

# EDUCATIONAL SERIES

## "Oklahoma's Financial Muddle"

Guthrie, Okla., November 16, 1909.—Editor Kansas City Journal, Kansas City, Mo.—Dear Sir: From one of the several prominent bankers of your city, who personally knows of the conditions of the Columbia Bank and Trust company of Oklahoma City, I have just received an editorial clipping from your issue of the 15th inst., entitled "Oklahoma's Financial Muddle."

On several occasions I have noticed the most recklessly unreliable and untruthful statements in your paper concerning this bank failure that I feel that I should take the time to analyze this editorial in detail.

If it is possible that you are being misled, my answers, which will be fully sustained by the records, will do you some good.

For a complete analysis, I separate your editorial into paragraphs, numbered with the answers following by numbers. You say:

One—Disclosures following the failure of the Columbia Bank and Trust Company of Oklahoma City indicate not only a deplorable inefficiency in the examination of that institution.

Two—But also that the much vaunted bank guarantee law is wholly inadequate to make up the losses of the depositors without practically bankrupting some of the smaller banks of the state.

Three—This trust and banking concern was of mushroom growth and at the time of the passing of the guarantee law had but one hundred thousand dollars deposits. Within two years the deposits grew to two million, eight hundred thousand dollars, about half of which represented reserves placed in the central institution by smaller banks because of the confidence in the new law.

Four—It has been shown that the bank was recklessly administered. Oil companies were permitted to make large overdrafts and over one hundred thousand dollars in poor paper was shifted to the bank from other institutions in which the officers were interested.

Five—This sort of banking would not be tolerated for a moment in the conservative financial institutions, but the magic spell of the deposit guarantee led the officers into more and more hazardous practices. What mattered it if the bank had a load of bad paper? The guarantee law would protect the depositors.

Six—Why not honor unreasonable overdrafts? There was a good percentage of profit in that sort of thing so long as the more conservative banks of the state stood to make good in the event of failure.

Seven—There was little incentive to careful and business-like methods.

Eight—When the inevitable crash came, the state officers announced that it would require two hundred and fifty thousand dollars to pay the bank's debts.

Nine—A month later Bank Commissioner Young made a report which showed that four hundred thousand dollars was still due depositors.

Ten—The other banks in the guarantee arrangement were bled as long as they would stand it, but some of them finally rebelled and went into the federal courts to secure protection.

Eleven—The whole miserable business has happened just as had been predicted when the ridiculous law was first suggested.

Twelve—Those bankers who did not believe in wildcat methods are now being called upon to make good the losses of a wildcat concern.

Thirteen—Naturally, there is a strong revulsion of feeling among the bankers of Oklahoma as well as among the depositors of the defunct bank, who were led to believe that they would be fully protected in case of failure.

Fourteen—Unless there is a heavy assessment among the sound banks of the state to wipe out the indebtedness of the Columbia Bank and Trust Company, the depositors will not be reimbursed.

Fifteen—If that assessment is levied, it will cause serious loss to the remaining banks.

Sixteen—It is easy to see what would have happened to the Oklahoma banks if the recent failure had been one of several in a time of panic. Such a situation would have carried down the whole financial fabric of the state like a house of cards.

Seventeen—Oklahoma is learning in the hard school of experience that the fads of hair-brained

reformers and half-baked statesmen should be shunned.

The above seventeen paragraphs being verbatim from your editorial referred to, I answer them by saying:

First—We do not claim that violations of the law of any character can be wholly prevented. We only claim that the closer regulation and examination of banks under the Oklahoma banking law is much better and more efficient than the national law. I point to the fact that out of six hundred and sixty-six banks, there has been but one failure in the last eighteen months. There is no better record under the national banking law in the last forty years and when you realize that Oklahoma is a new country and that many strangers are constantly coming into our state and engaging in business, you will realize the greater difficulty here in maintaining stable conditions than should prevail in an older state where men and their personal history from childhood is usually well known or easily ascertained. We have a regular bank examination every three months and the detailed report of the Columbia Bank and Trust Company I am satisfied will show that the principal losses occurred within less than one month of its closing.

Second—The absurdity of this statement should have been apparent to you by the published official report of November 13, wherein there was a trifling balance of only forty-four thousand dollars total unpaid deposits and notice given that these depositors could get their money any time they presented their claims at the Central State Bank of Oklahoma City. This balance was all that had not been previously paid out of a total individual deposits, certificates of deposit and savings accounts aggregating over one million, four hundred thousand dollars when the state took charge September 29th and every depositor had been paid when he presented his claim except a Chicago insurance company which at first refused to swear to the correctness of their account and one other claimant who finally abandoned his suit, being convinced that he could not prove his claim against the bank.

