

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-792

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



February 21, 1941

Dear Sir:

There are enclosed for your information a table showing applications for membership received by the Board during 1941, and a statement containing excerpts from the bank relations reports submitted by the Federal Reserve Banks for the month of January.

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 1941

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	January	This Year	Total	On Par List	January	This Year
	(In thousands of dollars)							
Boston	141	141	0	0	469,330	469,330	0	0
New York	224	224	5	5	981,529	981,529	8,100	8,100
Philadelphia	225	225	1	1	550,836	550,836	1,700	1,700
Cleveland	475	474	0	0	577,670	577,367	0	0
Richmond	394	232	2	2	481,555	396,447	700	700
Atlanta	484	52	0	0	302,655	70,987	0	0
Chicago	1,219	1,079	5	5	1,114,286	1,054,464	2,300	2,300
St. Louis	664	434	2	2	428,385	309,111	800	800
Minneapolis	420	78	0	0	189,225	53,439	0	0
Kansas City	487	402	0	0	198,993	178,372	0	0
Dallas	282	174	0	0	154,549	110,025	0	0
San Francisco	194	182	0	0	545,398	541,768	0	0
Total	5,209	3,697	15	15	5,994,411	5,293,675	13,600	13,600

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

EXCERPTS FROM BANK RELATIONS REPORTS
FOR THE MONTH OF JANUARY 1941

BOSTON

Loans and discounts had increased at all banks visited--all located in Connecticut--and earnings for the past six months were better than for the corresponding period of a year ago. Employment and pay rolls showed an increase at all points and retail trade was said to be satisfactory.

At most of the banks visited, discussion was had of some phase of the activities of the Federal Reserve System in relation to the National Defense Program.

NEW YORK

Ulster County, New York, is situated on the west bank of the Hudson River approximately midway between New York City and Albany and extends westward into the Catskill Mountain region. This county is served by 14 commercial banks (all members) and 6 savings institutions. The managements of five commercial banks are giving consideration to reductions in rates on savings deposits and two may go to a flat 1 per cent. One of the two institutions paying 2 per cent on the entire balance is endeavoring to attract deposits in view of a brisk loan demand and will continue to pay this rate.

It appears that if taxable bonds yielding a higher return are issued, they will meet with favor among the bankers. The president of one savings bank, which in the seventy-two years of its existence is said to have never bought a corporate bond, points out that since savings institutions pay no Federal income taxes, any higher return from Governments will result in substantially larger profits to this group. Nearly all banks in the county are carrying large amounts of idle cash.

Loan demand in this territory has been improving since the middle of 1940. In several instances, sizable increases have resulted directly from lower lending rates which were adopted when the competition of Albany banks was felt.

Business throughout Ulster County is reported to be quite satisfactory. Agriculture is of major importance, chiefly dairy farming and fruit growing, both of which have enjoyed better conditions during the past year.

Trade in the Catskill Mountain region is dependent chiefly upon vacation trade, which was characterized as spotty during the past summer.

The Thirteenth Annual Mid-winter Meeting of the New York State Bankers Association was held in the Auditorium of the Federal Reserve Bank of New York on Monday, January 20, 1941. Approximately 500 attended the morning and afternoon sessions and the bankers were guests of the Federal Reserve Bank at a luncheon served in its dining room. In the evening a banquet was held at the Hotel Astor at which about 750 were present.

PHILADELPHIA

The section covered by this report comprises three counties in northern Pennsylvania with an area of 2,745 square miles, and a population of 88,400.

Dairying provides the chief source of income and, while milk prices are reported to be satisfactory, the margin of profit has been reduced because of higher costs for feed, and the expense of the installation of new equipment to conform with more rigid sanitary requirements.

Industrial activity has been better than a year ago. The shops and yards of the Lehigh Valley Railroad Company at Sayre are quite busy, and it was estimated that some 2,000 persons are now employed there. The Athens plant of the Ingersoll-Rand Company, manufacturer of pneumatic tools, is operating steadily and employs 800 persons as against 600 a year ago. The tanneries are working steadily and together employ about 1,500 persons. The plant at Elkland is considered the world's largest sole leather tannery. It has had much labor unrest during the last four years, and the company has been involved in a series of court cases with the National Labor Relations Board. Final decision was rendered several weeks ago by the United States Supreme Court, and necessitated the re-hiring of five men and payment to them of all back wages.

The officials interviewed had little comment to make relative to the Special Report to Congress. Apparently they feel that, if it is necessary to adopt these measures, they can be met without hardship.

