

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-775

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



January 23, 1941

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 December.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea", written over a horizontal line.

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	December	This Year	Total	On Par List	December	This Year
	(In thousands of dollars)							
Boston	141	141	0	0	469,330	469,330	0	0
New York	224	224	6	17**	981,529	981,529	7,100	23,900
Philadelphia	225	225	0	5	550,836	550,836	0	5,000
Cleveland	475	474	0	23	577,670	577,367	0	35,900
Richmond	394	232	1	18	481,555	396,447	200	21,600
Atlanta	484	52	1	3	302,655	70,987	700	3,500
Chicago	1,219	1,079	4	66	1,114,286	1,054,464	8,700	82,900
St. Louis	664	434	3	21	428,385	309,111	2,700	12,700
Minneapolis	420	78	0	7	189,225	53,439	0	8,700
Kansas City	487	402	2	10	198,993	178,372	1,100	14,400
Dallas	282	174	3	26	154,549	110,025	10,000	23,300
San Francisco	194	182	1	5	545,398	541,768	300	5,700
Total	5,209	3,697	21	201	5,994,411	5,293,675	30,800	237,600

*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.

January 23, 1941
Not for Publication

EXCERPTS FROM BANK RELATIONS REPORTS
FOR THE MONTH OF DECEMBER 1940

BOSTON

During December, 25 banks were visited of which 16 were member and 9 nonmember banks, all located in Connecticut.

All member banks reported loans and deposits to be on the increase and several called attention to their earnings for the year, which in every case were above the earnings for 1939. A good part of the increases was from security sales, personal loans, service charges, and income from trust departments. Lending rates continued unchanged. Service charges had been revised upward by some banks and others are contemplating similar revisions. Interest rates on savings deposits had been lowered by some banks during 1940 without loss in volume of deposits. Investment accounts showed little recent activity--there had been some buying of small amounts of Governments and municipals. The improved demand for rental properties in some communities had had the effect of reducing arrearages of taxes, overdue interest, etc., on mortgages held by some banks.

Federal Reserve activities in connection with the national defense program were discussed at all banks visited. It was found that a few loans had been made by member banks in conjunction with the Reconstruction Finance Corporation. In most instances the loan originated with the Corporation and the bank had been invited to participate. Where plant expansion was found to be in progress or contemplated, it was expansion being undertaken by large concerns and financed by them out of their own resources.

Inquiries from nonmember banks with respect to Federal Reserve Bank functions and operations were more frequent than usual. Only in one instance did such inquiries lead to a general discussion of membership. In this case the bank is a former member which withdrew from the System upon finding that a certain condition of membership hampered its operations as a State member bank. It is probable that this bank will come in later on as a national bank.

NEW YORK

During the month of December, our officers and representatives visited 38 banks, of which 25 were member and 13 nonmember institutions.

Our bank relations activities consisted in part of making follow-up visits to nonmember banks in which the managements have shown a keen interest in membership, and one of our officers accompanied by a special representative visited five Long Island banks which have recently joined the Federal Reserve System. Four applications for membership were received during the month and several other nonmember bankers have indicated that their boards of directors may take favorable action in the near future.

A number of bank officers brought up the subject of national defense loans and indicated an eagerness to advance funds against assignments of Government contracts. Several of them commented favorably on the information contained in our circular "Financing the National Defense Program", and said that whenever possible they will encourage local industries to participate in this program.

PHILADELPHIA

During the month of December, 83 banks were visited of which 27 were member and 56 nonmember institutions.

The five counties covered by this report (north central Pennsylvania) comprise 3,975 square miles with a population of 188,800. The total banking resources of \$83,169,000 are distributed among 26 member banks, which hold \$55,121,000, and 14 nonmembers, which hold \$28,048,000.

Industrial operations in these counties have improved greatly since last year and pay rolls are well in advance of recent years. Indications point to even greater increases in activity.

Banking conditions have improved slightly since last year. Many bankers report a better demand for credit, although it is almost entirely for small loans. Several institutions have been actively participating in the FHA program by granting credit of that type, while others have purchased guaranteed mortgages to bolster earnings. Results have been generally satisfactory. Loan liquidation was reported to have improved as a result of increased pay rolls.

Investment accounts continue to present problems to many banks, although improvement can be noted since last year. Holdings of railroad bonds are not so heavy as in past years, but it is in such issues that much of the existing depreciation rests. The larger banks have been increasing their Government holdings through purchases in the market, but the small institutions have acquired most of their additional Governments through subscriptions to new issues.

