Bank Suspensions, 1892 - 1935

Federal Reserve System. Board of Governors

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BANK SUSPENSIONS,

1892 - 1935

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CHAPTER I

INTRODUCTION AND SUMMARY

Introduction

More than 13,500 banks with deposits of nearly $8,000,000,000 suspended operations on account of financial difficulties in the 13 years ended in 1933. About 7,800 of them with deposits of $6,000,000,000 closed in a period of slightly more than three years -- from the beginning of 1930 up to and including the banking holiday in March 1933. Large as these figures are, they do not fully measure the extent of banking difficulties experienced during this period because many banks which were not technically classed as suspensions were reorganized through waiver of deposits. Local and finally State banking holidays were declared and various emergency measures were adopted to permit distressed banks to adjust their affairs without the intervention of receivership, but in spite of these measures banking difficulties became greatly intensified and culminated in the national banking holiday declared by the President on March 6, 1933. Between 4,500 and 5,000 banks were not permitted to reopen following the holiday, of which more than 2,100 were eventually placed in liquidation or receivership.

Because of the lack of essential data and of the fact that many of the banks that suspended during recent years are still in process of liquidation, it is impossible as yet to determine definitely the amount lost to depositors by reason of this volume of bank failures. Nor is it possible to measure the inconvenience, indirect losses and paralyzing effect on business in general caused by the withholding in suspended banks of depositors' funds, even though ultimately in the liquidation process a fair percentage of return may be realized. It has been estimated[1/], however, that depositors of suspended banks sustained losses during the period 1865 to 1934 of about $3,400,000,000, of which amount nearly $3,150,000,000 was lost in banks that closed during the years 1921 - 1933.

In the following chapters bank suspensions are analyzed in some detail by periods, geographic divisions, classes and sizes of banks, etc. In addition, available data are presented on losses sustained by depositors and stockholders and expenses of liquidation, followed by a general statement of causes underlying bank suspensions. Loans made by the Reconstruction Finance Corporation to open and closed banks and purchases of capital obligations of banks by the Corporation are also discussed briefly in Chapter IV.

1/ Estimate prepared by the Federal Deposit Insurance Corporation. (See Table 33 of the 1934 Annual Report of the Federal Deposit Insurance Corporation.)

Summary

The principal points brought out in the following compilations and analyses are:

1. During the nine-year period 1921 - 1929, suspensions were concentrated largely in the agricultural sections of the country, but during 1930 - 1933 suspensions increased in number and spread into the industrial sections and financial centers of the East. Even during the later period, however, the agricultural sections of the country continued to show the largest number of suspensions.

2. The rate of suspension during the fifteen-year period 1921 - 1935 was considerably lower at member banks than at nonmember banks: 32 national banks suspended in 1921 - 1935 per 100 active banks on June 30, 1920, 38 State member banks, and 51 nonmember State banks (excluding private banks).

3. Many of the banks that suspended were of very small size. About 42 percent of the banks that suspended in the period 1921 - 1929 had loans and investments of less than $150,000, 62 percent less than $250,000, and 83 percent less than $500,000. During 1930 - 1933, with an increasing number of suspensions in larger cities, the size of suspended banks increased, but even in this period suspensions were relatively more numerous among small banks.

The suspension rate was much higher at small than at large banks: The rate for banks with loans and investments under $150,000 was

73 suspensions per 100 active banks on June 30, 1920; for banks with loans and investments of $150,000 to $250,000, 47 per 100 active banks; and for banks with loans and investments of $250,000 to $500,000 it was 38. As the size of banks increased, the suspension rate decreased.

The higher rate of suspension among the smaller banks was due in part to the fact that the great majority of suspensions occurred in the agricultural sections -- in small towns and cities -- where the typical bank is relatively small in size. In the New England states, however, the small banks made a better showing than the larger institutions, and in the Middle Atlantic states the suspension rate was fairly uniform for banks in all size groups.

As the depression grew steadily worse in 1930 - 1933 there was an increasing number of suspensions among banks in the larger size groups. A number of very large banks suspended during the later period -- 30 suspended banks had loans and investments ranging from $20,000,000 to $380,000,000, aggregating nearly $1,850,000,000, and 87 had loans and investments of $10,000,000 and more. Size alone, therefore, does not make banks failure-proof in the face of such difficulties as were experienced during the depression.