CLEVELAND

Opposition to the Special Report to Congress centers entirely upon the proposal to seek statutory authority for substantially

increasing reserve requirements.

Nonmember banks being solicited for membership are, in increasing numbers, raising the objection that the failure of the Reserve System to handle nonpar checks is a definite deterrent. One banker in discussing this situation, which he suggests be corrected by Congressional action, said that it is "ridiculous that a few comparatively unimportant banks should be allowed to disrupt the check collection facilities of the entire Federal Reserve System." Other banks have indicated that if they became members of the System it would probably be through surrendering State charters and becoming members as national banks.

A shortage of farm labor in some sections is creating a demand from farmers for loans to buy mechanical equipment.

In two industrial cities in western Pennsylvania depositors have been requested to reduce their balances. One bank in one of these cities has also returned a substantial postal savings deposit. Another bank in the same section reports that while industries are operating at a high rate, as evidenced by checks cashed for employees, savings deposits are not increasing as has been customary in the past. It is stated that many individuals are holding cash rather than depositing such funds so that if they are laid off they can go on relief. Our impression is that the Pennsylvania Statutes provide for a disclosure to relief officials upon request of balances to the credit of individuals seeking relief.

RICHMOND

In the Baltimore area the Sparrows Point plant of the Bethlehem Steel Company will add 500,000 tons capacity in the current year, and the Glenn L. Martin Company had a backlog at the end of last year of \$225,000,000 and anticipates a backlog of \$400,000,000 before long. The Martin plant may increase its employment from 17,000 at the year end to 40,000 before the current year is over.

A new hotel to cost \$8,500,000, located on Sixteenth Street, Washington, D. C., will be started about April 1.

A contract for a bag-loading plant near Pulaski, Virginia, to employ 2,500 people, was awarded in January. It will cost \$9,376,000, and be operated by the Hercules Powder Company in connection with the Radford Powder Mill. The contractors at the Radford plant say they will need 3,000 more skilled workers during the next sixty days. More than 14,000 persons are already working on the Radford plant in an effort to get it into production by March 15. Housing facilities in the area are still scarce.

About 4,000 workers will be employed by the Newport News Shipbuilding and Drydock Company in the construction of 25 cargo ships, at \$1,750,000 each, during the next two years, at Wilmington, North Carolina. Fort Bragg now under way will require 25,000 workers to provide accommodation for 65,000 officers and soldiers by July 1, 1941. So far, construction work is ahead of schedule. Some idea of the growth in Cumberland County occasioned by the construction of \$24,000,000 Fort Bragg can be gathered from the change in the number of essential businesses over the past eight months. Dairies jumped from 21 to 45, cafes increased from 50 to 100, and meat markets increased from 100 to 150.

The North Carolina State Banking Commission declined to grant a charter for a proposed commercial credit plan industrial bank in Greensboro, North Carolina. The Commission said that two national banks in Greensboro had a right to operate installment loan departments, and that public convenience and advantage would not be promoted by the establishment of such an industrial bank since the city already had one industrial bank, nine "legitimate" installment paper dealers, and sixteen credit unions.

Additional contracts of \$5,000,000 at Fort Jackson, South Carolina, are to be awarded in the near future to bring the aggregate figure to \$18,375,000.

ATLANTA

The section of Louisiana in which Lafayette, Abbeville, and New Iberia are located suffered from unprecedented rains and high water last summer. Some farmers in this area suffered a complete loss of their growing crops and a majority harvested only 50 per cent or less of their normal production. Because of this disaster it was anticipated that the retail trade in this area during the winter would be very light. The bankers, however, state that they were unable to observe any appreciable decline in the amount of money spent in their respective communities during the holiday season. They attribute the sustained purchasing power to the tremendous amount of money being distributed in the area through oil development, WPA expenditures, and disaster loan disbursements.

CHICAGO

Two mutual savings banks have made application for membership. According to the records of this Bank, this is the first time that a mutual bank has applied.

A survey was recently made by this Bank of the investment in bank building and furniture and fixtures in the State member banks of this district in ratio to their capital structure. As a result, the suggestion was made to some of the banks that these items be reduced further, and many of them have adopted programs looking to this end.

A bill has been introduced in the Iowa Legislature which would require all banks to remit at par for checks drawn on them. There are at present 112 nonpar banks in the State of Iowa. Incidentally, one nonpar bank has recently asked for membership in the System.

