing", which has been received from the Federal Reserve Bank of San Francisco.

It will be appreciated if you will have the plan reviewed and advise us whether you would favor its adoption. Any comments or suggestions with respect to the plan, or any modification thereof, which you desire to submit will also be appreciated.

Very truly yours,

A handwritten signature in cursive script, reading "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT SAN FRANCISCO

Proposal for a More Economical Method of Effecting the Inter-
district Settlement Fund Transit Clearing

The method herein proposed for reducing the cost of effecting the daily transit clearing through the Interdistrict Settlement Fund is predicated on a reduction in the number of telegrams, both outgoing and return wires, and the elimination of the detail now incorporated in the Board's return telegrams. In lieu of individual wires now sent to the Board by each of the 29 parent banks and direct settling branches, the amounts credited by participating offices in each district would be combined and one wire dispatched to the Board by the head office; return telegrams would be sent by the Board to each parent bank only, advising the amounts of credits due it and each of its direct settling branches, if any, from all other districts. The proposed method of settlement is as follows:

Each direct settling branch would wire its own head office the amounts credited to each parent bank and direct settling branch of other districts in the same manner as this information is now furnished to the Board.

Each head office having direct settling branches would combine the branch credits with its own credits and wire the Board the amounts credited by all offices in the district to each participating bank and branch of other districts. This wire would be in the same form as the present "EXNAG" but would show amounts credited by the district instead of by an individual office.

Statements of credit would be mailed as at present.

Upon receipt of the 12 incoming telegrams the Board would effect the settlement and dispatch a return telegram to each of the 12 parent banks. (This could be dispatched by mail if it will arrive in time.) Each such telegram would contain the aggregate amount credited the parent bank and the aggregate amount credited each of its direct settling branches by all other districts combined, and for proof, (as code BABE), the closing balance in the Interdistrict Settlement Fund, after completing the transit clearing. A specimen wire is attached. (If it would not be practicable for the Board to include the closing balance, the balance of the previous day would suffice, as at present.) The Board would also airmail to each parent bank a statement showing separately the amounts credited to it and to each of its direct settling branches by each of the other districts. Such a statement, while not absolutely necessary, would facilitate the localization and adjustment of any discrepancies developing between statement totals and amounts wired. If desired, in order to further isolate such a difference to the individual office concerned, statements of credit mailed by each parent bank to participating offices of other districts could include a memorandum of amounts credited by each of that bank's direct settling branches, but this additional work is not believed justified in view of the infrequency of such discrepancies.

Upon receipt of the return telegram from the Board, each parent bank would wire each of its direct settling branches the total credited it; appropriate entries would be passed by all offices to take up the amounts credited.

No attempt is made herein to suggest an accounting procedure for the various Federal Reserve Banks, as each bank would undoubtedly wish to adjust its procedure to its own accounting system. However, at the Federal Reserve Bank of San Francisco it is proposed that Head Office and each branch would clear the individual statements as received and, when all statements of a specified date received by any office are cleared, the grand total of all the statements of that date would be proved against the amount of credit wired by the Board for that office in the return settlement telegram of the corresponding date.

Under the above procedure a bank having no direct settling branches would send the same outgoing wire as at present, but the Federal Reserve Bank of San Francisco, with 4 direct settling branches, would send 1 instead of 5 settlement wires to the Board. This decrease, based on an average of about 75 words per message and the June per word cost of \$.018145780, would approximate 7500 words, or \$136.00 per month. For all banks, the reduction from 29 to 12 outgoing wires averaging 80 words each would amount to 34,000 words, or \$617.00 per month.

It would appear that the Board would derive a benefit from the proposed procedure by reason of a more simplified settlement (12 incoming wires instead of 29) and the reduction in the number and content of the return telegrams. It is estimated that the return telegrams under this proposal would range from about 10 words for a bank having no direct settling branches to about 27 words for a wire to San Francisco with 4 such branches. One wire to San Francisco with 27 words, compared to 5 messages to the Twelfth District at present averaging about 83 words each, would effect a reduction in the return telegrams of 9,700 words per month, or, at the per word cost for June, of \$176.00.

While the saving computed on the basis of the current cost per word would not be fully realized, since the reduction in leased wire costs would not follow in direct proportion to a decrease in number of words, it is believed the ultimate saving would be in substantial amount and that the above proposal merits consideration as a means toward further economy.

SPECIMEN RETURN TELEGRAM

S F	
Exnov	8,110,451.24
S F	5,198,532.44
L A	729,795.64
Ptld	1,247,263.98
SLC	484,201.38
Seatl	450,657.80
Babe	507,407,402.72

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-697

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 30, 1940

Dear Sir:

Recently one of the Federal Reserve Banks submitted certain changes in discount rates applicable to industrial advances under Section 13b. The changes recommended were approved, but during their consideration there was suggested the desirability of a review of the existing schedules of rates of all the Federal Reserve Banks under Section 13b for the purpose of ascertaining, first, whether they were justified in the light of existing conditions and, second, whether the schedules of rates for all districts should be made uniform.

The Board, therefore, is suggesting that the Chairman of the Presidents' Conference place this subject on the program of the forthcoming Conference, which, it is understood, has been called for September 27, 1940. It is hoped that the discussion will bring out fully the reasons for the conclusions reached on both of these questions as to which the Board desires to be advised for its information in passing upon the rates.

Very truly yours,

A handwritten signature in black ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Copy to all Chairmen of Federal Reserve Banks

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-698

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 9, 1940



Dear Sir:

The Judiciary Committee of the House of Representatives on September 6, 1940, made a favorable report to the House on H.R. 10464, "A bill to assist in the national defense program by amending sections 3477 and 3737 of the Revised Statutes to permit the assignment of claims under public contracts", which is a substitute measure for H.R. 10365, a copy of which was forwarded to you with the Board's letter dated August 23, 1940 (R-695).

A copy of H.R. 10464, together with a copy of the Committee Report, is transmitted herewith for your further information on this subject.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosures 2

(Enclosures sent only with addressed copies)

TO THE PRESIDENTS AND CHAIRMEN OF ALL FEDERAL
RESERVE BANKS AND THE MEMBERS AND SECRETARY
OF THE FEDERAL ADVISORY COUNCIL.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-699

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 10, 1940

Dear Sir:

There is transmitted herewith, for your information, a copy of a press release of September 9, 1940, containing a statement of Chairman Joseph C. O'Mahoney of the Temporary National Economic Committee on "The Financial Problem of Small Business", a report prepared by the Investment Banking Section of the Securities and Exchange Commission under the direction of Peter R. Nehemkis, Jr.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure.

(Enclosure sent only with addressed copies)

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS AND THE
MEMBERS AND SECRETARY OF THE FEDERAL ADVISORY COUNCIL.

(Copy to the Presidents of all Federal Reserve Banks)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-700

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 10, 1940

Dear Sir:

There are enclosed herewith
copies of statement rendered by the
Bureau of Engraving and Printing, cov-
ering the cost of preparing Federal
Reserve notes from August 1 to August
29, 1940.

Very truly yours,

Josephine E. Lally.

Josephine E. Lally,
Deputy Fiscal Agent.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-700-a

Statement of Bureau of Engraving and Printing
for furnishing Federal Reserve Notes,
August 1 to August 29, 1940.

Federal Reserve Notes, Series 1934

	<u>\$10</u>	<u>\$20</u>	<u>Total Sheets</u>	<u>Amount</u>
Boston	83,000	13,000	96,000	\$ 8,899.20
New York	150,000	45,000	195,000	18,076.50
Philadelphia	53,000	18,000	71,000	6,531.70
Cleveland	45,000	18,000	63,000	5,840.10
Richmond	36,000	25,000	61,000	5,654.70
Atlanta	28,000	9,000	37,000	3,429.90
Chicago	135,000	67,000	202,000	18,725.40
St. Louis	23,000	7,000	30,000	2,781.00
Minneapolis	9,000	6,000	15,000	1,390.50
Kansas City	15,000	10,000	25,000	2,317.50
Dallas	13,000	6,000	19,000	1,761.30
San Francisco	<u>35,000</u>	<u>23,000</u>	<u>58,000</u>	<u>5,376.60</u>
	<u>625,000</u>	<u>247,000</u>	<u>872,000</u>	<u>\$80,834.40</u>

872,000 sheets @ \$92.70 per M. . . . \$80,834.40

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-701

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 16, 1940

Dear Sir:

On Saturday, October 12, Columbus Day, there will be neither transit nor Federal Reserve note clearing and the books of the Board's Interdistrict Settlement Fund will be closed. The offices of the Board and the following Federal Reserve Banks and Branches will be open for business as usual on that day:

Charlotte

St. Louis

Nashville

Little Rock

Memphis

Detroit

Minneapolis

Kansas City

Oklahoma City

Please notify branches.

Very truly yours,

F. A. Nelson,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-702

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 17, 1940

Dear Sir:

There is enclosed for your information a copy of the Board's Functional Expense Exhibit for the first half of 1940, which has been compiled from the semi-annual functional expense reports (Form E) received from the Federal Reserve Banks and branches. Additional copies are being forwarded under separate cover.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure.

TO THE CHAIRMEN AND PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Wednesday, September 18, 1940.

The following summary of general business and financial conditions in the United States, based upon statistics for August and the first half of September, will appear in the October issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve Banks.

Production and employment in August showed a further rise from the level maintained in June and July and distribution to consumers also increased. Prices of industrial materials were somewhat higher in the middle of September than a month earlier.

Industrial production

The Federal Reserve index of industrial production is estimated at 123 in August as compared with 121 in June and July and 111, the low point for the year, in April. This rise has reflected chiefly the direct and indirect effects of the defense program on industries producing durable goods and textiles. Steel production rose further in August as new orders for steel continued in large volume, and for the month as a whole mills operated at 90 per cent of capacity. Following a temporary decline over the Labor Day week, the rate of output advanced to 93 per cent of capacity in the third week of September. In most branches of the machinery industries activity showed a continued expansion in August and there were further sharp increases in shipbuilding and the manufacture of

aircraft. With the growth in production of finished durable goods, consumption of nonferrous metals advanced to the highest levels since last winter.

Output of automobiles was in small volume in August owing to the seasonal change-over to 1941 model cars. The low point in production was reached early in August; there was a gradual rise later in that month followed by a sharp advance in the first two weeks of September as most companies began volume production on new models. Lumber production, which had declined in July, rose considerably in August.

Textile mill activity continued to increase in August and was at the highest level since last January. Cotton consumption advanced considerably further and silk deliveries rose from the small volume of recent months. Activity at wool textile mills increased seasonally, following a sharp rise in July, while at rayon mills activity showed a less than seasonal increase but continued at a high level.

Mining of bituminous coal in August was maintained in large volume for the season, while production of anthracite declined. Output of crude petroleum declined somewhat further.

Value of new construction work undertaken in August was at about the same level as in July, according to reports of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. The volume of contracts for public projects continued unusually large and the amount of new private work started was larger than in July. Residential building was at the highest level in recent years, on a seasonally adjusted basis,

reflecting further increases in both private and public contracts.

Distribution

Distribution of commodities to consumers increased considerably from July to August. Sales at department stores and by mail order houses showed a sharp rise and there was a less than seasonal decline in variety store sales. In the early part of September department store sales continued to increase.

Freight-car loadings advanced from July to August when little change is usual. Shipments of coal and miscellaneous freight increased while loadings of grain showed more than a seasonal decline.

Commodity prices

Prices of several industrial materials, including copper, zinc, steel scrap, lumber, hides, and print cloth, advanced somewhat from the middle of August to the middle of September and, owing partly to seasonal developments, prices of foodstuffs were also higher. Prices of most other commodities showed little change in this period, although some paper items were reduced and several new models of automobiles were announced at advanced prices.

Agriculture

Production prospects for most major crops increased during August, according to the Department of Agriculture. On the basis of September 1 conditions the cotton crop was estimated at 12,772,000 bales, about 1,340,000 bales more than was indicated at the beginning of August. Preliminary estimates by the Department indicate that cash farm income,

including Government payments, will be about \$8,900,000,000 for the calendar year 1940 as compared with \$8,540,000,000 last year.

Bank credit

Commercial loans increased somewhat at banks in New York City and in 100 other leading cities during the four weeks ending September 11, while their holdings of investments showed little change.

United States Government security prices

United States Government security prices increased in the last half of August and the first week in September and were steady in the second week in September.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-704

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 17, 1940

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of August 1940.

Please credit the amount payable by your Bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by mail the amount and purpose of the credit.

Very truly yours,

A handwritten signature in cursive script, appearing to read "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF AUGUST 1940

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	24,651	751	25,402	\$ 460.28	\$ 265.36	\$ 194.92
New York	67,221	-	67,221	1,218.04	965.69	252.35
Philadelphia	16,500	762	17,262	312.79	251.03	61.76
Cleveland	31,154	774	31,928	578.54	329.62	248.92
Richmond	36,209	752	36,961	669.73	385.65	284.08
Atlanta	40,880	751	41,631	754.35	237.91	516.44
Chicago	59,304	822	60,126	1,089.48	1,242.57	153.09(a)
St. Louis	42,953	751	43,704	791.92	222.64	569.28
Minneapolis	23,152	749	23,901	433.09	191.37	241.72
Kansas City	39,837	751	40,588	735.45	273.01	462.44
Dallas	35,112	779	35,891	650.35	268.30	382.05
San Francisco	48,637	763	49,400	895.13	411.89	483.24
Board of Governors	362,291	-	362,291	6,564.72	10,108.83	-
Total	827,901	8,405	836,306	\$15,153.87	\$15,153.87	\$3,697.20 153.09(a) \$3,544.11

(1) Based on cost per word (\$.018120006) for business handled during the month.

(2) Payments by Banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,170.36) and wire rental (\$9,380.08) less amount (\$441.61) representing reimbursement for the cost of sending messages between the Washington office of the Leased Wire System and the local telegraph offices of the Treasury, Reconstruction Finance Corporation, and the Commodity Credit Corporation. Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

(a) Credit--reimbursable to Chicago.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

104

R-705

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 17, 1940

Dear Sir:

There is enclosed a copy of a letter dated August 21, 1940, which the Board has received from the Treasury Department, transmitting a copy of Report No. 2783 of the House of Representatives, dated July 11, 1940, with respect to the destruction of certain Fiscal Agency records, and a form for reporting to the Treasury Archivist the disposition made of the records on the list.

Any questions regarding the disposition of the useless records should be taken up with the Treasury Department.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosures

(House of Representatives Report sent only with addressed copies.)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-705-a

TREASURY DEPARTMENTWashington

August 21, 1940

AUTHORIZATION FOR THE DISPOSITION
OF USELESS RECORDS

TO Board of Governors of the Federal Reserve System

Attention: Division of Bank Operations

Pursuant to the terms of the act of August 5, 1939, concerning the disposition of certain records of the United States Government, permission has been granted in House Report No. 2783, 76th Congress, Third Session, dated July 11, 1940, for the disposition of the records described in the following list of useless papers:

Various Federal Reserve Banks - January 23, 1940
Federal Reserve Bank of New York,
Government Bond Department - February 6, 1940

Under the terms of section 5 of the act of August 5, 1939, disposition may be made by one of the following methods:

- (a) By sale, upon the best obtainable terms after due publication of notice inviting proposals therefor;
- (b) By causing them to be destroyed;
- (c) By transfer (without cost to the United States Government) to any State or dependency of the United States of America or to any appropriate educational institution, library, museum, historical, research, or patriotic organization therein, that has made application *** therefor, through the Archivist of the United States.

You are hereby instructed to dispose of the records described in the lists referred to above, by one of the methods indicated in the preceding paragraph. Records containing confidential information should not be disposed of by sale as waste paper unless their character as records has been destroyed, nor should they be transferred to another institution without the consent of the Administrative Assistant to the Secretary.

If records are to be transferred to another institution pursuant to an application received through the Archivist of the United States, arrangements for such transfer should be made through the Treasury Archivist.

If records are to be sold, a separate account should be kept of the cost of the sale and the amount of the purchase price received, and the moneys derived from the sale should be paid into the Treasury of the United States.

A report of the disposition of the records on the list indicated above should be made on the attached form in duplicate, and should be submitted to the Treasury Archivist not later than November 1, 1940.

(Signed) C. R. Schoeneman
Acting Administrative Assistant
to the Secretary.

Enclosures

Field Offices Form

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 dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, with a large initial "L" and "P".

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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-707

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 23, 1940

Dear Sir:

Your advice will be appreciated as to whether the information contained in the monthly statement rendered by the Bureau of Engraving and Printing, covering the cost of printing Federal Reserve notes, is of sufficient value to warrant furnishing your Bank a copy thereof, as is the present practice.

It is understood the Federal Reserve Banks receive currently from the Office of the Comptroller of the Currency bi-monthly statements showing by denominations Federal Reserve notes printed, and the Board wires each Federal Reserve Bank on the last day of each month the amount payable to the Bureau of Engraving and Printing for the printing of Federal Reserve notes during the calendar month.

A copy of our letter, R-700, of September 10, 1940, enclosing a copy of this statement for the month of August, is attached.

Very truly yours,

A handwritten signature in cursive script that reads "F. A. Nelson".

F. A. Nelson,
Assistant Secretary.

Enclosures 2

(Enclosures sent only with addressed copies.)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-703

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 27, 1940



Dear Sir:

As you know, section 21(a)(2) of the Banking Act of 1933 makes it unlawful for persons and certain organizations to engage in the business of receiving deposits unless such person or organization (1) is incorporated and authorized to engage in such business by the laws of the United States or of any State, territory, or District, or (2) shall be permitted by any State, territory, or District to engage in such business and shall be subjected by the laws thereof to examination and regulation, or (3) shall submit to periodic examination by the banking authority in the State, territory, or District where such business is carried on and shall make and publish periodic reports of its condition in the same manner and under the same conditions as is required by law in the case of incorporated banking institutions.

For your information in connection with this subject, the Board has been advised by the Department of Justice that there is pending in one of the judicial districts of Illinois a case brought under the provision of law referred to above against a so-called "currency exchange". This case is regarded by the Department of Justice as a test case to determine whether prosecutions will be had of other currency exchanges operating in such State. We will advise you of the outcome of this case upon receipt of such information from the Department of Justice.

For your further information, it has come to the attention of the Board that in certain sections of the country organizations known as "Exchange-Trusts" have been established in small towns having no banking facilities, which organizations purport to be members of the "National Exchange-Trust System" located in Washington, D. C. It appears that in some cases the "Exchange-Trusts" accept deposits withdrawable by check and savings deposits evidenced by pass books. They conduct a "general exchange business" for the member-patrons, cashing checks, receiving money, drafts, checks and other exchange items for the account of their patrons. Their income is usually derived from service charges on checking accounts and commissions on

loans which purport to be made from one customer to another rather than direct from the "Exchange-Trust" to the customer. These so-called "Exchange-Trusts" may, possibly, be operating in violation of section 21 of the Banking Act of 1933, depending on whether they comply with the provisions of such section.

In a case involving an "Exchange-Trust" which was recently brought to the attention of the Board by one of the Federal Reserve Banks, the Federal Reserve Bank contacted the State banking authorities to determine whether the "Exchange-Trust" was being operated under the State law. It was found that it was not being so operated and the State authorities took steps to have the "Exchange-Trust" terminated. We understand that the Federal Bureau of Investigation has conducted an investigation of the National Exchange-Trust System and has been unable to establish its existence in Washington. We are advised, however, that the title "National Exchange-Trust System" and also a charter, constitution, and by-laws of a so-called "Exchange-Trust" have been copyrighted by Elmon Armstrong and Co. As you know, of course, the copyright laws do not grant authority to do business.

The above is written solely as a matter of information and it is not intended to suggest any departure from the present practice of reporting apparent violations of section 21 of the Banking Act of 1933 to the appropriate authorities.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R- 709

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 30, 1940



Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required by your bank (including branches, if any) during the calendar year 1941:

<u>Form</u>	<u>Title</u>
F. R. 34	Daily balance sheet
F. R. 38	Classification of discounted and purchased bills held at the end of the month
F. R. 95	Monthly report of current earnings
F. R. 96	Monthly report of current expenses
F. R. 96a	Monthly report of reimbursable expenses
F. R. 160	Monthly report of receipts and payments of paper currency
160A	
160B	
160C	
E	Semiannual functional expense report.

Please show separately the number of copies of each form, except Form F. R. 34, required if revised and the number if not revised.

In the case of Form F. R. 34, please state the number of forms required for the head office and for each branch, if any, separately, and indicate whether you desire forms ruled with double or with single columns on the asset and liability sides. Unless otherwise instructed all forms will be punched as heretofore with four round, slotted holes with four-inch spacing. As it is understood that the usual paper stock is not suitable for Ditto machine use and some of the Federal Reserve Banks desire to make copies of the statement by that process, arrangements will be made on request to have any specified portion of the forms printed on Ditto Longrun ledger or similar stock.

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTONADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 2, 1940.

Dear Sir:

It will be appreciated if you will advise the Board the number of copies of the forms listed below that will be required at your bank (including branches, if any) during the calendar year 1941:

<u>Form</u>	<u>Title</u>
F. R. 5	Federal Reserve notes - Daily statement of Federal Reserve Agent.
F. R. 44	Monthly report of Federal Reserve notes showing the number of each denomination and aggregate amount received, issued to bank, and returned to the Comptroller of the Currency.

Very truly yours,

A handwritten signature in cursive script that reads "J. R. Van Fossen".

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

TO ALL FEDERAL RESERVE AGENTS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-711

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 7, 1940



Dear Sir:

When Congress enacted the Banking Act of 1933, it placed upon the Federal Reserve System a responsibility for the examination and supervision of holding company affiliates of member banks. This responsibility was emphasized by Congress recently when it enacted the Investment Company Act of 1940 and included therein the following exemption:

"SEC. 3.

* * * * *

"(c) Notwithstanding subsections (a) and (b), none of the following persons is an investment company within the meaning of this title:

* * * * *

"(4) Any holding company affiliate, as defined in the Banking Act of 1933, which is under the supervision of the Board of Governors of the Federal Reserve System by reason of the fact that such holding company affiliate holds a general voting permit issued to it by such Board prior to January 1, 1940; and any holding company affiliate which is under such supervision by reason of the fact that it holds a general voting permit thereafter issued to it by the Board of Governors and which is determined by such Board to be primarily engaged, directly or indirectly, in the business of holding the stock of, and managing or controlling, banks, banking associations, savings banks, or trust companies. The Commission shall be given appropriate notice prior to any such determination and shall be entitled to be heard. The definition of the term 'control' in section 2(a) shall not apply to this paragraph."

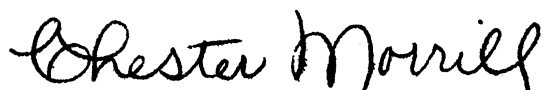
-2-

R-711

A similar exemption from the Investment Advisers Act of 1940 is contained in section 202 of that Act.

For your information in connection with the above exemptions, the Board has requested me to forward to you the enclosed copy of certain testimony submitted to the Subcommittee of the Committee on Banking and Currency of the Senate during hearings on the Investment Company and Investment Advisers Acts. This enclosure includes a report which the Board made to the Senate Committee on Banking and Currency and certain correspondence between the Board and the Securities and Exchange Commission relating to the exemptions above referred to.

Very truly yours,



Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

EXCERPT FROM HEARINGS BEFORE A SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY, UNITED STATES SENATE, SEVENTY-SIXTH
CONGRESS, THIRD SESSION, ON S. 3580, A BILL TO PROVIDE FOR
THE REGISTRATION AND REGULATION OF INVESTMENT COMPANIES AND
INVESTMENT ADVISERS, AND FOR OTHER PURPOSES.

(Page 925 and following)

"Senator HUGHES. While you are looking up that, I do not want to take you away from the subject of the audit, but I should like to say at this time that Senator Wagner has sent over to me correspondence that has passed between the Federal Reserve Board and the Commission, with respect to duplication of Federal supervision. There are letters and answers; and I suggest that they be put in the record for our information.

"(The letters referred to are as follows:)

"BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, April 22, 1940.

"Hon. Robert F. Wagner,
Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.

"DEAR SENATOR WAGNER: This refers to your letter of March 15, 1940, requesting a report from the Reserve Board on the bill, S.3580, relating to the registration and regulation of investment companies.

"The Board is advised that the evidence submitted to your committee discloses the desirability of legislation which will provide for adequate regulation of investment companies in the interest of the public and in the interest of investors. It is understood that representatives of the Securities and Exchange Commission and of investment companies are submitting detailed comments to your committee with respect to the various provisions of the bill, and the Board will not undertake to comment on all of these provisions.

"The Board has noted that enactment of the bill in its present form might result in duplication of Federal supervision of banks and holding company affiliates of banks. The Board feels that such duplication of supervision should be avoided and to that end representatives of the Board have discussed the matter with representatives of the Securities and Exchange Commission, and the Board and the Securities and Exchange Commission are in agreement that certain amendments should appropriately be made to the bill to avoid such additional duplication of supervision.

"These amendments are described in some detail in the attached copies of correspondence between the Board and the Securities and Exchange Commission and are to the following effect:

"Amend section 3(c) of the bill by adding an additional paragraph as follows:

"Any holding company affiliate, as defined in the Banking Act of 1933, which is under the supervision of the Board of Governors of the Federal Reserve System by reason of the fact that such holding company affiliate holds a general voting permit issued to it by such Board prior to January 1, 1940; and any holding company affiliate which is under such supervision by reason of the fact that it holds a general voting permit thereafter issued to it by the Board of Governors and which is determined by such Board to be primarily engaged, directly or indirectly, in the business of holding the stock of, and managing or controlling, banks, banking associations, savings banks, or trust companies. The Commission shall be given appropriate notice prior to any such determination and shall be entitled to be heard."

"Make such amendment as may be necessary to exempt from the 'investment adviser' provisions of the bill those holding company affiliates which are exempted from the provisions of the bill relating to investment companies.

"Make an appropriate amendment to section 26(a) of the bill to make it clear for the purposes of such section that at least in the case of any trustee which is a member bank of the Federal Reserve System the statement of the trustee's combined capital and surplus in its most recent published report of condition shall be conclusive.

"The Board recommends that such amendments be made to the bill.

"Very truly yours,

CHESTER MORRILL, Secretary.

"SECURITIES AND EXCHANGE COMMISSION,
Washington, April 13, 1940.

"Re Investment company bill (S.3580).
"BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, D. C.

"GENTLEMEN: The Securities and Exchange Commission is prepared to recommend to the subcommittee of the Banking and Currency Committee of

the Senate, before which hearings on the above bill are currently being held, that the bill be amended in the following respects:

"1. By adding to section 3(c) an additional paragraph which will exclude from the definition of 'investment company' those bank holding-company affiliates which hold general voting permits issued by your board and which are primarily engaged in bank holding-company activities.

"The necessity of distinguishing between investment companies on the one hand and those companies which are primarily holding companies on the other is, of course, recognized in the bill. Section 3(b) of the bill is particularly addressed to this problem, various phases of which are also dealt with in sections 3(a)(2) and 3(c)(4). The Commission understands, however, from conversations between members of its staff and members of the staff of your Board, that the exceptions provided in section 3(b) may not in all cases be adequate to exclude bank holding-company affiliates of the type above referred to. The Commission also recognizes that the determination of border-line cases, which under section 3(b)(2) of the bill is committed in the first instance to the Commission, can more appropriately be made a function of your Board when the company involved is a bank holding-company affiliate. On the other hand, the Commission feels that in any proceeding of this character before your Board, the Commission should be entitled, if it desires, to appear as a party and present evidence and advance arguments bearing upon the question at issue.

"The Commission also deems it of the utmost importance that only those bank holding-company affiliates which are primarily engaged in non-investment company activities be excluded. In other words, although the letter of section 3(b) may not be applicable in all of these situations, the Commission feels that the principle of that section should apply. In particular, it is important that the amendment be so drafted that it will not be possible for an investment company to escape the bill by the simple expedient of using a relatively small portion of its assets to acquire control of two or three banks.

"2. By making such amendment of paragraph (16) of section 45(a) as may prove necessary in order to make it clear that the term 'investment adviser' does not embrace bank holding-company affiliates of the type above referred to.

"3. By amending paragraph (1) of section 26(a) to make it clear that, at least in the case of any trustee which is a member bank of the Federal Reserve System, the statement of the trustee's combined capital and surplus in its most recent published report of condition shall be conclusive. It is expected that the specific language which will be recommended will closely follow that of paragraph (2) of section 310(a) of the Trust Indenture Act of 1939.

-4-

R-711-a

"We should appreciate being advised whether, in principle, the above recommendations meet with your approval. We shall also be glad to consider any precise language to accomplish the above objectives which you may care to suggest.

"Very truly yours,

ROBERT E. HEALY, Commissioner.

"BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, April 19, 1940.

"Hon. Robert E. Healy,
Commissioner, Securities and Exchange Commission, Washington, D. C.

"Dear Mr. Healy: This refers to your letter of April 18, 1940, advising that, in accordance with conversations between representatives of the Board and members of your staff, the Securities and Exchange Commission is prepared to recommend to the subcommittee of the Banking and Currency Committee of the Senate, before which hearings are being held on the investment-company bill, S.3580, that the bill be amended in certain respects in order to avoid additional duplication of supervision by Federal agencies of banks and holding-company affiliates of banks.

"The Board considers appropriate the suggestion that holding-company affiliates of member banks which obtain and hold voting permits issued by the Reserve Board under the provisions of the Banking Act of 1933 and which are primarily engaged in the business of holding the stock of and managing or controlling banks be exempted from the provisions of the proposed Investment Company Act, since these companies are subject to examination and supervision by the Reserve Board.

"As you know, from the information which has been submitted to representatives of your Commission during the conferences which have been held with members of the Board's staff, there are a number of holding-company affiliates of member banks which now hold voting permits issued by the Reserve Board. When it granted these permits, the Board, pursuant to authority given in the statute, in effect determined that such companies were engaged as a business in holding bank stocks and managing and controlling banks. If the Board should be required to make a determination in these cases, it would, on the facts now in its possession, determine that they are primarily engaged in the business of holding bank stocks and managing and controlling banks. Accordingly, the Board feels that it would involve unnecessary consumption of time and expense, both to the

Federal Government and the holding-company affiliates, and would not serve any useful purpose, for such a determination to be made in each of these cases. For these reasons, the Board suggests that these holding companies, a list of which has been furnished to your staff, which now hold voting permits and are therefore under supervision and examination by the Board be exempted from the provisions of the proposed investment company act by the terms of the act itself. The Board believes that such an exemption would be in conformity with the suggested principle under which only companies which hold voting permits and are primarily engaged in holding the stock of and managing or controlling banks would be exempted from the provisions of the proposed investment company act. (In addition to the holding-company affiliates to which reference is made above, there are a few banks which control other banks and hold voting permits issued by the Board. However, these are already exempted from the provisions of the bill under exceptions relating to banks.) In order to accomplish the exemption which the Board has in mind, it is suggested that section 3(c) of the bill, S.3580, be amended by adding an additional paragraph as follows:

"Any holding company affiliate, as defined in the Banking Act of 1933, which is under the supervision of the Board of Governors of the Federal Reserve System by reason of the fact that such holding company affiliate holds a general voting permit issued to it by such Board prior to January 1, 1940; and any holding company affiliate which is under such supervision by reason of the fact that it holds a general voting permit thereafter issued to it by the Board of Governors and which is determined by such Board to be primarily engaged, directly or indirectly, in the business of holding the stock of, and managing or controlling, banks, banking associations, savings banks, or trust companies. The Commission shall be given appropriate notice prior to any such determination and shall be entitled to be heard."

"You will observe that under this proposed amendment any holding-company affiliate of a member bank which hereafter desires to obtain a voting permit from the Reserve Board and be exempted from the provisions of the Investment Company Act must, after your Commission has had an opportunity to be heard, be affirmatively determined by the Board to be engaged primarily in the business of holding stock of and managing or controlling banks. It is believed that this procedure would effectively prevent evasion of the Investment Company Act by investment companies which might attempt to evade it by using a relatively small portion of their assets to acquire control of two or three banks.

"It is understood from your letter that the Commission will recommend such amendment as may be necessary to exempt from the 'investment adviser' provisions of the bill those holding company affiliates which are exempted from the provisions of the bill relating to investment companies. It is also understood that the Commission will recommend that

an appropriate amendment be made to section 26(a) of the bill to make it clear that at least in the case of any trustee which is a member bank of the Federal Reserve System the statement of the trustee's combined capital and surplus in its most recent published report of condition shall be conclusive.