As to number 3—The Columbia Bank and Trust Company had been an active business concern for more than four years and had about three hundred thousand dollars deposits when the present managing officers bought its control and took charge of its management. Its growth in individual deposits under our new law was very little greater than the average growth of all of the state banks in Oklahoma. It is true that there was a large gain in bank accounts with other banks of the state. This was an entirely natural growth, due to the fact that all over the central and western part of the state, the wholesale and general commercial business of Oklahoma City has been rapidly extending and therefore necessitated local banks opening active accounts with an Oklahoma City bank. The Columbia, being the largest state institution and having an active management, attracted a great deal of this business, which of necessity was seeking an Oklahoma City alliance, due to the natural trend of commerce, so that the bank balances from a normal cause had quickly grown to about thirteen hundred thousand dollars.

Fourth—It does appear that the management was at least very generous in protecting and aiding its friends in the oil business and in the American National Bank at Bartlesville. It is a question whether this generosity was the result of bad judgment only or otherwise. As to this, we hope to arrive at a proper conclusion when we have all the facts before us.

As to number five—We agree with you that conservative financial institutions should not be moved by feelings of generosity or friendship and that is one of the principal points of the Oklahoma law. I believe you will agree with me that so long as institutions are conservative, there would be no bank failures, even though a general financial calamity might possibly cause a suspension, even of a conservative institution. Your suggestion that under the Oklahoma law there is no inducement for a banker to be careful and conservative is absurd. The banker stands to lose not only the annual dividend which he hopes to earn on his stock, but the

entire stock investment and as the profit on his investment in his bank stock is the only inducement for him to engage in the banking business, he certainly would feel a deep interest in the safety of his stock investment and the possibility of annual dividends.

As to number six—Overdrafts are a violation of the Oklahoma law and I beg to advise you that throughout the entire state of Oklahoma this feature of our law is so much better enforced than the similar feature of the national banking law, that you, as a defender of the national banking law, would blush to compare them if you would post yourself before writing your editorial, but I agree with you, it is a bad practice in any kind of bank and so far as the Oklahoma law is concerned, we expect to urge a strict enforcement of this feature.

Answering your number seven—I beg to advise you that the incentive to good banking under our state law is the safety of the stockholders' investment and the certainty of annual dividends thereon. Your idea that the other bankers are being destroyed by the failure of one bank is not justified by the official records. Under the Oklahoma state law we limit the maximum rate of interest that the bank may pay on deposits. This is not the case under the national banking law and the result is that the state bankers, during the twelve months, ending September 1, saved about four hundred and thirty-two thousand dollars on the amount of interest paid their depositors as compared with the higher rate paid depositors by the national banks during the same period. Obviously then, the depositors prefer to accept a smaller rate of interest in exchange for the feeling of security and the certainty of getting their money the day they call for it. This also shows that inasmuch as the total emergency assessment called from the other banks was only two hundred and forty-eight thousand dollars, that it was the depositors who really paid the bill instead of the bankers, as the bankers would still have left from their four hundred and thirty-two thousand dollars of savings, one hundred and eighty-four thousand dollars, saved from the interest fund above stated.

Your number eight is not true. No state officer ever said that two hundred and fifty thousand dollars would pay the bank's debts. The only statement on this subject made at all was made by myself. I arrived at Oklahoma City on the evening of the 28th of September. The officials of our banking department had been engaged for about four hours in a special examination, which of course in that brief time was only limited. The bank managers expressed confidence in the condition of the bank and desired to continue its operations. Commissioner Young and myself conferred and I finally stated to the bank manager, who assured me that they could obtain any reasonable amount of money to supplement the bank assets, that if they would add two hundred and fifty thousand dollars by 9 o'clock the next morning, we would permit them to continue in the operation of the bank until the completed examination might show whether or not any additional money was needed. That is all there is to your two hundred and fifty thousand dollar story.

Ninth—You misquoted Commissioner Young's preliminary statement. The total was four hundred and eleven thousand dollars then due, of which two hundred and sixty-two thousand dollars was bank balances and the remainder covered all classes of depositors.

As to your number ten—Your statement is utterly false. The state banks were called on for just one emergency assessment, being three-fourths of one per cent, which they all paid promptly and only eleven protests out of six hundred and sixty-five banks and these protests were the outgrowth of partisan opposition and not a single bank went to the federal court in any way.

As to your number eleven—This of course is a question of judgment. You do not like the law and we do. We have tried it and ninety-five per cent of our people would revolt against its repeal.

Your number twelve is answered in various statements above.

Your number thirteen is untrue in both statements. An overwhelming majority of our state bankers do like the law. Most of the national bankers are jealous because the national bank comptroller refuses to permit them to enjoy its benefits. As to the depositors, your statement is utterly false. The depositors get their money as rapidly as they call for it so that at the end of the thirty-ninth day, practically three million dollars had been paid and only forty-four thousand dollars of unclaimed deposits unpaid and