

AMERICAN BANK FAILURES

BY

C. D. BREMER

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY
UNDER THE
JOINT COMMITTEE ON GRADUATE INSTRUCTION
COLUMBIA UNIVERSITY

No. 4712 in the "Studies in History, Economics and
Public Law" of Columbia University.

NEW YORK
1935

COPYRIGHT, 1935

BY

COLUMBIA UNIVERSITY PRESS

PRINTED IN THE UNITED STATES OF AMERICA

ᄃᄂ

M.

PREFACE

THE basis for the statistical material contained in this study has been gathered principally from published sources, but the writer is under obligation to the Division of Insolvent Banks of the office of the U. S. Comptroller of the Currency for additional data and interpretations furnished in connection with his review of the liquidation of national banks. Acknowledgment must also be made of the assistance received from a number of State Banking Commissioners, from receivers of failed state banks, and from the Division of Research and Statistics of the Federal Reserve Board. Aid given by Dr. Dudley J. Cowden of Williams College in the presentation of material must be especially acknowledged. The author is heavily indebted to Professor A. H. Stockder for his critical review of the entire manuscript, and expresses his appreciation for the suggestions made by Professors James W. Angell and John M. Chapman. For guidance, advice and assistance during the entire period that this study has been in preparation the author is under deep obligation to Professor H. Parker Willis.

TABLE OF CONTENTS

	PAGE
PREFACE	6
CHAPTER I	
INTRODUCTION	
Definition of "Failure" and "Suspension"	11
Record of Failures, 1865-1933	12
Investigations by the Banking and Currency Committees of the House of Representatives and of the Senate	12
The Glass bills	14
Events leading up to the Crisis; Relief Measures	15
The Banking Holiday	17
Emergency Banking Act	18
Banking Act of 1933	21
CHAPTER II	
BANK FAILURES BEFORE 1921	
Summary of Failed Banks and Resources, 1865-1920	25
Growth of Banking System, 1865-1900	25
National and State Bank Failures and Resources, 1865-1920	27
Growth of Banking System, 1900-1920	29
Failures, 1891-1920	31
National and State Bank Failures, compared	33
Failures 1891-1920, by type of bank	34
Failed Banks and Active Banks, compared	36
Conclusions	37
CHAPTER III	
BANK FAILURES, 1921-1933	
Record of Suspended, Reopened, and Nonlicensed Banks, and their Deposits	40
Number and Deposits of Suspended and Active Banks, compared	45
National and State Bank Suspensions, compared	46

	PAGE
Suspended Banks, by Size of Community	47
Suspended and Active Banks, compared by Size	48
Geographic Distribution of Suspended Banks	50
Overbanking and Bank Failure	54
Conclusions	55

CHAPTER IV

LIQUIDATION OF NATIONAL BANKS

The Comptroller of the Currency on National Bank Liquidation	58
Erroneous interpretations	60
Meaning of the Comptroller's liquidating percentages	64
Results of Liquidation, by years, 1865-1906	67
Results of Liquidation, by periods, 1906-1934	69
Results of Liquidation, by years, 1924-1934	70
Recovery by Creditors in Terms of Liabilities at Time of Failure, by years, 1930-1934	73
Recovery by Depositors of Reopened Banks, 1921-1931	75
Losses to Depositors, 1921-1933	76
Recovery by Size of Banks	77
Conclusions	79

CHAPTER V

LIQUIDATION OF STATE BANKS

Inadequacy of State Banking Reports	80
Results of Liquidation of Failed Banks in Alabama	81
California	81
Georgia	82
Idaho	82
Iowa	83
Louisiana	84
Mississippi	84
Missouri	87
Ohio	88
Oregon	88
South Dakota	89
Virginia	91
Washington	92
Losses to Depositors of 988 Failed Banks in 35 States, 1921-1930 ...	92
Conclusions	92