"As representatives of your Commission were advised by members of the Board's staff, the Board has felt for some time that the statutes relating to the supervision of holding company affiliates of member banks should be strengthened. The Board feels that it would be more appropriate to consider these matters in connection with a broad investigation of banking and credit matters such as that which the Banking and Currency Committee of the Senate has been authorized to undertake under the provisions of Senate Resolution 125.

"The Board and its staff appreciate the cooperation of the representatives of your Commission in working out this problem.

"Very truly yours,

CHESTER MORRILL, Secretary.

"SECURITIES AND EXCHANGE COMMISSION,
Washington, April 20, 1940.

"Re Investment Company bill (S. 3530).

HON. CHESTER MORRILL,
Secretary, Board of Governors of the Federal Reserve System,
Washington, D. C.

"DEAR SIR: This will acknowledge receipt of your letter of April 19, 1940, regarding the above bill.

"The Commission understands from your letter that, if the Board were now required to determine whether those holding company affiliates referred to therein, which hold general voting permits issued by the Board prior to January 1, 1940, are primarily engaged in the business of holding bank stocks and managing and controlling banks, the Board would make an affirmative determination with respect to each of such holding company affiliates.

"From information which the Board has made available to the Commission, it appears that the bank-holding company affiliates referred to in

your letter are the following: BancOhio Corporation; Bank Shares Corporation; Barnett National Securities Corporation; Citizens & Southern Holding Co.; First Bank Stock Corporation; First Security Corporation of Ogden; Florida National Group, Inc.; Marine Bancorporation; Marine Midland Corporation; New Hampshire Bankshares, Inc.; Northwest Bancorporation; Old Colony Trust Associates; Shawmut Association; Transamerica Corporation; Trust Co. of Georgia Association; Trustees, First National Bank, etc.; Union Bond & Mortgage Co.; United States National Corporation; Wisconsin Bankshares Corporation.

"In view of certain financial information regarding these companies (which the Board has made available to the Commission in confidence), the Commission, with two possible exceptions hereinafter referred to, readily accepts the Board's conclusion that these holding-company affiliates are primarily engaged in the business of holding bank stocks and managing and controlling banks.

"The two possible exceptions to which reference has been made are Transamerica Corporation and Shawmut Association. It is understood that, as of December 31, 1939, the former company had approximately 40 percent of its assets invested in stocks of banks which it controls, and that approximately one-third of its assets consisted of securities of non-banking subsidiaries, most of which were wholly-owned and operated almost exclusively as adjuncts or virtual departments of controlled banks. Shawmut Association, as of the same date, had approximately one-fourth of its assets invested in stocks of a number of banks; such investment was equal to approximately one-third of its investment in stocks of other corporations; and the total assets of banks controlled by Shawmut Association, consisting substantially of investment securities which are under the control and management of the Association, aggregated several times as much as the amount of its investment in stocks of nonbanking corporations. The Commission recognizes that, despite the fact that a considerable portion of the assets of these two companies is invested in securities other than those of controlled banks, various other factors may properly be considered in determining whether they are companies primarily engaged in the business of holding bank stocks and managing and controlling banks. In view of the Board's familiarity with the operations of both of these companies, it is felt that it is appropriate for the Commission to accept the Board's judgment in this matter.

"Accordingly, the Commission will recommend to the subcommittee of the Banking and Currency Committee of the Senate before which hearings on the above bill are now being held that the bill be amended as suggested in your letter. The proposed wording of the amendment is likewise agreeable to the Commission.

"Very truly yours,

ROBERT E. HEALY, Commissioner.

"Mr. SCHENKER. Senator, with respect to that correspondence, this point is involved: There are certain companies which hold stocks of banks. For instance, take one of the Shawmut trusts: It has 20 percent of its assets consisting of majority holdings of a number of banks, and 80 percent of its assets consist of diversified securities. That investment company has qualified for a voting permit as a bank-holding company and, therefore, had to enter into an agreement with the Federal Reserve Board with reference to its supervision of its activities. That is one extreme example.

"On the other extreme you have the Transamerica Co., out on the coast, which has a great deal of its assets in banks but which does not own a majority of the outstanding; it owns only 40 percent of the Transamerica Bank. However, it has qualified as a bank-holding company, with a voting permit, with the Federal Reserve Board.

"Our purpose by this exchange of letters is to make it clear for the record that these are two situations which exist, that you have the problem, When is it a bank-holding company and when is it an investment company?

"We want specifically to call attention to the fact that if bank-holding companies are exempt, that exempts the type of situation such as Transamerica and exempts the Shawmut situations."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-712



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 10, 1940

Dear Sir:

Referring to the Board's letter R-593 of January 10, 1940, following is a statement of changes during September in the list of nonmember banks that have in force agreements with the Board pursuant to the provisions of Section 8(a) of the Securities Exchange Act of 1934:

Addition

Wisconsin
Milwaukee

Northern Bank

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-713
142



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 14, 1940

Dear Sir:

It has been proposed by one of the Federal Reserve Banks that a new unit be established in the Functional Expense report, Form E, to which would be charged the following types of expense:

1. Salaries of employees who are being trained for positions other than those to which they have been assigned and, during the process of training, carry no responsibility. (The case was cited of a department head being trained to supervise another department.)
2. Salaries of employees who are being trained for technical positions, such as operation of teletype, telephone, and I.B.M. equipment, and, in the process of training, carry no responsibility for the operation of equipment. (It was noted that the training for operation of teletype and I.B.M. equipment was conducted outside the Bank.)
3. Portions of salaries of employees who have been loaned by one department to another which are in excess of the maximum salary permissible under Form A for the position in the borrowing department to which the employee has been assigned.

It will be recalled that under a former provision of the Manual Governing the Preparation of Functional Expense Reports (Form E) charges such as described above under Number 1 and Number 2 were made to and remained in an educational and training unit. This provision was later changed to provide for the distribution of such expenses to the units for which the employees were being trained, because the fact that most of the Reserve Banks did not have special training classes made it difficult to obtain uniformity.

I should like to have your comments and suggestions with regard to the above-mentioned proposals.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning papers,
Thursday, October 17, 1940.

The following summary of general business and financial conditions in the United States, based upon statistics for September and the first half of October, will appear in the November issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve Banks.

Volume of industrial production increased sharply in September, owing mainly to a continued rise in output of durable manufactured products, and this month a further increase is indicated. Prices of basic industrial materials advanced in September and the first half of October.

Production

The Board's seasonally adjusted index of industrial production, which for three months had been at a level of 121 per cent of the 1935-39 average, advanced to about 125 per cent in September. In the durable goods industries increases in output were general. Steel production rose to 93 per cent of capacity, and in the first half of October the rate was slightly higher as new orders continued in large volume both from domestic and foreign sources. Steel exports amounted to about 20 per cent of ingot-producing capacity in August, the latest month for which data are available, with nearly three quarters of these shipments going to the United Kingdom and Canada. Activity in the machinery, aircraft, and shipbuilding industries advanced further in September following considerable

increases in August, and automobile output increased sharply as volume production of new model cars was rapidly attained. Plants producing railroad cars and locomotives also showed an expansion in activity. Lumber production continued to rise under the impetus of a growing volume of demand for defense program purposes.

Changes in output of nondurable manufactured goods and minerals in September were mixed. At wool textile mills activity advanced sharply further to near the peak reached last autumn, reflecting in part expanding production on Government orders. At cotton mills, however, activity showed less than the usual seasonal rise, following a sharp increase in August, and rayon deliveries declined somewhat owing partly to a strike at plants of one large producer. Shoe production also declined in September. Paper production remained in reduced volume following a high rate of output during the early summer accompanying some inventory accumulation at that time. Output of most metals continued large during September. Crude petroleum production, which had been curtailed sharply during the summer, rose considerably, but coal production, which for several months had been maintained at high levels, showed a smaller increase than is usual at this season.

Value of new construction work started in September was lower than in July and August, according to reports of the F. W. Dodge Corporation and the San Francisco Federal Reserve Bank. The decline occurred chiefly in contracts for defense projects which had been large in the previous two months. Awards for private residential building showed

little change from recent high levels. Awards for other private work declined somewhat but continued considerably above the level of a year ago.

Distribution

In September and the early part of October department store sales showed somewhat less than the usual seasonal increase from the exceptionally high level reached in August.

Freight-car loadings rose somewhat more than seasonally in September, reflecting to a large extent increased shipments of miscellaneous freight. Loadings of coal, which have been large in recent months, showed less than the usual seasonal rise.

Commodity prices

Prices of most industrial materials, particularly lumber, steel scrap, nonferrous metals, hides, and wool, continued to advance from the middle of September to the middle of October, and there were also increases in some manufactured products, notably cotton and woolen goods. Wheat prices were higher while prices of most other foodstuffs showed little change.

Bank credit

Commercial loans at reporting member banks in New York and 100 other leading cities continued to increase during the four weeks ending October 9, reflecting in part seasonal demands. Holdings of United States Government obligations decreased further with the result that total loans and investments of these banks showed little change.

United States Government security prices

Prices of United States Government securities advanced in the second half of September and the first week in October, rising close to the high level of the year reached early last April.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTONADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 11, 1940

Dear Sir:

The Board's Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E) contains the following provision on page 20:

"Charges for cash and security vault space (not book vault space) should be at the uniform rate of 12-1/2¢ per month per cubic foot of vault space occupied by compartments, chests, lock boxes or filing cabinets."

One of the Federal Reserve Banks has raised a question as to the interpretation of this provision in respect to overnight storage of busses or trucks containing fiscal agency securities, etc. used in current operations. At this Reserve Bank the vault space is divided into sections commonly termed "compartments", some of which contain safes, lockers or cabinets in which securities are stored under combination or lock control. The smallest of such compartments, which are without additional equipment, are used for the overnight storage of busses or trucks containing securities, etc. used in daily operations, and those so utilized for fiscal agency functions are assigned on a permanent basis under combination control and are not available for other purposes. This Bank has inquired whether the term "compartments" as used in the Manual is interpreted as applicable to such individual sections of the vault used exclusively for fiscal agency storage purposes and whether rental charges should be computed on the total space enclosed.

It will be appreciated if you will advise us whether your Bank makes a charge for such space and, if so, how the charge is determined; also, what changes you would recommend in the Manual to obtain uniformity in this regard.

Very truly yours,

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

E. L. Smead, Chief,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-716

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 18, 1940



Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of September 1940.

Please credit the amount payable by your Bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by mail the amount and purpose of the credit.

Very truly yours,

O. E. Foulk
O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF SEPTEMBER 1940

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	25,182	452	25,634	\$ 331.08	\$ 277.17	\$ 53.91
New York	70,765	-	70,765	913.97	878.08	35.89
Philadelphia	17,109	453	17,562	226.82	337.95	111.13(a)
Cleveland	33,403	455	33,858	437.30	279.44	157.86
Richmond	35,392	452	35,844	462.95	306.26	156.69
Atlanta	37,603	452	38,055	491.50	232.66	258.84
Chicago	58,629	492	59,121	763.58	1,254.34	490.76(b)
St. Louis	38,487	452	38,939	502.92	257.18	245.74
Minneapolis	20,583	452	21,035	271.68	191.37	80.31
Kansas City	39,747	452	40,199	519.19	273.01	246.18
Dallas	34,184	515	34,699	448.16	272.64	175.52
San Francisco	49,714	453	50,167	647.94	411.89	236.05
Board of Governors	717,200	-	717,200	9,263.07	10,308.17	-
Total	1,177,998	5,080	1,183,078	\$15,280.16	\$15,280.16	\$1,646.99 111.13(a) 490.76(b) <u>\$1,045.10</u>

(1) Based on cost per word (\$.012915598) for business handled during the month.

(2) Payments by Banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,451.98) and wire rental (\$9,333.67) less amount (\$477.48) representing reimbursement for the cost of sending messages between the Washington office of the Leased Wire System and the local telegraph offices of the Treasury, Reconstruction Finance Corporation, and the Commodity Credit Corporation. Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

(a) Credit--reimbursable to Philadelphia.

(b) Credit--reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-717

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 19, 1940



Dear Sir:

You will find enclosed copies of two memoranda designated as follows:

- (1) Duties of Advisory Commission under Section 124 of the Internal Revenue Code;
- (2) Analysis of Memorandum Entitled "Duties of Advisory Commission under Section 124 of the Internal Revenue Code".

The first of these memoranda refers to a procedure which has been approved by the National Defense Advisory Commission and the second is an analysis prepared in the office of the General Counsel of the Board of Governors.

These memoranda are sent to you for your information at this time but, pending such announcement as the Commission may make, the information contained therein has not been released for publication.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures 2

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS AND THE
MEMBERS AND SECRETARY OF THE FEDERAL ADVISORY COUNCIL.

DUTIES OF ADVISORY COMMISSION
UNDER SECTION 124 OF THE INTERNAL REVENUE CODE

(Title III, Section 302 of the Second Revenue Act of 1940)

Sections 23 and 124 of the Internal Revenue Code allow a taxpayer a tax deduction for amortization over a 60-month period of facilities constructed or acquired after June 10, 1940, if the facilities are certified by the Advisory Commission to the Council of National Defense and either the Secretary of War or the Secretary of the Navy as necessary in the interest of national defense during the emergency period. This certificate will hereinafter be termed the "Emergency Facilities Certificate". In the event that the entire cost of the construction or acquisition of a particular facility is not necessary, the Commission may certify the percentage of the cost necessary.

Second, if the taxpayer, pursuant to any contract with the United States, has been or will be reimbursed by the United States for the cost of such facilities either (1) directly by a provision dealing expressly with such reimbursement or (2) indirectly, because the price to be paid by the United States is recognized by the contract as including a return of cost greater than normal depreciation, the amortization deduction is not allowed unless the Advisory Commission and either the Secretary of War or the Secretary of the Navy also certify that the contract adequately protects the United States with reference to the future use and disposition of the emergency facilities. This certificate will hereinafter be termed the "Certificate of Government Protection" and is applicable principally to the Emergency Plant Facilities contract.

Third, to conclusively establish that a Certificate of Government Protection is not required, provision is made for certification by the Advisory Commission and either the Secretary of War or the Secretary of the Navy that a contract between the taxpayer and the United States does not reimburse the taxpayer for the cost of facilities either (1) directly, by a provision dealing expressly with such reimbursement or (2) indirectly, because the price to be paid by the United States is recognized by the contract as including a return of cost greater than normal depreciation. This certificate will be termed the "Certificate of Nonreimbursement". Taxpayers who have supply contracts will seek it. It should be noted that this certificate will issue on determination of what reimbursement of cost is recognized by the contract to be included in price. Thus it would seem appropriate to issue a Certificate of Nonreimbursement if a contract for supplies is negotiated in good faith without the intention to include in price a return of cost of facilities greater than normal depreciation.

The operation of the three certificates may be illustrated as follows.

A taxpayer who finances the construction or acquisition of facilities, without seeking reimbursement from the Government is allowed the 60-month amortization deduction if an Emergency Facilities Certificate is secured. When he later contracts with the United States for supplies, such a taxpayer will ordinarily also seek a Certificate of Nonreimbursement. Without such a Certificate the Commissioner of Internal Revenue may thereafter conclude that the price charged was recognized by the contract as including a return of cost greater than normal depreciation, whereupon the amortization deduction will be disallowed for failure to secure the Certificate of Government Protection.

A taxpayer who has an Emergency Plant Facilities Contract is allowed the 60-month amortization deduction if an Emergency Facilities Certificate and a Certificate of Government Protection are secured. To be protected with respect to his supply contract with the United States such a taxpayer will also seek to secure a Certificate of Nonreimbursement.

The amortization deduction is not a tax advantage to a taxpayer who has an Emergency Plant Facilities Contract but only the means by which the taxpayer insures himself against paying income tax on Government reimbursements for plant costs.

R-717-b

ANALYSIS OF MEMORANDUM ENTITLED "DUTIES OF ADVISORY
COMMISSION UNDER SECTION 124 OF THE INTERNAL REVENUE CODE"

In order that a person, who has constructed or acquired emergency plant facilities in carrying out a contract with the Government, may be allowed a tax deduction for amortization over a 5-year (sixty-month) period, as permitted by the new excess profits tax law, he must obtain certain certificates from the Government. The certificates in question are termed "Emergency Facilities Certificate", "Certificate of Government Protection" and "Certificate of Nonreimbursement". Each of these several types of certificates is addressed to the Commissioner of Internal Revenue and executed by both the Advisory Commission to the Council of National Defense and either the Secretary of War or the Secretary of the Navy.

Emergency Facilities Certificate. - This certificate must be obtained in every case to enable the contractor to avail himself of the tax deduction based on a 5-year amortization of his emergency plant facilities instead of the longer amortization period normally applicable. It certifies that the facilities in question are necessary in the interests of national defense during the emergency period. If the entire cost of the construction or acquisition of a particular facility is not so necessary, the Commission may certify the percentage of the cost necessary.

Certificate of Government Protection. - In addition to the Emergency Facilities Certificate mentioned above, if the United States reimburses the contractor for any part of the cost of the emergency plant facilities, either under direct contract provision to this effect or by inclusion of the cost in the price of the supplies which the contractor is to furnish the Government, he must, in order to be able to amortize the facilities over a 5-year period for tax purposes obtain also a Certificate of Government Protection. This certifies that the contract adequately protects the United States with reference to the future use and disposition of such emergency facilities. In other words, the certificate evidences the judgment of the Advisory Commission to the Council of National Defense and of the Secretary of War and the Secretary of the Navy that by appropriate contract provision the Government will eventually obtain title to the emergency plant facilities or be paid for them by the contractor or is protected in some other adequate way in the future use of such facilities. This certificate is needed only where the Government pays the entire cost of the facilities or pays a part of such cost in excess of normal depreciation.

Certificate of Nonreimbursement. - If reimbursement of cost of the facilities by the Government is not contemplated, either by

direct contract provision or by inclusion of part or all of the cost in the price of the supplies to be furnished the Government, a Certificate of Nonreimbursement in addition to the Emergency Facilities Certificate may be obtained. This certifies the fact that reimbursement of the cost of the facilities by the Government is not provided for and under the law conclusively establishes that a Certificate of Government Protection is not required in order for the contractor to obtain the benefit of the 5-year amortization period for tax purposes. While this certificate is apparently not strictly required in any case, it is desirable for the contractor to obtain it because of its value as conclusive evidence.

Illustrations of Certificates Necessary for
Particular Types of Contracts

(1) If a contractor has contracted with the Government to furnish certain supplies and the contract contemplates that such additional plant facilities as are necessary are to be constructed at the contractor's expense and at no cost to the Government, an Emergency Facilities Certificate and a Certificate of Nonreimbursement are both needed in order that the contractor may amortize the cost of the plant facilities over the 5-year period for tax purposes.

(2) If the contractor has contracted with the Government to furnish certain supplies and also has an Emergency Plant Facilities Contract under which the Government is to pay the cost of the construction or acquisition of plant facilities, the contractor will wish to obtain all three certificates mentioned, in order to have the benefit of the 5-year amortization period. He must, of course, have the Emergency Facilities Certificate because this is necessary in every case to obtain the 5-year amortization; he must have the Certificate of Protection with respect to the Emergency Plant Facilities Contract because of the fact that the Government reimburses him for the cost of the plant facilities; and, with respect to his supply contract as distinguished from the Emergency Plant Facilities Contract, he will also wish to have a Certificate of Nonreimbursement.

(3) If a contractor has contracted with the Government to furnish certain supplies and the price of these supplies includes as one factor the cost of the construction or acquisition of the necessary plant facilities, the contractor must have an Emergency Facilities Certificate and a Certificate of Government Protection in order to obtain the benefit of the 5-year amortization period. The Emergency Facilities Certificate is necessary in every case and the Certificate of Government Protection will be necessary because the Government reimburses the contractor for the cost of the plant facilities. It is understood, however, that there will in the future be few supply contracts which include facilities costs in the price of supplies, as the "Emergency Plant Facilities Contract" will be used instead.

(4) If a contractor has a contract for supplies with no need for any additional plant construction of any kind, it appears that none of these certificates are necessary because they are all related to amortization of the cost of emergency plant facilities completed or acquired after June 10, 1940.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-718

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 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 September.

Very truly yours,

A handwritten signature in cursive script that reads "S. R. Carpenter".

S. R. Carpenter,
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	September	This Year	Total	On Par List	September	This Year
	(In thousands of dollars)							
Boston	141	141	0	0	469,330	469,330	0	0
New York	224	224	4	7**	981,529	981,529	6,200	9,400
Philadelphia	225	225	0	3	550,836	550,836	0	3,000
Cleveland	475	474	1	19	577,670	577,367	800	31,000
Richmond	394	232	2	12	481,555	396,447	1,800	19,500
Atlanta	484	52	0	2	302,655	70,987	0	2,800
Chicago	1,219	1,079	8	42	1,114,286	1,054,464	7,300	39,600
St. Louis	664	434	2	15	428,385	309,111	1,000	9,200
Minneapolis	420	78	1	5	189,225	53,439	400	3,200
Kansas City	487	402	0	5	198,993	178,372	0	3,200
Dallas	282	174	1	19	154,549	110,025	1,500	12,200
San Francisco	194	182	0	3	545,398	541,768	0	5,000
Total	5,209	3,697	19	132	5,994,411	5,293,675	19,000	138,100

* 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 for which no deposits are shown.

R--718-b
October 23, 1940
Not for publication

EXCERPTS FROM BANK RELATIONS REPORTS
FOR THE MONTH OF SEPTEMBER 1940

BOSTON

Only 13 banks were visited during September--8 member banks and 3 nonmember banks in the State of Maine and 2 member banks in Rhode Island.

Bankers in the summer resort towns of Maine reported a considerable pick-up of tourist trade during the month of August, offsetting to some extent the unfavorable outlook held during the early weeks of the summer season. Loss of the Canadian tourist trade was felt heavily at some points along the Maine coast. One banker stated that he usually handled something over \$100,000 of Canadian exchange during the summer season and that this year he cleared less than 25 per cent of that amount.

The potato crop was being harvested in Aroostook County during the time the banks in that section were visited. The outlook appeared to be unfavorable. While the yield in Aroostook County was expected to be somewhat less than last year's yield, it was believed that the total yield for the country would not be below normal. Current price was 98 cents a barrel and expectation was that it would gradually decline and settle around 70 cents. Potato growers in Aroostook County are said to be financed largely by the Production Credit Corporation. Few, if any, bankers in the section lend generally on the crops.

No complaints were heard with respect to the operations and policies of the Federal Reserve System. Loans and deposits showed slight increases at most of the banks visited. Practically every banker visited called attention to his holdings of excess reserves.

NEW YORK

During the month of September 83 banks were visited--50 member and 33 nonmember institutions--located in various sections of the district.

Allegany, Cattaraugus, Chautauqua, Livingston and Wyoming Counties,
(Buffalo Branch Territory), New York

These five counties, situated in the western part of New York State, are served by 64 banking institutions--45 members and

19 nonmembers, including one private bank. In addition 5 branches are operated, making a total of 69 banking offices in the territory.

Bank officers report that there has been little activity in their bond accounts for some months and that the few purchases which have been made have been confined largely to United States Government direct and guaranteed obligations, and to municipal securities. Several banks in this territory have followed the policy of maintaining bond accounts of rather small proportions and carrying sizable investments in insured mortgages.

Loan demand, except in a few isolated cases, is reported to be light, with total loans of \$38,877,000 showing a reduction of about 2 per cent during the past six months. In spite of increased industrial activity in a number of communities, bankers report that loan demand has reflected little improvement.

Officers of three of the nonmember institutions expressed some interest in membership and may take steps in this direction at some later date. One nonmember banker is favorably inclined toward membership, but his bank (deposits \$2,000,000) is prevented from joining the System because it operates a branch in a nearby town, and does not have \$500,000 in capital.

Sussex and Warren Counties, New Jersey

The general tendency is to continue liquidation of corporate bonds, many of the banks showing reductions in their holdings of such issues. There is some hesitation, however, to sell railroad bonds at present because much of the investment advice being received by the banks is to the effect that these bonds have good prospects of improved market value in view of better earnings and prospects of continued good business for the railroads.

Loans of the banks in this group include a goodly proportion of mortgages. A better demand for credit is reported, chiefly, however, for mortgage money, although in a few institutions the improvement is due to personal loans or automobile financing. Little comment is heard with respect to commercial loans and only one banker reports an increased demand for farm credit which he says is being used largely to purchase tractors and other equipment.

The officers of both member and nonmember banks in these counties made no adverse comments with respect to the policies of the Federal Reserve System or their relations with this bank.

PHILADELPHIA

During September representatives of this bank visited 54 member and 22 nonmember institutions, chiefly located in the western part of this District.

Industrial conditions in the area covered show a noticeable improvement as compared with a year ago. At present the Bethlehem Steel Company's plant at Johnstown is operating at about 95 per cent of estimated capacity and further increases in operation are expected in the near future as a result of heavy expenditures by the Federal Government in connection with the national defense program. Although operations at the Lorain division of the Carnegie-Illinois Steel Company are none too steady, the company has received several sizable orders for mine cars and has shown some increase in activity in recent weeks. To date there has been no evidence of any increase in production at the brick mills as a result of increased steel operations but the large companies such as Harbison-Walker Refractories Company and the North American Refractories Company are reported to have rather large orders on hand. The Silica Fire Brick Company and the Alexandria Fire Clay Company are reported to be unable to fill current orders at this time.

Activity at the bituminous mines has been improving in recent weeks and indications are that most mines will soon operate on a full time schedule. While a part of this increase in operations is reflecting seasonal demand, a part no doubt can be attributed to the increase in activity at the steel plants. It was also reported that shipments of coal to New England points are heavier than at any time in recent years.

Increased activity by both the Pennsylvania Railroad and the Baltimore and Ohio Railroad has resulted in the reemployment of many furloughed workers and indications are that the present rate of activity will continue for some time to come.

The various farm crops yielded well but prices have been low with the result that farmers will make little, if any, profit this year. While much of the fruit and grain remains to be sold, prices to date permit little, if any, profit.

Banking conditions reflect the increased industrial activity by higher deposit totals and a greater demand for credit, much of which is for consumer loans. The bankers stated that there are ample funds available for any probable demand arising as a result of the defense program.

Requests were received from two nonmember banks to conduct the necessary examination preparatory to membership, and the desirability of having their institutions affiliated with the System was discussed with several officers during the month either in their offices or at bankers' association meetings. The revival of interest in membership continues in evidence as can be observed in the comments of bankers today as compared with their remarks when the subject was discussed with them previously.

CLEVELAND

During September 201 banks were visited, of which 143 were member banks and 58 nonmember institutions.

One State bank having resources in excess of \$2,600,000 was admitted to the System.

Some banks are concerned with the problem of what to do with personal loans or chattel instalment loans made to individuals subject to draft under the conscription bill.

A report from a small manufacturing town in Western Pennsylvania indicates that a bottle company is building a new addition to a plant, which is intended for the production of beer bottles cheap enough to be thrown away after using. These are intended to compete with tin beer containers. In the same general section another bank reports that manufacturing in that locality is the best of any time in the past twenty years.

The first use of a Federal Reserve facility made by a new State member bank was to send a cash letter containing forty-eight nonpar checks. These checks were all drawn to the order of the same payee—a fair-sized organization with a nationwide market. The following day an officer of this bank called upon the member bank for the purpose of explaining the par check situation. The conversation was had with two officers of the bank—one an executive officer and one an operating officer. The operating officer could see in Federal Reserve membership only an additional burden to the volume of work. The executive officer could see advantages in membership other than the collection of checks.

Many banks, particularly in Ohio, during the past year have installed service charges of one type or another. A good-sized bank in the City of Akron mentioned the other day that service charges are producing more income than is their loan account at the present time.

In a large industrial city a majority of the commercial banks recently reduced the rate of interest paid on deposits to 1 per cent from the 2 per cent rate previously paid; one bank maintained the old rate; and one bank increased the rate from 2 to 2-1/2 per cent. This is the first instance we know of in the district where a bank has increased the rate of interest on savings accounts, and it will be interesting to observe what transpires in connection with changes in deposit accounts in these institutions.

In some sections of the State of Ohio, particularly in the southwestern portion, deposit accounts, loans, and earnings are showing substantial increases. A large part of the increase in loan account is attributed to commodity loans, especially on wheat.

Some banks are concerned about the Government's program for financing national defense and its effect upon present and future bank investments. A rather surprisingly large number find themselves concerned with meeting the provisions of the forty-hour week law.

RICHMOND

During the month of September, 67 banks were visited of which 31 were member and 36 nonmember banks.

Influences of the national defense program, both direct and indirect, are being felt throughout the Fifth Federal Reserve District. Up to the 31st of August, Virginia alone had received \$259,996,000 of contracts, of which the bulk was for shipbuilding. This business is concentrated in the Norfolk-Newport News area, and has already exerted great stimulus there. In addition to the general business stimulus there has been a notable migration of skilled and semiskilled workers to the shipbuilding area. In fact, some comments are already heard that the surrounding communities are being drained of their skilled mechanics. Other States of the Fifth District have received national defense contracts in the amount of \$69,161,000, of which the shipyards in South Carolina received \$46,845,000.

September rayon production declined about 5,500,000 pounds between August and September, largely because of a strike at Cumberland, Maryland, and flood conditions at Pearisburg, Virginia. These disturbances have been eliminated and capacity output is expected to continue for some months. An embargo on silk, which might become a reality at any time, would favorably affect the rayon industry of the Fifth District.

Enough Army and Navy business has been awarded in cotton textiles to create a firmer price situation. The prevailing idea that

national defense will rate priority over ordinary business has also stimulated some inventory accumulation in wholesale and retail channels.

The September cotton crop forecast raised production to a point where the probable carryover will be near the all-time record of 1939. The cotton export outlook may be further diminished should trouble intensify in the Far East. Domestic consumption, however, looks better for the rest of the season than it did a short time ago.

Tobacco prices have shown further improvement and are now above 20 cents a pound. It is estimated by bankers in growing areas of the Carolinas that production costs will range between 14 cents and 16 cents a pound, which will give farmers fairly good net returns.

All States in the Fifth District had population increases in the last decade ranging from 10 per cent to 12 per cent, while that of the District of Columbia rose 36 per cent.

ATLANTA

During September 84 banks were visited, of which 29 were member and 55 nonmember institutions.

In northern and northeastern Alabama cotton, which is the prevailing crop, is some two to three weeks late this year because of unfavorable weather conditions during the planting and early growing season. In spite of this fact, however, production estimates range from 85 per cent of normal to a normal crop. Good corn and hay crops were reported. In most of the communities in these sections bankers are cooperating with the county agents in encouraging the farmers to raise more poultry and livestock, which endeavor is meeting with considerable success. Business in general is considered favorable and bankers appeared very optimistic over the fall outlook.

A very friendly feeling toward the Federal Reserve System exists among all the bankers interviewed. Membership was mentioned to a number of nonmember bankers and without exception loss of exchange revenue was the only reason given for not considering the question.

Bankers visited in southeast Georgia appeared to be highly pleased with business conditions in their respective communities. Crops as a whole, throughout the area, were said to be excellent and farm income is expected to be the best in years. Retail trade is reported to have substantially improved during the past thirty days and merchants look forward to an exceptionally good fall trade. Banks reported good

progress in the collection of farm loans and in most instances show very favorable earnings for the year.

Crop conditions in northeast Georgia are considered only fair. Planting of all crops was delayed because of an unusually late spring and later, during the growing season, heavy rains caused appreciable damage. The cotton crop is estimated to be only around 60 to 65 per cent of normal. While feed crops are short, it is thought that production will be adequate to meet local needs. The apple crop is said to be splendid and a good return is expected by the growers. Considerable farm income is also derived from dairying and beef cattle raising, which activities are reported to be annually growing in importance in this section. Most of the bankers interviewed reported a favorable loan demand and despite current crop conditions expect a good fall business and satisfactory earnings for the year.

All nonmember bankers approached on the subject of membership gave as their sole objection the question of par clearance. Several of them informed our representative that without exchange income they could not show a profit.

Pascagoula (southeastern Mississippi) is continuing its progress as an industrial center but is handicapped greatly by a shortage of housing facilities. A large shipyard located there has launched two new vessels in recent months and is preparing to launch a third within the next several weeks, while a fourth is well on the way to completion. The other industries of the city are likewise prospering and are continuing their full schedule of operations.

Bankers in Baton Rouge, Louisiana, advised that business has been very good all of the current year including the summer months which ordinarily prove to be a dull period.

The Managing Director of our Nashville Branch called on two banks during the month for the purpose of discussing with them the question of Federal Reserve membership. The Cashier of one of these banks said that he and other officers of the bank had gone into the matter of membership thoroughly and had about made up their minds to file an application for membership some time before the first of the year. Although the President of the other bank visited did not commit himself, he showed some interest in membership and appeared to be thoroughly sold on the Federal Reserve System.