One of the Detroit banks has established a training school to prepare new employees for positions, stating that it is no longer possible to employ experienced help and that it has the problem today of training its own personnel. All of the Detroit banks are confronted with the same situation. Increasing turnover is largely with new employees in the lower salary brackets. The wages of skilled mechanics who are employed full time today look very attractive to the younger employees, and some of them apparently are shopping around for positions to their liking in other fields.

The fact that the Government recently offered for sale 75,000,000 bushels of corn at 69 cents in Chicago has had the effect of putting a ceiling on corn prices in this area. Some satisfaction has been expressed over the sale of insurance company farms to actual farmers. A report recently compiled shows that during the period from April 1939 to December 31, 1940, 4,862 farms were sold. These farms averaged 154 acres and were sold at an average price of \$81. Approximately 80 per cent of the sales were to tenant farmers on long time contracts at low interest rates. It is felt that these sales have helped to prevent a marked upturn in land prices.

Production of automobiles in January established an all-time record for the month, and indications are that February output also will be in record volume for that period. As a result of the continued heavy production, field stocks of new cars are growing steadily.

ST. LOUIS

Agriculture in the Tennessee area visited is quite diversified. Among the main crops are cotton, corn, hay, wheat, tobacco, forage, and fruit, including strawberries. With exception of strawberries, yields the past season were good, and farmers made some money. Dairying and livestock raising have expanded notably in recent years. Prices received and being paid for the 1940 tobacco crop are disappointing to producers.

At Milan, Tennessee, where a \$14,000,000 shell loading plant will be built, there is a veritable boom in progress. Even now, before actual construction on the plant has started, housing facilities have become inadequate. New homes, mercantile buildings, theaters, etc., are being put up as rapidly as labor and materials will permit.

It is rumored that another Government project is to be located at Medina, a small farming community six miles south of the site chosen for the Milan establishment. As a result of these projects, real estate values have soared, some as much as 50 per cent over a few months back. Over this entire area building activity is at a high rate.

An officer of a Tennessee nonmember said that he expects to handle a large number of pay checks issued in connection with the Milan munitions plant and other building activities in the area. If savings on money shipments by Federal Reserve Banks will exceed the amount of revenue derived from exchange on cash letters, it is likely he will be interested in further discussing membership.

Another Tennessee bank officer stated that he would join were it not for having to give up cash letter exchange. His income from exchange in 1940 amounted to \$3,200, or 8 per cent on capital.

An Illinois nonmember subscribes regularly for new Government issues and the cashier commented regarding the small amount usually allotted to it. When his attention was called to the preferred allotment feature of several issues in the past, he said its correspondent (an Eighth District national bank) notifies it by phone of new issues but failed to mention the preferred subscription privilege.

Currency and Coin Displays. This Bank's collections of currency and coin have been placed on display at the parent Bank. The currency exhibit, consisting of 254 specimens, is arranged in eight frames, face and reverse. These are secured to a revolving standard and have descriptive cards, written in every day language, which explain each individual bill. The specimens give a representative panorama of currency in the United States from Colonial issues to Federal Reserve notes of the new size.

The coin exhibit, consisting of 168 specimens, is displayed in two cases. It is so arranged that the visitor, reading the descriptive cards and viewing the specimens, is given a rounded idea of the history of coinage from the knife money of ancient China to the wooden nickels issued in Bellingham, Washington, during the bank holiday of 1933.

In addition to the above exhibits, there has also been prepared a Loan-Exhibit of currency for display by our branches and member banks. It consists of 109 duplicate specimens of notes included in the parent Bank exhibit.

MINNEAPOLIS

The booklet prepared by the Board of Governors entitled "The Federal Reserve System--Its Purposes and Functions" was sent to all employees of the head office and its Helena Branch at their home addresses accompanied by a letter from the President of our Bank. We feel there is more to be accomplished in promoting a program of education for our staff and we have several definite plans in mind.

In a current issue, confined to banking, of "Building America", a photographic magazine of modern problems for high school use, several pages were devoted to the Federal Reserve.

KANSAS CITY

Most of the visits in January were in connection with the national defense work. In Kansas a series of seven regional meetings was held for the purpose of acquainting bankers with the details of this program and for securing a frank discussion of its problems. A representative of this Bank appeared on the program of these conferences.

It would appear from the letters received that the Special Report to Congress was widely read and carefully studied. In no case was there found any disagreement with the underlying purpose of the recommendations. Bankers seem thoroughly aware of the abnormal credit expansion that may take place with present swollen bank reserves and there is some apprehension that the war boom we are now entering with its psychology of expansion may develop a credit condition difficult to control. The hope was often expressed that the System can regain some control of the money market and one banker gave as his opinion that the banking structure can not stand another shock like that which began with the deflation of war prices in 1920 and culminated in 1933. It was his belief that another such disaster would bring Government ownership of banks.