4. The majority of banks suspended during 1921 - 1935 were located in small communities -- 33 percent in places with a population of under 500 and 71 percent in places with a population of under 2,500.

The rate of suspension in places with a population under 500 was 52 banks suspended per 100 active banks in 1920, and in places with a population under 2,500 the rate was 49 banks suspended per 100 banks in operation. The rate of suspension declined as the size of community increased.

Suspensions were most numerous, in general, in those regions where the number of banks showed the greatest increase prior to 1920 and where the population per bank was smallest in 1920. This supports the general opinion that overbanking was a prime cause of suspension.

5. Unsecured depositors of national banks which suspended and were completely liquidated during 1921 - 1930 received about 50 cents on the dollar, while unsecured creditors of national banks completely liquidated during 1931 - 1935 received about 62 cents on the dollar. Unsecured depositors of State banks which suspended and were completely liquidated during 1921 - 1930 received approximately 58 cents on the dollar, but this higher rate resulted in part from the payments made out of deposit guaranty funds in the early years. Corresponding

figures for State banks liquidated during 1931 - 1935 are not available.

In general, the rate of loss to depositors of small banks and of banks in small communities was somewhat larger than the rate of loss at the larger institutions and at banks in larger cities. The rate of loss per $1 of deposits also was higher in the states where most suspensions occurred.

Banks suspended during the early part of the period 1921 - 1930 generally paid a lower percentage of unsecured claims than banks suspended during recent years, partly because of the large amount of borrowings by banks that failed in the earlier years.

In the case of suspended banks reopened and taken over during 1921 - 1930, unsecured depositors sustained relatively small losses compared with those incurred by depositors in banks which were completely liquidated. About three-fourths of such banks paid depositors in full and about 11 percent paid under 60 cents on the dollar. Comparable figures for the period 1931 - 1935 are not available, but in the case of national banks unlicensed following the banking holiday in March 1933 and later reopened depositors received about the same return as in the case of suspended national banks reopened or taken over during 1921 - 1930.

6. An analysis of expenses of liquidating closed banks shows that in the case of national banks completely liquidated during 1921 - 1930

expenses averaged about 5 percent of the total resources of the banks at date of closing and 8.5 percent of total collections from assets. In the case of national banks completely liquidated during 1931 - 1935 expenses of liquidation declined to 4.7 percent of total resources and 6.4 percent of total collections. Corresponding data for State banks are not available except for three States, where it appears that the ratios of expenses to total collections were slightly higher than the ratios for national banks in those States.

7. During the period 1930 - 1933 many banks obtained agreements with depositors to waive or surrender or to defer the withdrawal of a part of their deposits. Local and State bank holidays were declared in order to give banks time in which to do this and to readjust their affairs without the intervention of receivership. Because of these changes affecting the status of large numbers of banks and the intervention of the banking holiday in March 1933 and the reorganization of banks which followed, bank suspension statistics understate the difficulties confronting banks and depositors during this period.

8. Early in 1932 the Reconstruction Finance Corporation began making loans to banks in an effort to prevent wholesale suspensions. By the end of 1932 loans amounting to $810,000,000 had been made.

After the collapse of the banking structure in March 1933 the Reconstruction Finance Corporation began making loans on assets of closed banks to aid in the liquidation process. These loans enabled bank receivers to make available to depositors substantial sums that in the ordinary liquidation process would have carried over a long period of time. Loans of this kind amounted to $876,000,000 at the end of 1935. Following the banking holiday the reorganization of the capital structure of banks presented a problem of sizable proportions. The Reconstruction Finance Corporation was authorized to purchase capital obligations of banks and, in addition, some local subscriptions to capital were obtained. At the end of 1935 the Reconstruction Finance Corporation had outstanding an investment of $865,000,000 in preferred stock and capital notes and debentures of banks.

9. A clear-cut and well-defined enumeration of the causes of bank suspensions is difficult, or next to impossible, because the factors underlying suspensions are not of equal importance and usually occur in combination with many other so-called "causes". The principal factors generally recognized as responsible for bank failures, however, are weaknesses in the banking structure resulting from the chartering of too many small banks; incompetent bank management and improper supervision, resulting in lax loan and investment policies and heavy losses; over-extension of credit to directors and their interests; and general economic disturbances such as the recent depression, over which even competent bankers have little control. Dishonesty and criminal acts seem to be prime causes of failure in times when failures are relatively few in number, as has been the case in the last three years, but a general wave of suspensions is not brought about by such acts.