CHICAGO

During the month 71 banks were visited, of which 28 were member and 43 nonmember banks. Six banks were admitted to membership.

There has been a noticeable increase in loans in some of the country banks. Some of the banks in Chicago have written to all of their industrial accounts soliciting loans for defense purposes. Others are using newspaper advertising to encourage borrowers to come to them for such loans. All of the larger banks are actively soliciting them.

Banks visited in Wisconsin report excellent crops of all kinds. Small grains were harvested in good condition and the corn is largely out of danger from frost. There is a large amount of hay, and pastures have been unusually good, with the result that there is abundant milk production. Prices have continued firm for various dairy products. In Vernon County, Wisconsin, the tobacco crop estimated at \$2,000,000 has practically all been harvested. There is lack of sufficient shed room to store one of the largest tobacco yields in history. Ample moisture, sufficient hot weather, and other factors contributed to these splendid results. There are approximately 3,000 tobacco raisers in Vernon County and several thousand more growers in neighboring counties, about 7,500 acres being under cultivation.

The extreme western part of Iowa will have the best corn crop that has been experienced for several years. In the northwestern part of the State, although some of the corn has been damaged by frost, the results will be satisfactory. Government agencies are reported quite active in a number of towns in this part of the State, but the banks generally do not seem to be greatly disturbed by this, as the agencies make many service charges in connection with loans which the better farmers do not like. The country banks do complain that commission firms take cattle loans direct from the farmers and rediscount them with larger banks. One representative reports that in some instances the Government agencies afford difficult competition with banks due to the hours in which they operate. Banks in order to meet the requirements of the Wage and Hour Law keep shorter hours than in the past and miss opportunities to make some loans, while the Government agencies do business at all hours and meet most of their prospective customers in the evening. The fact that the bank is open to the public so few hours during the day is one of the main reasons that Government agencies have been successful in obtaining good loans from bank customers.

Farm income is still reported as fairly satisfactory, notwithstanding the fact that hogs are down about 50 cents a hundredweight from the peak of late August and cattle prices have declined slightly in the last two weeks. An unusually tight situation continues in the cash wheat market; with large amounts of wheat immobilized by Government loan, excessive premiums prevail for cash wheat and, although prices for the spot commodity are now running from four to eight cents over the loan basis, farmers have continued their holding policy. Somewhat the same situation has prevailed in the cash corn market. However, country marketings have increased notably whenever the market has turned strong.

Definite figures are not yet available to show the trend in employment and pay rolls for September, but the impression we get from all available reports is that employment trends have continued upward, not only in durable goods manufacture which has been led by the iron and steel industries, but also in consumer goods.

ST. LOUIS

During September 234 banks were visited, of which 64 were member and 170 nonmember institutions.

Banking in the Illinois towns showed no significant changes as contrasted with a year ago. The ratio of member banks to total banks there is high, and numerous encomiums regarding the services rendered by the Federal Reserve Bank were heard. Reflecting the generally prosperous status of trade, industry, and crops, demand for credit was reported fair to good, and in some instances, excellent. As a whole, credit files were found to be in good shape, and generally the Federal Reserve Bank form is in use. On time deposits 2 per cent is the universal rate. Interest charged on customer loans ranges from 4-1/2 to 7 per cent, with bulk of loans bearing 6 to 7 per cent.

In Kentucky the attitude toward the System was found to be universally favorable. Interest rates paid on time deposits range from 1 to 2 per cent, and there is a disposition to further reduce the rate. Customers pay from 5 to 6 per cent on loans, and demand was reported slow. However, both deposits and demand for credit are expected to rise presently with movement of the crops.

Prior to the A.B.A. Convention at Atlantic City, a card signed jointly by Presidents Martin and Hamilton was mailed to about 250 delegates from the Eighth and Tenth Federal Reserve Districts, inviting them to visit the new building of the Board of Governors in Washington on September 21, 1940, between 9 a.m. and 5 p.m. Supplies of the cards were furnished to the secretaries of the State bankers associations represented, and were also distributed on the special train carrying the delegates. A large number availed themselves of the opportunity, and much favorable comment was heard regarding the invitation and visit.

We have about 460 names of newspapers and financial publications on our list to receive the Monthly Review of Business Conditions and other press releases. This includes not only bankers' magazines and daily newspapers in the larger centers, but also one or more daily or weekly newspapers in practically every county in the district. Early this year, when we prepared the schedule of visits

to be made by the officers to the member and nonmember banks, it was decided to visit the editor of every paper on our list located in a town where a bank was to be visited. It was felt that this would not only build additional goodwill for the Federal Reserve System, but also promote use of the material sent to the newspapers.

We have not yet completed the visits to all of the newspapers in the district, but the reports thus far indicate favorable results. In many cases the local banker introduces our representative to the editor. As a rule the editors have welcomed our officers, expressed appreciation of the call, stated that they are glad to receive our Monthly Review and other press releases, and often afford opportunity for discussion of the Federal Reserve System. Our visiting officer always invites the editor to call on the parent bank or branch, and he usually promises to do so at the first opportunity.

MINNEAPOLIS

During the month of September 309 banks were visited, of which 105 were member banks and 204 were nonmember banks.

West Central Minnesota, Southeastern North Dakota, and Northeastern South Dakota

The banks visited (16 national, 1 State member, 24 nonmember) are situated in a diversified farming area in which crops generally were fairly good this year. It is generally felt that considerable recovery has been made during the past two or three years from the drouth conditions which prevailed over a period of years prior to that time. There is a general feeling of optimism regarding future prospects. Many of the bankers are following quite closely developments in the European war situation.

September and October are ordinarily two of the busiest months of the year for the banks in this section due to marketing of crops and seasonal demands. Most of the banks report that they are making some profit on their operations.

In the larger cities such as Fargo, North Dakota, the banks are paying 1-1/2 per cent on time deposits, while the smaller country banks are paying 2 per cent or 2-1/2 per cent on such deposits, the rate being 2 per cent in most instances. Many of the banks, particularly those in North Dakota, are receiving 7 per cent on their chattel mortgage loans, the legal rate in that State, while banks in South Dakota are receiving 8 per cent in most instances, which is also the legal rate in that State. The banks quite generally are handling a

considerable volume of wheat loans. The number and amount of these loans apparently are much heavier than those made during 1939. Although a part of this area is not in the so-called "corn belt", many corn loans are being made elsewhere. Most banks are making a service charge for handling wheat or corn loans. In some instances this charge is \$1.00 on each loan plus 10 cents per \$100, while in other instances the banks are making a flat charge of 50 cents or 75 cents.

Many banks are having a good local demand for money. A few of them are handling all of the "feeder paper" available, that is, loans covering advances which are made to cover needs while cattle are being fattened. These banks find such paper very desirable and other banks in that part of the district visited where such loans are comparatively scarce do not overlook any opportunity to acquire them. Some banks are also handling installment loans which have been made for the purchase of tractors and automobiles and their experience in handling such paper is uniformly satisfactory. Several bankers were extremely critical of the aggressive efforts made by a nearby Production Credit Association in handling loans which the banks felt they should have handled themselves. There was no criticism of this nature, however, in other parts of the territory visited.

Many banks are writing a considerable volume of general insurance and find this a profitable side line. Income from other sources such as rental of building space is a matter that some banks do not feel they can afford to overlook.

Many banks in this region are paying overtime to employees for hours worked in excess of the work-week prescribed by the Federal Wage and Hour Act. Considerable interest was shown by these bankers in arrangements which might help them to reduce such overtime, particularly in view of the reduction in the standard work-week from 42 to 40 hours next month.

Tenant farming has been quite common here, but in view of the fact that many farms have been sold this fall, tenants are finding it necessary in many instances to purchase land in order to avoid being placed in the position of not having land to farm. Many sales of land to tenant farmers on a long-term basis at low prices were reported. At New Effington, South Dakota, as well as at other points, it was claimed that tenants could no longer find farms to rent as heretofore and as a result will probably dispose of their farming equipment. This demand for land was considered by many bankers as a very healthy sign. Inquiries are being received from individuals in Iowa with respect to the purchase of farm property and it is the general belief that land prices will advance. One banker gave the following reasons for this conclusion:

- (1) The last few years have shown that money could be made from farming in this district.
- (2) As a result of the war, there will be a world shortage of foodstuffs.
- (3) The belief that farmers may not be conscripted for military service.

This banker stated that he had received more inquiries for the purchase of land during the last thirty days than for the past five years. Land sales to date have largely been to local buyers.

KANSAS CITY

During September 109 banks were visited, of which 43 were member banks and 66 nonmembers, located in Kansas, Nebraska, Colorado, New Mexico, Missouri, and Oklahoma.

In northwestern Missouri, northeastern Kansas, and southeastern Nebraska farm conditions from a physical standpoint could scarcely be improved. This region had a good corn crop and sorghum and other feed crops are in great abundance. Bankers report the best demand since 1933 for money to buy cattle--especially young cattle--to utilize grain and feed supplies. To take care of this demand, banks are selling some of their CCC loans. As an illustration, one bank with \$290,000 deposits and \$269,000 loans made advances amounting to \$50,000 to farmers to buy cattle in the two weeks preceding our visit. This bank had previously made \$80,000 CCC loans and in this two-week period sold \$25,000 of them to city banks. This bank may have to borrow. A State nonmember bank in this region that had made \$60,000 CCC loans had sold \$35,000 worth of them and, if the demand for cattle loans keeps up, they expect to sell the remainder of this paper. This bank has a considerable amount of Government bonds yielding from 3 to 3-1/4 per cent and, rather than dispose of these investments, they are thinking of taking advantage of the recent rate established for loans to nonmember banks and borrowing at the Federal Reserve Bank on the security of these bonds.

Banks nearly everywhere have made a large number of CCC loans. In numerous instances a good many of these loans have been resold to city banks, the bank making the loan retaining 1/4 of 1 per cent. City banks regard this type of short-term paper highly and two cases were found where city banks were so eager for these loans that they were giving the selling banks 1/2 of 1 per cent.

A large number of calls was made on banks in the dry region of Nebraska. This section extends west from Highway 81 for a considerable distance and north to the Platte River. This part of Nebraska,

without a crop for years, is in a desperate condition and the great cry now is for drouth relief. A 400 acre farm, with about \$12,000 worth of improvements and valued at \$200 an acre in the 1920's, was sold recently for \$15 an acre, or a total of \$6,000. A six room house in good condition in a relatively small well-known town in this area sold for \$66. Five acres of land adjoining the townsite with a large modern house, barn, garage, and other outbuildings sold for \$280. Crops this year are again virtually a complete failure. Certain influential persons in Nebraska are sponsoring a plan that would have the Government take corn under Government loan and lend it to farmers in this drouth stricken area on the basis of 10 bushels for every acre of corn planted in 1940. The loan would not bear interest and the farmer would repay in corn, bushel for bushel, within the next five years. This project has much support from nearly all interests in the State.

In Colorado bankers generally were found to be in a good frame of mind, largely because livestock has done very well and prices are excellent. The onion crop is good but melons and sugar beets are below standard. Some banks are borrowing from their correspondents on cattle paper at 1 per cent.

DALLAS

In September 53 banks were visited, of which 47 were member banks and 6 nonmember banks.

West Central Texas

Visits were made to 16 member banks and 1 nonmember in west central Texas.

The section visited is an important producer of cattle, sheep, and goats. Some bankers in the visited area believe cattle prices are too high and they are becoming increasingly cautious in making loans on cattle. There are others who believe that prices will continue relatively high for at least another year.

Deposits show an increase over last year's figures. The volume of loans is about normal, although it was reported that there is a steady and increasing demand for loans to finance purchases of sheep and goats, which is doubtless attributable to the high prices prevailing currently in the wool and mohair markets.

North Texas

Eighteen member banks and four nonmember banks in north Texas reported business conditions as being generally good. Favorable weather

conditions have resulted in a larger-than-usual cotton crop and an abundant production of wheat, oats, and other grains, although excessive rains during harvesting operations damaged the quality of the grain crops to some extent.

The banks reported that fall collections are coming in nicely, that many farmers have been turning their attention to livestock raising as a means of offsetting their loss of income resulting from curtailment of cotton acreage, and that the high cattle prices now prevailing are aiding materially to reduce the debts and strengthen the financial position of the producers.

Of the four nonmember banks visited, one has certain asset problems which it desires to adjust before considering the subject of membership; two are ineligible on the basis of present capital, but expressed a strong desire to join the System when this obstacle is overcome; and the fourth is both ineligible and uninterested at this particular time.

SAN FRANCISCO

During the month of September 27 banks were visited, of which 17 were member banks and 10 were nonmember banks.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

September 1940

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	10	3	13	1	<u>1/</u>	2	170
New York	50	33	83	12	6,630	0	0
Philadelphia	54	22	76	4	3,400	0	0
Cleveland	143	58	201	6	1,710	0	0
Richmond	31	36	67	11	4,208	0	0
Atlanta	29	55	84	0	0	4	680
Chicago	28	43	71	8	5,174	5	315
St. Louis	64	170	234	6	3,215	1	30
Minneapolis	105	204	309	3	4,191	3	314
Kansas City	43	66	109	5	3,453	1	150
Dallas	47	6	53	6	3,800	2	264
San Francisco	17	10	27	9	400	1	200

1/ Not reported

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-719

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 23, 1940



Dear Sir:

In the past few months there have been a number of references in the newspapers to the question whether national banks may lawfully establish branches in the State of Michigan. In this connection, you may be interested in seeing the enclosed copy of an opinion rendered by the Attorney General of the United States with regard to this question.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure

(Enclosure sent only with addressed copies)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-720

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 25, 1940



Dear Sir:

On Monday, November 11, Armistice Day, the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve Banks and branches will be closed.

The Board is advised that on Friday, November 1, the New Orleans Branch of the Federal Reserve Bank of Atlanta will be closed in observance of All Saints Day. Please include transit clearing credits of November 1 for the New Orleans Branch with your credits of the following day.

On Tuesday, November 5, General Election Day, there will be neither transit nor Federal Reserve note clearing through the Inter-district Settlement Fund. The Board is advised, however, that the following Federal Reserve Banks and branches will be open for business on that date:

Boston	Atlanta	Little Rock
	Birmingham	
Cleveland) until	New Orleans	Omaha
Cincinnati) 1 p.m.		
		Salt Lake City

Since the President has not as yet issued his Thanksgiving proclamation, advice with respect to that holiday is held in abeyance awaiting the proclamation and action by the authorities of the respective States.

Please notify branches.

Very truly yours,

F. A. Nelson,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, October 29, 1940.

The following ruling will appear in the Federal Reserve
Bulletin:

"Cash on Delivery" Transactions Under Regulation T

The Board has recently considered certain questions involving the special cash account under section 4(c) of Regulation T, and especially the provisions of section 4(c)(5) relating to so-called "cash on delivery" or "C.O.D." transactions. For convenient reference, the relevant portions of section 4(c), particularly of 4(c)(5) are set out below:

"(c) Special cash account. - (1) In a special cash account, a creditor may effect for or with any customer bona fide cash transactions in securities in which the creditor may--

"(A) purchase any security for, or sell any security to, any customer, provided funds sufficient for the purpose are already held in the account or the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for the security and that the customer does not contemplate selling the security prior to making such payment;

"(2) In case a customer purchases a security (other than an exempted security) in the special cash account and does not make full cash payment for the security within 7 days after the date on which the security is so purchased, the creditor shall, except as provided in the succeeding subdivisions of this section 4(c), promptly cancel or otherwise liquidate the transaction or the unsettled portion thereof

"(5) If the creditor, acting in good faith in accordance with subdivision (1) of this section 4(c), purchases a security

for a customer, or sells a security to a customer, with the understanding that he is to deliver the security promptly to the customer, and the full cash payment to be made promptly by the customer is to be made against such delivery, the creditor may at his option treat the transaction as one to which the period applicable under subdivision (2) of this section 4(c) is not the 7 days therein specified but 35 days after the date of such purchase or sale: Provided, however, That the creditor shall not so treat any purchase by a given customer if any security has been purchased by such customer at any time during the preceding 90 days in a special cash account with the creditor, and then, for any reason whatever, without having been previously paid for in full by the customer, the security has been sold in the account or delivered out to any broker or dealer: Provided, That an appropriate committee of a national securities exchange, on application of the creditor, may authorize the creditor to disregard for the purposes of the preceding proviso any given instance of the type therein described if the committee is satisfied that both creditor and customer are acting in good faith and that circumstances warrant such authorization.

"(6) If an appropriate committee of a national securities exchange is satisfied that the creditor is acting in good faith in making the application, that the application relates to a bona fide cash transaction, and that exceptional circumstances warrant such action, such committee, on application of the creditor, may (A) extend any period specified in subdivision (2), (3), (4) or (5) of this section 4(c) for one or more limited periods commensurate with the circumstances, "

In general. The problems were ones relating, under section 4(c)(5), to the time of delivering a security to a customer and obtaining cash payment against the delivery. The rulings on the particular cases may be understood more readily in the light of certain general principles which apply to section 4(c) and particularly to the C.O.D. transactions under section 4(c)(5).

It should be noted at the outset that it is not the purpose of section 4(c)(5) to allow additional time to customers for making payment. The "prompt delivery" described in section 4(c)(5) is delivery which is to be made as soon as the broker or dealer can reasonably make it in view of the mechanics of the securities business and the bona fide usages of the trade. The provision merely recognizes the fact that in certain circumstances it is an established bona fide practice in the trade to obtain payment against delivery of the

security to the customer, and the further fact that the mechanics of the trade, unrelated to the customer's readiness to pay, may sometimes delay such delivery to the customer.

The customer should have the necessary means of payment readily available when he purchases a security in the special cash account. He should expect to pay for it immediately or in any event within the period (of not more than a very few days) that is as long as is usually required to carry through the ordinary securities transaction.

Such an undertaking is a necessary part of the customer's agreement, under section 4(c)(1)(A), that he "will promptly make full cash payment". Furthermore, any delay by the customer may cast doubt on the original status of the transaction and should be explainable by exceptional circumstances that justify the delay. Repetition of delays by the customer would be especially hard to justify. Such repetition would almost conclusively label his transactions as unable to qualify as bona fide cash transactions and would almost conclusively disqualify them for inclusion in the special cash account.

These general principles are illustrated by the specific cases to which the Board has given consideration.

Broker "failed to receive" security. A typical example of a case in which the delivery to the customer is delayed because of conditions in the trade is one in which the broker has "failed to receive" the security which the customer has purchased. Assuming that no evasion of the regulation is involved and that the failure to receive the security is an ordinary incident to the usual operation of the securities business, section 4(c)(5) would cover the time, not exceeding the 35-day maximum specified in the provision, reasonably required for the broker to obtain the security and deliver it to the customer.

Purchasing for delivery security already sold to customer. It sometimes happens that a dealer will sell a security to a customer although the dealer does not have the security on hand for delivery and expects to purchase it in the market in order to make delivery to the customer. A special case of this type is one in which an institutional investor such as an insurance company, trust fund, or the like, will purchase a block of a particular issue of securities--usually bonds--as a unit, and will request that the entire block of securities be delivered at one time in order to avoid unreasonable duplication of clerical or administrative operations.

Questions as to the time allowed the dealer to acquire the securities in the market for delivery to the customer under section 4(c)(5) are essentially questions of reasonableness, and must

necessarily depend on the circumstances of the particular case.

As indicated above, the dealer could not delay acquiring the securities he did not have on hand if such delay was for the purpose of giving additional time to the customer. Assuming, however, that no such evasion is involved and that there is complete good faith, the dealer would have a reasonable time for acquiring the securities and could take into account the general state of the market, the effect of forcing a sudden purchase of the securities, and similar factors. He would not have to force through a sizeable purchase in a market that is temporarily thin or disorganized. But on the other hand he should proceed to acquire and deliver the securities with all reasonable dispatch.

Unissued securities. The question was raised whether section 4(c)(5) applies to securities which at the time of the transaction are unissued. The answer is that it does, but that, as in other cases, the broker should deliver the security and complete the transaction as soon as he can in view of the mechanics of the trade. This being the case, it seems that there would be very few instances in which section 4(c)(5) would, in practice, authorize any more time for delivering such a security and obtaining payment therefor than would section 4(c)(3) which, in the following terms, specifically provides for most situations involving unissued securities:

"(3) If the security when so purchased is an unissued security, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be 7 days after the date on which the security is made available by the issuer for delivery to purchasers."

Securities purchased with proceeds of securities called for redemption. Sometimes a customer wishes to purchase a security and to pay for it with the proceeds of another security which the customer holds and which the issuer has called for redemption. Occasionally the proceeds of the called security will not be available for some time, perhaps 30 days, and the customer would like to delay payment for that time.

Such a circumstance would not justify delay in obtaining payment under section 4(c)(5), since the delay would not arise from the mechanics of the trade as they affect the broker or dealer, but merely from the customer's desire for delay in making payment.

In the particular case presented to the Board, however, the customer deposited the called security with the dealer with definite instructions to deliver it for redemption and apply the proceeds to payment for the purchased security. This made the situation similar

to that considered in the ruling at page 1043 of the December 1938 Federal Reserve Bulletin, which was to the effect that in certain circumstances the sale of a security held in the special cash account may serve as payment for a security which has been purchased in the account even though the proceeds of sale have not yet been collected.

Although the security had not actually been sold in the present case, the Board expressed the view that, if the necessary requirements of good faith were met and there was every reasonable probability that the called security actually would be paid according to the call for redemption, the same principle would apply. In such circumstances, therefore, payment for the purchased security may be considered to have been made for the purposes of section 4(c) at the time when the called security is deposited with the dealer for the indicated purpose.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-722

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 29, 1940

Dear Sir:

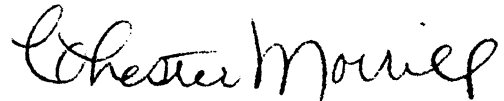
Referring to the Board's wire of October 25, quoting a letter from the National Defense Advisory Commission and a copy of a press statement released by the Commission with respect to the obtaining of Defense contracts by small business enterprises, there are enclosed for the information of the officer at your head office and the officers at your branches, if any, designated as field and technical representatives, the following memoranda:

1. Plan to increase the participation of small business enterprises in the national defense program. This plan was adopted by the National Defense Advisory Commission, October 25, 1940.
2. Letter, dated October 25, 1940, to the Board of Governors from the National Defense Advisory Commission, requesting the cooperation and assistance of the Federal Reserve System in carrying out the program.
3. Army purchase information bulletin of 1940. This bulletin is a guide to manufacturers who are interested in placing their facilities at the disposal of the government in connection with the defense program.
4. A circular issued by the Navy Department, outlining in brief the purchasing system of the Navy.
5. August, 1940, revision of a bulletin issued by the Bureau of Foreign and Domestic Commerce, compiled as a guide to businessmen desiring to cooperate in the national defense program.

- 2 -

At the conference to be called in Washington in the near future detailed information will be made available with respect to the part the field and technical representatives are to take in the phase of the National Defense Advisory Commission's program in which the System's cooperation and assistance have been asked. The conference program will be mailed to you within the next few days.

Very truly yours,



Chester Morrill,
Secretary.

Enclosures

TO THE PRESIDENT OF EACH FEDERAL RESERVE BANK

ENCLOSURES SENT ONLY WITH ADDRESSED COPIES

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-723

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 29, 1940.



Dear Sir:

There are being forwarded to you today under separate cover copies of page 53-a (and revised table of contents) of the "Manual of Instructions Governing the Preparation of Functional Expense Reports (Form E)" relating to expenses incurred by Federal Reserve Banks in rendering services for the Advisory Commission to the Council of National Defense. Expenses in this connection should be reported in Form E, until reprinted, on the bottom of page 10.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R-724

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 30, 1940

Dear Sir:

It is expected that the conference with representatives of the Federal Reserve Banks and their branches which is to be conducted under the general direction of Mr. Donald M. Nelson, Director of Small Business Activities for the National Defense Advisory Commission, and Governor Draper on behalf of the Board of Governors, regarding the participation of small business enterprises in the defense program, will be held in the Board Room of the Board of Governors beginning at 9:30 a.m., Tuesday, November 12, and extending through a morning session on Wednesday, November 13.

I am transmitting herewith a number of copies of the tentative agenda for this meeting. Such other information as may become available will be forwarded to you from time to time.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosures

(Enclosures sent only with addressed copies)
TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

TENTATIVE AGENDA FOR CONFERENCE OF FEDERAL RESERVE
OFFICERS, SERVICE PROCUREMENT OFFICERS AND DIRECTOR OF
SMALL BUSINESS ACTIVITIES, TO BE HELD AT WASHINGTON
NOVEMBER 12th AND 13th, 1940

FIRST DAY

Morning Session
9:30 A.M. - 12:30 P.M.

- I Introductory statement by Governor E. G. Draper as Chairman of meeting.
- II Opening remarks by Chairman Marriner S. Eccles of Board of Governors, Federal Reserve System.
- III Statement by Donald M. Nelson, Director of Small Business Activities, on the purposes, objectives and organizational setup of the plan; and suggestions as to functions to be performed by Federal Reserve Banks and their branches in carrying out the plan.
- IV Statement by representative of War Department on methods used by the War Department in making purchases of material and supplies; location of Army procurement centers; methods by which procurement officers can cooperate with Federal Reserve officers.
- V Similar statement by representative of Navy Department.

Afternoon Session
2:00 P.M. - 5:00 P.M.

- I Statement by Stacy May, Director of Bureau of Research and Statistics, National Defense Advisory Commission, on the geographical location of concerns now holding defense contracts; volume and type of such contracts, et cetera.
- II Statement by David Ginsburg, Legal Adviser, Price Stabilization Division, National Defense Advisory Commission, on the nature of the supply and plant facilities contracts; legal aspects of the assignment of claims against Government resulting from defense contracts.
- III Statement by staff member of Office of Director of Small Business Activities, on methods by which office of Director and Member of Board of Governors will keep field officers supplied with current information, and discussion as to best means of using questionnaire.

SECOND DAY

Morning Session
9:30 A.M.

- I Round Table Discussion.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-725

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 30, 1940



Dear Sir:

For your information there is enclosed a copy of a letter of October 25, 1940, from the President of the United States to the Chairman of the Board of Governors of the Federal Reserve System in regard to a system for the assignment of preference ratings to contracts placed by the War and Navy Departments for items listed as critical in the defense program.

The President has been assured by the Chairman of our intention to cooperate fully should any occasion arise for the consideration of this matter.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

THE WHITE HOUSE
Washington

October 25, 1940

My dear Mr. Eccles:

At the suggestion of the Advisory Commission to the Council of National Defense and of the War and Navy Departments, a voluntary system has recently been instituted for the assignment of preference ratings to contracts placed by the War and Navy Departments for items listed as critical in the defense program. The preference rating requests that the contractor give to the contract, in so far as necessary to assure delivery on the dates specified, the indicated degree of preference over other contracts which have an inferior or no preference rating and over contracts for private account or for export.

Instances have arisen where potential contractors have been hesitant to accept Army and Navy preference rated contracts because such contractors are already working on other Government contracts which contain liquidated damage clauses. Unless industry is assured that delays caused by the acceptance of and compliance with preference rated contracts will not result in attempts by the Government to collect penalties, the procurement of materials necessary to the defense program may be unduly retarded.

Accordingly, you are requested to instruct the appropriate members of your staff, including any contracting officers subject to your jurisdiction, to cooperate fully with the War and Navy Departments with reference to the operation of the preference system. They should be specifically instructed to refrain from taking any action pursuant to the liquidated damage clause of any contract over which they have supervision whenever they find that delay in delivery by the contractor became necessary in order to meet delivery dates on Army and Navy contracts bearing preference ratings. Likewise, the Secretaries of War and Navy are requested to inform their respective staffs that they are to be guided by this general principle with respect to delays which result from the operation of the preference system.

Identical letters are being transmitted to the heads of the appropriate executive departments, independent establishments, and other agencies and instrumentalities of the United States. I am also requesting the Attorney General and the Comptroller General to take appropriate steps to comply with this policy.

Very sincerely yours,

(Signed) Franklin D. Roosevelt

Honorable Marriner S. Eccles
Chairman
Board of Governors
Federal Reserve System
Washington, D. C.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-726

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 1, 1940



Dear Sir:

With letter R-724, of October 30, I sent you copies of the tentative agenda for the meeting to be held in Washington on November 12 and 13 regarding the participation of small business enterprises in the defense program.

The agenda has now been revised and there are transmitted herewith a number of copies of the revision.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosures

(Enclosures sent only with addressed copies)

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-727

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 2, 1940



Dear Sir:

Through the courtesy of the office of Mr. Donald Nelson, the names of the officers at all Federal Reserve Banks and branches who have been designated to handle the project with respect to small business enterprises have been placed on the mailing list of Robert W. Horton, Director of Information, and Frank Bane, Director of State and Local Cooperation, for press statements, publications, etc., as they are released by the National Defense Advisory Commission.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-728

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 8, 1940

Dear Sir:

It will be appreciated if you will furnish us, not later than January 15, 1941, with the following data for use in the Board's forthcoming annual report:

1. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during each month of the calendar year 1940 and during the year as a whole.
2. Statement showing the following information as of December 31, 1940.

Number of member banks in operation

National banks

State bank members

Number of nonmember banks on the par list

Nonmember State banks (exclusive of mutual savings banks)

Private banks under State supervision

Private banks not under State supervision

Number of nonmember banks not on the par list

Nonmember State banks (exclusive of mutual savings banks)

Private banks under State supervision

Private banks not under State supervision

- 2 -

3. Statement showing the names and locations of banks (including private banks) not on the par list on December 31, 1939, which during 1940,
 - (1) went out of existence (other than through conversion into or succession by national banks)
 - (2) were converted into or succeeded by national banks
 - (3) were admitted to Federal Reserve membership
 - (4) were added to par list (other than through membership)
 - (5) changed title or location

4. Statement showing the names and locations of banks (including private banks) which became non-par banks during 1940 through
 - (1) primary organization of non-par banks
 - (2) conversion of national banks into or succession by nonmember non-par banks
 - (3) withdrawal of State banks from Federal Reserve membership
 - (4) withdrawal of nonmember banks from par list

The figures of banks on the par list and not on the par list on December 31, 1940, should include all banks on which checks are drawn. Banking institutions on which no checks are drawn should not be included. Statement No. 2 should show separate figures for each State or part of State in the territory assigned to the head office and to each branch, if any. The total figures for each State or part of State should be reconciled with the latest State banking department abstract of condition reports and the Board advised of the names and locations of the banks which account for any differences between the number of banks shown in your statement and in the State banking department abstract. A copy of the reconciliation should accompany the statement showing the number of nonmember banks on par list and not on par list, unless the reconciliation would delay the furnishing of the statement beyond January 15, in which case the statement should be forwarded before the reconciliation is effected and the Board advised of any necessary changes in the statement at the time the reconciliation is furnished.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning papers,
Monday, November 18, 1940

The following summary of general business and financial conditions in the United States, based upon statistics for October and the first half of November, will appear in the December issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve Banks.

Industrial output rose sharply in October and the first half of November and prices of basic commodities advanced further. New orders both for defense purposes and for civilian needs continued in large volume.

Production

Volume of industrial production, as measured by the Board's seasonally adjusted index, rose further in October to about 128 per cent of the 1935-1939 average as compared with 125 in September and 126 at the peak reached last December.

Increases in output were marked in the automobile and textile industries. In the rayon industry, where production in September had been curtailed by a strike, activity increased considerably and cotton textile mills were also more active. Mill sales of cotton goods have been large since the middle of August, reflecting increased civilian and military demand, and have been in excess of production during most of this period. At wool textile mills, where activity had risen sharply

in September, there was a further increase in October. Backlogs of orders in this industry are now of considerable size owing to a large volume of orders received during the past two months, particularly from the Government. Automobile production rose to about 500,000 cars and trucks, the largest monthly total since the spring of 1937, and retail sales of both new and used automobiles were reported to be large for this time of year.

In the steel and machinery industries activity continued at a high rate in October. In the first half of November steel ingot production advanced slightly further and was at about 96 per cent of capacity. This high rate of output is expected to be maintained for some time to come, according to trade reports, as new orders for steel have continued large. Lumber production, which had risen sharply since mid-summer, declined less than seasonally in October. New orders for lumber were somewhat below the high rate of August and September but remained above production, reflecting in part continued Government demands.

Bituminous coal production declined sharply in October but in the first half of November showed some increase. In this industry output had been maintained in large volume during the summer owing in part to considerable stocking of coal in anticipation of higher prices. Anthracite production also declined in the first half of October but rose sharply in the latter part of the month owing in part to seasonal influences. Crude petroleum production, which had been curtailed during most of the summer, increased further in October.