TABLE OF CONTENTS

9

PAGE

CHAPTER VI

RESPONSIBILITY FOR FAILURES

Divided jurisdiction	95
"Causes of Failure"	99
Mismanagement and Inadequate Supervision	101
Economic Changes	104
Unit Banking Policy	105
Ownership and Control of Typical Unit Bank	107
Conclusions	109

CHAPTER VII

COMMERCIAL BANKS AND THE SECURITY MARKETS

Investment powers of National and State Banks	111
Diversion of Commercial Banking Funds to Security Markets	112
Distribution of Loans, Discounts & Investments, by Types of Bank ..	113
Distribution of Loans, etc. according to Location of Bank	114
Types of Securities, All Banks	115
Types of Securities, National Banks according to Location	117
Liquidity of National Banks	118
Increase of Banking Resources and of Loans and Investments, 1921-1930	121
Time Deposits and Long Term Investments	122
Provisions of Banking Act of 1933	124
Conclusions	126

CHAPTER VIII

THE GUARANTY OF DEPOSITS

Banking Act of 1933 and Deposit Insurance Act of 1934	127
Temporary Guaranty Plan	127
Permanent Guaranty Plan	128
Insured Banks, Number, Deposits and Depositors	130
Insured and Noninsured Banks, Suspended during 1934	131
Banking Bill of 1935 proposes new insurance plan	132
Comments	135
Necessity for Reorganization of the Banking System	137
BIBLIOGRAPHY	141
INDEX	143

BIBLIOGRAPHY

- Barnett, G. F., *State Banks and Trust Companies since the Passage of the National-Bank Act* [National Monetary Commission, Washington, 1911].
- Chapman, John M., *Concentration of Banking* [New York, 1934].
- Edwards, G. W., "Liquidity and Solvency of National Banks, 1923-1933" [*The Journal of Business of the University of Chicago*, vol. vii, no. 2, April 1934].
- Flynn, John T., "Michigan Magic—The Detroit Banking Scandal" [*Harpers Magazine*, vol. 168, December, 1933].
- Mosher, Curtis L., *The Causes of Banking Failure in the Northwestern States* [Federal Reserve Bank of Minneapolis, 1930].
- Willis, H. Parker et al., *Report of an Inquiry into Contemporary Banking in the United States [Banking Inquiry of 1925]* [Copy in the School of Business Library, Columbia University].
- Willis, H. Parker and Chapman, John M., *The Banking Situation* [New York, 1934].
- Willis, H. Parker, "The Folly of Deposit Guaranty" [*Mercury*, January, 1934].
- U. S. Senate, Committee on Banking and Currency, Hearings on S. Res. 113 [70th Congress, 1st Session], a Resolution favoring a restriction of loans by Federal Reserve Banks for speculative purposes [February-March, 1928], 96 pp. [Washington, D. C., 1928].
- U. S. Senate, Committee on Banking and Currency, sub-committee of, Hearings on S. Res. 71 [71st Congress, 3rd Session], a Resolution authorizing the Committee to make a complete survey of the National and Federal Reserve Banking Systems [January-March, 1931] parts 1-7, 1085 pp. [Washington, D. C., 1931].
- U. S. Senate, Committee on Banking and Currency, sub-committee of, Hearings on S. 1 [72nd Congress, 1st Session], a Bill to provide emergency financing facilities for banks and other financial institutions and for other purposes [December, 1931] 229 pp. [Washington, D. C., 1932].
- U. S. Senate, Committee on Banking and Currency, Hearings on S. 4115 [72nd Congress, 1st Session] a Bill to provide for the safer and more effective use of the assets of Federal Reserve Banks and of National Banking Associations, to regulate interbank control, to prevent the