BANK SUSPENSIONS, 1892 - 1935

CHAPTER II

DISTRIBUTION OF BANK SUSPENSIONS

Number of bank suspensions

By years and periods. In the years 1892-1935 a total of 16,562 banks suspended[1/], of which 2,926 closed during the 29-year period 1892-1920, 5,712 during the 9-year period 1921-1929, and 7,833 during the 4-year period 1930-1933. The number of suspensions each year from 1892 to 1935 is given in table 9; satisfactory statistics on bank suspensions prior to 1892 are not available.

During the period from 1892 to 1921 there was a gradual but very great increase in the number of banks in operation, from about 11,500 in 1892 to a peak of 30,600 in 1921, after which there was a steady and eventually a sharp decline to 13,000 (licensed banks) in 1933. The great increase in the number of banks in operation during the period 1892-1921 reflects the easy chartering policies of supervisory authorities during a period of comparative banking prosperity. Because of the increase in price levels and land values and expansion of agriculture and industry generally, many banks were able to operate

1/ Banks closed to the public, either temporarily or permanently, by supervisory authorities or by the banks' boards of directors on account of financial difficulties, whether on a so-called moratorium basis or otherwise, unless the closing was under a special bank holiday declared by civil authorities. If a bank closed under a special holiday declared by civil authorities and remained closed only during such holiday or part thereof, it has not been counted as a bank suspension. Banks which, without actually closing, obtained agreements from depositors to waive a portion of their deposits or to defer the withdrawal of a portion of their deposits have not been classed as suspensions. Banks which were reopened or taken over by other institutions after closing have been included as suspensions. For further statement regarding banks included as suspensions in 1933, incident to the banking holiday, see Chapter III.

successfully under a loose loan and investment policy. Relatively few banks suspended during that period[1], and in the case of those that did suspend the closing in many instances was brought about by dishonesty or grossly injudicious management[2]. When price levels declined in the post-war deflation period beginning with 1921 bank suspensions became very numerous. This epidemic of suspensions continued during the generally prosperous years following and reached its peak in the depression years 1930-1933, culminating with the crisis in March 1933.

1/ The following quotation is taken from "American Bank Failures" by C. D. Bremer, p. 38:

"Since the absence of any great number of failures during these decades of expansion and 'prosperity' was rather an accidental occurrence, it cannot properly be cited as evidence of the soundness and adequacy of the banking system as a whole. It is true that depositors enjoyed safety, and that stockholders were paid large dividends. But it is not less true that during these years the foundation was laid for future difficulties. The belief in the permanence of this fortuitous state of affairs predominated, and the majority of bankers, located as they were in more or less isolated communities, paid little attention to what was happening outside their immediate territory, and did not try to ascertain the trend of business and economic conditions in the country as a whole, let alone abroad. When war prosperity came, it was looked upon as a normal acceleration of the natural course of events, and the possibility of a reaction was seldom, if ever, considered. Outward signs probably justified this optimism, but a consideration of the extravagances that were being indulged in -- the unlimited granting of charters to all applicants, resulting in admission to the banking fraternity of thousands of incompetent individuals and the establishment of a bank in practically every village or hamlet, the enactment of banking statutes of the flimsiest substance, and extreme laxity of supervision -- would undoubtedly have resulted in the realization that it would be impossible to escape the consequences of such fair-weather banking."

2/ Fifty-eight percent of the failures of national banks during 1892-1920, as tabulated from the Annual Reports of the Comptroller of the Currency, were reported to have been caused by unlawful acts, and twenty-three percent by grossly injudicious acts.

With the exception of the panic year 1893, the rate of bank suspensions from 1892 to 1920 was below or not far above 100 banks per year. In 1921 the number of suspensions increased to 505, in 1930 the number reached 1,350, in 1931 - 2,293, in 1932 - 1,453, and in 1933 - 2,737[1/]. With the closing of the weak banks and strengthening of the banking structure generally, following the banking holiday in March 1933, and the establishment of Federal deposit insurance for banks in January 1934, bank suspensions decreased in number to 57 in 1934 and 34 in 1935.