Value of construction contract awards increased in October, following a decline in the previous month, according to figures of the F. W. Dodge Corporation and the Federal Reserve Bank of San Francisco. Changes in the amount of contract awards in recent months have reflected principally fluctuations in contracts for public projects. Awards for private construction have shown about the usual seasonal changes, following a sharp rise in July and August.

Distribution

In October department store sales declined considerably from the advanced level of the two preceding months, while sales at variety stores, which also had been large in August and September, increased seasonally. In the early part of November department store sales increased somewhat.

Total loadings of revenue freight in October were maintained at about the level reached in September. Shipments of miscellaneous merchandise increased further, while loadings of coal showed a sharp decrease. In the first week of November freight-car loadings declined by less than the usual seasonal amount.

Wholesale commodity prices

Prices of basic commodities continued to advance from the middle of October to the middle of November, with the chief increases in industrial materials, particularly lead, hides, wool, and textile yarns. The general index of wholesale commodity prices rose further by about 1 per cent in this period, reflecting increases in prices

of some finished goods as well as of materials.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities have increased substantially since the end of September. Commercial loans showed sizable increases both in New York City and in other leading cities. Following reductions during August and September, holdings of United States Government obligations at these banks also increased. Federal Reserve System holdings of Government obligations were reduced by \$180,000,000 between September 25 and November 13.

United States Government security prices

After rising moderately during the latter part of October prices of United States Government securities advanced sharply in the early part of November. The quotation on the 1960-65 bonds reached a new high level at about 110-1/4, and the yield on this issue declined to 2.12 per cent compared with 2.25 per cent in October and 2.26 per cent in June 1939 and again in April 1940. The average yield on 3 to 5 year Treasury notes declined to less than 3/8 of 1 per cent.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

193
R-730



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1940

Dear Sir:

As you were advised in the Board's letter of October 29, 1940, the National Defense Advisory Commission has requested the Board of Governors to cooperate with it in carrying out the Commission's program for dealing with the problems and interests of the smaller business establishments in relation to the defense program. It is hoped that the joint Defense Commission--Federal Reserve System machinery (which decentralizes this phase of the defense program) will enable business men in your District to obtain immediate information on defense order matters from your Bank and its branches without coming to Washington.

In conformity with the undertakings reached during the conference held in Washington November 12 and 13, it is deemed desirable for the Federal Reserve Banks to inform the banks in their districts of the program being undertaken by the Federal Reserve System at the request of the Defense Commission. As a first step in carrying out this program, it is suggested that a letter along the lines of the attached draft be addressed promptly to the banks in your District.

In the proposed letter to the member and nonmember banks there are indicated briefly the services which the Federal Reserve Banks are in a position to render in connection with the defense program. It is contemplated that this letter will also request the banks to furnish, from time to time, for the use of the Director of Small Business Activities of the National Defense Advisory Commission, certain information which he desires relating to business establishments which are not now on the invitation bid lists of the War and Navy Departments but which would like to furnish needed supplies and are in a position to do so. The enclosed draft of the proposed letter indicates the method by which it is hoped the information will be obtained, and, for the assistance of the banks, there is enclosed a brief report form for use in this connection. You will note that the information is to be supplied by the banks directly to you and is in the nature of a confidential report such as is referred to in sub-paragraph numbered 1 of the Defense Commission's letter of October 25, 1940.

To expedite the carrying out of this program, it is suggested that your Bank have the necessary number of report forms for use in your District printed on a good grade of paper, size 8-1/2 x 11, containing exactly the same questions, and in the same order, as set forth on the sample form attached. Two copies of each completed report should be mailed promptly to the Board's Division of Bank Operations.

You will probably find it desirable to have a representative of your Bank call upon banks located in the larger business centers for the purpose of soliciting their cooperation in dealing with the problems and interests of the smaller business establishments in relation to the defense program.

As stated at the round-table conference on November 13, all financial problems in your District with respect to which you need information or assistance from Washington should be taken up with the Board's Division of Bank Operations. All problems relating to purchasing of materials and supplies by the armed services, bidding procedure, War and Navy Department contracts, and the like should be taken up directly with the office of the Director of Small Business Activities of the National Defense Advisory Commission.

It is my understanding that the Office of the Director of Small Business Activities will send to the officer of your Bank and of each of its branches, if any, designated as field representatives a sample set of (a) Army Purchase Information Bulletin, 1940, (b) Navy Department bulletin "Selling to the Navy", (c) bulletin, "Value of Defense Contracts Awarded, by Federal Reserve Districts and Industrial Areas, June 1 to October 31, 1940", prepared by the Bureau of Research and Statistics, National Defense Advisory Commission, (d) explanatory statement describing the plant facilities contract, (e) explanatory statement describing the assignment of claims procedure, (f) "Notice of procedure for certification under section 124 of the Internal Revenue Code", and (g) "Instructions for the preparation of applications for certification under section 124 of the Internal Revenue Act". This material will supplement material furnished you with the Board's letter of October 29, 1940.

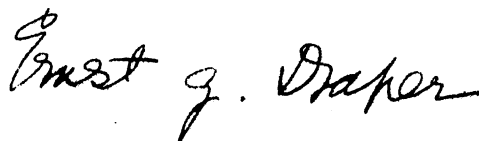
It is desirable that the press in your District be kept informed of developments in this field, and I should appreciate it if you will furnish it with such information as you think would be helpful in furthering this program.

In undertaking this joint program with the Defense Commission the Board of Governors believes that the Reserve System is afforded a splendid opportunity to place its facilities among the national defense

- 3 -

forces. Whether or not we succeed in our undertaking will depend in large part upon our mutual efforts. We here in Washington stand ready at all times to be of assistance to you. The Director of Small Business Activities and his entire staff are at your complete disposal for such problems as you may find it necessary to refer to them.

Very truly yours,



Ernest G. Draper
Board of Governors, Federal Reserve System

Enclosures - 3

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

DRAFT OF LETTER FROM FEDERAL RESERVE BANKS
TO COMMERCIAL BANKS

Dear Sir:

In order that the smaller business concerns in every part of the country may participate more fully in the National Defense Program, the National Defense Advisory Commission has designated Mr. Donald M. Nelson, Coordinator of National Defense Purchases, as Director of Small Business Activities. In order to decentralize its activities in this respect the Commission in its letter of October 25, 1940, a copy of which is enclosed, asked the Board of Governors of the Federal Reserve System to act as its operating agent in carrying out this purpose. The Board of Governors has designated Governor Ernest G. Draper to supervise the activities of the Reserve System and to serve as its liaison officer with the Director of Small Business Activities.

The Board of Governors and the Federal Reserve Banks have assured the National Defense Advisory Commission of their desire to cooperate with it in its endeavor to spread orders for defense needs to the extent practicable among the smaller business enterprises throughout the country. The purpose of this letter is to solicit your cooperation in carrying out the program.

In each of the twelve Federal Reserve Banks and the twenty-four branches an officer has been designated to serve as the field representative of the Director of Small Business Activities and of the Board of Governors. The officers designated for this purpose in this District are _____

These officers will be ready at all times to consult with business men and bankers with respect to the procedure to be followed in obtaining Government contracts and sub-contracts, and to advise with them as to means of obtaining needed credit if it is not available from the usual sources. By the use of the services of the Federal Reserve Banks and their branches in their own trade territories, it is hoped that the convenience of small business enterprises throughout the country will be greatly facilitated and that business men will find it unnecessary to make trips to Washington to obtain information with respect to defense contracts.

The office of the Director of Small Business Activities will serve as a clearing house for information for the National Defense Advisory Commission and the War and Navy Departments, as well as for the smaller

- 2 -

business enterprises themselves. It will endeavor to assist business men to learn of the future needs and requirements of the military and naval branches of the Government. At the same time it will endeavor to assist primary contractors who have been awarded defense orders to get in touch with the smaller business enterprises which can furnish special types of goods and services needed by the primary contractors. The Director of Small Business Activities also desires to encourage the use of the customary banking channels to finance the credit needs of the smaller business enterprises that participate in meeting the requirements of this program.

It is the intention of the Director of Small Business Activities to inform the Federal Reserve Banks from time to time of the material and supply needs of the armed services so that this information may be made available to prospective bidders in each Federal Reserve district. There will also be made available to the Federal Reserve Banks information with respect to the last bidders on supply contracts for the War and Navy Departments so as to enable potential supply and material men to establish contact with the usual and established primary contractors.

To obtain needed information the Federal Reserve Bank of _____ has been requested to solicit your cooperation in obtaining the data called for by the enclosed report form, copies of which will be sent to you under separate cover. The information furnished us on these forms will be kept confidential. It will be necessary to rely upon your bank for assistance in carrying forward this program, and it is hoped that you will be able to furnish most of the information called for by the form from your own files, and that you will call upon your customers for only such of the information as is not now readily available to you.

Among your customers there are no doubt some concerns which are already on the invitation bidding lists of the local army procurement officers, the Navy Department, or other branches of the armed service. Information with respect to such concerns should not be supplied on this form. It is the purpose of the present inquiry to reach only those smaller concerns who are not on the invitation bidding lists of one or more branches of the armed services, and who have not previously participated in Government contracts, but would like to furnish needed supplies either as primary or subcontractors and are in position to do so.

It is our hope that you will not hesitate to call upon this bank or any of its branches for information with respect to any phase of the defense program.

Federal Reserve Bank of _____

Enclosures 2

C O P Y

B-730b

October 25, 1940

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

Gentlemen:

The National Defense Advisory Commission believes that small and medium sized business enterprises, along with the larger business enterprises, occupy a place of vital importance in the national defense program. So that these small and medium sized concerns may participate more fully in the program, the Commission has designated the C.O.N.D.P. as its Director of Small Business Activities.

The Office of the Director of Small Business Activities will serve as a clearing house of information for the National Defense Advisory Commission, the War and Navy Departments as well as for the smaller industries themselves. It will endeavor to assist the smaller enterprises in obtaining defense contracts and advise and assist them in obtaining such financial aid as may be required in the execution of defense orders.

If this program is to be carried out successfully the Commission believes that the cooperation and assistance of the Federal Reserve System is desirable. In this connection it is thought that the Board of Governors might act as operating agent for the National Defense Advisory Commission, designating one of its Board members to have charge of this work and that the Board request each Federal Reserve bank to designate a senior officer in each Reserve bank and branch to serve as field and technical representatives.

The Commission believes that the officers so designated can effectively participate in this phase of the defense program if they might assume the following duties:

1. To make confidential reports from time to time concerning business enterprises located in their respective districts desiring to obtain defense orders;
2. To acquaint local banks with the procedure to be followed in accepting assignment of claims against the government resulting from government contracts, as security for loans;

3. To encourage local banks to make loan commitments on condition that borrowers obtain government contracts and assign claims against the government resulting from such contracts as Security for loans;
4. To furnish business enterprises with information on the procedure to follow and proper *contracts* ~~contracts~~ to make relative to obtaining defense contracts;
5. To assist business enterprises which have obtained defense orders and are unable to obtain necessary credit from local commercial banks, to obtain loans from the Federal Reserve Banks or R.F.C.

It is contemplated that Mr. Donald M. Nelson, Coordinator of National Defense Purchases, and Director of Small Business Activities, will meet in Washington with the designated officers of the Federal Reserve banks at a date to be announced shortly, in order to fully acquaint them with the details of this program.

It will be appreciated if you will advise the Commission at your earliest convenience whether the facilities of the Federal Reserve System can be so utilized.

Very truly yours,

William H. McReynolds
Secretary

FACILITIES FOR DEFENSE SUPPLIES

This form should not be filled out for any concern that now receives invitations to bid from the Army, the Navy, or any other branch of the armed services.

TO THE FEDERAL RESERVE BANK OF _____

1. Name of concern _____
2. Address of concern _____
(Street) (City) (State)
3. State principal articles or products now manufactured or processed _____

4. What kinds of defense articles would the concern be interested in supplying?

5. State approximate or estimated number of persons employed _____
6. (a) State the total approximate value of sales for the year 1939 _____
(b) At what per cent of maximum capacity did concern operate in 1939? _____
(c) At what per cent of maximum capacity is concern now operating? _____
7. If the concern should obtain a defense contract in reasonable relation to present or expandable capacity, would it require additional financial aid for--
(a) Working capital purposes? _____
(b) Fixed capital purposes? _____
8. Could reasonable financial aid be obtained from local banks? _____

Name of bank submitting report

Signature of officer

Please type answers

R-730c

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-731

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 18, 1940



Dear Sir:

Reference is made to the report dated June 11, 1936, of the Committee on the Destruction of Records maintained by the Federal Reserve Banks. Beginning on page 6 of this report there is quoted a letter, dated May 16, 1935, from the Under Secretary of the Treasury to the Chairman of the Committee, paragraph 5 of which reads as follows:

5. Records, documents or other papers having historical interest should be preserved. Liberty Loan posters are of this class. In all probability matter of this class ultimately should be forwarded to the Treasury Department.

On page 10 of its report the Committee, referring to the above-quoted paragraph, recommended that when application was made for authority to dispose of certain Fiscal Agency records, a list of material on hand relating to Liberty Loan and War Savings activities likewise be submitted with a request that the Treasury Department issue specific instructions for its disposition. However, when application was made in 1939 for authority to dispose of certain Fiscal Agency records, informal advice was received from the Treasury Department that it would prefer to consider the disposition of the above-mentioned material at a later date. Recently the Department advised us informally that it was now prepared to act upon the disposition of such material.

It will be appreciated, therefore, if you will furnish the Board with four copies of a tabular statement listing any forms, records, literature, posters, correspondence, advertising material, etc., you may have on hand relating to Liberty Loan and War Savings activities, except data specifically recommended for permanent retention in the report of the Committee on Destruction of Records. The statement should be as specific as possible, indicating the nature of the material and, in the case of correspondence, the period

covered. The approximate bulk of the material should also be given.

The Treasury Department prefers to consider the disposition of the above-mentioned material at all Federal Reserve Banks at the same time and in order to avoid any undue delay, particularly since the Department has shown a willingness to consider the matter at this time, it will be appreciated if the above-mentioned statement is compiled and furnished the Board as soon as convenient.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter". The signature is written in dark ink and is positioned above the typed name.

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-732



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 18, 1940

Dear Sir:

It will be appreciated if you will mail to the Board as soon as practicable after January 1 a copy of the budget approved by your bank for its head office and each of its branches, if any, and for the head office and branches combined, for the calendar year 1941.

It will also be appreciated if the 1941 budgets furnished to the Board are prepared along functional lines in accordance with the sample form, R-732a, attached, totals for each function being shown as in the functional expense report, Form E.

Please also submit statements on Form R-732b and R-732c showing the itemization of the budgets of the statistical and analytical and bank examination functions.

In addition kindly prepare and submit with each budget statement a memorandum setting forth in general the reasons for the principal increases and decreases in the budget estimates for 1941 as compared with actual expenses during 1940.

A supply of forms R-732a, R-732b, and R-732c is enclosed.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

SUMMARY OF BUDGET ESTIMATES, 1941

R-732a
204

Federal Reserve Bank of _____ (Indicate whether head office, branch or "combined" report)

<u>Function</u>	Expenses, Year 1940	Budget, Year 1941
General overhead - Controllable		
General overhead - Noncontrollable		
Provision of space (less income and distribution)		
Furniture and equipment		
Provision of personnel		
General service		
Postage		
Insurance		
Failed banks		
Loans, rediscounts, and acceptances		
National defense		
Securities		
Currency and coin		
Check collection		
Noncash collection		
Accounting		
Legal		
Bank and public relations		
Auditing		
Bank examination		
Federal Reserve note issues		
Statistical and analytical		
Securities exchange		
Fiscal agency, custodianship, and depository:		
expense not reimbursable		

Foreign

TOTAL (column 1 must agree with Form E)

STATISTICAL AND ANALYTICAL BUDGET, 1941

Federal Reserve Bank of _____ (Indicate whether head office, branch or "combined" report)

<u>Expense Unit</u>	Expenses, Year 1940	Budget, Year 1941
---------------------	------------------------	----------------------

1. Statistical:

- a. Salaries - Officers*
- b. Salaries - Employees
- c. Retirement system contributions
for current service
- d. Traveling expenses
- e. Printing, stationery, and supplies
- f. Telephone and telegraph
- g. Postage and expressage
- h. All other

TOTAL

2. Monthly letter:

- a. Printing and stationery
- b. Postage and expressage

TOTAL

3. Library:

- a. Salaries - Officers*
- b. Salaries - Employees
- c. Retirement system contributions
for current service
- d. Traveling expenses
- e. Printing, stationery, and supplies
- f. Telephone and telegraph
- g. Newspapers, periodicals, books,
binding, clipping service, etc.
- h. All other

TOTAL

TOTAL, STATISTICAL AND
ANALYTICAL

Number of copies of Monthly Letter
printed for month of December 1940

*Indicate in a footnote the complete allocation of the time and salary of each officer whose salary is charged in whole or in part to this unit.

BANK EXAMINATION BUDGET, 1941

Federal Reserve Bank of _____ (Indicate whether head office, branch or "combined" report)

<u>Bank Examination Function</u>	Expenses, Year 1940	Budget, Year 1941
a. Salaries - Officers*		
b. Salaries - Employees		
c. Retirement system contributions for current service		
d. Traveling expenses		
e. Printing, stationery, and supplies		
f. Telephone and telegraph		
g. Copies of bank examination reports		
h. All other		
 TOTAL		
 DEDUCT - EXPENSES CHARGED AGAINST BANKS EXAMINED		
 NET TOTAL, BANK EXAMINATION		

*Indicate in a footnote the complete allocation of the time and salary of each officer whose salary is charged in whole or in part to this function.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-733

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 19, 1940



Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of October 1940.

Please credit the amount payable by your Bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by mail the amount and purpose of the credit.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER 1940

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	26,900	1,068	27,968	\$ 448.24	\$ 347.79	\$ 100.45
New York	76,486	-	76,486	1,225.83	916.66	309.17
Philadelphia	17,774	1,078	18,852	302.14	239.93	62.21
Cleveland	34,695	1,087	35,782	573.47	253.43	320.04
Richmond	39,184	1,060	40,244	644.98	310.96	334.02
Atlanta	42,208	1,057	43,265	693.40	228.81	464.59
Chicago	64,585	1,136	65,721	1,053.30	1,273.71	220.41(a)
St. Louis	42,881	1,059	43,940	704.22	257.80	446.42
Minneapolis	22,213	1,057	23,270	372.95	191.37	181.58
Kansas City	47,937	1,059	48,996	785.25	273.01	512.24
Dallas	37,317	1,133	38,450	616.23	275.18	341.05
San Francisco	54,832	1,077	55,909	896.05	447.37	448.68
Board of Governors	429,174	-	429,174	6,878.31	10,178.35	-
Total	936,186	11,871	948,057	\$15,194.37	\$15,194.37	\$3,520.45 220.41(a) \$3,300.04

(1) Based on cost per word (\$.016026853) for business handled during the month.

(2) Payments by Banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,157.98) and wire rental (\$9,442.07) less amount (\$421.70) representing reimbursement for the cost of sending messages between the Washington office of the Leased Wire System and the local telegraph offices of the Treasury, Reconstruction Finance Corporation and the Commodity Credit Corporation. Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.

(a) Credit--reimbursable to Chicago.

NOTE: The attached letter was distributed on November 23, 1940, under the symbol number R-733. The number should have been R-734, and the attached page should therefore be substituted for the previous one and the appropriate change in symbol numbers made on the enclosures.

Attachment.

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,

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	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

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-735

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 27, 1940



Dear Sir:

On Wednesday, December 25, the
offices of the Board of Governors of the
Federal Reserve System and all Federal
Reserve Banks and branches will be closed.

Very truly yours,

A handwritten signature in cursive script that reads "F. A. Nelson".

F. A. Nelson,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-736

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 27, 1940

Dear Sir:

For your information there is enclosed a copy of a letter dated November 20, 1940, from Mr. Henry H. Heimann, Executive Manager of the National Association of Credit Men, and a copy of my reply thereto.

Very truly yours,

A handwritten signature in cursive script that reads "Ernest G. Draper".

Ernest G. Draper

Enclosures.

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS

NATIONAL ASSOCIATION OF CREDIT MEN

New York, N. Y.

November 20, 1940

Mr. Ernest G. Draper
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Ernest:

It seems to me that I noticed an item in the paper that the Federal Reserve Board was going to undertake to look after the small business men's interests in the defense program. It is also my recollection that you were assigned this responsibility.

I merely wanted to drop you this note to tell you that myself and organization will be glad to cooperate with you in any and every possible way.

I should advise you that prior to this notice we had been turning over in our own minds a program along the following lines: It was my thought that I would check with the interested parties in Washington and see whether we couldn't secure their cooperation in acquainting small business men with matters of interest in defense contracts. As you know, we have about 115 local organizations in as many different cities. Our thought was to call a meeting at each of these cities, having the business men attend it, and then if the government was willing we intended to ask government representatives, particularly the ordnance officers or representatives of the Procurement Divisions, attend these meetings. This would bring about a meeting of the small business men with the buying agents of the government.

If a plan of this kind would be of help to you or if there is anything else you have in mind that we could do, remember we are at your service.

Sincerely yours,

(Signed) Henry H. Heimann

Henry H. Heimann
EXECUTIVE MANAGER

HHH:LS

C O P Y

November 22, 1940.

Dear Henry:

It was good to get your letter under date of November 24, and I am delighted to hear that your Association would be glad to cooperate in helping small business men to secure some of the available contracts under the defense program. Our organization envisions a plan whereby as much of our work as possible is decentralized and handled by our men in the field. In other words, we are trying to avoid the mistakes of the past in having numbers of business men come to Washington and get lost in the maze of different agencies down here. Therefore, we have appointed an officer in each one of our twelve Federal Reserve Banks and each one of our twenty-four branch offices. This officer has been acquainted with the whole program and is able to talk convincingly about the details of the program. I would suggest, therefore, that the best way in which your organization could be helpful would be to have the meetings just as you outline and request an officer from the Federal Reserve Bank or branch of that district to be present at the meeting. In this way you ought to get results promptly.

Again with many thanks for your letter, believe me

Yours sincerely,

(Signed) Ernest G. Draper

Mr. Henry H. Heimann,
Executive Manager,
National Association of Credit Men,
One Park Avenue,
New York City.

EGD:lef

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-737

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 27, 1940



Dear Sir:

For your information and that of the officials of your Bank and branches designated as field representatives in connection with the defense program, the Bank Management Commission of the American Bankers Association held meetings in Washington on Monday and Tuesday of this week. At these meetings it considered a draft of a pamphlet it proposes to send to each banking institution in the United States with respect to the financing of the defense program.

At the meeting Tuesday morning, which was attended by members of the Board and its staff and of the office of the Director of Small Business Activities of the National Defense Advisory Commission, a number of the problems connected with financing the defense program were discussed, particular emphasis being placed on the best means of obtaining information with respect to the arrangements bidders have made for financing contracts awarded them.

It is expected that after the district representatives of the Bank Management Commission return home they will call together representative bankers in each State in their respective districts for a full discussion of the problems connected with the financing of the defense program. Dr. Stonier, Executive Manager of the American Bankers Association, told us that he felt it would be helpful if officers of the Federal Reserve Banks designated as field representatives in connection with the defense program could attend such meetings. It is assumed that the field representatives of your Bank will hold themselves in readiness to attend such meetings as are called in your district.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-738

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 3, 1940



Dear Sir:

In accordance with the usual practice, please furnish the Board with a summary statement showing the number and salaries of officers and employees of your bank (including branches, if any) as of December 31, 1940, made out in accordance with the attached form. The figures, which should not include any changes in either the number or salaries of officers or employees that become effective on January 1, 1941, will be published in the Board's 1940 Annual Report.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF THE
 FEDERAL RESERVE BANK OF _____ (INCLUDING BRANCHES)

December 31, 1940

	<u>Total officers and employees including those whose salaries are reimbursed to the bank in whole or in part</u>	<u>Officers and employees (in- cluded in column 1) whose salaries are reimbursed to the bank in whole or in part(a)</u>
Annual salary of President	\$ _____	
Other officers:		
Number	_____	_____
Annual salaries	\$ _____	\$ _____
Employees, both permanent and temporary:		
Number (b)	_____	_____
Annual salaries	\$ _____	\$ _____

(a) Should represent aggregate of fractional amounts in the case of employees whose salaries are only partly reimbursed to the bank. For example, if 25 per cent of the salary of an employee receiving \$1,200 a year is reimbursed to the bank, .25 should be included in the computation of the "number" of employees, and the amount of salary reimbursed, \$300, should be included in the computation of the annual salaries.

(b) In the case of part-time employees, i.e., employees who are regularly engaged for less than a full day, the "number" reported should represent the portion of the full day worked. For example, if any employee is regularly engaged for one-half of the usual working day, .50 should be included in the computation of the "number" of employees.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-739

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 5, 1940



Dear Sir:

In accordance with its practice in recent years, the Board of Governors will be glad to arrange to send to State bank examiners upon request complimentary copies of the Federal Reserve Bulletin for 1941. Accordingly, it will be appreciated if you will submit at an early date the names and addresses of all State bank examiners in your district to whom you suggest that the Bulletin be sent.

Very truly yours,

A handwritten signature in black ink, appearing to read "L. P. Bethea".

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT CHICAGO

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-740

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 7, 1940

Dear Sir:

There are being forwarded to you under separate cover the number indicated of the following forms for use by your Bank during 1941:

<u>Number of copies</u>	<u>Form</u>
F. R. 38	Classification of Discounted and Purchased Bills Held at End of Month
F. R. 95	Current Earnings of Federal Reserve Bank
F. R. 96	Current Expenses of Federal Reserve Bank
F. R. 96a	Reimbursable Expenses of Federal Reserve Bank
F. R. 160)	
160A)	Receipts and Payments of Paper Currency--
160B)	Monthly report
160C)	

Forms E and F. R. 31 are now in the hands of the printer and your supply will be forwarded in due course.

The supply of forms for branches has been mailed direct.

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-741

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 7, 1940



Dear Sir:

Enclosed for your consideration and comment is a proposed amendment to Regulation U, "Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange", which has been prepared by the staff but not yet acted on by the Board. The proposed amendment grows in large part out of certain rules recently issued by the Securities and Exchange Commission relating to the hypothecation of customers' securities by brokers and dealers, a copy of which is also enclosed.

The first section of the proposed amendment, section 3, would supply a mechanism by which the bank, without impounding any collateral needlessly and without waiving liens or cross liens by means of complex loan agreements, can observe the collateral requirements of the regulation with respect to a loan subject to section 1, particularly when the borrower has also a loan not so subject. It will be noted that the requirement of proposed section 3(b) concerning the collateral which must be required in certain cases when making a loan does not require the bank, after the loan is once made, to obtain additional collateral because of declines in market values or credit ratings.

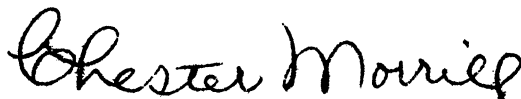
Section 4 of the proposed amendment grows altogether out of the Commission's new hypothecation rules.

In preparing this amendment, the staff has had the benefit of discussion with and suggestions from legal and other representatives of some of the large banks that will be most affected by it.

In view of the fact that the Commission's new hypothecation rules become effective on February 17, 1941, and that the banks need plenty of time in advance of that date to revise their loan agreements and adjust their operations, the Board wishes to make the necessary changes in Regulation U as promptly as possible. It will be appreciated, therefore, if you will consider the proposed amendment

at your early convenience, using your own judgment as to whether to consult persons outside your Bank and if so to what extent, and let the Board have the benefit of any suggestions that you may wish to offer within perhaps a week, or at most within two weeks, after receipt of this letter.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosures 2

(Securities and Exchange Commission press release
sent only with addressed copies of letter.)

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

R-741-a

Proposed Amendment to Regulation U - November 29, 1940

(Occasioned by SEC rules issued November 15, 1940,
concerning hypothecation of customers' securities.)

Regulation U and the Supplement thereto are hereby amended in the following respects, and such amendments shall become effective February 17, 1941, but any bank may, at its option, conduct its operations in accordance with such amendments at any time prior to such date:

1. The following sections are added after section 2 of Regulation U, and the succeeding section is renumbered accordingly:

Section 3. Identification of Collateral

(a) (1) With respect to any loan subject to section 1--i.e., a loan that is secured directly or indirectly by any stock, is for the purpose specified in section 1, and is not excepted by section 2--the bank shall identify all collateral used to meet the collateral requirements of section 1 and shall not cancel the identification except in circumstances that would permit the withdrawal of the collateral.

(2) Only collateral so identified shall have loan value for purposes of section 1 or be subject to the restrictions therein specified with respect to withdrawals and substitutions.

(b) (1) Any indebtedness of the same borrower that is not subject to section 1 shall at all times be secured by at least as much collateral not so identified as the bank acting in good faith would require if the bank held neither the loan subject to section 1 nor the identified collateral, except that this requirement shall not apply to any loan described in section 2(d), (f), (g) or (h).

(2) Notwithstanding the preceding paragraph, declines in market values or credit ratings shall (A) not require the bank to call or reduce any loan or demand any additional collateral therefor, (B) not prevent the bank from permitting withdrawals of collateral against equivalent deposits of collateral or equivalent reductions in the loan, and (C) not prevent the bank from increasing any loan on the basis of equivalent additional collateral.

(c) (1) With respect to any indebtedness outstanding on February 17, 1941, the bank need not make any identification of collateral until immediately before it permits the borrower to increase his indebtedness or to withdraw or substitute collateral, except that such identification shall be made in any event not later than August 15, 1941.

(2) When making such original identification with respect to outstanding indebtedness, the bank shall then place under identification such collateral as would then have been under identification if the requirement therefor had been in effect throughout the life of the loan, and if there is in consequence any deficiency in the collateral not so identified the bank may treat such deficiency as if it were due to declines in market values or credit ratings.

Section 4. Customers' Securities Pledged
by Broker or Dealer

(a) In case any broker or dealer has with the bank any indebtedness subject to section 1, and the bank accepts in good faith from the broker or dealer information in writing that such indebtedness is secured by securities that are carried for the account of any customer, the following rules shall apply for the purposes of this regulation:

(1) such indebtedness so secured shall not be combined with any other indebtedness of the broker or dealer that is subject to section 1 and such securities shall not be combined with collateral which secures any such other indebtedness; and

(2) all such indebtedness so secured shall be considered a single loan and all such securities shall be considered in connection therewith, except that a given part of such indebtedness that is secured by any such security or any group of such securities may be treated as a separate loan if such security or group of securities secures only the part that is to be treated as a separate loan and only such security or group of securities is given loan value for such separate loan.

(b) Securities "carried for the account of any customer" by a broker or dealer shall not include securities carried for the account of any general or special partner or any director or officer of such broker or dealer, or any participant, as such, in any joint, group or syndicate account with such broker or dealer or with any partner, officer or director thereof.

2. The second paragraph of the Supplement to Regulation U is amended to read as follows:

Loans to brokers and dealers. Notwithstanding the foregoing, a stock, if registered on a national securities exchange shall have a

special maximum loan value of 75 per cent of its current market value, as determined by any reasonable method, in the case of a loan to a broker or dealer from whom the bank accepts in good faith (1) a signed statement to the effect that he is subject to the provisions of Regulation T (or that he does not extend or maintain credit to or for customers except in accordance therewith as if he were subject thereto), and (2) information in writing that the stock is carried for the account of any customer as specified in section 4(b) of Regulation U.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-742

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 9, 1940

Dear Sir:

It is requested that, in accordance with the usual practice, annual reports of holding company affiliates on Form F. R. 437 be obtained for the year ending December 31, 1940, or for the holding company affiliate's latest fiscal year if it differs from the calendar year. Please deliver to each holding company affiliate which has its principal executive office in your district, and which holds a general voting permit, three copies of Form F. R. 437, with the request that the annual report be filed in duplicate with your Bank not later than February 1, 1941.

The necessary supply of Form F. R. 437 is being forwarded to your Bank under separate cover. The form has not been revised and is identical with the form used in connection with the annual reports of holding company affiliates for 1938 and 1939. Also, the instructions contained in the Board's letter of December 23, 1938 (R-368) and the memorandum enclosed with that letter (R-368-a) are still applicable to the handling of the reports, except certain dates mentioned in the instructions. Accordingly, it is suggested that reference be made to R-368 and R-368-a for information as to the procedure to be followed in obtaining the reports.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, written over a light background.