- undue diversion of funds into speculative operations, and for other purposes [March, 1932] parts 1 and 2, 545 pp. [Washington, D. C., 1932].
- U. S. Senate, 72nd Congress, 1st Session, Report [No. 584] by Senator Glass, to accompany S. 4412 [Glass bill of April 18, 1932]. [Washington, D. C., 1932].
- U. S. Senate, Committee on Banking and Currency, Hearings on S. Res. 84, S. Res. 56 and S. Res. 97 [72nd and 73rd Congress], Resolutions to Investigate Practices of Stock Exchanges, the Matter of Banking Operations and Practices, etc. [April, 1932-May, 1934], parts 1-6, 2345 pp., parts 1-20, 9296 pp. [Washington, D. C., 1934].
- U. S. Senate, Committee on Banking and Currency [73rd Congress, 2nd Session], Report [No. 1455] by Chairman Fletcher re Hearings on S. Res. 84, 56 and 97 [Washington, D. C., 1934].
- U. S. House of Representatives, Committee on Banking and Currency, Hearings on H. Res. 141 [71st Congress, 2nd Session], a Resolution authorizing the Committee to study and investigate Group, Chain and Branch Banking [February-June, 1930] parts 1-15, 2028 pp. [Washington, D. C., 1931].
- U. S. House of Representatives, Committee on Banking and Currency, Hearings on H. R. [10241] 11362 [72nd Congress, 1st Session], a Bill to amend the National Banking Act and the Federal Reserve Act, to provide a Guaranty Fund for Depositors in Banks, and for other purposes [March-April, 1932], 284 pp. [Washington, D. C., 1932].
- The Guaranty of Banking Deposits, a Report of the Commission on Banking Law and Practice, Association of Reserve City Bankers [Chicago, November, 1933].
- American Bankers' Association, Reports of Annual Conventions, 1929-1934 [Commercial and Financial Chronicle, supplements].
- Federal Reserve Board, Annual Reports.
- Federal Reserve Bulletins.
- State Banking Reports.
- U. S. Comptroller of the Currency, Annual Reports.

INDEX

- Act of 1900, 29, 96
Affiliates, 21, 111, 124
American Bankers Association,
Journal, cited, 61, 64
- Bank closings, 40, 41; *see also*
Failures, Suspensions
- Bank Conservation Act of 1933,
18; *see also* Emergency
Banking Act
- Bank examinations, 98, 101, 102, 140
liquidations, *see* Depositors,
Liquidation
liquidity, 118
mismanagement, 99, 100-104, 109
ownership and control, 107-109
supervision, 98, 99, 140
- Bankers Monthly*, cited, 63, 64
- Banking Act of 1933, 20-23, 124-
127; *see also* Glass bills
Bill of 1935 [Eccles bill],
132-134
Holiday[s], 16-19
- Banking Inquiry of 1925*, 32, 35, 50
- Banking, Investment, by commer-
cial banks, 21, 98, 140, ch. vii
- Banking Situation, The*, 29, 99
- Banking System,
collapse, 17
dual jurisdiction, 95-98, 138, 139
growth, 25, 26, 28-31
- Banks
absorbed, 41
closed, 40, 41
failed, *see* Failures
insured, 130, 131
licensed, 19, 40-44
nonlicensed, 12, 40-44
reopened, 42-44
suspended, *see* Suspensions
- Barnett, G. F., cited, 28
- Brand, C. H., cited, 62
- Chapman, J. M., cited, 41
Concentration of Banking, The, 41
- Deposit Insurance Act of 1934, 127
- Deposit Law of Mississippi, 86
- Deposits, insurance of, 20, 21, 63,
ch. viii
- Depositors, Losses to, chs. iv, v
- Detroit Banking Scandal, 103, 104
- Eccles bill, *see* Banking Bill of 1935
- Edwards, G. W., cited, 118
- Emergency Banking Act, 18
- Emergency Banking Bill, 18, 19
- Examinations, *see* Bank
- Failures, *see also* Banks, Suspen-
sions
definition, 11
number and resources, 12, 25,
27, 28, 32, 33
of insured banks, *see* Suspen-
sions
- Federal Deposit Insurance Cor-
poration, 20, 21, 23, ch. viii
- Federal Reserve Act, 96, 97
Board, 7, 11, 15, 21, 125
Committee on Bank Reserves,
123
Committee on Branch, Group
and Chain Banking, 35, 75,
101, 102
- Flynn, John T., cited, 104
- Glass bills, 14, 15, 19, 20, 127
- Glass-Steagall bill, 15
- Guaranty Bank Act of Mississippi,
84, 85
Law of South Dakota, 89
- Guaranty of Bank Deposits, *see*
Banks, Deposits
- Guaranty of Bank Deposits, The*,
cited, 134, 135
- Guaranty Trust Co. of Detroit, 103