By classes of banks. Of the 13,636 banks (exclusive of 12 mutual savings banks) that suspended in the 15 years from 1921 to 1935, 2,558 were national banks, 521 were State member banks, 9,968 were nonmember State banks, and 589 were private banks. Corresponding figures prior to 1921 are shown in the appendix. The figures for the 15-year period, by years and by classes of banks, are summarized in Table 1:

1/ Includes, (1) 447 banks suspended from January 1 to March 15, 1933; (2) 179 banks that were licensed after the banking holiday but which later closed (between March 16 and December 31, 1933) because of financial difficulties; and (3) 2,111 banks which were not licensed following the banking holiday and which were subsequently (between March 16, 1933, and December 31, 1935) placed in liquidation or receivership.

Table 1 — NUMBER OF BANK SUSPENSIONS, BY CLASSES OF BANKS AND BY YEARS, 1921-1935

Year	Total, All banks 1/	Member banks		Nonmember banks	
		National	State	State	Private
1921	505	52	19	390	44
1922	366	49	13	281	23
1923	646	90	32	501	23
1924	775	122	38	578	37
1925	618	118	28	433	39
1926	976	123	35	766	52
1927	669	91	31	514	33
1928	498	57	16	406	19
1929	659	64	17	547	31
1930	1,350	161	27	1,104	58
1931	2,293	409	107	1,697	80
1932	1,453	276	55	1,085	37
1933	2,737	941	103	1,593	100
1934	57	1	—	43	13
1935	34	4	—	30	—
	13,636	2,558	521	9,968	589

1/ Exclusive of 12 mutual savings banks; for information with regard to such banks, see appendix.

NOTE: Detailed figures by states, geographic divisions, classes of banks, years, etc., corresponding to this and other text tables, appear in the appendix.

By geographic divisions and States. While suspensions were numerous in all parts of the country during the 15-year period ended in 1935, the agricultural sections of the country were particularly affected by bank suspensions. Of the total 13,636 suspensions, 5,039 or 37 percent occurred in the West North Central states, comprising Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska and Kansas. The South Atlantic and the West South

Central states, also largely agricultural, and the semi-agricultural East North Central states contributed another 43 percent of the total number of bank suspensions. The number of bank suspensions during the years 1921-1935 are distributed by geographic divisions in table 2:

Table 2 -- NUMBER OF BANK SUSPENSIONS BY GEOGRAPHIC DIVISIONS, 1921-1935

Geographic division 1/	Number of suspensions	Percent of total
New England	130	1.0
Middle Atlantic	721	5.3
East North Central	2,638	19.3
West North Central	5,039	37.0
South Atlantic	1,804	13.2
East South Central	729	5.3
West South Central	1,381	10.1
Mountain	805	5.9
Pacific	389	2.9
Total	13,636	100.0

1/ New England: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.
Middle Atlantic: New York, New Jersey, Pennsylvania.
East North Central: Ohio, Indiana, Illinois, Michigan, Wisconsin.
West North Central: Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas.

South Atlantic: Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida.
East South Central: Kentucky, Tennessee, Alabama, Mississippi.
West South Central: Arkansas, Louisiana, Oklahoma, Texas.
Mountain: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada.
Pacific: Washington, Oregon, California.

More than 11,000 of the bank suspensions during the 15-year period, or 81 percent of the total number of banks suspending, occurred in 21 states, mostly agricultural states. In Iowa 1,197 banks suspended during the period, the greatest number reported for any state, in Illinois 918 banks suspended, in Missouri 808, and in Nebraska 737. Five other states, Minnesota, North Dakota, South Dakota, Indiana and Texas, each had a total of more than 500 suspensions during the period. The states in which the largest number of bank suspensions occurred are shown in table 3:

Table 3 -- STATES IN WHICH THE LARGEST NUMBER OF BANK SUSPENSIONS OCCURRED, 1921-1935

State	Number of suspensions
Iowa	1,197
Illinois	918
Missouri	808
Nebraska	737
Minnesota	694
North Dakota	587
South Dakota	574
Indiana	532
Texas	506
Georgia	466
Kansas	442
Michigan	442
Pennsylvania	431
Oklahoma	406
Ohio	387
Wisconsin	359
North Carolina	351
Arkansas	335
South Carolina	326
Florida	279
Montana	252
Total, 21 states	11,029
Total, 28 other states 1/	2,607

1/ Including District of Columbia.