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-743



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 13, 1940

Dear Sir:

There have been forwarded to you today under separate cover the indicated number of copies of the following forms, a copy of each of which is attached hereto, for the use of State bank members and their affiliates in submitting reports as of the next call date:

Number of
copies

Form

- Form F. R. 105 (Call 85), Report of condition of State bank member.
- Form F. R. 105b (Revised August 1939), Loans and advances to affiliates and investments in and loans secured by obligations of affiliates.
- Form F. R. 105e (Call 85), Publisher's copy of report of condition of State bank member.
- Form F. R. 105-1 (Revised December 1940), Personal and retail installment paper.
- Form F. R. 220 (Revised August 1935), Report of affiliate or holding company affiliate.
- Form F. R. 220a (Revised December 1938), Publisher's copy of report of affiliate or holding company affiliate.
- Form F. R. 220b (Revised February 1938), Instructions for preparation of reports of affiliates and holding company affiliates.

- 2 -

No change has been made in any of the forms except Form F. R. 105-i (Schedule A.1), which has been used only once before. That form is a supplement to Schedule A, Loans and Discounts. It calls for the reporting bank's holdings of retail installment paper, as it did a year ago, also for its holdings of F. H. A. Title I loans and personal installment cash loans. Definitions of these items appear on the schedule. Three copies of Form F. R. 105-i should be furnished to each State bank member. Two copies of the completed schedule should be returned to the Federal Reserve Bank, and one of these in turn should be forwarded by the Federal Reserve Bank to the Board.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Enclosures 7

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-744

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 14, 1940

Dear Sir:

There is attached a copy of the report of expenses of the main lines of the Federal Reserve Leased Wire System for the month of November 1940.

Please credit the amount payable by your Bank to the Board, as shown in the last column of the statement, to the Federal Reserve Bank of Richmond in your daily statement of credits through the Interdistrict Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by mail the amount and purpose of the credit.

Very truly yours,

O. E. Foulk,
Fiscal Agent.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT RICHMOND

R-744-a

REPORT OF EXPENSES OF MAIN LINES OF FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER 1940

Federal Reserve Bank	Number of Words Sent	Words Sent by N. Y. Chargeable to Other F.R. Banks	Total Words Chargeable	Pro Rata Share of Total Expenses (1)	Expenses Paid by Banks and Board (2)	Payable to Board of Governors
Boston	22,808	967	23,775	\$ 442.90	\$ 281.78	\$ 161.12
New York	69,451	-	69,451	1,293.78	871.40	422.38
Philadelphia	16,158	984	17,142	319.33	233.85	80.48
Cleveland	30,526	983	31,509	586.97	253.53	333.44
Richmond	34,956	963	35,919	669.12	332.91	336.21
Atlanta	38,504	959	39,463	735.14	236.86	498.28
Chicago	57,418	1,032	58,450	1,088.84	1,240.86	152.02 (a)
St. Louis	38,149	962	39,111	728.58	247.19	481.39
Minneapolis	17,739	961	18,700	348.35	191.37	156.98
Kansas City	30,479	962	31,441	585.70	273.01	312.69
Dallas	32,372	1,012	33,384	621.90	266.72	355.18
San Francisco	45,819	983	46,802	871.86	423.98	447.88
Board of Governors	330,433	-	330,433	6,155.50	9,589.51	-
Total	764,812	10,768	775,580	\$14,447.97	\$14,447.97	\$3,586.03 152.02 (a) \$3,434.01

- (1) Based on cost per word (\$.018628601) for business handled during the month.
- (2) Payments by Banks are for personal services and supplies and payments by Board are for personal services and supplies (\$1,189.73) and wire rental (\$8,348.59) less amount (\$448.81) representing reimbursement for the cost of sending messages between the Washington office of the Leased Wire System and the local telegraph offices of the Treasury, Reconstruction Finance Corporation, and the Commodity Credit Corporation. Personal services include salaries of main line operators and of clerical help engaged in work on main line business, such as counting the number of words in messages; also overtime and supper money and Retirement System contributions at the current service rate.
- (a) Credit--reimbursable to Chicago.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-715

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 11, 1910

Dear Sir:

There have been forwarded to you today under separate cover copies of Form F. R. 107 to be used by State bank members in submitting their reports of earnings and dividends for the six months ending December 31, 1910. The form is unchanged from the one used in submitting reports for the six months ended June 30, 1910.

Very truly yours,

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

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-746

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 14, 1940

Dear Sir:

For the information of your field representatives engaged in National Defense work, there are enclosed copies of an inquiry received from a Federal Reserve Bank with respect to certain data contained in the U. S. Government Advertiser and of our reply thereto.

Very truly yours,

A handwritten signature in cursive script, reading "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

Enclosures (Two for each head office and each branch)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT KANSAS CITY

(Enclosures with addressed copies only)

FEDERAL RESERVE BANK OF _____

December 9, 1940

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Mr. Smead:

We have received our first issue of the U. S. Government Advertiser and have been studying it with the view of ascertaining how it can be utilized to advantage. One point that puzzles us is the large list of names with no information as to the amounts of contracts awarded but followed by varying percentages of from 1/10 of 1% to 15%. Our first thought was that this might represent contracts for which certain concerns were awarded from 1% to 15% of the totals, but this does not seem to be correct. It would not appear, however, that the percentages could represent trade or cash discounts, since no quantities or amounts are shown. In any event, the information seems to be of no particular value to us in this form. In other cases we observe names of manufacturers are listed without information as to the nature of supplies to be furnished. We find in another section where certain concerns have bid on kraft envelopes at a fixed price per thousand, with a percentage figure shown following such price, and we assume this is a cash discount figure.

If there is available any sort of key or guide to assist us in interpreting the bulletin, we would like to have it; if not, we shall appreciate any information you may be able to furnish.

Very truly yours,

First Vice President.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

December 13, 1940.

Mr. _____,

_____.

Dear Mr. _____:

Reference is made to your letter of December 9, 1940, regarding certain information contained in the U. S. Government Advertiser.

Upon receipt of your letter we telephoned the publisher and were advised that no key or guide to the Advertiser is available to assist in its interpretation. We were informed, however, that all percentages shown in the Advertiser relate to discounts.

We were also told that the information in the Advertiser is set up in two ways, depending principally upon the number of bidders. If there are a large number of bidders the names are first listed alphabetically and a number assigned to each. For example, in the U. S. Government Advertiser dated December 5, 1940, bids opened by the Navy Department on November 28 are listed beginning in the third column on page 4 and continuing to the last column on page 5. A total of 157 firms submitted bids and these firms are arranged alphabetically and given a key number. Following No. 157, "Wellsville China Co., Wellsville, Ohio", you will note the heading "Sch. 1068, S. & A." Lot 17 under this heading comprises 50,000 corrosion-resisting steel paring knives. Only two of the 157 firms listed submitted bids on this item - No. 70 "International Silver Company, N.Y. City", and No. 112, "R. Wallace & Sons, Mfg. Co., Wallingford, Conn." The bid submitted by No. 70 was \$.167 and by No. 112, \$.1675. No. 70 offered a two per cent discount and No. 112, one per cent discount.

In the case of the bids on kraft envelopes referred to in your letter, the information is set up paragraph by paragraph because of the small number of bidders. The December 5 issue of the Advertiser, page 7, third column, indicates the Government Printing Office opened bids for these envelopes on December 2. Item 1 consists of 800,000 kraft envelopes No. 40 and Item 2, 100,000 kraft envelopes No. 64. There were seven bidders on these two items. The Murray Envelope Corp., for example, bid \$1.08 per 1,000 on Item 1 and \$1.96 per 1,000 on Item 2, less two per cent in both cases.

If you have any further questions regarding the information contained in the U. S. Government Advertiser, please do not hesitate to call on us

Very truly yours,

(Signed) E. L. Smead

E. L. Smead, Chief,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-747



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 16, 1940

Dear Sir:

For your information there is enclosed a copy of a letter, furnished to us this morning, addressed by the Director of Purchases and Contracts of the War Department to the heads of the various services of the Department.

It is assumed that contracting officers may, from time to time, communicate with the field representative or representatives of your Bank for the purpose of obtaining information with respect to the financial position, general character and responsibility of proposed contractors and for the purpose of obtaining the necessary financing of both primary and subcontractors. I know that such requests will receive the usual prompt attention.

Very truly yours,

A handwritten signature in dark ink, reading "Ernest G. Draper". The signature is written in a cursive style with a prominent initial "E".

Ernest G. Draper

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

C O F Y

R-747a

December 9, 1940

SUBJECT: Field contacts with Representatives of Federal Reserve Banks in connection with procurement and supply.

TO: The Chief of the Air Corps,
The Chief, Chemical Warfare Service,
The Chief of Coast Artillery,
The Chief of Engineers,
The Chief, National Guard Bureau,
The Chief of Ordnance,
The Chief Signal Officer,
The Quartermaster General,
The Surgeon General,
The Chief of Finance,
The Judge Advocate General.

1. Herewith for information, is a list of District Officers of the Federal Reserve Banks who have been designated by the Federal Reserve System at the request of the Advisory Commission to the Council of National Defense to give special information and assistance in response to requests therefor from (1) contracting officers with respect to potential primary contractors and (2) contractors who have orders for national defense materials with respect to business establishments which may be qualified to act as sub-contractors on their contracts.

2. It is the intention of the Federal Reserve System to employ the facilities of Federal Reserve Banks to assist contracting officers, primary contractors and sub-contractors in obtaining special information or financial aid when requested to do so and when such services are not available from the usual sources.

3. The services of the District Officers of the Federal Reserve Banks and branches thereof listed in the enclosure will be available to contracting officers for any information or assistance that may be requested. This assistance may be found particularly helpful in connection with the small contractor or sub-contractor whose lack of financial resources may have precluded him from consideration in the past.

4. Contracting officers also may avail themselves of the facilities of the Federal Reserve System to secure additional information regarding the financial position and the general character and responsibility of proposed contractors with the War Department. Contracting Officers desiring such information will communicate with the nearest Federal Reserve Bank or branch thereof, addressing their inquiry to the officer of the bank shown on the attached list. Any information so received will be held strictly confidential and used solely for the purpose of the proposed contract.

5. It is desired that the foregoing information be disseminated to contracting offices of your branch with the least practicable delay.

By direction of The Assistant Secretary of War:

John W. N. Schulz,
Colonel, Corps of Engineers,
Director of Purchases and Contracts.

1 Inclosure
List

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Thursday, December 19, 1940.

The following summary of general business and financial conditions in the United States, based upon statistics for November and the first half of December, will appear in the January issue of the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve Banks.

Industrial activity continued at a high rate in November and the first half of December and distribution of commodities increased considerably. Commodity prices generally showed little change following earlier advances.

Production

Volume of industrial production, which usually declines at this season, showed little change from October to November, and the Board's seasonally adjusted index rose 3 points further to 132 per cent of the 1935-1939 average.

Reflecting work on a large volume of orders for national defense purposes and for civilian needs, activity in the machinery and textile industries continued to increase sharply. At machinery plants and at cotton textile mills activity reached new high levels and at woolen mills output was close to the previous peak reached early in 1937.

Steel ingot production, which had been at about 94 per cent of capacity in October, increased somewhat further in November and the first half of December. Automobile production continued in unusually large volume, amounting in November to around 500,000 cars and trucks. Retail sales

of new cars have been large this autumn and production has been maintained at high levels in order to supply this demand and to build up dealers' stocks. Lumber production declined less than seasonally from October to November. New orders for lumber continued somewhat above the current rate of production although below the high level of the three preceding months when large orders were placed for cantonment construction. Lumber stocks at mills continued to decline and were smaller than at any time in recent years. Bituminous coal production increased considerably in November, following a sharp decline in the previous month, while output of crude petroleum was maintained at about the October rate. Production of most metals continued in large volume.

Value of total construction contract awards declined less than seasonally in November. In the 37 eastern States for which F. W. Dodge Corporation data are available total contracts showed little change; awards for public construction increased further and those for private work declined by somewhat less than the usual seasonal amount. In the far western States contract awards showed a decline from the unusually high level reached in October.

Distribution

Distribution of commodities to consumers increased considerably in November. Sales at department stores and mail-order houses rose sharply, while variety store sales increased by about the usual seasonal amount. In the first half of December there was the customary large expansion in retail sales.

Total freight-car loadings showed considerably less than the usual seasonal decline in November and the early part of December. Loadings

of coal, which had been curtailed in October, increased sharply and shipments of ore and of miscellaneous merchandise declined much less than is usual at this time of the year.

Wholesale commodity prices

Prices of basic commodities, which had risen substantially since August, generally showed little change from the middle of November to the middle of December. Prices of a few imported commodities, particularly cocoa, burlap, and shellac, increased considerably and there were small advances in steel scrap and some other domestic commodities, while moderate declines were reported for such varied commodities as lead, grains, and lard.

Bank credit

Total loans and investments at reporting member banks in 101 leading cities have increased sharply since the beginning of October. Commercial loans continued to increase in November and the first half of December, and holdings of United States Government obligations at New York City banks rose sharply. Principally as a result of the expansion of bank loans and investments, Government expenditures, and foreign disbursements financed by additional gold imports, bank deposits increased to new high levels. At the same time there has been a considerable increase in currency in circulation partly in response to seasonal trade demands.

United States Government security prices

Prices of United States Government securities continued to rise during the latter half of November and the early part of December, and the 1960-65 bonds advanced to successive new high levels, with a peak of about 111 5/8 on December 10. The yield on this issue declined to a low point of 2.03 per cent on the latter date, but increased slightly toward the middle of the month, reflecting some easing in prices.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-749

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 18, 1940

Dear Sir:

There is enclosed a supply of pages 1 and 10 of Form E, Functional Expense Report, revised July 1, 1940, which should be substituted for sheets bearing the same numbers in such sets of the form as you may have in stock. It will be noted that on these sheets provision has been made for the inclusion of the National Defense function.

The supply of complete sets of Form E requested by your bank for use during the coming year will be forwarded in due course.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1940

Dear Sir:

In connection with their end-of-year call reports State bank members will be requested to report the amounts of "personal and retail installment paper" as provided in the Board's letter R-743 of December 13, 1940. The Comptroller of the Currency has requested national banks to report the same data. A copy of the schedule, form F. R. 105-i, on which State bank members will report personal and retail installment paper, is enclosed.

It is believed that the information on retail installment paper will be useful in connection with analyses of member bank operating ratios as compiled on form F. R. 456 in accordance with the Board's letter R-688 of August 9, 1940. Accordingly, it will be appreciated if you will arrange to have the total holdings of personal and retail installment paper, as reported by each of your member banks, entered on form F. R. 456 in the space immediately below the bottom of the column headed "Dec." in section A of the work sheet. The amount should be entered in thousands of dollars, with the nearest hundred shown as a decimal, as in the case of other figures entered in this section. The percentage ratio of this figure to total loans at the end-of-year call date should then be computed to the nearest tenth of 1 per cent, as in the case of other ratios, and entered in the space below the bottom line of the "Averages" column in section A.

Very truly yours,

L. P. Botha,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-751

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 19, 1940

Dear Sir:

There have been mailed to you today by Mr. Mehornay's office 25 copies each of explanatory statements describing the Emergency Plant Facilities Contract and the Assignment of Claims Act prepared in the office of the Advisory Commission to the Council of National Defense. Three copies of each statement have been sent to each of your branches, if any.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-752

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 21, 1940

Dear Sir:

On New Year's Day the offices of the Board of Governors of the Federal Reserve System and all Federal Reserve Banks and branches will be closed.

Inaugural Day, Monday, January 20, is a legal holiday in the District of Columbia, and while the Board's offices will be closed, the telegraph office will be open and transit clearing wires for January 18 will be dispatched as usual. There will be no Federal Reserve note clearing on January 20.

The Board is advised that the following holidays also will be observed by Federal Reserve Banks and branches during January:

January 8 (Wednesday)	New Orleans	Anniversary of the Battle of New Orleans
January 20 (Monday)	Richmond Charlotte	In observance of the anniversary of the birthday of General Robert E. Lee which falls on Sunday
	Atlanta Birmingham Jacksonville Nashville New Orleans	
	Little Rock Louisville Memphis	
	Dallas El Paso Houston San Antonio	

On the dates given the offices mentioned will not participate in either the transit or the Federal Reserve note clearing through the Interdistrict Settlement Fund. Please include transit clearing credits for the offices concerned on each of the holidays with your credits for the following business day.

Please notify branches.

Very truly yours,

A handwritten signature in cursive script, appearing to read "F. A. Nelson".

F. A. Nelson,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-753

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 26, 1940



Dear Sir:

For your information, and in order that correct comparative figures may be published in the consolidated weekly condition statement of the Federal Reserve Banks for 1941, if issued at your bank, there are shown below revised 1940 weekly Federal Reserve Bank press statement figures received too late to be reflected in the comparative column of the following week's statement.

REVISED FIGURES IN CONSOLIDATED WEEKLY
STATEMENT OF CONDITION OF FEDERAL RESERVE
BANKS IN 1940, NOT REFLECTED IN THE
COMPARATIVE COLUMN OF THE FOLLOWING
WEEK'S STATEMENT

(In thousands
of dollars)

January 3

Other assets	58,254
Total assets	19,102,476
Other capital accounts	34,662
Total liabilities and capital accounts	19,102,476

June 5

Deposits:	
Foreign	460,411
Other deposits	488,091

June 12

Bills discounted:	
Secured by U. S. Gov't obligations	1,071
Other bills discounted	1,346
Deposits:	
Foreign	461,216
Other deposits	552,894

(In thousands of dollars)

June 19

Deposits:

Foreign	666,014
Other deposits	432,301

June 26

Deposits:

Foreign	664,720
Other deposits	474,856

July 3

Deposits:

Foreign	755,373
Other deposits	489,981

July 10

Deposits:

Foreign	767,123
Other deposits	506,707

July 17

Deposits:

Foreign	800,436
Other deposits	498,085

July 24

Deposits:

Foreign	814,582
Other deposits	512,853

July 31

Deposits:

Foreign	843,419
Other deposits	538,943

August 7

Deposits:

Foreign	893,557
Other deposits	492,797

August 14

Deposits:

Foreign	937,798
Other deposits	506,467

August 21

Deposits:

Foreign	962,928
Other deposits	522,597

Very truly yours,

J. R. Van Fossen, Assistant Chief,
Division of Bank Operations

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-751

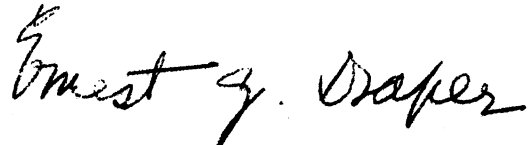
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 27, 1940

Dear Sir:

During the recent Presidents' Conference some of the Presidents asked me to send them copies of any reports I submitted to the Board covering activities of the Federal Reserve System in connection with the defense program. For your information, there is enclosed a copy of my first report dated December 21. It is now contemplated that future reports will be made at approximately monthly intervals.

Very truly yours,



Ernest G. Draper.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

-2-

It was the understanding at the Conference that the Reserve Bank field representatives would be in a position to familiarize local banks with the procedure to be followed in accepting assignment of Government claims as security for loans; to encourage local banks to make loan commitments on condition that borrowers obtain Government contracts; to furnish business enterprises in their districts with information on the procedure to be followed relative to obtaining Defense contracts; and to assist small business enterprises in obtaining necessary financing from their local banks.

On November 16, 1940, a draft of letter indicating briefly the services which the Reserve Banks are in a position to render in connection with the Defense program was sent to the Presidents of the Reserve Banks with the suggestion that a letter along that line be addressed promptly to all banks in their respective districts. The Reserve Banks were furnished a report form entitled "Facilities For Defense Supplies" and were requested to have the form printed and forwarded to commercial banks to be filled out for concerns interested in supplying Defense articles. Two copies of each completed report are mailed by the Reserve Banks to the Board's Division of Bank Operations, one of which is given to the Director of Small Business Activities of the National Defense Commission. These reports are now being received, and, while they are coming in rather slowly except from one or two districts, the indications are that they will presently be received in larger volume and will be very helpful.

The Reserve Banks were advised that all financial problems on which they need information or assistance from Washington should be taken up with the Board's Division of Bank Operations, and that all problems relating to purchasing of materials and supplies by the armed services, bidding procedure, and the like should be taken up directly with the Office of the Director of Small Business Activities of the National Defense Advisory Commission.

Numerous telephone, telegraph, mail, and personal inquiries have been received requesting information or assistance with respect to various financial and other problems that have arisen, and all such inquiries, I believe, have been answered with the utmost dispatch, generally either on the day they were received or the following day. While many of these inquiries were of a minor nature and, therefore, were not recorded, more than 50 have been deemed sufficiently important to warrant the maintenance of written records in connection therewith. Each such case has been assigned a number and written up on Form F. R. 536 entitled "Defense Contract Case Handled through Federal Reserve Bank". This form provides for showing the District, name of contractor or sub-contractor, material, contracting agency,

-3-

source of inquiry, bank involved (if any), "facts", and "disposition". A summary statement covering thirty-nine of these cases is attached. This record should prove helpful in handling any future inquiries of a similar nature and also in answering any questions that may be raised with respect to the disposition of a particular case. When questions of a general nature have been raised, the substance of our replies has been transmitted to all Federal Reserve Banks for their information. A number of the Reserve Banks have indicated that they are appreciative of our promptness in answering their inquiries.

In our letter of December 5, S-240, the Federal Reserve Banks were requested to render reports each Monday of the activities of their field representatives on behalf of the Defense program. The first reports, which cover the period from November 12 to December 7, are attached. From these reports it appears that the Reserve Banks have circularized the banks in their districts, their representatives have addressed meetings of bank associations and numerous inquiries received through banks and through others have been answered. It appears that many business concerns have been aided either in obtaining Defense contracts, or in necessary financing, in some instances under the provisions of Section 13-b. Commercial banks are reported as responding satisfactorily and as being prepared to cooperate fully in promoting the National Defense program. As might be expected, some criticism has been reported of the Reconstruction Finance Corporation's announcement of a rate of one and one-half per cent on Defense loans made by it. There is also attached a summary of the reports prepared by the Division of Bank Operations. A copy of this summary is being furnished the office of the Director of Small Business Activities in response to its request.

(Signed) Ernest G. Draper

Attachments

DEFENSE CONTRACT CASES HANDLED
THROUGH
FEDERAL RESERVE BANKS

<u>Date</u>	<u>F.R. Bank</u>	<u>Subject</u>
10/31	Chicago	Request to expedite assignment of claim of \$15,000 as security for loan of \$10,000 to be made by Main State Bank of Chicago
10/31	Cleveland	Request to permit 30 percent advance on War Department contract to be deposited in a State member bank rather than a National one.
11/1	Cleveland	Inquiry as to whether subcontractors can benefit from Emergency Plant Facilities contract on same basis as primary contractor.
11/6	Kansas City	Request for advice as to the necessary steps to be taken in order to have an assignment accepted by War Department
11/15	Minneapolis	Request for Navy specifications for 145,000 pair gymnasium shoes.
11/15	Pittsburgh	Request for advice regarding the procedure to be followed in obtaining an advance on a Government contract.
11/19	Chicago	Request for information concerning procedure to be followed in securing proper certification under Section 124 of the Internal Revenue Act.
11/20	Richmond	Request for a copy of Navy contract for the erection of housing facilities at Norfolk Navy Yard.
11/22	Cleveland	Request (1) as to purchasing officer at Camp Holabird (2) whether assignment instrument may provide that checks be payable solely to the assignee.
11/22	Chicago	Request that contracting officers at Fort Sheridan, Illinois, be advised with respect to assignment of claims procedure.
11/25	Chicago	Request from War Department to investigate the responsibility and financial condition of Vilter Manufacturing Company.

<u>Date</u>	<u>F. R. Bank</u>	<u>Subject</u>
11/26	Chicago	Request for information as to definite procedure to be followed in making application for Emergency Plant Facilities.
11/26	Cleveland	Request for information as to whether or not offset law relating to Army and Navy contracts is applicable to Treasury contracts.
11/22	Minneapolis	Request that an effort be made to release a contracting company from its contract with the Navy.
11/23	Cleveland	Request for advise as to whether or not certain contracts contain any prohibitions against their assignment as collateral for a loan.
11/19	Minneapolis	Request for information regarding three contracts and questions relating to general policy matters involving these contracts and all future contracts with both Army and Navy.
10/28	Minneapolis	Request for specifications of certain supplies for Air Corps.
11/18	Cleveland	Request to expedite consideration by War Department of an application for Emergency Plant Facilities.
11/26	Boston	Request from War Department to investigate the responsibility and financial condition of the Cowdrey Machine Works.
11/29	Portland	Request to investigate industrial facilities for making gun mounts.
11/29	Cleveland	Request for information regarding the preparation of Emergency Plant Facilities contract for sub-contractors.
11/29	New York	Request from War Department to investigate the responsibility and financial condition of the Electric Arc Cutting and Welding Company.
11/29	Dallas	Request to expediate an assignment of claim to the Federal Reserve Bank, which is making a loan to finance Dallas Cotton Mills Company.
12/2	Philadelphia	Request as to whether or not the Navy could guarantee a contractor against loss on Emergency Plant Facilities, if contracts are cancelled, other than by the provisions of the Emergency Plant Facilities contract.

<u>Date</u>	<u>F. R. Bank</u>	<u>Subject</u>
11/28	Minneapolis	Request for expediting delivery to potential bidders of Army and Navy specifications.
12/2	Philadelphia	In filing assignment of Government contracts it is required, in the case of a corporation, that a certified copy of resolution be attached authorizing execution of assignment by officers.
12/3	Chicago	Request to expedite consideration of a request to assign claim filed with contracting officer at Frankford Arsenal, Philadelphia.
12/4	Boston	Request for information as to proper officer of American Red Cross to be communicated with in regard to yarn requirements.
11/30	Portland	Request that industrial facilities for the manufacture of wooden ships be investigated by the Navy Department.
12/5	Baltimore	Request that the War Department not require a contracting company to file application for assignment with contracting officer located in Porto Rico but permit the application to be filed directly with the office of the Assistant Secretary of War.
12/5	Chicago	Request that War Department notify a contracting officer in Madison relative to assignment of claims procedure.
12/2	Cleveland	Request from War Department to investigate the responsibility and financial standing of the Robertshaw Thermostat Company.
12/6	Chicago	Request for information as to whether War Department considers an option to purchase property a contract against which a resulting claim can be assigned as security for a bank loan.
12/5	Chicago	Request for specifications of caskets used by War Department for burial of deceased soldiers.
12/6	Cleveland	Request for information as to bids to be opened for 1,000,000 gallons of paint.

<u>Date</u>	<u>F. R. Bank</u>	<u>Subject</u>
	All Federal Reserve Banks	Request to discuss with War Department a method of expediting the handling of requests for assignment of claims.
12/7	Philadelphia	Request that the War Department permit a 30 percent advance on a contract to be deposited in a State member bank rather than in a National Bank.
12/7	New York	Request that the War Department permit a 30 percent advance on a contract to be deposited in a State member bank rather than in a National Bank.
12/6	Kansas City	Request to confer with War Department relating to the assignment of a claim resulting from a contract for the construction of a large arms plant near Kansas City.

Summary of Federal Reserve Bank reports on activities of field representatives in behalf of the Defense program, Nov. 12- Dec. 7, 1940

Boston

The banks in the First District are responding very warmly in their desire to cooperate with the National Defense program. Most of the inquiries received have been in respect to the procedure to be followed by banks in reaching their customers as the desired information is not available in the banks' files. Some banks have contacted their customers individually but the larger ones have resorted to newspaper advertisements.

A group has been formed of six senior officers of banks in the larger cities of Connecticut and in response to its request the Reserve Bank is sending a representative to Connecticut to serve as secretary of the group and to make personal contacts with all commercial banks in that State. The establishment of similar groups through the banking associations in other states is under consideration.

A meeting of all commercial banks in metropolitan Boston was held under the sponsorship of the Boston Clearing House Association on December 4 to discuss matters relating to the Defense program. This meeting was attended by Mr. Hult and by the representative for the First District of the Bank Management Commission of the American Bankers Association.

Not over 15 individuals called at the Reserve Bank and all but two were familiar with bidding for Government contracts and merely inquired whether there was any other line they might adopt in order to expand their businesses. Investigation proved that two concerns which had been awarded contracts had neither the facilities nor the ability to fulfill any Government contract. Contacts were established with the Ordnance Department, Boston, and with several associations in and outside Boston.

No bank visited by the Bank Relations representative reported any recent demand for Defense financing and none stated that any immediate demand was in evidence. The following two points were referred to by bankers as deterrent to their undertaking a widespread campaign for loans: (1) Announcement of R.F.C. with respect to rates; and (2) Feeling that many small concerns may not be able to determine production and labor costs accurately enough to make financing of operations against contracts secured by competitive bidding a good banking risk for small banks not experienced in making industrial loans. Certain large banks located both in and outside the First District are actively soliciting Defense loans. The only rate that has been heard quoted is that of three per cent by a Boston bank.

Boston (Continued)

The Reserve Bank's Statistical Department indicates that without available data with respect to the completion of Defense contracts to subtract from the cumulative Government contract totals awarded, a very false expectancy on pay rolls, employment, trade, and prices may exist within the next year. The Statistical Department states that up to October 31, 1940, \$1,322,478,000 had been awarded in New England and asks, for example, how much has been completed now and how much will have been completed by December 31.

New York

One application has been received to participate with member bank in a loan of \$1,000,000 to a concern which has an Army contract.

Arrangements have been made for the facilities of the Reserve Bank to be used on December 17, 1940, for the purpose of bringing together the District representatives of the New York State Bankers Association and some Connecticut and New Jersey bankers to discuss the Defense program.

Forty-one individuals representing principally manufacturers and contractors have called at the Reserve Bank. Of the 41 interviews, 33 were primarily concerned with obtaining contract work and represented, for the most part, small manufacturers of steel and other metal products. The remaining eight inquiries pertained solely to requests for financial aid. In four of such cases it was ascertained that reasonable bank credit was available and the inquiries were the result of a desire for lower interest rates or a misunderstanding that the Government proposed to finance directly all Defense work. In two instances individuals desired equity capital in order to purchase nonoperating plants. The remaining two cases desired Government funds for capital investment in new enterprises in excess of a sum of private capital already available.

Forty-six letters have been received from various concerns asking how they might participate in National Defense work. Each letter was answered and Circular No. 2147, together with the forms entitled "Facilities for Defense Supplies", were enclosed. Numerous telephone inquiries have been received from financial institutions concerning the procedure and mechanics of a bank loan secured by the assignment of claims under a Government contract.

Banks in the Second District located in Fairfield County, Connecticut, have indicated that the Merchants Association of Connecticut has completed a thorough study of the manufacturing facilities of the

New York (Continued)

entire State and that its report has been made available to the National Defense Commission. These banks have decided, therefore, that further to pursue the matter by means of the Reserve Bank's facilities would be a duplication of work which it is claimed is more detailed than that required by the Reserve Bank.

The Buffalo Branch has received 25 telephone calls and had 12 interviews with business men and banks.

Officers of the Reserve Bank have discussed the Defense program with various Procurement officers and are now in a position to contact them as occasion arises.

Philadelphia

Circular letters were sent to all banking institutions in the district furnishing copies of the "Emergency Plant Facilities Contract", and explaining the functions and facilities of the Federal Reserve System in the Defense program. The circular entitled "Financing National Defense" was also sent to all banking institutions and to approximately 2,000 industrial concerns that report to the Federal Reserve Bank monthly on employment, payrolls, etc.

Regional meetings of banking groups at Scranton and Wilkes-Barre were addressed by President Sinclair, and similar meetings at Bethlehem and Reading were addressed by Vice President and Field Representative Davis. Articles placed in leading newspapers throughout the district have resulted in inquiries by letter and telephone.

Fifty-four inquiries were received as to how to get supplies contracts; three as to how to arrange facilities contracts; ten as to how to finance supplies contracts, and thirty-five for general information. During the report period six applications for 13-b loans for defense purposes have been received, of which four, in the amount of \$5,870,000 have been approved. The other two applications are under consideration. In addition, extensions on payments on five outstanding 13-b advances have been granted to assist the borrowers in financing defense orders on hand.

The attitude of the banks in the district has been generally cooperative and there exists an evident desire to assist to the fullest extent in financing the National Defense program.

Cleveland

Banks in the Fourth District have requested 7,208 forms captioned "Facilities for Defense Supplies" and 714 banks have returned 198 completed forms.

Personal interviews at the head office have ranged from two to eight daily and the number at each of the branches not quite as high. Most of the interviews have been with representatives of manufacturing concerns which wish to obtain Government business. Several subcontractors have inquired about the procedure for obtaining Emergency Plant Facilities Contracts and a number of telephone calls have been received from banks. The Reserve Bank was of assistance in closing negotiations between The Winters National Bank and Trust Company of Dayton, Ohio, and the Sheffield Gage Company of Dayton for an Emergency Plant Facilities Contract.