- Harriman Bank, 101
 Hastings, W. W., cited, 63
 Hoover, Herbert, 14, 15, 20
 House of Representatives, U. S.,
 Resolutions, 12, 13, 18, 20,
 62, 63, 99, 101, 105, 106, 107,
 132
 Insurance of Bank Deposits, *see*
 Banks, Deposits
 Insured banks,
 number, 130, 131
 suspended, 131, 132
 Investment banking, *see* Banking
 Kentucky, Bank of, 101
 Lawrence, J. S., cited, 60, 61, 77, 107
 Licensed Banks, *see* Banks
 Liquidation of closed banks
 National banks, ch. iv
 State banks, ch. v
 Loans to officers and directors,
 101-104
 McFadden Act, 97, 98, 111
 Mehrbach, A., cited, 63
 National Banks, failure of, *see*
 Failures, Suspensions
 National Credit Corporation, 14
 Nonlicensed Banks, *see* Banks
 Oklahoma Banking Commissioner,
 see Shull
 Owen, R. L., cited, 63
 "Parity" policy, 96-98, 138, 139
 Population per bank, 30, 54, 55
 Private banks, failure of, 34, 35,
 42, 44, 51
 Reconstruction Finance Act, 15
 Corporation, 14, 16, 18, 138
 Reopened banks, *see* Banks
Report on Bank Suspensions in the
U. S., 1892-1931, 35, 92, 93
 Roosevelt, F. D., 17, 19, 20
 Senate, U. S., Resolutions, 13-15,
 20, 118, 132
 Shull, C. G., cited, 61-62, 99
 Sisson, F. H., cited 64
 State Banks, failure of, *see*
 Failures, Suspensions
 Steagall bills, 20, 58, 138
 Stockder, A. S., 32, 50
 Suspensions, *see also* Banks, Fail-
 ures
 definition, 11
 number and deposits, 12, 13, 14,
 16, 17, 40-45, 131
 compared with active banks,
 46, 48-50
 location of, by size of com-
 munity, 47, 48
 location of, by states and geo-
 graphical regions, 50-56
 of insured banks, 43, 131, 132
 size of, 46, 47
 Union Trust Co. of Cleveland, 103
 United States, Bank of, 101
 Vandenberg, A. H., 20
 Willis, H. Parker, 14

V I T A

THE writer was born October 2, 1896, in Haarlem, Netherlands, and graduated in 1915 from the *Haarlem Hoogere Handelschool* [School for Economics and Literature]. As the result of a competitive examination he was granted a fellowship by the Department of Colonies at its Institute in Leyden, where he followed lectures during 1916 and 1917. In the latter year he also attended the Colonial Institute in Amsterdam. After having been engaged for a number of years in commerce and banking, he resumed his studies and came to Columbia University. In 1929 he became a member of the staff of the Department of Economics of the College of the City of New York. During his residence at Columbia University he attended lectures and courses by Professors H. Parker Willis, Wesley C. Mitchell, Henry R. Seager, John M. Chapman, Frederick C. Mills, Donald A. Davenport, Herbert A. Davenport and by Messrs. R. P. Eastwood and B. Graham; the Economic Seminar under Professors E. R. A. Seligman, Wesley C. Mitchell, Henry R. Seager and V. G. Simkhovitch; the Banking Seminar under Professors H. Parker Willis and John M. Chapman; and the Seminar in the Law of Business Organization under Professors A. H. Stockder, James C. Bonbright, Hastings Lyon and Underhill Moore. More recently he has been engaged in research for the Twentieth Century Fund.