Not only do the above States account for the great majority of all bank suspensions during the 15-year period as a whole, but the waves of bank failures were more pronounced in these states than in other sections of the country. For example, in 1926 there was a sharp rise in the number of suspensions in most of these states with but little change in other sections of the country; in the South Atlantic states the rise in suspensions in 1926 was precipitated by the collapse of the Florida real estate boom and the failure of the Witham chain of banks; in the West North Central states crops were smaller in 1926 than in the previous year and prices lower, resulting in an increase in the number of bank suspensions. The New England and Middle Atlantic states were comparatively free from bank suspensions until the depression years of 1930-1933. In the 4-year period 1930-1933, however, 116 suspensions occurred in the New England states, compared with but 14 in the period 1921-1929; in the Middle Atlantic states 638 suspensions were reported during the four depression years, compared with only 68 in the previous 9 years. Nevertheless, even for the 4-year period, the New England states contributed only 1.5 percent and the Middle Atlantic states about 8 percent of the total suspensions in the country. Differences in the geographic distribution of suspensions during the depression period 1930-1933, compared with the 9-year period 1921-1929, are shown in table 4.

Table 4 — NUMBER OF BANK SUSPENSIONS BY GEOGRAPHIC DIVISIONS, 1930-1933 AND 1921-1929

Geographic division	1930-1933		1921-1929	
	Number of suspensions	Percent of total	Number of suspensions	Percent of total
New England	116	1.5	14	.3
Middle Atlantic	638	8.2	68	1.2
East North Central	2,157	27.5	447	7.8
West North Central	2,366	30.2	2,652	46.4
South Atlantic	809	10.3	985	17.2
East South Central	527	6.7	200	3.5
West South Central	694	8.9	680	11.9
Mountain	268	3.4	536	9.4
Pacific	258	3.3	130	2.3
Total	7,833	100.0	5,712	100.0

A distribution of suspensions during the four depression years and during the 9-year period 1921-1929, among the ten states with the largest number of bank suspensions in the respective periods, may be seen in table 5. It will be noted that in both periods Iowa, Minnesota, Nebraska and Missouri were among the ten states with the largest number of suspensions.

Table 5 -- TEN STATES IN WHICH THE LARGEST NUMBER OF BANK SUSPENSIONS OCCURRED DURING 1930-1933 AND DURING 1921-1929, RESPECTIVELY

State	Number of suspensions 1930-1933	State	Number of suspensions 1921-1929
Illinois	783	Iowa	529
Iowa	668	North Dakota	427
Missouri	501	Minnesota	419
Indiana	403	South Dakota	396
Pennsylvania	389	Nebraska	366
Michigan	374	Georgia	357
Nebraska	367	Missouri	295
Ohio	326	Texas	284
Minnesota	274	Oklahoma	264
Wisconsin	271	South Carolina	225
Total	4,356	Total	3,562

Deposits of suspended banks.

By years and periods, and by classes of banks. Satisfactory figures of deposits of banks suspended prior to 1921 are not available. Deposits of banks suspended in the 15 years ended 1935 aggregated nearly $8,000,000,000. In 1933 alone deposits of suspended banks amounted to $2,883,000,000. In 1930 deposits of suspended banks were $837,000,000, in 1931 $1,690,000,000, and in 1932 $706,000,000. The total for the four depression years 1930-1933 was over $6,000,000,000. Deposits of national banks suspended in the 15 years ended in 1935 amounted to $2,646,000,000, of State member banks to $1,378,000,000, of nonmember State banks to $3,652,000,000, and of private banks to $110,000,000. Table 6 gives these figures by years and classes of banks.

Table 6 — DEPOSITS OF SUSPENDED BANKS, BY CLASSES OF BANKS AND BY YEARS, 1921-1935

Year	Total, All banks 1/	Member banks		Nonmember banks	
		National	State	State	Private 2/
	(In thousands of dollars)				
1921	172,188	20,777	17,363	125,159	8,889
1922	91,182	20,197	7,113	61,964	1,908
1923	149,601	34,244	12,559	101,025	1,773
1924	210,151	64,890	13,645	123,888	7,728
1925	167,555	55,574	9,883	94,547	7,551
1926	260,378	43,998	23,466	183,517	9,397
1927	199,329	45,547	17,942	131,503	4,337
1928	142,386	36,483	10,247	92,710	2,946
1929	230,643	41,614	16,459	164,858	7,712
1930	837,096	170,446	202,399	448,989	15,262
1931	1,690,232	439,171	293,957	935,947	21,157
1932	706,188	214,150	55,153	429,079	7,806
1933	2,882,712	1,453,898	697,529	718,932	12,353
1934	36,937	40	---	35,456	1,441
1935	10,099	5,313	---	4,786	---
Total	7,786,677	2,646,342	1,377,715	3,652,360	110,260

1/ Excluding $30,474,000 deposits of mutual savings banks suspended during the period.