Representatives of the Reserve Bank have made the acquaintance of Ordnance Procurement officers in Cleveland, Cincinnati, and Pittsburgh. Arrangements have been made for eight or nine meetings in January of bankers in various parts of the Fourth District.

One application for a line of credit in the amount of \$650,000 for Defense purposes has been received and will be presented to the Industrial Advisory Committee on December 16.

The inquiries which the Reserve Bank has passed on to the Board's offices have been handled with dispatch.

Richmond

While only 56 "Facilities for Defense Supplies" forms have been received to date, there have been requests for additional forms and it is evident that a great many more will be received in due course.

A sample form of assignment prepared by the Reserve Bank's Counsel was furnished to several banks at their request and was favorably received.

The Reserve Bank has assured two banks where customers' needs are in excess of their legal limits that it will give favorable consideration to participating in such loans if not practicable to have the loan divided between two or more commercial banks.

In the case of one industrial borrower, the terms of a direct advance by the Reserve Bank were revised in order to assist the company in financing a \$1,960,000 contract for the manufacture of anti-aircraft

Richmond (Continued)

shell cases. Under the provisions of Section 13b there have been approved recently loans totaling \$175,000 to three enterprises engaged in supplying defense needs. While most of the larger concerns with Government orders apparently have sufficient credit, at least for the present, to enable them to finance themselves without difficulty, one such concern has requested assistance and has been invited to discuss the matter with the Reserve Bank.

Atlanta

In response to its circular letter of November 19, 1940, the Reserve Bank received and sent to the office of the Director of Small Business Activities the names of 110 concerns to be placed on the invitation bidding lists of Army and Navy Procurement offices.

The Reserve Bank has examined all statements on Form ND-1 and has communicated with the banks submitting them in cases where it appeared assistance in supplying working capital might be given.

A meeting to acquaint bankers with the part which they may play in the Defense program is to be held in the Reserve Bank Building on December 12 under the auspices of the Georgia Bankers Association and the Federal Reserve Bank of Atlanta. A similar meeting will be held in New Orleans on the same date and arrangements for meetings at Birmingham, Jacksonville, and Nashville are under way.

Mr. William C. Cram, Jr., an industrial engineer, has been retained as Technical Adviser to the Reserve Bank.

A survey is being made for the Navy Department of all plants at the South Atlantic and Gulf ports in the District which should be able to build, service, or repair boats up to 200 feet.

The Reserve Bank has not financed or directly participated in the financing of any contractors but discussions have been held with a number of banks on matters involving financing. Advice has been given to a number of banks concerning the Assignment of Claims Act of 1940. A pamphlet, entitled "Financing National Defense", following closely that issued by Philadelphia is being prepared for distribution to all banks in the District.

Mr. Neely has personally talked with Navy Procurement officers and has been exceedingly helpful in the formulation of the Reserve Bank's plans for National Defense.

Chicago

The response to the Reserve Bank's questionnaire of November 18 was immediate and the results are reflected in the following summary: Loans or commitments made, 2; correspondence, 130; interviews, 95; telephone calls, 211; questionnaires transmitted to Board, 521. A number of meetings were held with bank representatives relative to the program for developing the information called for in the questionnaires. Various Army and Navy officials have been invited to have lunch at the Reserve Bank and to discuss phases of mutual interest. These meetings have been extremely helpful and it has been found possible to solve many local problems by communicating with local Army and Navy officials.

Some manufacturers have asked that engineers be sent to their plants with a view to advising the types of Defense products that could be supplied with their facilities. In such cases the Reserve Bank has requested that Army engineers make the surveys and they are cooperating very effectively.

At the request of the local Ordnance Department, the Reserve Bank forwards to it, direct, copies of all questionnaires received. The Ordnance Department maintains a complete card index on industries and answers requests from large concerns holding prime contracts for information regarding smaller manufacturers to whom they could sublet contracts for parts.

Smaller manufacturers have experienced considerable difficulty and delay in effecting assignments due to the fact that Procurement Officers were not informed concerning the procedure, but now that regulations have been issued by the War and Navy Departments it is assumed that the assignments can be functioned with reasonable expediency.

While every effort is being made to help the smaller manufacturer in arranging for financial aid through normal banking channels, the Reserve Bank advanced \$2,000 to one applicant in immediate need of assistance to meet his pay roll and a commitment agreement has been entered into in connection with 50 per cent of a \$1,000 loan at Detroit.

St. Louis

Head Office. Visits were made to interested Army officers in St. Louis. Between 50 and 75 representatives of business concerns were interviewed and information given with respect to having their names placed on lists to receive invitations to bid. Two of the individuals interviewed were given information as to the procedure they should follow in obtaining financing through their local banks. An informal talk was made to a group of about 25 St. Louis bankers concerning the Defense program. After the talk specific questions regarding the making of loans on the security of an assignment of a Government contract were answered

St. Louis (Continued)

in a round-table discussion which lasted about one and one-half hours. Advice was given to five local banks in connection with specific loans being considered by these banks. No applications and only two inquiries with respect to a 13-b loan in connection with Defense work were received.

Little Rock Branch. Since local banks are not interested, the Mercury Mines, Inc., Little Rock, which has a contract to furnish 750 flasks of mercury to the Government for \$120,000, intends to file application with the Reserve Bank for a loan to finance the contract. Conversations have been had with presidents and vice-presidents of Little Rock banks and other bankers in the district with reference to the Defense program.

Louisville Branch. One industrial plant was visited and information collected and forwarded to the National Defense Commission. One member bank was visited regarding the questionnaire. Correspondence was had with one member bank securing a survey of industrial facilities of the city in which located. A visit was made to the Procurement officer at the Jeffersonville Quartermaster Depot. Three inquiries were received and referred to other Federal Reserve Banks. Eight inquiries were received and answered.

Memphis Branch. One inquiry has been received and referred to the New Orleans Branch. Steps necessary to secure contracts under the Defense program were explained to the secretary of one out-of-town chamber of commerce. Inquiries received from five concerns, all of which have or can obtain sufficient financing, were referred to Mr. Nelson's office. The Second Army has moved its headquarters from Chicago to Memphis and the Commanding Officer has been visited.

Minneapolis

Letters have been mailed to banks, industrialists, chambers of commerce, etc., and a meeting of all bankers from potentially industrial districts has been arranged. A luncheon attended by the heads of the larger Minneapolis Banks was given by the Reserve Bank on December 9 in preparation for this meeting.

While the Ninth District probably will not receive many direct contracts, the Reserve Bank is confident that the District will secure some of the subcontracts. Everyone is giving full cooperation and the Reserve Bank is forcing the issue as rapidly as possible.

Kansas City

After mailing a circular letter to all banks, the Reserve Bank began visiting the larger ones and while all indicated a desire to cooperate, some were critical of what seems to be a duplication of effort on the part of several agencies and many bankers expressed displeasure over the statement of Mr. Jesse Jones relating to a rate of 1-1/2 per cent on loans secured by assignment of Defense contracts.

Through the Reserve Bank's efforts a considerable amount of favorable publicity has been given the Defense program. At Kansas City meetings of the Chamber of Commerce and the Clearing House Association have been attended and the Reserve Bank has cooperated with the district representative of the Bank Management Commission of the A.B.A. Discussions have been had with the newly established Quartermaster's Depot in Kansas City. At the branch cities meetings have been held with chambers of commerce, and at all offices interviews have been had with bankers and manufacturers. Many inquiries have been received from bankers and manufacturers relating to their own particular problems and, in several instances, valuable information has been obtained from the office of the Director of Small Business Activities as well as from Mr. Smead's office. Letters addressed to both offices have received prompt attention.

In not less than four instances the Reserve Bank has been of service in connection with the award or financing of contracts, the total amount involved being approximately \$8,000,000, including one contract for \$7,500,000. In other instances the efforts of bankers have been stimulated as a result of the Reserve Bank's activities although the Bank has had no direct part in financing operations. One banker advised the Reserve Bank that his bank had made loans aggregating more than \$5,000,000 based on Defense contracts.

Dallas

Personal conferences have been held with 35 individuals who called for the purpose of discussing the possibility of obtaining Government contracts and in each instance the Federal Reserve Bank has suggested that Form ND-1 be filled out and forwarded through a local bank. In addition, the Reserve Bank has attempted to put them in touch with the proper Procurement Officer of the Army and Navy. Several callers had subcontracts or purchase orders from primary contractors and sought help in financing their business. In all cases the Reserve Bank advised them to discuss the matter with their own banks but to return in event they did not make arrangements for adequate financing. Inasmuch as none has returned, the Reserve Bank assumes their needs were satisfied.

Dallas (Continued)

Numerous telephone and mail inquiries from banks have been answered with reference to financing Defense contracts.

The Reserve Bank has committed itself for a loan of \$87,000 to the Dallas Cotton Mills Company for new machinery and working capital with which to carry out a Government contract of \$210,000 for furnishing tent material.

Mr. Stroud attended a dinner, given by President Houston of the American Bankers Association for the executive officers of the Association during its regional conference at Ft. Worth, and made a short talk explaining the part of the Federal Reserve System in connection with the Defense program. The representative of the Association's National Defense Loans Committee for the Eleventh District spoke concerning the necessity of commercial banks cooperating in the movement to the fullest extent.

San Francisco

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-755

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 27, 1940



Dear Sir:

There is attached a copy of a resolution adopted by the Board of Governors of the Federal Reserve System levying an assessment upon the various Federal Reserve Banks in an amount equal to three hundred and two thousandths of one per cent (.00302) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks as of the close of business December 31, 1940, to defray the estimated expenses and salaries of the members and employees of the Board from January 1 to June 30, 1941.

The resolution also contains instructions with regard to the manner in which the payments on the assessment shall be deposited with the Federal Reserve Bank of Richmond.

Very truly yours,

A handwritten signature in cursive script, appearing to read "O. E. Foulk".

O. E. Foulk,
Fiscal Agent.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

RESOLUTION LEVYING ASSESSMENT

WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve Banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year, and

WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six-months' period beginning January 1, 1941, it is necessary that a fund equal to three hundred and two thousandths of one per cent (.00302) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve Banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal Reserve notes;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

(1) There is hereby levied upon the several Federal Reserve Banks an assessment in an amount equal to three hundred and two thousandths of one per cent (.00302) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business December 31, 1940.

(2) Such assessment shall be paid by each Federal Reserve Bank in two equal installments on January 2, 1941, and March 1, 1941, respectively.

(3) Every Federal Reserve Bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 27, 1940

Dear Sir:

There is enclosed for your information a copy of a decision (B-13852) rendered by the Comptroller General of the United States to the Secretary of War, under date of December 10, 1940, with reference to the procedure under the Assignment of Claims Act of 1940. This decision did not come to our attention until today.

Copies of the Circular No. 1417 of the Director of Procurement and of the decision of the Comptroller General (B-13700) dated December 2, 1940, which are referred to in the enclosed decision, were sent to you in Mr. Morrill's circular letter of December 11, 1940.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

COMPTROLLER GENERAL OF THE UNITED STATES

Washington

B-13852

December 10, 1940

The Honorable,

The Secretary of War.

Sir:

I have your letter of December 5, 1940, as follows:

"In order that appropriate instructions may be issued to disbursing officers of the War Department in connection with payments to be made to assignees of moneys due or to become due from the United States, or from any agency or department thereof under contracts with the United States, in accordance with the authority contained in the Assignment of Claims Act of 1940, Public 811, Chapter 779, 76th Congress, 3d Session, approved October 9, 1940, your decision is requested on the question hereinafter propounded under the authority contained in the Act of July 31, 1894, 28 Stat. 208, U. S. C. 31:74.

"Under subparagraph 4 of the proviso to Section 1 of the Assignment of Claims Act of 1940, and, as understood by this Department, as a condition precedent to the validity of the assignment provided for therein, the assignee of moneys due or to become due from the United States, or from any agency or department thereof, is required to furnish to certain designated persons or agencies specified in said subparagraph a written notice of the assignment, together with a true copy of the instrument of assignment.

"Your decision is requested on the question whether under the above cited subparagraph of said proviso a disbursing officer making payment under such assignment, copy of which has been furnished him, may accept an affidavit executed by the assignee to the effect that written notice of the assignment and a true copy of the instrument of assignment have been furnished the persons or agencies with whom the Act in question requires such filing, as adequate evidence as to compliance with the requirements of said subparagraph of the Act in question, to justify payment to said assignee.

"In order that current procurements in the field of National Defense may be properly and expeditiously obtained, your early decision in the premises is requested."

Section 4 of the Assignment of Claims Act of 1940, provides in pertinent part as follows:

"That in the event of any such assignment, the assignee thereof shall file written notice of the assignment together with a true copy of the instrument of assignment with--

"(a) the General Accounting Office,

"(b) the contracting officer or the head of his department or agency,

"(c) the surety or sureties upon the bond or bonds, if any, in connection with such contract, and

"(d) the disbursing officer, if any, designated in such contract to make payment."

This office will accept an affidavit such as mentioned in your letter as establishing prima facie, for audit purposes, that there has been a compliance with section 4 of the act, but should it subsequently develop that there has not been a compliance with said section 4 the disbursing officer would in no way be relieved of responsibility for the payment based on such false affidavit. That is to say, if the disbursing officer elects to accept such affidavit for purposes of making payment to the assignees this office will require no additional evidence to establish the fact of compliance with section 4 of the act unless the affidavit proves to be false, but the acceptance of such affidavit will not relieve the disbursing officer of his responsibility.

The matter of assignments, notices thereof, and payments thereunder has been considered by the Director of Procurement who has issued general instructions in that regard by Circular Letter No.

447, December 3, 1940, which provides, insofar as concerns the question you have presented, as follows:

"In the event that any moneys due or to become due from the United States under any contract are assigned pursuant to the terms of the Assignment of Claims Act of 1940, the assignee is required to forward a true copy of the assignment, together with written notice thereof, to each of the parties specified in proviso 4 of the Act. This notice of said assignment in the form attached hereto should be furnished to each of such parties in quadruplicate. Three of the four copies of each notice of assignment should be returned to the assignee under the contract with the receipt form at the end thereof properly executed. One of these copies is for the assignee. The other two copies should be attached to the first voucher, invoice, or other similar document submitted for payment. One copy of each receipt should be furnished to the General Accounting Office with the first voucher and the other copy of each receipt retained by the appropriate officer of the Department making payment. Reference as to the previously filed receipts should be made on subsequent vouchers,

"This procedure is designed to afford the assignee and the appropriate officers of the Government convenient evidence that there has been compliance with the requirements of the statute with the reference to the filing of notice of such assignments. However, rigid adherence to this procedure should not be insisted upon if satisfactory evidence of compliance with the statute is provided by other means."

It would appear that if the procedure suggested therein be followed there would be available to the disbursing officer evidence in the form of receipts that the notices and copies of assignment had been filed as required, which evidence should afford him ample protection insofar as concerns section 4 of the act in question. It is suggested that the procedure therein outlined, or a similar procedure, well might be adopted by the War Department.

As having a bearing on the responsibility of a disbursing officer in making payments under assignments permitted by the Assignment of Claims Act of 1940, attention is invited to decision of this office

B-13852

- 4 -

dated December 2, 1940 (B-13700), a copy of which is attached to and forms a part of Circular Letter No. 447, supra, wherein it is stated:

"There would appear to be no necessity for a specific claim from an assignee under a valid assignment for an amount established to be due and payable under a particular contract. However, it is to be recognized that disputes unknown to the Government may exist between the contractor and its assignee in connection with the assignment, the consideration or a condition of the assignment may have failed etc. Also, it is to be noted that the assignee, and not the contractor, is required to supply to the Government information as to the assignment, and that a 'true copy' of the assignment is required to be furnished. Having regard therefor, in order to insure that payments are properly made, to prevent frauds upon the United States, and to protect the rights of all parties involved, it would appear that the voucher, invoice, or other data in support of a payment direct to the assignee should clearly indicate that the contractor recognizes the assignment, its validity, and the right of the assignee to receive the payment. The form or means of indicating such recognition is not material insofar as this office is concerned. For instance, the contractor's certification on a voucher in which the name of the assignee is shown would suffice for audit purposes."

Should the disbursing officer make a **payment** based on an affidavit such as mentioned in your letter under a voucher which shows that the contractor recognizes the assignment, its validity, and the right of the assignee to receive the payment, the Government might have a valid defense to any subsequent claim from the contractor for the said amount should the contractor base such claim on the fact notices and copies had not been furnished as required by the act. However, should the payment be made in connection with a contract supported by bonds the interests of the Government might be unduly prejudiced in the event the surety had not been furnished a notice and copy of the assignment. Consequently, it would appear

B-13852

- 5 -

advisable in such cases, for the protection of the disbursing officer, that no payment be made to the assignee until it be established that the surety had received a notice and copy of the assignment.

Respectfully,

(Signed) LINDSAY C. WARREN

Comptroller General
of the United States.

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.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-758



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 28, 1940

Dear Sir:

There is enclosed for your information a copy of a letter addressed by Frank W. Bullock, Major, Signal Corps, Assistant to the Director of Purchases and Contracts, War Department, to the heads of the various branches of the service, with respect to deposits in member banks of advance payments under War Department contracts. A copy of this letter is being mailed to each officer designated as a field representative at your Bank and branches, if any.

Very truly yours,

A handwritten signature in cursive script, reading "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
COPY TO FIELD REPRESENTATIVES

R-758a

December 23, 1940

SUBJECT: Advance Payments - Banks to be used as Depositories
for Special Accounts

TO: The Chief of the Air Corps
The Chief, Chemical Warfare Service
The Chief of Coast Artillery
The Chief of Engineers
The Chief, National Guard Bureau
The Chief of Ordnance
The Chief Signal Officer
The Quartermaster General
The Surgeon General
The Chief of Finance
The Judge Advocate General

Effective January 1, 1941, the following policy will govern:

Contracts or supplemental agreements containing provisions for advance payments and requiring that such advance payments shall be deposited in a special bank account, will provide that such special account shall be in a bank which is a "member of the Federal Reserve System", instead of being limited to a "national bank". This will include state banks which are members of the Federal Reserve System as well as all national banks.

Where such contracts or supplemental agreements further provide that such special account shall be the subject of an actual escrow agreement to which the bank shall be a party, then the provision for its deposit in a "national bank" will be used as heretofore.

By direction of The Assistant Secretary of War:

Frank W. Bullock
Major, Signal Corps
Assistant to the
Director of Purchases and Contracts

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Thursday, January 2, 1941.

December 31, 1940

The Board of Governors of the Federal Reserve System today announced the following designations and appointments at the Federal Reserve Banks and Branches shown below:

CHAIRMEN AND FEDERAL RESERVE AGENTS FOR YEAR 1941

<u>Federal Reserve</u> <u>Bank</u>	<u>Name of Appointee</u>
Boston	Mr. Frederic H. Curtiss of Boston
New York	*Mr. Beardsley Ruml of New York, New York
Philadelphia	Mr. Thomas B. McCabe of Swarthmore, Pennsylvania
Cleveland	Mr. George C. Brainard of Youngstown, Ohio
Richmond	Mr. Robert Lassiter of Charlotte, North Carolina
Atlanta	Mr. Frank H. Neely of Atlanta
Chicago	*Mr. Frank J. Lewis of Chicago
St. Louis	Mr. Wm. T. Nardin of St. Louis
Minneapolis	Mr. W. C. Coffey of St. Paul, Minnesota
Kansas City	Mr. R. B. Caldwell of Kansas City
Dallas	Mr. J. H. Merritt of McKinney, Texas
San Francisco	Mr. Raymond C. Force of Piedmont, California

DEPUTY CHAIRMEN FOR YEAR 1941

Boston	Mr. Henry S. Dennison of Framingham Centre, Mass.
New York	*Mr. Edmund E. Day of Ithaca, New York
Philadelphia	Mr. Alfred H. Williams of Wallingford, Pennsylvania
Cleveland	Mr. R. E. Klages of Columbus, Ohio
Richmond	Mr. W. G. Wyszor of Richmond
Atlanta	Mr. J. F. Porter of Williamsport, Tennessee
Chicago	*Mr. Clifford V. Gregory of Des Moines, Iowa
St. Louis	Mr. Oscar Johnston of Scott, Mississippi
Minneapolis	Mr. Roger B. Shepard of Newport, Minnesota
Kansas City	Mr. J. J. Thomas of Seward, Nebraska
Dallas	Mr. Jay Taylor of Amarillo, Texas
San Francisco	Mr. St. George Holden of San Francisco

Federal Reserve
Bank

Name of Appointee

CLASS C DIRECTORS

(Appointed for 3-year terms beginning January 1, 1941 unless otherwise stated)

Boston	Mr. Henry I. Harriman of Newton, Massachusetts
Philadelphia	Mr. Warren F. Whittier of Douglassville, Pennsylvania
Cleveland	Mr. George C. Brainard of Youngstown, Ohio
Richmond	Mr. Robert Lassiter of Charlotte, North Carolina
Atlanta	Mr. Rufus C. Harris of New Orleans, Louisiana
Chicago	Mr. Frank J. Lewis of Chicago
Chicago	*Mr. Simeon E. Leland of Chicago, for unexpired portion of 3-year term ending December 31, 1941
St. Louis	Mr. Oscar Johnston of Scott, Mississippi
Minneapolis	Mr. W. D. Cochran of Iron Mountain, Michigan
Kansas City	Mr. R. B. Caldwell of Kansas City
Dallas	Mr. J. B. Cozzo of Dallas
San Francisco	Mr. St. George Holden of San Francisco

BRANCH DIRECTORS

(Appointed for 3-year terms beginning January 1, 1941, unless otherwise stated)

Federal Reserve
Bank and Branch

Name of Appointee

NEW YORK	
Buffalo	Mr. Howard Kellogg of Derby, New York
x CLEVELAND	
Cincinnati	Mr. Frank A. Brown of Chillicothe, Ohio
Pittsburgh	Mr. George T. Ladd of Coraopolis, Pennsylvania
RICHMOND	
Baltimore	Mr. W. Frank Roberts of Baltimore
Charlotte	Mr. George M. Wright of Great Falls, South Carolina
Charlotte	*Mr. Charles L. Creech, Sr., of Winston-Salem, N. C., for unexpired portion of 3-year term ending December 31, 1941
ATLANTA	
Birmingham	Mr. Ed L. Norton of Birmingham
Nashville	Mr. E. W. Palmer of Kingsport, Tennessee
New Orleans	Mr. E. F. Billington of Meridian, Mississippi
CHICAGO	
Detroit	*Mr. Clarence W. Avery of Detroit

BRANCH DIRECTORS
(continued)

<u>Federal Reserve</u> <u>Bank and Branch</u>	<u>Name of Appointee</u>
ST. LOUIS	
Little Rock	Mr. I. N. Barnett, Jr., of Batesville, Arkansas
Louisville	Mr. Perry B. Gaines of Carrollton, Kentucky
Memphis	Mr. Rufus C. Branch of Pecan Point, Arkansas
x MINNEAPOLIS	
Helena	Mr. Alex Cunningham of Helena, Montana
KANSAS CITY	
Oklahoma City	*Mr. Phil Ferguson of Woodward, Oklahoma
Omaha	Mr. W. H. Schellberg of Omaha
DALLAS	
El Paso	Mr. Jack B. Martin of Tucson, Arizona
Houston	Mr. George G. Chance of Bryan, Texas
San Antonio	Mr. Dolph Briscoe of Uvalde, Texas
x SAN FRANCISCO	
Los Angeles	Mr. W. S. Rosecrans of Los Angeles
Portland	Mr. A. E. Engbretsen of Astoria, Oregon
Salt Lake City	Mr. R. C. Rich of Burley, Idaho
Seattle	Mr. Fred Nelsen of Seattle

* All positions not preceded by an asterisk were filled by reappointment of the present incumbents.

x Branch directors of these Federal Reserve Banks were, as usual, appointed for 2-year terms (beginning January 1, 1941).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-225
Reg. L-13

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 13, 1940



Dear Sir:

The Board recently considered a case involving the question whether two places were "contiguous or adjacent" within the meaning of the Clayton Act. (Footnote 8, Regulation L.) The purpose of this letter is to inform you of the Board's conclusions, summarizing the facts which were examined in great detail in the original ruling.

The banks were located in two "Towns" in New England, and the boundaries of the two "Towns" touched. However, in view of the Board's letter of February 27, 1940, S-205, it was suggested that the limits of the towns should be disregarded and that the applicability of the statute should be decided on the same basis as if two unincorporated communities were involved.

However, in this case each of the communities was incorporated as a "City" and had a city form of government administered by a mayor and city council. The corporate limits of the two cities were the same as the limits of the two "Towns", and therefore touched each other. In the circumstances the Board ruled that the two cities were "contiguous".

The Board pointed out that the position taken in its letter S-205 was taken for the purpose of avoiding discrimination in the application of the Clayton Act in various parts of the United States. That letter took notice of the fact that in certain States in New England the entire area of the State is divided into "Towns" whereas in other parts of the United States a town is merely an area drawn to include a cluster of houses, leaving large parts of the State which are not included in any city, town or village. Had the Board not taken this position the result would have been a discrimination in the application of the statute against some interlocking relationships existing

-2-

S-225
Reg. L-13

in New England. Accordingly, the Board's letter S-205 proceeded on the theory that the boundaries of a subdivision of a county known as a "Town" were not necessarily to be regarded as the boundaries of unincorporated communities located within the town. It did not proceed on the theory that the limits of a community should be disregarded where the community is in fact an incorporated municipality with defined corporate limits such as a city, town or village as they exist generally throughout the United States, because to disregard the corporate limits in such a case would involve a discrimination in favor of that community and against similar incorporated communities throughout the United States where such limits have been consistently followed in applying the statute.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-226
Reg. T-92

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 19, 1940

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "Obtaining Payment for Purchase of Securities in Cash Account Under Regulation T".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified on the statement.

Very truly yours,

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

L. P. Bethea,
Assistant Secretary.

Enclosure

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, July 23, 1940.

The following ruling will appear in the Federal Reserve
Bulletin:

Obtaining Payment for Purchase of Securities in Cash
Account Under Regulation T

The Board recently considered several questions regarding the provisions of Regulation T which relate to the maximum time permitted for obtaining payment in a special cash account under section 4(c) of the regulation. The general rule on this subject is stated in subdivision (2) of the section. Subject to a number of exceptions stated in subsequent subdivisions of the section, this subdivision provides that:

"(2) In case a customer purchases a security (other than an exempted security) in the special cash account and does not make full cash payment for the security within 7 days after the date on which the security is so purchased, the creditor shall, except as provided in the succeeding subdivisions of this section 4(c), promptly cancel or otherwise liquidate the transaction or the unsettled portion thereof."

Paying by sale of another security. - One inquiry related to the application of this provision to a question that may be described as follows:

A customer effects a purchase in a special cash account established pursuant to section 4(c) of the regulation. On the same day the customer sells in the account

another security which he owns but which he has not yet deposited in the account. The proceeds of the sale, which was effected "seller 10", are sufficient to make full cash payment for the purchase, but such proceeds will not be available to the broker until after the time applicable under section 4(c) for obtaining payment for the purchase. May the sale be considered to constitute payment for the security purchased, and thus make it unnecessary to take alternative action?

It is to be noted that a similar question was considered by the Board in the ruling published at page 1043 of the December 1938 Federal Reserve Bulletin on the subject of "Paying for Purchase in Special Cash Account by Selling Another Security". In that case the security sold was deposited in the account prior to the expiration of the time permitted for obtaining payment of the securities purchased. In the present case, although the sale was made within the required period, the securities so sold were not delivered into the account within that time.

It is recognized that such transactions might be evidence of an effort to evade the regulation in violation of section 4(a) which provides that:

"A special account established pursuant to this section shall not be used in any way for the purpose of evading or circumventing any of the provisions of this regulation."

Naturally, any such transaction should be carefully scrutinized for any such possibility, and any repetition of such a method of making payment by a customer would be especially subject to question. Assuming, however, that there is no such evasion or circumvention of the regulation, it is the view of the Board that the broker may, at his option, treat

the customer as having made payment for the purchased security at the time when the other security was sold, and that this would be permissible even though the security sold had not been deposited in the account. The same conclusion would, of course, follow if the security sold had been deposited in the account but happened not to be in form for "good delivery".

Delayed offer of payment. - An inquiry was presented as to a situation in which a broker or dealer does not obtain full cash payment within the period applicable to the transaction but is offered payment promptly after the period and before he has cancelled or otherwise liquidated the transaction. The question was whether the broker or dealer in such circumstances may accept such payment and consider the provisions requiring cancellation or liquidation for failure to obtain payment to have been met.

The section provides various exceptions for cases where a period other than the seven-day period would be more appropriate. These exceptions do not include any provision for a payment which is offered promptly after the period applicable to the transaction, and it does not appear why any additional time should be permissible in such circumstances if there is no other ground for additional time. The provision for cancelling or otherwise liquidating the transaction when payment has not been obtained within the applicable period is explicit. There are various exceptions, including provision for an extension of time under certain conditions by an appropriate committee

-4-

of a national securities exchange, and it is the view of the Board that in the circumstances described the delayed payment by the customer may not be accepted as a substitute for the cancellation or liquidation of the transaction. This would be the case whether a brokerage or a dealer transaction was involved.

Additional time for shipment of securities. - Subdivision

(4) of section 4(c) provides that:

"(4) If any shipment of securities is incidental to the consummation of the transaction, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be deemed to be extended by the number of days required for all such shipments, but not by more than 7 days."

Questions were raised as to whether certain periods required for the shipment of securities were covered by this provision, and whether they might be added together (to a total such extension not exceeding the seven days specified in the provision). Such questions were presented as to the time of shipment from the place of purchase to the broker, from the broker to the customer, and to and from the transfer office.

Assuming that such shipments are not a subterfuge but actually are incidental to the consummation of the transaction, it is the view of the Board that each such period is covered by the provision. In addition, all such periods may be added together, provided, of course, that the total such extension for any transaction does not exceed the seven-day maximum specified in the provision.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

August 12, 1940

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of August 2, 1940 enclosing a copy of a memorandum from your Counsel with regard to the form of certificate of deposit proposed to be used by the _____ National Bank of _____, _____.

The certificate provides that the principal is payable to the registered holder on presentation of the certificate "on the last day of any _____ period after date". The blank in the quoted phrase is to be filled in with a period agreed upon by the parties, such as 90 days, six months, or other period, and the rate of interest payable on the certificate will be fixed in accordance with the supplement to Regulation Q, i.e., if a six months' period--2-1/2 per cent, and if a 90 day period--2 per cent. The certificate is payable at the specified time, however, only if, prior thereto, written notice of a stated number of days has been given by either party to the other; and, if the certificate is not matured for payment or called at the end of any period as provided in the certificate, it is automatically renewed from period to period until it is so matured or called. Checks for accrued interest are mailed to the registered holder on June 30 and December 31 of each year.

Several questions are suggested with reference to the certificate in question. The first is with regard to the provision for successive renewals without requiring the presentation of old certificates and the issuance of new ones. This feature does not prevent the deposit from being considered a time deposit within the meaning of Regulation Q for, if the period named in the certificate is six months when the deposit is made, it is a six months' certificate and, if not called in at the end of the first period, it would after such six months' period automatically become again a six months' certificate. Although a period of notice by one party to the other is required before payment, the certificate is in no event payable except at the end of the specified periods. The case is somewhat similar to the classification as time deposits of postal savings funds payable at the end of successive periods of 30

days, which is covered by the ruling of the Board published in the 1933 Federal Reserve Bulletin, at page 768.

The certificate provides that the principal is payable only on presentation of the certificate but contemplates the payment of interest by semiannual checks to the registered holder. The provisions of Regulation Q are not specific on the question whether the interest on a time certificate of deposit may be paid only on presentation of the certificate; but, in the opinion of the Board of Governors, the fact that interest is payable by check to the registered holder without presentation of the certificate does not prevent the deposit from being classified as a time deposit.

The question has also been suggested whether the provision for the payment of interest on June 30 and December 31, irrespective of the maturity of the certificate, might result in a payment of a rate slightly in excess of the rate mentioned in the supplement to Regulation Q compounded quarterly. For example, if a deposit were made on June 1 and the period of successive renewals were 90 days, interest accrued through June 30 would be paid on that date. If the certificate with accrued interest at the date of payment were paid at the end of the first 90 days, the net yield on the investment, assuming that the depositor redeposited the interest paid him on June 30, would be slightly more than the specified rate compounded quarterly. In order for this to take place, however, it would be necessary for the depositor to make a new deposit in the bank of the interest he received on June 30 and presumably obtain another certificate. This would seem to be an independent transaction requiring a new agreement between the bank and the depositor and, accordingly, it does not appear that the rate of interest paid on a certificate of the kind in question would exceed the maximum permitted by the supplement to Regulation Q.