The interest of nonmember banks in membership in the System continued in evidence during December, when the managements of 43 banks were interviewed on the subject. One request for examination was received and the managements of several other institutions stated that they were very desirous of affiliating with the System, and would be prepared to give the matter serious consideration after the first of the year.

CLEVELAND

During the month of December 113 banks were visited, of which 74 were member banks and 39 nonmember banks. One State bank having resources of \$2,440,000 was admitted to membership in the System.

In a recent report to the Board it was stated that of five principal downtown banks in a fair-sized industrial city three had reduced the interest rate on time and savings accounts from 2 to 1 per cent, one bank had maintained the rate at 2 per cent, and the other had increased from 2 to 2-1/2 per cent. The above changes were made effective July 1, 1940.

A comparison of the published statements of these five banks between that date and the year end shows that all of the banks, with the exception of the one raising the rate, have lost deposits; the net loss was approximately 7-1/2 per cent of total time and savings accounts. The one bank increasing the rate showed a net gain for the period of about 18 per cent.

In a relatively small industrial city on the Ohio River a banker "cannot understand why bankers generally are complaining about earnings". He seemed proud to point out that his own earnings have been consistently good throughout the depression period, net for 1940 being estimated at 22 per cent of capital, which compares with 20 per cent last year.

RICHMOND

During the month of December 71 banks were visited, of which 59 were member and 12 nonmember institutions.

At the close of 1940 the economic position of the Fifth Federal Reserve District was much stronger than was indicated at the beginning of the year. This was because the national defense expenditures and defense contracts awarded were greatly augmented later in the year and superimposed on a level of business already strong.

Construction contract awards in the District, which include those for defense, amounted to \$419 millions in eleven months of 1940 against \$355 millions in a like period of 1939.

The agricultural situation looked like the weak spot at the beginning of 1940, but a marked improvement in the cotton crop and larger mixed farming returns more than offset a decline in the income from tobacco. Tobacco returns were about 30 per cent smaller than last year, but many flue-cured farmers got net returns that were satisfactory.

For ten months of 1940 the cash farm income of the Fifth Federal Reserve District totaled \$458 millions, which was \$23 millions higher than in those months of 1939. The tobacco situation is still not promising, though crop control should improve prices still further.

The Fifth District's textile industry--with prices held in reasonable bounds--hung up a new record last year, and is heading toward another in 1941. More and more mills have added a third shift. Here and there plants that had been idle for months have opened for business. Cotton mills in the Carolinas suspended only two days for Christmas instead of the entire week as is customary. Many mills report orders on hand enough to run at three-shift capacity for three months.

ATLANTA

During December 30 banks were visited, of which 12 were member banks and 18 nonmember banks.

The territory covered in Alabama is primarily agricultural, cotton being the principal money crop. Throughout the section visited in Alabama, the cotton crop was for the third consecutive year almost a complete failure. In some communities it was reported that the yield was only about 15 per cent of a normal crop.

Many of the banks in this area are experiencing slow collections, and some will sustain losses, especially in those counties depending solely on cotton. In many counties cotton acreage has been reduced and farm income is being supplemented from other sources such as lumber, beef cattle, and dairying. In these counties general business conditions were found to be much better than in the purely cotton counties, primarily as a result of the recent increased activity in the lumber business.

Production in most of the heavy capital goods industries in the Birmingham district is now at the highest level in local history.

Open hearth furnaces and blast furnaces are operating at approximately 100 per cent and, except for curtailments due to relinings and other essential replacements, there is every indication that these two basic operations of the district will continue for some time at the same operating rate. Major plant expansions are being accelerated in anticipation of increased production in many lines, notwithstanding the current high rate of operation.

Deposits in local banks are the largest in history. Loans have consistently increased in recent months but there is nothing like a normal proportion of loans to deposits. Local banks are diligently seeking loans through media of advertising, personal solicitation, etc. It is anticipated that further developments in the national defense program may increase the demand for good loans in many channels of industry and business. Real estate values remain relatively low and mortgages based on present valuations generally are conceded to be on a sound basis.

CHICAGO

During the month of December, calls were made on 38 member and 18 nonmember banks. Twelve State banks were admitted to the System, bringing the total number of admissions for the year 1940 to 64. Membership as of December 31 consisted of 543 national banks and 320 State banks, a total of 863. One member State bank has advised us that it will withdraw from the System in order to open a branch office.