2/ Deposit figures for 115 of the 589 private banks which suspended during 1921-1935 are not available.

By geographic divisions. Table 7 shows the distribution, by geographic divisions, of deposits of banks suspended during the 15-year period 1921-1935.

Table 7 — DEPOSITS OF SUSPENDED BANKS BY GEOGRAPHIC DIVISIONS, 1921-1935

Geographic division	Deposits of suspended banks (in thousands of dollars)	Percent of total
New England	374,076	4.8
Middle Atlantic	1,371,544	17.6
East North Central	2,515,502	32.3
West North Central	1,269,437	16.3
South Atlantic	884,677	11.4
East South Central	319,236	4.1
West South Central	539,413	6.9
Mountain	251,348	3.2
Pacific	261,444	3.4
Total	7,786,677	100.0

It will be noted that the East North Central states account for nearly one-third of the deposits of all suspended banks, although as previously indicated only about one-fifth of the number of bank suspensions occurred in these states. In contrast, the West North Central states in which 37 percent of the total number of bank suspensions took place account for only 16 percent of the deposits of suspended banks. The differences in the geographic distribution of bank suspensions, based on the number of suspensions and on deposits of suspended banks, respectively, are shown clearly in table 8. The differences reflect the closing of many large banks in the later years, since the percentage distribution of the number of suspensions was similar to the percentage distribution of deposits of suspended banks in 1921-1929 but not in 1930-1933.

Table 8 -- PERCENTAGE DISTRIBUTION OF THE NUMBER AND DEPOSITS OF SUSPENDED BANKS, BY GEOGRAPHIC DIVISIONS, 1930-1933 AND 1921-1929

Geographic division	1930-1933		1921-1929	
	Percent of total suspensions	Percent of total deposits of suspended banks	Percent of total suspensions	Percent of total deposits of suspended banks
New England	1.5	5.7	.3	1.4
Middle Atlantic	8.2	20.6	1.2	4.8
East North Central	27.5	38.6	7.8	9.1
West North Central	30.2	10.4	46.4	38.9
South Atlantic	10.3	9.4	17.2	19.0
East South Central	6.7	4.4	3.5	3.2
West South Central	8.9	6.2	11.9	10.0
Mountain	3.4	1.7	9.4	9.0
Pacific	3.3	3.0	2.3	4.6
Total	100.0	100.0	100.0	100.0

It will be noted that, in the period 1921-1929, suspensions in the West North Central states constituted 46 percent of the total number and 39 percent of the total deposits of suspended banks; in the South Atlantic states the ratio was 17 percent as to number and 19 percent as to deposits; and in the East North Central states 8 percent as to number and 9 percent as to deposits of suspended banks. In the period 1930-1933, however, due to the failure of larger banks in the eastern section of the country, the West North Central states with 30 percent of the total number of bank suspensions accounted for only 10 percent of the total deposits of suspended banks; the South Atlantic states accounted for 10 percent of the number and 9 percent of the deposits; and the East North Central states (in which the largest banks suspended) accounted for 28 percent of the number and 39 percent of the deposits of suspended banks.

Ratio of number of suspended banks to number of active banks.

By years and periods. Differences in the annual rate of bank suspensions during 1892-1935 are brought out in table 9, which gives the number of suspensions per 100 banks in operation. The table shows that the annual rate of suspensions during the period 1892-1920 was less than 1 bank per 100 in operation, except in 1893, 1896 and 1897. During the period 1921-1933 the ratio of suspended banks to active banks was much higher. In 1930 nearly 6 banks suspended per hundred active banks, in 1931 - 11, in 1932 - 8, and in 1933 - 19 banks suspended per 100 banks in operation.