In the circumstances, it is the Board's opinion that a deposit evidenced by such a certificate may be properly classified as a time deposit within the meaning of Regulation Q.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

August 12, 1940

Mr. _____, President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

In your letter of July 17, 1940 you presented the question whether Mr. _____, Mr. _____, and Mr. _____, may continue to serve both The _____ National Bank of _____ and The _____ Trust Company of _____, in view of the provisions of the Clayton Act.

The information which has been submitted to the Board is to the effect that the trust company does not receive deposits within the meaning of section 3(c) of Regulation L, and that the national bank is not exercising trust powers except that it is trustee under one indenture securing certain debentures all of which are held by the Public Works Administration.

In the circumstances, the Board has decided that the relationships described in the first paragraph of this letter are not prohibited by section 5 of the Clayton Act.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-229



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 5, 1940.

Dear Sir:

In accordance with the provisions of letter B-1002 of July 28, 1934, the Federal Reserve Banks now notify the Board by wire of each suspension, absorption, liquidation or other cessation of operations of a bank. These bank closings are also included in the weekly reports of changes in the status of banks submitted on form F.R. 412 (formerly B-12), pursuant to letter B-1093 of July 25, 1935.

It now appears that the information contained in the weekly reports of bank changes (form F.R. 412) will suffice for the Board's purposes except in the case of (1) bank suspensions, (2) any changes affecting a State member bank, except those relating to branches in the head office city, and (3) any other changes which in the opinion of the Federal Reserve Bank should be brought promptly to the Board's attention. Wire advice of other changes may be discontinued, but it is emphasized that advice of the above changes in the status of State member banks should be furnished by wire, as such changes are published and it is desirable that the publications be current with the changes. Such information on bank changes as is furnished by wire should be covered briefly by an open telegram giving the salient facts. Accordingly, the code "Supp", "Likk", "Vert" and "Sorb" wires requested in letter B-1002 may be discontinued effective immediately.

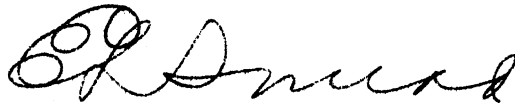
The weekly report on form F.R. 412 should include every change in the status of banks that has actually occurred and has come to the attention of the Reserve Bank, even if it has not received formal approval of the supervisory authority. Any qualifications, of which the Federal Reserve Bank has been advised,

- 2 -

such as the lack of formal approval, should be noted in the report. The report hereafter should also include changes in the status of branches, heretofore reported on form St. 6386e. A supply of revised form F.R. 412 is being sent to you under separate cover. Reports of branch changes on form St. 6386e may be discontinued effective immediately. Reports of changes in chain or group banking, which some Reserve Banks are still submitting on form St. 6386d, may also be discontinued, since such data are called for annually by means of a letter addressed to the respective Reserve Banks.

There is attached a specimen copy of the revised report form F.R. 412, illustrating the manner of reporting the various changes, which should be used as a guide in order that the reports from all districts may be as nearly uniform as possible. The headings in the specimen report cover the various types of changes reported in the past, but if none of them appear to cover a situation that may arise in the future the change should be reported under an appropriate heading devised for the purpose. A report should be submitted each week whether or not there are any bank or branch changes to report.

Very truly yours,



E. L. Smead, Chief,
Division of Bank Operations.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

REPORT OF BANK AND BRANCH CHANGES

Federal Reserve Bank of _____ Week ended Wednesday, _____, 194__

Name of bank and/or branch	Location	Class of bank	Date on which change became effective
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New banks
(except successions and conversions)

Central Baldwin Bank	Robertsdale, Ala.	Nonmember	1-17-40
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Successions and conversions

Uptown National Bank of Conversion of -- Uptown State Bank	Chicago, Ill.	National	3-30-40
	Chicago, Ill.	State member	
J. P. Morgan & Co. Inc. Conversion of -- J. P. Morgan & Co.	New York, N. Y.	Nonmember	4-1-40
	New York, N. Y.	Private	
Security National Bank of Succession of -- The Whitesboro National Bank	Whitesboro, Tex.	National	3-30-40
	Whitesboro, Tex.	National	

Reopenings of suspended banks

Chatsworth Savings Bank	Chatsworth, Iowa	Nonmember	2-26-40
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Suspensions

Blairsville Savings & Trust Co.	Blairsville, Pa.	Nonmember	4-5-40
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Voluntary liquidations
(except incident to absorptions, successions, etc.)

Burns Bank & Trust Co.	Burns, Tenn.	Nonmember	3-23-40
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Consolidations, absorptions, etc.

Union Avenue Bank of Commerce Deposit liabilities assumed by-- Commerce Trust Company	Kansas City, Mo.	Nonmember	6-21-40
	Kansas City, Mo.	State member	
Bank of Guerneville	Guerneville, Calif.	Nonmember	3-1-40
Analy Savings Bank	Sebastopol, Calif.	Nonmember	
The Sebastopol National Bank	Sebastopol, Calif.	National	

These three banks combined under charter of Analy Savings Bank and under title of --

REPORT OF BANK AND BRANCH CHANGES

Federal Reserve Bank of _____ Week ended Wednesday, _____, 1914

Name of bank and/or branch	Location	Class of bank	Date on which change became effective
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Consolidations, absorptions, etc. (Cont'd)

Farmers State Bank Absorbed by -- Exchange Bank	Lenora, Kans.	Nonmember	2-24-10
	Lenora, Kans.	Nonmember	
The First National Bank of The Lumbermen's National Bank of These two banks consolidated under charter and title of -- The First National Bank of Menominee	Menominee, Mich. Menominee, Mich.	National National	3-11-10

Admissions of State banks to Federal Reserve membership

The Bank of Wadesboro	Wadesboro, N. C.	--	3-6-10
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Withdrawals of State banks from Federal Reserve membership

Bank of Eastman	Eastman, Ga.	--	9-6-38
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Changes in title or location

Michigan Industrial Bank Title changed to -- The Michigan Bank	Detroit, Mich.	Nonmember	2-5-10
Lea County State Bank of Title and location changed to -- Lea County State Bank	Lovington, N. Mex. Hobbs, N. Mex.	Nonmember	6-18-38

Branches established
(including banks converted into branches)

Miami Industrial Bank Miami Beach Branch (De novo)	Miami, Fla. 1101 Lincoln Road, Miami Beach, Fla.	Nonmember	6-1-10
Bank of Sonoma County Guerneville Branch (Formerly Bank of Guerneville)	Sebastopol, Calif. Guerneville, Calif.	Nonmember	3-1-10

REPORT OF BANK AND BRANCH CHANGES

Federal Reserve Bank of _____ Week ended Wednesday, _____, 1941

Name of bank and/or branch	Location	Class of bank	Date on which change became effective
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Branches acquired by absorption or purchase

Bank of Sonoma County Monte Rio Branch Forestville Branch (Formerly branches of Bank of Guerneville and Analy Savings Bank, respectively, both of which were merged into Bank of Sonoma County)	Sebastopol, Calif. Monte Rio, Calif. Forestville, Calif.	Nonmember	3-1-40 3-1-40
Manufacturers Trust Company Stuyvesant Square Branch (Purchased from Chase National Bank, New York, N. Y.)	New York, N. Y. 230 2nd Avenue	State member	6-30-37

Branches discontinued

Plymouth Five Cent Savings Bank Court Street Branch	Plymouth, Mass. 318 Court Street	Mut. Savings	11-30-35
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Changes in name or location of branches

Lea County State Bank of Designated its branch at Hobbs, N. Mex., as the head office; former head office at Lovington will be operated as a branch	Lovington, N. Mex.	Nonmember	6-18-38
American Trust Company Third-Townsend Branch renamed Third-Brannan Branch	San Francisco, Calif. 601 Third Street	State member	1-21-38
Bank of America, N. T. & S. A. Fillmore-Haight Branch moved and renamed Haight-Fillmore Branch	San Francisco, Calif. 516 Haight Street 498 Haight Street	National	1-30-38
Seattle-First National Bank Wenatchee Valley Branch moved to	Seattle, Wash. 2 South Wenatchee Ave., Wenatchee, Wash. 36 South Wenatchee Ave.	National	3-27-40

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-230

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 14, 1940

Dear Sir:

A request has been received through a Federal Reserve Bank that the manager and examiner for a clearing house association be placed on the mailing list to receive the Federal Reserve Bulletin, the examiner stating that as a former national bank examiner he received the Bulletin and found it of considerable value in his work.

It is possible that the Bulletin would be of assistance to examiners for other clearing house associations and it is suggested that, if you feel it is desirable to do so in your district, you advise all clearing house associations in the district which employ examiners that if the Bulletin would be useful to them the Board would be glad to send it to them without charge upon receipt of a request.

In this connection, it will be appreciated if you will advise the Board, for its records, the names of the clearing house associations in your district that still have examiners on their staffs and the number of examiners employed by each.

Very truly yours,

A handwritten signature in cursive script that reads "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

October 10, 1940

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of October 2, 1940, requesting the views of the Board with respect to the voting rights possessed by the _____ National Bank of _____ and its two subsidiary member banks, The First National Bank of _____, _____, and the _____ State Bank of _____, in connection with the approaching election of a Class B director of your bank.

It is understood that all three of the member banks involved belong to the same electoral group and that the specific question presented is whether the _____ National Bank of _____ may participate in the election in addition to such participation by one of the subsidiary member banks.

A similar question was considered by the Board several years ago and the Board concluded that it was the intent of the statute that in a situation of this kind all of the member banks in a single group controlled by the same interests should together have but one vote in such an election; and that this intent of the law is not affected by the circumstance that one of the member banks happens to be a holding company affiliate. Accordingly, it is the view of the Board that in the circumstances stated in your letter any one, but not more than one, of the three member banks named, when designated for the purpose in accordance with the provisions of section 4 of the Federal Reserve Act, may participate in the approaching election of a Class B director of your bank, and that therefore if the _____ National Bank of _____ elects to participate, neither of the other member banks may do so.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-232

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 22, 1940

Dear Sir:

At the recent Presidents' Conference the Leased Wire Committee submitted and the Conference approved a recommendation that the memorandum on instructions with respect to telegrams sent over the Federal Reserve Leased Wire System be changed so that the "check" count on telegrams containing code words shall be on the same basis as the count made for accounting purposes.

The Board of Governors is in agreement with this recommendation and approves the change to become effective November 1, 1940.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-233
Reg. T-93

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



October 26, 1940

Dear Sir:

There is attached a copy of a ruling which will be published in the Federal Reserve Bulletin regarding "'Cash on Delivery' Transactions Under Regulation T".

It will be noted that the attached ruling is in the form of a statement for the press which, however, is not to be released until the time specified in the statement.

Very truly yours,

A handwritten signature in cursive script that reads "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in morning papers,
Tuesday, October 29, 1940.

The following ruling will appear in the Federal Reserve
Bulletin:

"Cash on Delivery" Transactions Under Regulation T

The Board has recently considered certain questions involving the special cash account under section 4(c) of Regulation T, and especially the provisions of section 4(c)(5) relating to so-called "cash on delivery" or "C.O.D." transactions. For convenient reference, the relevant portions of section 4(c), particularly of 4(c)(5) are set out below:

"(c) Special cash account. - (1) In a special cash account, a creditor may effect for or with any customer bona fide cash transactions in securities in which the creditor may--

"(A) purchase any security for, or sell any security to, any customer, provided funds sufficient for the purpose are already held in the account or the purchase or sale is in reliance upon an agreement accepted by the creditor in good faith that the customer will promptly make full cash payment for the security and that the customer does not contemplate selling the security prior to making such payment;

"(2) In case a customer purchases a security (other than an exempted security) in the special cash account and does not make full cash payment for the security within 7 days after the date on which the security is so purchased, the creditor shall, except as provided in the succeeding subdivisions of this section 4(c), promptly cancel or otherwise liquidate the transaction or the unsettled portion thereof

"(5) If the creditor, acting in good faith in accordance with subdivision (1) of this section 4(c), purchases a security

for a customer, or sells a security to a customer, with the understanding that he is to deliver the security promptly to the customer, and the full cash payment to be made promptly by the customer is to be made against such delivery, the creditor may at his option treat the transaction as one to which the period applicable under subdivision (2) of this section 4(c) is not the 7 days therein specified but 35 days after the date of such purchase or sale: Provided, however, That the creditor shall not so treat any purchase by a given customer if any security has been purchased by such customer at any time during the preceding 90 days in a special cash account with the creditor, and then, for any reason whatever, without having been previously paid for in full by the customer, the security has been sold in the account or delivered out to any broker or dealer: Provided, That an appropriate committee of a national securities exchange, on application of the creditor, may authorize the creditor to disregard for the purposes of the preceding proviso any given instance of the type therein described if the committee is satisfied that both creditor and customer are acting in good faith and that circumstances warrant such authorization.

"(6) If an appropriate committee of a national securities exchange is satisfied that the creditor is acting in good faith in making the application, that the application relates to a bona fide cash transaction, and that exceptional circumstances warrant such action, such committee, on application of the creditor, may (A) extend any period specified in subdivision (2), (3), (4) or (5) of this section 4(c) for one or more limited periods commensurate with the circumstances, "

In general. The problems were ones relating, under section 4(c)(5), to the time of delivering a security to a customer and obtaining cash payment against the delivery. The rulings on the particular cases may be understood more readily in the light of certain general principles which apply to section 4(c) and particularly to the C.O.D. transactions under section 4(c)(5).

It should be noted at the outset that it is not the purpose of section 4(c)(5) to allow additional time to customers for making payment. The "prompt delivery" described in section 4(c)(5) is delivery which is to be made as soon as the broker or dealer can reasonably make it in view of the mechanics of the securities business and the bona fide usages of the trade. The provision merely recognizes the fact that in certain circumstances it is an established bona fide practice in the trade to obtain payment against delivery of the

security to the customer, and the further fact that the mechanics of the trade, unrelated to the customer's readiness to pay, may sometimes delay such delivery to the customer.

The customer should have the necessary means of payment readily available when he purchases a security in the special cash account. He should expect to pay for it immediately or in any event within the period (of not more than a very few days) that is as long as is usually required to carry through the ordinary securities transaction.

Such an undertaking is a necessary part of the customer's agreement, under section 4(c)(1)(A), that he "will promptly make full cash payment". Furthermore, any delay by the customer may cast doubt on the original status of the transaction and should be explainable by exceptional circumstances that justify the delay. Repetition of delays by the customer would be especially hard to justify. Such repetition would almost conclusively label his transactions as unable to qualify as bona fide cash transactions and would almost conclusively disqualify them for inclusion in the special cash account.

These general principles are illustrated by the specific cases to which the Board has given consideration.

Broker "failed to receive" security. A typical example of a case in which the delivery to the customer is delayed because of conditions in the trade is one in which the broker has "failed to receive" the security which the customer has purchased. Assuming that no evasion of the regulation is involved and that the failure to receive the security is an ordinary incident to the usual operation of the securities business, section 4(c)(5) would cover the time, not exceeding the 35-day maximum specified in the provision, reasonably required for the broker to obtain the security and deliver it to the customer.

Purchasing for delivery security already sold to customer. It sometimes happens that a dealer will sell a security to a customer although the dealer does not have the security on hand for delivery and expects to purchase it in the market in order to make delivery to the customer. A special case of this type is one in which an institutional investor such as an insurance company, trust fund, or the like, will purchase a block of a particular issue of securities—usually bonds—as a unit, and will request that the entire block of securities be delivered at one time in order to avoid unreasonable duplication of clerical or administrative operations.

Questions as to the time allowed the dealer to acquire the securities in the market for delivery to the customer under section 4(c)(5) are essentially questions of reasonableness, and must

necessarily depend on the circumstances of the particular case.

As indicated above, the dealer could not delay acquiring the securities he did not have on hand if such delay was for the purpose of giving additional time to the customer. Assuming, however, that no such evasion is involved and that there is complete good faith, the dealer would have a reasonable time for acquiring the securities and could take into account the general state of the market, the effect of forcing a sudden purchase of the securities, and similar factors. He would not have to force through a sizeable purchase in a market that is temporarily thin or disorganized. But on the other hand he should proceed to acquire and deliver the securities with all reasonable dispatch.

Unissued securities. The question was raised whether section 4(c)(5) applies to securities which at the time of the transaction are unissued. The answer is that it does, but that, as in other cases, the broker should deliver the security and complete the transaction as soon as he can in view of the mechanics of the trade. This being the case, it seems that there would be very few instances in which section 4(c)(5) would, in practice, authorize any more time for delivering such a security and obtaining payment therefor than would section 4(c)(3) which, in the following terms, specifically provides for most situations involving unissued securities:

"(3) If the security when so purchased is an unissued security, the period applicable to the transaction under subdivision (2) of this section 4(c) shall be 7 days after the date on which the security is made available by the issuer for delivery to purchasers."

Securities purchased with proceeds of securities called for redemption. Sometimes a customer wishes to purchase a security and to pay for it with the proceeds of another security which the customer holds and which the issuer has called for redemption. Occasionally the proceeds of the called security will not be available for some time, perhaps 30 days, and the customer would like to delay payment for that time.

Such a circumstance would not justify delay in obtaining payment under section 4(c)(5), since the delay would not arise from the mechanics of the trade as they affect the broker or dealer, but merely from the customer's desire for delay in making payment.

In the particular case presented to the Board, however, the customer deposited the called security with the dealer with definite instructions to deliver it for redemption and apply the proceeds to payment for the purchased security. This made the situation similar

to that considered in the ruling at page 1043 of the December 1938 Federal Reserve Bulletin, which was to the effect that in certain circumstances the sale of a security held in the special cash account may serve as payment for a security which has been purchased in the account even though the proceeds of sale have not yet been collected.

Although the security had not actually been sold in the present case, the Board expressed the view that, if the necessary requirements of good faith were met and there was every reasonable probability that the called security actually would be paid according to the call for redemption, the same principle would apply. In such circumstances, therefore, payment for the purchased security may be considered to have been made for the purposes of section 4(c) at the time when the called security is deposited with the dealer for the indicated purpose.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-234

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 1, 1940



Dear Sir:

Referring to the Minutes of the Conference of Presidents held in Washington on September 27-28, 1940, the Board of Governors concurs in the action taken by the Conference in approving the Report of the Standing Committee on Collections dated July 10-11, 1940, including the addition of the items listed below to those not to be subject to the service charge permitted by item 3 of the fifth paragraph under Collection Charges in the Uniform Noncash Collection circulars:

Items recalled by sending banks before maturity,

Items returned because of missing endorsement or because otherwise incomplete,

Items as to which the sending banks request telegraphic advice of fate, and

Dishonored notes which are returned unprotested.

Very truly yours,

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-235

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 7, 1940

Dear Sir:

Reference is made to the Board's letters of June 20, 1939, S-165, and November 15, 1939, R-553, regarding the destruction of certain records of the Federal Reserve agents from the date of the organization of the Federal Reserve Banks to the date of the transfer of the nonstatutory duties of the agents to the Banks.

Pursuant to the terms of the Act of August 5, 1939, concerning the disposition of certain records of the United States Government, permission has been granted in House Report No. 2775, 76th Congress, Third Session, dated July 11, 1940, for the disposition of certain records of the Federal Reserve agents as therein described. A copy of H.R. 2775 is enclosed.

After giving careful consideration to the records contained in H.R. 2775, the Board of Governors is of the opinion that the following records listed therein should not be destroyed at this time but should be retained by the Federal Reserve agents for the periods indicated until further advice is received from the Board:

<u>Item No.</u>	<u>Title or description</u>	<u>Retain Reports for -- (All dates inclusive)</u>
1	F.R. 107. Report of earnings and dividends of State member bank	1916, 1921, 1926 to 1937
2	Treas. 2129. Report of earnings and dividends of national bank	1916, 1921, 1926 to 1937
3	F.R. 105. Report of condition of State member bank	June call dates, 1915 to 1925; June and December call dates, 1926 to 1937

<u>Item No.</u>	<u>Title or description</u>	<u>Retain Reports for --</u> (All dates inclusive)
4	Treas. 2130. Report of condition of national bank	June call dates, 1915 to 1925; June and December call dates, 1926 to 1937
11	Member banks' weekly condition reports	1927 to 1937
49	F.R. 240. Report of member firm of a national securities exchange	1935 to 1937
56	Reports of examinations made by -- Comptroller of the Currency State banking departments Federal Reserve agents' examiners	1914 to Jan. 1937 1914 to 1933 1914 to Jan. 1937

In the discretion of each Federal Reserve agent, disposition of the remaining records listed in H.R. 2775 may, under the terms of Section 5 of the Act of August 5, 1939, be made by one of the following methods:

- (a) By sale, upon the best obtainable terms after due publication of notice inviting proposals therefor;
- (b) By causing them to be destroyed;
- (c) By transfer (without cost to the United States Government) to any State or dependency of the United States of America or to any appropriate educational institution, library, museum, historical, research, or patriotic organization therein, that has made application *** therefor, through the Archivist of the United States.

Records containing confidential information should not, of course, be disposed of by sale as waste paper unless their character as records has been destroyed. No records should be transferred to any library or other institution without the consent of the Board of Governors. If records are to be sold, a separate account should be kept of the cost of the sale and the amount of the purchase price received, and the net proceeds of the sale should be credited to the Treasurer's

General Account. A report of the disposition of the records should be made to the Board of Governors on the attached form in duplicate.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter". The signature is written in dark ink and is positioned above the typed name.

S. R. Carpenter,
Assistant Secretary.

Enclosures

(Enclosures sent only with addressed copies)

TO ALL FEDERAL RESERVE AGENTS

REPORT OF THE DISPOSITION OF USELESS RECORDS OF
FEDERAL RESERVE AGENT AT _____

To the Board of Governors:

The records approved for disposition by authority of House Report No. 2775, 76th Congress, Third Session, dated July 11, 1940, have been disposed of by the following method (except as indicated under the item "Remarks" below):

<u>By sale:</u>	Cost of sale:
	Purchase price:
<u>By destruction:</u>	(Indicate manner of destruction)
<u>By transfer to</u>	_____
	(Name of institution)

	(Post office address)

Date of disposition:

Remarks:

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM_{S-236}
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1940

Dear Sir:

In accordance with letter X-9371 of November 26, 1935 (Loose-Leaf Service #3270), the Federal Reserve Banks compute semi-annually each member bank's required holdings of Federal Reserve Bank stock and request member banks to file applications for such adjustments in their holdings as may be necessary because of changes in their capital and surplus. It has recently come to the Board's attention that, although many of the resulting applications involve only a few shares of Federal Reserve Bank stock, a considerable amount of work is required in making the semi-annual computations, handling the applications, and issuing and cancelling stock certificates. In the circumstances you are authorized to substitute an annual review of member bank holdings of Federal Reserve Bank stock, to be made as soon as practicable after February 1 of each year, in place of the semi-annual reviews now provided for.

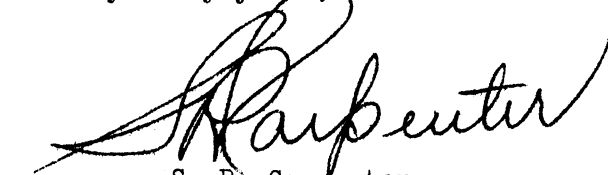
There is attached a copy of form F.R. 533 to be used hereafter in reporting changes in Federal Reserve Bank stock holdings during the semi-annual periods ending on June 30 and December 31, respectively, of each year. This form, a supply of which is being sent to you under separate cover, is to be used in submitting the report outlined in paragraph 7 of the Board's letter X-9371 of November 26, 1935. It will be noted that form F.R. 533 provides for the inclusion in the figures reported against items 2b and 3b, respectively, of increases and decreases in holdings of Federal Reserve Bank stock resulting from consolidations of member banks

-- 2 --

(of the type described in section 5 of Regulation I). The form also provides for the listing, in the last section on page 4, of consolidations of member banks and of conversions (as described in footnote 3 of Regulation I) of State member banks into national banks.

The Federal Reserve Banks now advise the Board by wire against code FAZOI of the issuance of Federal Reserve Bank stock to a newly organized national bank. Such telegraphic advice may be discontinued, since the information furnished in the semi-annual reports on form F.R. 533 covering the issuance of Federal Reserve Bank stock will suffice for the Board's purposes.

Very truly yours,

A large, stylized handwritten signature in black ink, appearing to read "S. R. Carpenter". The signature is written in a cursive style with a large initial "S" and "C".

S. R. Carpenter,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

S-237
Reg. T-94

INTERPRETATION OF LAW OR REGULATION

(Copies To Be Sent To All Federal Reserve Banks)

November 20, 1940

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of November 9, 1940, regarding the inquiry of _____, Inc., _____, _____, with respect to Regulation T.

It is understood that the inquiry is an example of questions that have come to you from several sources. The questions relate to certain transactions in which a broker subject to the regulation, acting on behalf of the Federal Deposit Insurance Corporation, sells certain unregistered securities under terms providing for the payment of the purchase price in installments over a substantial period of time. In some cases the broker may actually effect the sale on behalf of the Federal Deposit Insurance Corporation, whose name is disclosed to the purchaser at the time of the transaction. In other cases the broker may do no more than negotiate the sale with the purchaser and bring the purchaser and the Federal Deposit Insurance Corporation together, the actual transaction being effected directly between the Federal Deposit Insurance Corporation and the purchaser. In all cases, however, the broker does not at any time have any interest in the securities and does not in any way finance their purchase by the ultimate purchaser.

As you suggest, the Securities Exchange Act of 1934 and Regulation T, as a general proposition, do not permit a broker subject to the regulation to effect or "arrange" such an installment sale of unregistered securities. The situation, however, seems to be altered in the present case by the fact that the Federal Deposit Insurance Corporation is the real seller of the securities and also finances the sale.

The Federal Deposit Insurance Corporation is a Government corporation. It is not merely an "instrumentality" of the Government in the very broad sense that, for example, a national bank is such an "instrumentality". It is much more. Its directors are appointed by the President with the advice and consent of the Senate, it is granted the free use of the United States mails, its capital stock is in effect supplied by the Government, and it operates as an integral part of the Government.

-2-

It is a settled principle that a statute, no matter how broad or general its terms, does not apply to the sovereign, or to one acting for the sovereign, unless the sovereign is brought under the statute by specific language. This principle is, in effect, set forth in section 3(c) of the Securities Exchange Act of 1934 which provides that:

"(c) No provision of this title shall apply to, or be deemed to include, any executive department or independent establishment of the United States, or any lending agency which is wholly owned, directly or indirectly, by the United States, or any officer, agent, or employee of any such department, establishment, or agency, acting in the course of his official duty as such, unless such provision makes specific reference to such department, establishment, or agency."

In view of the governmental character of the Federal Deposit Insurance Corporation and the absence of any indication that Congress intended to bring the Federal Deposit Insurance Corporation under the present requirements, the Board is of the opinion that, without regard to the particular language of section 3(c), the present question is controlled by the fundamental principle that general language of a statute does not apply to the sovereign. Furthermore, since the sovereign necessarily must act through agents, it seems that the principle must apply to the broker's activities in the present case. The Board concludes, therefore, that in circumstances such as those described in which the Federal Deposit Insurance Corporation as a disclosed principal sells securities through a broker, and the broker acts purely as an agent for the Federal Deposit Insurance Corporation without acquiring any interest in the securities or doing any financing, this principle exempts the transaction from the requirements of Regulation T and the provisions under which the Regulation is issued.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

S-238
Reg. P-16INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

November 15, 1940.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of October 15, 1940, raising certain questions regarding the report of examination of _____ Bond & Mortgage Company, _____, _____, as of June 29, 1940, made by an examiner for your bank.

You requested the Board's comments as to whether the assets of _____ Bond & Mortgage Company which are claimed by it to satisfy the requirements of section 5144 of the Revised Statutes, with respect to readily marketable assets, may be so regarded. The assets consist of stock of _____ Theatre Company and _____ Department Store, Inc., small local corporations, the former owning the stock of a corporation which operates the moving picture theatres in _____ and the latter operating a department store in that town. All of the stock of _____ Department Store, Inc. and half of the stock of _____ Theatre Company is owned by _____ Bond & Mortgage Company. The examiner states that it would be extremely difficult to accurately appraise the sales value of the stocks and that it is recognized that they do not have a broad market. It appears that, in support of its position that the assets are readily marketable, it is claimed by _____ Bond & Mortgage Company that, in view of the good earnings shown and the fact that the company controls the moving picture possibilities in the town, the stock of _____ Theatre Company could be easily sold to persons who would be interested in gaining control of the local situation, and it is stated that the _____ Department Store is the only locally owned store of its type and that it possesses a favorable lease and shows good earnings.

In its ruling published in the Federal Reserve Bulletin for March 1938 at page 192 (based upon its letter of February 4, 1938 to your bank concerning an inquiry from _____ Bond & Mortgage Company), the Board stated that, in determining whether assets are readily marketable within the meaning of section 5144, it should be borne in mind that -

"the law apparently contemplates that the assets shall be of such a nature that their fair market value can be easily ascertained with reasonable accuracy and can be readily realized in the market at any time in order to pay assessments on bank stocks or to assist subsidiary banks through voluntary contributions."

Thus, an asset does not satisfy the statutory requirements merely because it is considered sound and desirable and it is believed that a purchaser at some price could be found if an effort were made. Accordingly, upon the basis of the facts presented, the Board does not consider that the stocks of ___ Theatre Company or ___ Department Store, Inc. satisfy such requirements and, unless you have additional pertinent facts which might lead to a contrary view, please advise ___ Bond & Mortgage Company accordingly.

According to the information in the report of examination, the holding company affiliate has invested in the stock of the ___ Department Store, Inc., over ten per cent of its total assets (book value). In consideration of the granting of the general voting permit held by ___ Bond & Mortgage Company, the corporation agreed, among other things, "that, except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments". Investment by the corporation of so large a portion of its assets, other than bank stocks, in control of a department store, without first having requested or obtained the permission of the Board, is regarded as a violation of the quoted provision of the agreement, and it is requested that you so inform the holding company affiliate.

The report of examination indicates that the stock of the ___ Department Store, Inc., has been shown as "Investment Q" on the books of the holding company affiliate and that it was so designated because it was felt desirable to conceal the ownership of the local store by interests close to the subsidiary bank. The full extent to which the concealment is carried is not definitely disclosed in the report of examination and a question arises as to whether the holding company affiliate is unduly concealing the nature of its activities from its own shareholders. It is noted also that the company's investment of \$10,000 in the department store as of December 31, 1939, was concealed by use of

the caption "Investment Q" in the corporation's annual report to the Board for 1939. It is requested that you inform the _____ Bond & Mortgage Company that, so long as it is subject to the voting permit law and agreements, for the administration of which the Board is responsible, the Board expects that full and accurate information regarding the corporation's assets and operations will be set forth in its books and records and in its annual reports to the Board, and that fictitious captions will not be substituted for the names of organizations whose securities are held by the corporation.

It will be appreciated if you will keep us informed as to any further developments in connection with the foregoing matters.

You requested also the Board's views as to the propriety of supplying the holding company affiliate and its directors certain information with respect to the condition and operations of the two banks which are affiliated with the holding company affiliate but which are not subsidiary banks. Data concerning the holding company affiliate and subsidiary and other affiliated banks, and other affiliated organizations, obtained by an examination of the holding company affiliate itself should be contained in the open section of the report of examination of the holding company affiliate. Of course, any information so obtained which is of a confidential nature, including such information as is ordinarily contained in the confidential section of a report of examination of a bank, should be set out only in the confidential section of the report of examination of the holding company affiliate. Data taken from reports of examination of banks or other affiliated organizations, and data derived from the contents of such reports of examinations, to the extent considered necessary in reviewing the financial condition and operations of the holding company affiliate and its relationships with other organizations, should be included in the confidential section only. In no case should the contents of a report of examination of a bank be quoted verbatim or paraphrased in such manner as to result in any embarrassment to the examiner or the supervisory authority responsible for such report.

Very truly yours,
(Signed) S. R. Carpenter

S. R. Carpenter,
Assistant Secretary.

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

December 3, 1940

Mr. _____, First Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of September 27, 1940, and enclosures, regarding the applicability of the Clayton Act to Mr. _____, who is a director of The _____ Bank of _____ and a director of the _____ Trust and Savings Bank, both of _____, _____.