There is, however, some difference of opinion regarding specific recommendations in the report. The proposal to raise reserve requirements stirred up the most controversy. Many bankers--even some country bankers--seem to think legal reserves should be higher but

probably a greater number are critical. Country bankers have difficulty in seeing any relationship between their own affairs and the problem of excess reserves. They accept at its face value the statement that gold imports have created the excess reserves but to the country banker this seems, not his problem, but the concern wholly of the large city bank.

Wyoming is the only part of this district that is complaining of lack of moisture. Bankers say the much-advertised Dust Bowl is the wettest it has been for many years. Nearly all the cattle in that region were sold to the Government in 1934 and some places, it is said, lost almost 60 per cent of their population in the succeeding years. But most parts of the Dust Bowl had a good wheat crop last year and there is an abundance of feed. The cattle population is reported to be back nearly to normal and milk cows, especially, have increased greatly in number in recent years.

DALLAS

The two outstanding features of our bank and public relations activities during the month were a dinner and a public reception given by the Bank on January 24 and 25, respectively, in celebration of the enlargement and complete modernization of our head office building.

After twenty years of steady growth in the volume of our operations, particularly with respect to our fiscal agency activities, it became necessary to enlarge and modernize our quarters in order to provide adequate working space for the increased personnel at the head office. Two more stories were added to the building, the "light well" was filled in, and the lighting and air conditioning equipment was completely renovated. All of these improvements were completed early in January.

With a view of strengthening the ties of our relationship with member banks and cultivating the good will of the nonmember banks, we gave a dinner January 24, honoring the visiting representatives of the Board of Governors, and sent an invitation to every bank in the Eleventh District to have one of its officers be our guest at the dinner. The invitation list also included, in addition to our own officers, directors, and branch directors, the sixteen living former directors of our Bank, members of the Industrial Advisory Committee, the Chief National Bank Examiner, the Supervising Examiner for the F.D.I.C., the State Bank Commissioners of the five States attached to our District, and the editors and publishers of the local newspapers. Four hundred persons attended the dinner, at which addresses were made by Governors McKee and Szymczak, and by Walter P. Napier, President of the Texas Bankers Association.

More than one hundred of the visiting bankers and special guests went through our building. Then we announced through the press that on the evening of January 25 we would hold "open house". More than 5,000 visitors were shown through the building by specially selected employees who explained the various activities of our institution. The majority of the visitors were members of local civic organizations, such as service clubs and the faculties of public schools and colleges, who are in a position to disseminate widely what they learned from their visit in regard to the work and purposes of a Federal Reserve Bank.

SAN FRANCISCO

Industries continue to expand in Los Angeles and its suburbs, and there is a large amount of building activity to meet defense plant and housing needs. Some concern is expressed by bankers as to the ultimate effects this will have upon the Los Angeles area.

Spokane, situated as it is in the center of the inland district in the State of Washington and serving as the trading center for northern Idaho and portions of Oregon and Montana, is obtaining the benefits of increased agricultural, mineral, and lumber activities in that vast area. Mine output in that area is increasing and the outlook for the future is quite favorable at present, based on the prospect of higher metal prices. Employment in general is reported to be on the increase, with most mills and machine shops in the city and environs working at or near capacity.

Apple growers, on the other hand, have been adversely affected from the loss of foreign markets, but other farmers are indicating larger returns from operations, particularly from livestock and wool.

PUBLIC RELATIONS ACTIVITIES OF FEDERAL RESERVE BANKS

January 1941

Federal Reserve Bank	Visits to Banks			Meetings Attended		Addresses Made	
	Member	Nonmember	Total	Number	Attendance	Number	Attendance
Boston	9	3	12	3	<u>1/</u>	2	640
New York	43	22	65	15	4,450	5	2,000
Philadelphia	43	24	67	7	1,034	7	1,034
Cleveland	107	40	147	9	582	10	530
Richmond	14	8	22	23	2,315	14	610
Atlanta	9	5	14	10	315	10	315
Chicago	15	47	62	3	2,100	5	700
St. Louis	35	66	101	11	2,780	3	415
Minneapolis	10	1	11	6	1,310	6	810
Kansas City	7	1	8	10	716	1	60
Dallas	40	2	42	5	850	1	125
San Francisco	16	4	20	15	1,320	4	250

1/ Not reported.