Reports indicate that banks have had a uniformly profitable year, and while the loan demand has shown no important change in trend, there has been some increase in the loan portfolios of the banks since June. Banks interviewed do not seem to be disturbed over their holdings of Government bonds.

The recent Special Report to the Congress has received much favorable comment in this district, both from bankers and from industrial leaders, not only for its content but also for its timeliness, and the hope was expressed that it will become law.

Commercial activity has speeded up, and reports from the conventions being held in Chicago show an optimistic attitude on the part of manufacturers for 1941 business. Most of the conventions have the largest attendance in history. Employment continued to increase, as has building construction. Prices for farm commodities, with the exception of dairy products, have held up fairly well. The most interesting change recently from the farmers' standpoint has been the improvement in the hog market. However, it is felt that farm products as a whole are still out of line with those of industry.

ST. LOUIS

During the month of December 178 banks were visited, of which 62 are members and 116 nonmembers.

Taken as a whole the status of Illinois banks was moderately improved over a year earlier. Demand for funds has broadened to some extent, though there is still a large volume of money in many institutions seeking investment. Several bankers related that during the past several years most of their net profits have gone toward eliminating criticized assets. Comment of a number of bankers was to the effect that they believed the 3/4 per cent interest on defense bonds is much too low.

According to a report received from our Louisville Branch, a majority of the banks in Louisville report that they have received numerous inquiries regarding loans and have arranged lines of credit, but a very small amount of the credit available has been used. In fact, one banker stated his bank was seriously considering charging a commitment fee for credit lines established but not used. On the other hand, an officer of a large member bank stated that his bank had increased its loans \$6,000,000 since June 1940. Half of this increase consisted of loans made at low rates of interest to preferred lines. A considerable pick-up in the velocity of loans at this bank is also reported, \$23,000,000 having been made in a relatively short period with many liquidations in evidence. Another member bank has adopted the policy of liquidating its commercial bond account, using the funds from this source to make consumer credit loans which have proved to be profitable and satisfactory. An effort will be made to increase the volume of this type of loan until it equals the total savings deposits on the bank's books.

In December, the First Bank of Charlestown, Indiana; the Bank of Maxville, Arnold, Missouri; the First Bank and Trust Company, Cairo, Illinois, and the First State Bank of Olmsted, Illinois, became members of the Federal Reserve System. The addition of these banks brings the total membership of the Federal Reserve Bank of St. Louis to 415. During the year 1940, 21 State banks and trust companies in this district joined the System. This equals the number admitted in 1933, and is more than in any other year since 1920.

MINNEAPOLIS

During December 69 banks were visited, of which 26 were member and 43 nonmember institutions.

An officer who visited banks in North Dakota said that almost without exception the banks reported increased earnings in 1940 and

that they will pay substantial dividends. We do not have a single State member bank in North Dakota. Exchange and capital requirements are the two obstacles. One national banker said that he did not know how long the stockholders of his bank would permit him to keep his bank in the national system since the loss of exchange was substantial.

We have sent out 1,237 newspaper releases since we started this work in September; 113 of which have been released so recently, we have had no returns. The only check we have is on Minnesota; our clipping bureau does not extend into the other States. Of the localized stories, 39 per cent have been published and we have received the clippings from the Minnesota Editorial Association. Of the defense stories to publishers in Minnesota, we have received clippings from only 9 per cent. These figures are minimum figures, since there may be publications which the clipping bureau overlooks. We conclude, therefore, that the 39 per cent of clipping indicate our efforts to publicize localized stories are well worth while. With 9 per cent published, stories on defense apparently are not so well received, probably largely because they do not apply to local situations.

During the month, 146 manufacturers were interviewed at the bank by our industrial coordination department and 3 at their plants. In addition, information regarding the operations of this department was forwarded to all banks in the district, to 226 chambers of commerce, and to 50 manufacturers. Inquiry letters totaling 301 were received from banks, manufacturers, and general public, and telephone inquiries from the same sources totaled 126. Talks to luncheon clubs and other groups on financing and facilitating the defense program numbered four, with an aggregate attendance of 194.

Two meetings of manufacturers, city officials, and service organization representatives were attended for the purpose of aiding them in their attempts to form some sort of production pool for obtaining Government contracts.