The question presented is whether the two banks are engaged in any of the same classes of business within the meaning of the exception contained in paragraph (6) of section 8 of the statute. It appears that both banks receive demand and time deposits, and in view of previous rulings of the Board counsel for your bank reaches the conclusion that the above exception is not applicable. The Board sees no reason to differ with this conclusion.

The _____ Trust and Savings Bank contends that the banks are not engaged in the same classes of business because all of the customers of The _____ Bank are Japanese whereas the Savings Bank has no Japanese customers. However, the Board does not believe that the applicability of the exception was meant to depend upon differences in the character of the clientele of the two banks; and it is apparent, moreover, that a ruling to this effect would produce serious administrative difficulties, as well as serious practical difficulties for the directors, officers and banks involved in this and in other similar cases if the facts should be slightly different.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-240



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 5, 1940

Dear Sir:

In order that my associates and I may be kept informed as to the part officials of the Federal Reserve Banks are taking in connection with the Defense program, it will be appreciated if you will have the field representative at your head office mail me a report each Monday setting forth a resume of his activities, and the activities of the field representatives of your branches, if any, on behalf of the Defense program during the preceding week. This report might set forth any interesting developments during the week that it is thought worthwhile to bring to our attention. It should also include the approximate number and amount of contracts, the award or financing of which was facilitated in any way through the services of your bank.

The report should also set forth briefly any difficulties that were experienced during the week, particularly in regard to difficulties, if any, encountered in obtaining financing, and whether in the opinion of your representatives anything can be done by our office to facilitate the work. It will be particularly helpful to us if you will have the first report cover the period November 12, 1940 to date. In this connection, you may be interested to know that the several units of the Defense Commission prepare statements each Monday of the activities of their offices during the preceding week.

It is assumed that you have arranged to have a detailed record kept of the matters connected with the Defense program which are handled by the officers of your Bank.

Very truly yours,

Ernest G. Draper
Ernest G. Draper.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

December 4, 1940

Mr. _____, President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of October 7, 1940, relating to the authority of _____ National Bank in _____, _____, _____, to exercise certain fiduciary powers.

The bank applied for and was granted permission to act, when not in contravention of State or local law, as executor, administrator, guardian of estates, assignee, receiver, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of _____. Since three of the specific powers enumerated in section 11(k) of the Federal Reserve Act (i.e. trustee, registrar of stocks and bonds, and committee of estates of lunatics) were not included, the Board's announcement FR-270 (No. 98) listed the bank as having been granted "limited trust powers".

Stating that you have reason to believe that it is the bank's understanding that it has authority to exercise "full trust powers", you point out that competing State institutions are authorized "to act as guardian of any insane person or idiot under appointment of any court of record having jurisdiction of the estate of such insane person or idiot", "to transfer, register and countersign certificates of stock, bonds, or other evidences of indebtedness" and to act as trustee.

Your opinion that the bank is authorized to exercise the above-mentioned powers which competing State institutions may exercise is in accordance with views heretofore expressed by the Board. The so-called "general power" covers all fiduciary powers which competing State institutions are authorized to exercise, including any of the eight specific powers enumerated in section 11(k). Thus, a national bank which receives a permit covering part of the specific powers and the "general power" may, in practical effect, have "full trust powers", although its right to exercise the specific powers not listed in its permit is dependent upon the authority of competing State institutions to exercise them.

Since your inquiry resulted from the use of the terms "limited trust powers" and "full trust powers" in the Board's FR-270 announcements, that practice will be discontinued and, hereafter, the announcements will merely show that the right to exercise fiduciary powers has been granted, without indicating the extent of the powers.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-242
Reg. 0-40

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1940



Dear Sir:

Some time ago the Board had occasion to consider the applicability of section 22(g) of the Federal Reserve Act, regarding loans to executive officers, to a vice president of a national bank who had authority to sign deeds, checks, drafts and other documents in the absence of the president. The letter which the Board wrote on the subject was not circulated to the Federal Reserve Banks at the time and, accordingly, for your information and records we are stating below the position which the Board took in the matter.

It appeared that the officer in question had been an inactive vice president of the bank for many years; that he had never been paid a salary as vice president, his only compensation being as a director and a member of the finance committee of the board of directors; and that except for his duties as a director his only official actions were the signing of documents in the absence of the president. The board of directors of the bank proposed to adopt a resolution giving the vice president in question authority to sign deeds, checks, drafts, and other documents in the absence of the president, but expressly denying him authority to make loans or to perform any of the other duties of an executive officer having control of matters of policy or direction of the activities of the bank.

On the basis of the above facts, the Board advised the Federal Reserve Bank which submitted the inquiry that it concurred in the Federal Reserve Bank's opinion that the duties to be performed by the officer in question require a participation "in the operating management of the bank" and, therefore, he would be an executive officer of the bank within the meaning of the Board's Regulation O, as amended July 1, 1939.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-243

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 13, 1940

Dear Sir:

We have received a request from Mr. R. L. Mehornay, Deputy Director of Small Business Activities, that his office be furnished with copies of all bulletins and circular memoranda issued by the Federal Reserve Banks to their member and nonmember banks relative to Government contracting in so far as they come within the purview of the Director of Small Business Activities. It will be appreciated if you will comply with the request of Mr. Mehornay. It is suggested that such bulletins and memoranda be addressed to Director of Small Business Activities, Advisory Commission to the Council of National Defense, Washington, D. C., attention: Mr. R. L. Mehornay.

It is assumed that you are now sending to the Board the usual number of copies of all such bulletins and memoranda.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-244

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 14, 1940



Dear Sir:

As you know the procedure adopted by the Federal Reserve Banks for uniform treatment of employees called for military service provides that, upon receiving evidence that an employee called to military service has taken out National Service Life Insurance, the Bank will reimburse him for the cost of premiums on such insurance for his period of military service in a principal amount up to (a) the multiple of \$500 which is equal to or next above the equivalent of two years' salary, or (b) \$5,000, whichever is less.

Inasmuch as amounts payable in this connection will be relatively small, it is believed that it would be preferable to make a single payment in any given case unless the period of military service is in excess of one year. We are advised that each person taking out National Service Life Insurance will receive an insurance policy which can be presented to the Federal Reserve Bank at the time request is made for reimbursement for National Service Life Insurance premiums.

If in the case of those who return to the Bank's employ, or those who do not return, your Bank wishes to obtain evidence that premiums were paid for the entire period for which reimbursement is requested, it is suggested that you communicate with the Board's Division of Bank Operations which will be glad to obtain from the Veterans Administration information as to the actual amount of premiums paid and the period covered by such premiums. This information may be obtained, if desired, at or about the time of the expiration of service or when a request for reimbursement is received. In each instance, in order to insure proper identification, the full name of the insured, the branch of the service, and any numbers incident to service or the insurance that are available should be furnished. If the number of the policy is

-2-

S-244

not known, information as to the effective date of the insurance, if available, is desirable.

Very truly yours,

A handwritten signature in cursive script, appearing to read "L. P. Bethea". The signature is written in dark ink and is positioned above the typed name.

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-245

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 16, 1940

Dear Sir:

Some time ago Governor Draper received an inquiry from one of the Federal Reserve Banks with regard to the priority of rights between sureties guaranteeing performance of Government contracts and assignees of contractors' claims against the Government under such contracts. A preliminary investigation was made of the circumstances involved and these are reflected in the attached copy of a memorandum which was prepared for Governor Draper. Subsequently, the matter was referred to a Committee of the National Defense Commission which considers problems arising out of Army and Navy contracts for consideration of that Committee.

We may later be called on for information as to whether similar questions have come to our attention, and it will be appreciated if you will let us know of any cases that come to your attention where it appears that priority of rights of sureties on Government contracts interfered with or tended to retard financing of such contracts by banks. We will appreciate receiving any suggestions you may wish to make with regard to the effect of existing surety bond requirements on the ability of banks to finance defense contracts.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,
Secretary.

Enclosure

TO OFFICERS AT FEDERAL RESERVE BANKS AND BRANCHES DESIGNATED AS
FIELD REPRESENTATIVES IN CONNECTION WITH NATIONAL DEFENSE
PROGRAM.

S-245-a
November 30, 1940

To: Governor Draper
From: Mr. Wingfield, Assistant
General Counsel

SUBJECT: Priority of rights between sureties guaranteeing performance of Government contracts and assignees of contractors' claims against the Government under such contracts.

Pursuant to our previous considerations, I have been looking into the circumstances involved in the inquiry of Mr. _____ in his letter of November 19, 1940, relating to the above matter. The following is set out for your information and as a basis for a discussion with you as to the further direction to be given the matter.

Mr. _____ stated that in one case involving the Federal Reserve Bank of _____ the surety companies had agreed that they would not take an assignment equal or prior to that to be obtained by the Federal Reserve Bank under the contract. He also stated that in the case of a member bank he had advised the bank to enter into negotiations with the surety company and the contractor in an effort to have the surety company stipulate that an assignment obtained by it will be subsequent to any assignment obtained by the lending bank. Mr. _____ suggested that the Board and the Defense Commission arrange with the Army and Navy Departments for a requirement that a surety bond should not contain any clauses for assignment except subordinate to the rights of any lending banks that might take assignments of Government claims pursuant to the new Assignment of Claims Act.

It appears to be the general rule of law that where there is a Government contract and a surety bond for performance and subsequently an assignment by the contractor of his claims against the Government to a lending bank the rights of the surety company are prior to any rights of the assignee lending bank. For example, if the contractor should dissipate the loan obtained from the bank and then default on his contract, the surety on the performance bond would have to complete the contract and would be entitled to any unpaid amounts due the contractor. Also, in cases of this kind the surety company may have taken a general lien on the assets of the contractor which would be prior to any claims by the assignee bank.

I discussed the matter informally with Mr. _____, the Washington representative of stock surety companies. Mr. _____ felt that a general requirement of the kind suggested by Mr. _____ would not be workable and might prevent surety companies from bonding Government contracts. He is very anxious, if any further steps are taken in this matter, to request executive representatives of the companies he represents to come to Washington and confer with us regarding the matter.

I told him that I was merely collecting information at this time but that I felt sure that if such a requirement should be contemplated we would want to discuss the matter with representatives of his companies before any final action was taken.

I discussed the matter informally with _____, of the Navy. He said that he had not previously had occasion to consider it but that such a requirement might make it difficult for the Navy to obtain performance bonds on their contracts and might be embarrassing in view of the lack of authority in the Navy to waive performance bonds. I asked _____ if he knew whether any further consideration had been given to obtaining an amendment to the statutes making it unnecessary for the Navy to obtain bonds on their contracts. He said that he had not heard of it but that if I deemed it desirable he would get in touch with Mr. _____'s office with regard to the matter. I said that I was merely obtaining information and would not suggest at this time that he do that.

I also discussed the matter with _____, in the War Department, who said that he had not previously had occasion to consider the question. He said that he would give consideration to it and would be glad to confer with us regarding it at any time. At his request, I sent him a copy of Mr. _____'s letter for his informal consideration.

In each of the conversations above referred to, it was mentioned that a surety company might be willing to subordinate its claims to an assignee bank in a case where there was full confidence in the standing and ability of the contractor but would be unwilling to do so where there was some question as to the standing and ability of the contractor. In other words, a surety company would be willing to subordinate its claims in a case where, as a practical matter, such subordination would not mean anything but would be unwilling to subordinate in a case where, as a practical matter, it might be helpful to the assignee bank. In these circumstances, any suggestion regarding negotiations between a bank and a surety company which is short of a requirement for subordination by a surety company might not prove to be very helpful.

As a matter of brevity, in the above memorandum, I have referred to performance bonds. The same problems might arise in connection with payment for labor and supplies bonds and bonds given in connection with advances to contractors by the Army or Navy.

Respectfully,

(Signed) B. Magruder Wingfield

Assistant General Counsel.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-246

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 16, 1940

Dear Sir:

In accordance with letter X-7629 of October 5, 1933 (Loose-Leaf Service #6050) and letter X-4739 of December 4, 1926, the Federal Reserve Banks make a review as of the end of each year and furnish the Board with a report and recommendation covering member banks in the respective districts located in outlying sections of reserve and central reserve cities (except New York City) which have been granted permission to carry lower reserves on deposits than are required to be carried by other banks located in such cities. After the reports have been reviewed at the Board's offices, the Federal Reserve Banks are advised whether or not the Board concurs in their recommendations.

The annual reviews of these reports at the Board's offices have resulted in the revocation of permission to carry lower reserves in only one case, the revocation being due to the establishment of a branch of the bank in the downtown section of the city. In the circumstances, your reviews and the resulting reports and recommendations to the Board on this subject may hereafter be made at three-year intervals. The next regular review, accordingly, should be made as of December 31, 1942. In the interim, if a bank that has permission to carry reduced reserves establishes a downtown branch, or if there is brought to your attention a change in the character of its business which might warrant revocation of the permission to carry reduced reserves, the facts in the case should be brought to the Board's attention promptly with such recommendation as you may care to make.

Very truly yours,

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

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



S-247

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1940

Dear Sir:

Reference is made to the Board's circular letter dated December 14, 1940 (S-244) relating to reimbursement to employees called for military service for the cost of premiums on National Service Life Insurance which might be taken out by such employees.

Under the law providing for the issuance of National Service Life Insurance, it is provided that "such insurance shall be issued upon the five year level premium term plan, with the privilege of conversion as of the date when any premium becomes or has become due, or exchange as of the date of the original policy, upon payment of the difference in reserve, at any time after such policy has been in effect for one year and within the five year term period, to policies of insurance upon the following plans: Ordinary life, twenty payment life, thirty payment life". It will be noted that although the original insurance is issued on the five year level premium term plan it may be converted or exchanged, retroactively to the date of the original policy, to one of the other three plans at any time after the policy has been in effect for one year and within the five year term period upon payment of the difference in premium rates. Since the premium rates for such insurance are based on the American Experience Table of Mortality, the premium rates for ordinary life, twenty payment life and thirty payment life are considerably in excess of the premium rates for the term insurance.

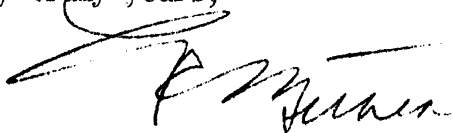
A case has come to the attention of the Board in which there appeared to be some uncertainty as to which type of insurance is contemplated in the procedure for reimbursement approved by the Board. In order that there may be no misunderstanding regarding this matter, you are advised that the procedure approved by the Board relating to reimbursement for the cost of premiums on National Service Life Insurance issued to employees of the Federal Reserve Banks called for military service contemplates reimbursement only for premiums on the five year level premium term plan, or for an

-2-

S-247

amount equivalent thereto if such insurance is converted into one of the other plans, during the period of military service.

Very truly yours,

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

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-248

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 26, 1940



Dear Sir:

The Board's letter S-235 of November 7, 1940 requested that member banks' weekly condition reports (item No. 11 on page 2 of the letter) for the period 1927-1937, inclusive, be retained until the receipt of further advice from the Board. It has since come to the Board's attention that some of the Reserve Banks have complete transcripts of the reports submitted by the individual reporting member banks, in addition to the reports themselves. There is no need in such cases of retaining the original reports. Accordingly, to the extent that your bank has transcripts of the figures reported by each individual weekly reporting member bank during the period 1927-1937, inclusive, the reports may be destroyed or otherwise disposed of in the manner provided by the Board's letter S-235.

Now that such reports are no longer handled by the Federal Reserve Agents' offices, there is, of course, no need of our obtaining Congressional authority for their destruction, and the determination of when current reports of weekly reporting member banks should be destroyed may be made by the Federal Reserve Banks in the absence of instructions from the Board. In this connection, the report submitted in 1936 by the committee of representatives of the Federal Reserve Banks on the destruction of records, copies of which were sent to all Federal Reserve Banks by President Harrison of the Federal Reserve Bank of New York on June 11, 1936, suggests that member bank weekly condition reports be retained for one year. From the Board's standpoint there is no objection to this policy, since transcripts of these reports beginning with 1933 are in the Board's files.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

TO THE PRESIDENTS OF
ALL FEDERAL RESERVE BANKS

S. R. Carpenter,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-21.9



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 28, 1940

Dear Sir:

At the time of our conference in Washington on November 12 and 13, the opinion was expressed that the financing of Defense contracts should be undertaken wherever possible by the commercial banks. Such banks may, however, from time to time be presented with situations where the circumstances surrounding the loan application are such as to make questionable the loan of depositors' funds. It is needless to say, however, that adequate Defense requires adequate financing.

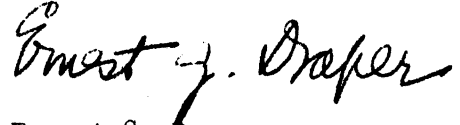
In those cases where the local banks find themselves unable to extend credit to Defense contractors, the Federal Reserve Banks may be called upon to render financial advice or aid. Should the Federal Reserve Bank, either because of statutory limitations or for other reasons, be unable to extend credit, it would be desirable for it to call promptly into conference the Manager of the local Reconstruction Finance Corporation Agency. By bringing the Reconstruction Finance Corporation into the conference before the application is finally disposed of, much valuable time can be saved the contractor.

In each case where the Federal Reserve Bank does not believe it is justified within the law in granting a loan, please advise the Board's Division of Bank Operations forthwith of the action taken and the reasons therefor, and where it is thought desirable we will bring such notice to the attention of the Office of the Director of Small Business Activities. It would be helpful if such notification would contain a statement setting forth (a) the type of financing required by the applicant, (b) the amount sought, (c) the reasons for the declination by the local bank and the Federal Reserve Bank, (d) whether the applicant is a sub-contractor or a primary contractor, (e) the type of Defense orders which the applicant is engaged in executing, and (f) the date on which the case was transferred to the Reconstruction Finance Corporation Loan Agency.

- 2 -

It is of the utmost importance to the successful operation of the Defense program that in all cases in which private financing cannot be arranged uninterrupted consecutive assistance of the officers of the Federal Reserve Banks and the Reconstruction Finance Corporation Loan Agency be given applicants for loans, and that in considering loan applications the Reconstruction Finance Corporation have the benefit of all applicable information obtained by the Reserve Bank.

Very truly yours,



Ernest G. Draper

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

B-1218
(On office copies
only)

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 4, 1940

SUBJECT: Procedure under the Assignment
of Claims Act of 1940.

Dear Sir:

Referring to our letter of November 30, 1940 enclosing tentative drafts of certain documents on the above subject, there are enclosed for your information copies of the following documents in the form in which they have been released officially:

1. Circular No. 107 addressed by the Director of Procurement to the heads of all Executive Departments and Independent Establishments under date of December 3, 1940.
2. The suggested form of notice of assignment (referred to in the above mentioned circular) with provision for acknowledgment of receipt by the addressee.
3. Instructions for the use of this form.
4. A copy of a decision of the Comptroller General of the United States (No. B-13700), dated December 2, 1940, addressed to the Federal Works Administrator, containing rulings on the two points mentioned in our letter of November 30, 1940.

You are at liberty to furnish copies of any or all of these documents to banks, financing institutions and other interested parties in your district. If you do so, it has been suggested that you call especial attention to the fact that the procedure outlined is suggested as a convenient means by which the assignee can obtain the proof which he will need to satisfy the appropriate officers of the Government that the requirements of the statute with reference to the filing of notices of assignments have been complied with.

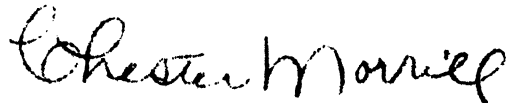
While this procedure may appear to be a bit cumbersome, it is believed that it is the simplest that could be devised to meet a practical problem arising out of the requirements of the statute, and that it will save correspondence and possible delays in obtaining payments of assigned claims.



While no written promise to furnish such information has been received, banks and other financing institutions which consider it necessary to ascertain whether previous assignments of particular claims have been made may wish to address inquiries to the Comptroller General of the United States, Washington, D. C., or to the disbursing officer, if any, designated in the contract to make payment. However, it is believed that it would be advisable to make any such inquiry in a separate letter or telegram and not to include it in the notice of assignment. Otherwise, acknowledgment of receipt of the notice of assignment may be delayed pending a search of the files.

The Board is arranging to have a supply of the enclosed forms of notices of assignment printed for the convenience of banks and other financing institutions and you may wish to send a sample copy to each such institution in your district with advice that additional copies can be obtained from you on request. As soon as the form is received from the printer we shall send you a supply somewhat in excess of the number of banking institutions in your district. Additional copies may be obtained upon request.

Very truly yours,



Chester Morrill,
Secretary.

Enclosures

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS AND OFFICERS AT FEDERAL
RESERVE BANKS AND BRANCHES DESIGNATED AS FIELD REPRESENTATIVES
IN CONNECTION WITH NATIONAL DEFENSE PROGRAM.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

B-1249
(on office
copies only)

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 28, 1940

Dear Sir:

For your information there is enclosed
a copy of a statement "Directory Giving Names of
Officers to be Addressed" revised to November 1, 1940,
just received from the War Department.

Very truly yours,

A handwritten signature in cursive script, reading "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations,

Enclosure

TO OFFICERS AT FEDERAL RESERVE BANKS AND BRANCHES
DESIGNATED AS FIELD REPRESENTATIVES IN CONNECTION
WITH NATIONAL DEFENSE PROGRAM.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

B-1250
(on office
copies only)



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 30, 1940

SUBJECT: Procedure under the Assignment
of Claims Act of 1940.

Dear Sir:

For your confidential information there are enclosed tentative drafts of the following:

1. A proposed circular letter on the above subject to be addressed by the Director of Procurement to the Heads of all Executive Departments and Independent Establishments;
2. A proposed form of notice of assignment with provision for acknowledgment of receipt by the addressee;
3. Proposed instructions for the use of this form.

These documents have been tentatively approved by representatives of a number of the Government departments with the understanding that their release will be delayed for a reasonable time pending an effort to obtain from the Comptroller General a prompt ruling on two questions: (1) Whether it is necessary for the assignee as well as the contractor to certify on the vouchers or other requests for payment under assigned contracts, that payment has not yet been received; and (2) whether the last paragraph of the proposed instructions is acceptable to his office or whether his office will require something additional in the way of assurance that the copy of the instrument of assignment filed with the notice of assignment is a true copy.

It is hoped that the Comptroller General will render rulings on these questions by Monday, December 2, but, even if he does not do so, these documents probably will be released officially sometime next week.

The enclosed copies are sent to you for your advance information and should not be released until you have been advised that they have been released by the Government.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosures

TO OFFICERS AT FEDERAL RESERVE BANKS AND BRANCHES DESIGNATED AS FIELD REPRESENTATIVES IN CONNECTION WITH NATIONAL DEFENSE PROGRAM.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

B-1251

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1940.



SUBJECT: Surety Bond Requirements--
Army and Navy Contracts.

Dear Sir:

Recently a representative of one of the Federal Reserve Banks requested information as to requirements of the Army and Navy with respect to surety bonds. The requested information was obtained informally from representatives of the Army and Navy and is reflected by the attached copies of letters, with enclosures, replying to the specific inquiry.

You will understand that this information, which is furnished to you for your assistance in answering inquiries, was obtained on an informal basis and is not to be considered as formal commitments of the War or Navy Department; and, in so far as the information covers administrative practices, these may, of course, be changed from time to time.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosures

TO OFFICERS AT FEDERAL RESERVE BANKS AND BRANCHES DESIGNATED
AS FIELD REPRESENTATIVES IN CONNECTION WITH NATIONAL DEFENSE
PROGRAM.

B-1251-a

C O P Y

December 4, 1940

Mr. _____,
 _____,
 _____,
 _____.

Dear Mr. _____:

This refers to your telegram of November 29 requesting advice as to requirements of the Army and Navy with respect to surety bonds. In this connection, the following advice has been obtained from the Navy Department:

"1. Replying to your request for information on questions raised by _____ in his telegram of 29 November, the following information is furnished.

"(A) Under Emergency Plant Facilities Contract:

If reference is here made to the "Emergency Plant Facilities Contract" form gotten up by the Advisory Commission to the Council of National Defense the Navy treats each case on its own merits and has as yet arrived at no standard schedule to apply to all facilities contracts. Where the emergency facilities constitute a minor portion of the total cost of a supply contract, such facilities are covered by the supply contract and the bond requirements therefor are as covered under B.

"(B) Under Supplies Contract:

I am enclosing a copy of a memorandum of October 17th covering this situation in full detail.

"(C) When advance is made:

This subject is also covered by the above referred to memorandum of October 17th.

- 2 -

Mr. _____

"2. The Navy Department does not possess the discretionary authority granted to the War Department for waiving of bond requirements. Each contract in excess of \$500.00 entered into by the Navy must therefore be bonded.

"3. The statute requiring bonds on Navy Contracts is R.S. 3719."

A copy of the memorandum of October 17 referred to in the above quotation is enclosed.

We are advised by representatives of the War Department that information with respect to War Department requirements will be furnished to us as soon as possible and we will forward it to you as soon as it can be obtained.

Very truly yours,

(Signed) E. L. Smead

E. L. Smead,
Chief, Division of Bank Operations

Enclosure

NAVY DEPARTMENT
BUREAU OF SUPPLIES & ACCOUNTS
WASHINGTON, D.C.

L13-1(1)/L1-1(5) (SPC)
L10-6/L6-2(2)

17 October 1940

NOTICE TO PROSPECTIVE BIDDERS

SUBJECT: Change in bond requirements for supply and facilities contracts

Bonds will be required on supply contracts awarded on bids submitted on and after this date, as follows:

(a) When no advance or progress payments are to be made:

Contract over \$500 up to and including \$50,000. - 25 per cent of the amount of the contract (but not more than \$10,000).

Contract over \$50,000 up to and including \$100,000. - 20 per cent of the amount of the contract (but not more than \$15,000).

Contract over \$100,000 up to and including \$200,000. - 15 per cent of the amount of the contract (but not more than \$20,000).

Contract over \$200,000 up to and including \$1,000,000. - 5 per cent of the amount of the contract (but not more than \$50,000).

Contracts over \$1,000,000. - 5 per cent of the amount of the contract (but not more than \$1,000,000).

(b) When progress payments are to be made, but no advance payments:

The bond shall be in an amount calculated in accordance with paragraph (a) above, plus the following:

Contracts up to and including \$1,000,000. - 15 per cent of the amount of the contract (but not more than \$50,000).

Contracts over \$1,000,000. - 5 per cent of the amount of the contract (but not more than \$1,500,000).

NOTE: The amount of the bond thus calculated is the sum of paragraphs (a) and (b), as applicable.

(c) When advance payments are to be made:

The applicable amount of paragraphs (a) and (b) plus the full amount of the advance payment.

NOTE: The total amount of the bond thus calculated is the sum of paragraphs (a), (b), and (c), as applicable.

"Progress payment" means a partial payment on the material while the work is in progress and before the material passes into the possession of the Government.

"Advance payment" means an advance of funds under the authority of Section 1 of Public No. 671, 76th Congress, Third Session, H. R. 9822, approved 28 June 1910.

When the bond is a combination of paragraphs (a) and (b) and/or (c), and the contract imposes upon the contractor obligations in the form of maintenance and/or performance guarantees and other covenants for fulfillment subsequent to the delivery and acceptance of the material, equipment, etc., and the contractor so requests, the bond may be executed in the amount thus prescribed to run until the delivery and acceptance of the material, equipment, etc., and another bond calculated in accordance with paragraph (a) only, conditioned upon the faithful performance of all maintenance and/or other guarantees and all other covenants not fully fulfilled or performed prior to delivery and acceptance of the material, the second bond to take effect upon the delivery and acceptance of the material and to continue in full force and effect until all covenants and obligations of the original contract are fulfilled.

RAY SPEAR

Rear Admiral SC U S Navy
Paymaster General of the Navy

December 11, 1910

Mr. _____,

_____.

Dear Mr. _____:

This refers further to your telegram of November 29 requesting advice as to requirements of the Army and Navy with respect to surety bonds. The advice obtained informally from the Navy Department was furnished you with my letter of December 4. We have now received an informal memorandum prepared by a representative of the War Department, and a copy of this memorandum is enclosed for your information and assistance in replying to inquiries. You will understand that the memorandum is merely an informal one describing the practices of the War Department and is not to be considered as a formal commitment of that Department; and, in so far as the memorandum covers administrative practices, these may, of course, be changed from time to time.

Very truly yours,

(Signed) E. L. Smead

E. L. Smead,
Chief, Division of Bank Operations.

Enclosure

C O P Y

SUMMARY STATEMENT AS TO BOND REQUIREMENTS OF THE WAR DEPARTMENT.

A. Emergency Plant Facilities Contracts.

No bid, performance or payment bonds are at present required in connection with Emergency Plant Facilities Contracts.

B. Supply Contracts.

1. Requirements as to bid bonds.--The Army regulations as to when bid bonds are required reads as follows:

"At the discretion of the chief of arm, service, or bureau concerned, bid bonds may be required or waived--

- (1) In special cases, or
- (2) By general instructions issued to purchasing officers, but will be required or waived alike to all bidders."

Chiefs of the arms and service have issued general instructions requiring bid bonds in cases where contracts are let on a competitive basis after the issuance of general invitations to bid but in general do not require bid bonds in cases where the contract is negotiated.

2. Requirements as to performance bonds.

(a) No performance bond is generally required when the amount involved is under \$2,000.00, although the chief of the arm or service concerned has discretionary authority to require such a bond.

(b) In the ordinary supply contract, which is not a "public work", (see (c) below) performance bonds are not generally required, although it is in the discretion of the chief of the arm or service to require a performance bond or waive it in special cases.

(c) The Miller Act, 49 Stat. 793-794, 40 U.S.C. 270, requires payment and performance bonds for contracts for the construction, alteration, or repair of public buildings and public works when the amount involved exceeds \$2,000.00. The Comptroller General has ruled that a contract for work, labor, or manufacture upon articles or property belonging to the United States, including supply contracts, wherein it is provided that partial payments will be made for material and labor as the manufacture of such supplies progresses, title to the work in progress to vest in the United States upon the making of the first such partial payment, is a contract for "public work of the United States". Similarly all contracts for supplies on a cost-plus-a-fixed-fee basis are contracts for public work since title to materials used or to be used in performance of the contract

passes to the Government upon delivery at the site of the work. The ruling is applied even though the contractor retains possession and remains responsible for the care of the property so paid for until finally accepted by the United States.

(1) When the supply contract is also a contract for "public work" the amount of the required Miller Act performance bond will be set by the chief of the arm or service concerned, provided the contract is let on a fixed-price basis.

(2) If the supply contract constitutes a "public work" but was let on a cost-plus-a-fixed-fee basis, Public 781, 76th Congress, as amended by Public 800, 76th Congress (Third Supplemental National Defense Appropriation Act 1941) amends the Miller Act to permit the Secretary of War to waive the compulsory performance bond requirement of the Miller Act, and he has in general done so, leaving discretionary authority with the chief of the arm or service involved to determine whether a performance bond in such case will be required.

(d) In general, the amount of the performance bond for a supply contract (if such bond is required either by statute or administrative action) has been set by the Chiefs of the Arms and Services concerned at 10%; for large airplane contracts the amount of a performance bond required has been set at 5%.

3. Requirements as to payment bonds.

(a) The Miller Act establishes a statutory requirement for payment bonds to protect sub-contractors and material men in all "public work" contracts. As has already been indicated, if the supply contract is also a "public work" contract and has been let on a fixed price basis, this requirement can not be waived.

(b) If the supply contract is on a cost-plus-a-fixed-fee basis, the requirement normally is waived under Public 781, 76th Congress as amended by Public 800, 76th Congress.

(c) The statutory amount of the bond is 50% of the total amount payable by the terms of the contract when the contract is under \$1,000,000.00; 40% when the face of the amount of the contract is between \$1,000,000.00 and \$5,000,000.00; and when the contract is over \$5,000,000.00 the payment bond is in the sum of \$2,500,000.00.

4. It should be noted that if the obtaining of Miller Act bonds is too onerous, the manufacturer under a supply contract may avoid them by nego-

tiating the contract on a cost-plus-a-fixed-fee basis or by eliminating from the contract any provision for partial payments, provided he can also convince the arm or service concerned that such bonds should be waived in his case.

C. Bond Requirements with Respect to
Advance Payments.

When an advance payment is made on a supply contract, Public 703, 76th Congress vests in the Secretary of War discretion as to the adequacy of the Security required. Whether or not an advance payment bond in addition to a performance and payment bond (if they are required because the supply contract is also a contract for a "public work") will be demanded depends upon the recommendation of the Chief of Arm or Service concerned, upon the general financial condition of the Company and upon whether the Secretary of War deems other security furnished (usually in the form of a supplemental agreement) to be adequate.