KANSAS CITY

During the month of December 82 banks were visited, of which 26 were member and 56 were nonmember banks.

As regards local conditions, bankers are in good spirits. Bank earnings the past year were as a rule good and the crop outlook for next year is promising. In the so-called Dust Bowl of Kansas and the Oklahoma Panhandle it was said that the moisture received in November was the largest for that month in many years. In fact, in some places only about 40 per cent of the wheat had been drilled by December largely on account of wet ground. November and December

were unusually wet nearly everywhere in the District and the subsoil is getting a large amount of winter moisture for the first time in years.

No longer is there heard any talk of lack of confidence and some bankers mentioned the apparent return of confidence. It was sometimes pointed out that the little faith in deficit spending of recent years defeated that program as a recovery measure and consequently made impossible the inflation that was feared. Now, it was observed, with a better state of mind, an expansion of business activity and credit may easily produce the inflation that the public had come to believe was a false alarm.

In some of the small towns it is reported that these places are already beginning to suffer on account of the young men going to larger places for employment. Occasionally a bank is found that says it is having no difficulty operating under the 40-hour week but such cases are very much the exception. A good many bankers were found who seemed interested in discussing Government financing and taxable Government securities. In Kansas one of the greatest obstacles to membership still remains the opposition to deposit insurance.

There is still some complaint of shortage of demand for loans but this complaint is heard much less frequently than a year ago. Some city bankers who specialize in country bank accounts report that there has been generally a marked increase in loans of country banks and that the cash position of many of these country institutions is the smallest it has been for some time. There is great variation among banks, however, in this respect. In some institutions loans are scarcely a quarter of deposits while in other cases they are a half or two-thirds. It is said that there is quite a little borrowing by country banks from their correspondents and that others are getting close to the borrowing point.

DALLAS

On account of interruptions due to various uncontrollable causes our regular bank visitation activities were suspended during December 1940, and no visits were made during the month.

SAN FRANCISCO

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

In Los Angeles the rate of building and construction continued relatively high in 1940, although the cumulative total of permits

of 68 million dollars for the first 11 months was one per cent below the like period a year ago. Until the end of October the total was about the same this year, but November permits were off 18 per cent from last year's month. Seasonal influences are held to be responsible for a portion of this decline.

The motion picture industry, which was adversely affected by the European war, is currently regaining both volume and earning power. This reflects adjustments incidental to loss of foreign outlets, expanding domestic box office receipts, and the effect of increased sales promotion in South American markets.

Agriculture in Los Angeles County, although not participating directly in the defense industry boom, experienced some improvement in the returns from its products this year. Higher prices, large production, and record Government subsidy payments have contributed to the improved showing.

Citrus growers had the market to themselves for a large part of the summer months because of crop curtailment in Florida as a result of subnormal temperatures last winter. The California summer orange crop, however, was the second largest in history and returns, which averaged ten cents per packed box above last year, did not compensate many growers for the cost of production.

Cattle operators generally have experienced a satisfactory year. Ranges and pastures have been above normal, the cost of supplemental feed has been comparatively low, and prices of both feeder and finished livestock have been relatively high. Feeders of cattle have expanded operations in anticipation of a strong demand for beef as a result of industrial activity. The number of cattle now in feed lots is the largest in several years.

The airplane industry further expanded during the year to provide facilities to handle the enormous volume of orders from the United States and British Governments. New manufacturing space is not yet equal to the volume of new business in consequence of which backlogs are much higher than a year ago. This expansion of output has resulted in a material increase in new employment, with the present personnel understood to be about double last year. This doubtless comprises a substantial portion of the 24 per cent increase in industrial employment and 30 per cent increase in industrial pay rolls, which were reported for October.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

December 1940

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	16	9	25	6	<u>1/</u>	1	50
New York	25	13	38	9	2,918	2	400
Philadelphia	83	27	56	8	784	8	784
Cleveland	74	39	113	6	1,510	5	264
Richmond	59	12	71	10	1,583	0	0
Atlanta	12	18	30	8	930	0	0
Chicago	18	38	56	9	5,360	3	230
St. Louis	62	116	178	5	345	3	140
Minneapolis	26	43	69	5	600	8	440
Kansas City	26	56	82	9	4,313	2	275
Dallas	0	0	0	5	560	1	30
San Francisco	35	17	52	13	2,095	7	725

1/ Not reported