Table 9 -- NUMBER OF BANK SUSPENSIONS PER 100 ACTIVE BANKS, BY YEARS, 1892-1935 1/

Year	Number of suspensions	Suspensions per 100 active banks	Year	Number of suspensions	Suspensions per 100 active banks
1892	80	.7	1914	149	.5
1893	491	4.1	1915	152	.5
1894	83	.7	1916	52	.2
1895	110	.9	1917	49	.2
1896	141	1.2	1918	47	.2
1897	139	1.2	1919	62	.2
1898	63	.5	1920	167	.6
1899	32	.3	1921	505	1.7
1900	35	.3	1922	366	1.2
1901	65	.4	1923	646	2.2
1902	54	.3	1924	775	2.7
1903	52	.3	1925	618	2.2
1904	125	.7	1926	976	3.5
1905	80	.4	1927	669	2.5
1906	53	.3	1928	498	1.9
1907	90	.4	1929	659	2.6
1908	153	.6	1930	1,350	5.7
1909	78	.3	1931	2,293	10.6
1910	58	.2	1932	1,453	7.8
1911	85	.3	1933	2,737	19.4
1912	78	.3	1934	57	.4
1913	103	.4	1935	34	.2

1/ Includes national banks, State banks, and private banks suspended; excludes mutual savings banks suspended. See appendix for corresponding figures by class of bank, for information with respect to the 12 mutual savings banks reported suspended 1921-1935, and for statement of how the number of active banks each year was derived.

In the following discussions the number of bank suspensions during the period 1921-1935 is compared with the number of banks in operation on June 30, 1920. The year 1920 was used as the base because it marked approximately the beginning of the banking difficulties experienced during 1921-1933 and because it was near the peak in the number of banks in operations[1].

By classes of banks. Table 10 shows that during 1921 - 1935, 32 national banks suspended for each 100 national banks in operation in June 1920, compared with 38 State bank members, 51 nonmember State banks and 44 private banks, respectively, per 100 of such banks in operation in 1920. Although the suspension rate[2] was high for all classes of banks, it is apparent that national banks had a better record than other classes of banks.

Table 10 — NUMBER OF BANK SUSPENSIONS 1921-1935 PER 100 ACTIVE BANKS ON JUNE 30, 1920, BY CLASSES OF BANKS

Class of bank	Number of suspensions during 1921-1935 per 100 active banks on June 30, 1920
National banks	31.9
State member banks	37.9
Nonmember State banks	51.2
Private banks	43.6
Total , all banks	45.1

1/ A comparison of suspensions each year with active banks in that year would be more logical than the use of June 30, 1920, as a base of comparison for the entire period, but figures by size of active banks (used hereafter in connection with the size of suspended banks) are not available for each year.

2/ Except where otherwise stated, the term "suspension rate" as used here and in subsequent pages means the number of suspensions per 100 active banks on June 30, 1920.

By geographic divisions and States. In proportion to the number of banks in operation, there were more suspensions in the South Atlantic and the West North Central States than in any other groups; in each of these groups suspensions during the 15-year period amounted to about 55 for each 100 banks in operation in June 1920. In the East North Central States there were 45 suspensions per 100 active banks, and in the East South Central and West South Central States the rate was 40 suspensions per 100 active banks. There were fewer suspensions compared with banks in operation in the New England and Middle Atlantic States than in other groups; the States comprising the New England division showed 17 banks suspended and those comprising the Middle Atlantic division showed 25 banks suspended for each 100 banks in operation on June 30, 1920. The rate of bank suspensions in each geographic division is shown in table 11.

Table 11 — NUMBER OF BANK SUSPENSIONS 1921-1935 PER 100 ACTIVE BANKS ON JUNE 30, 1920, BY GEOGRAPHIC DIVISIONS

Geographic division	Number of suspensions during 1921-1935 per 100 active banks on June 30, 1920
New England	17.3
Middle Atlantic	25.2
East North Central	44.7
West North Central	54.6
South Atlantic	55.5
East South Central	40.0
West South Central	40.2
Mountain	50.7
Pacific	28.0
Total, all banks	45.1

Table 12 shows the 18 States in which there were more than 50 suspensions during 1921-1935 per 100 active banks on June 30, 1920. The suspension rate was highest in Florida[1], South Dakota, South Carolina, Arkansas, North Dakota, Nevada, Iowa, Nebraska and Georgia, ranging from 60 to 107 suspensions during 1921-1935 per 100 active banks on June 30, 1920. It will be noted also that such States as Nevada, Arizona, New Mexico, Idaho and Louisiana, where the absolute number of suspensions during the 15-year period was not large, the number of suspensions expressed as a ratio to the number of banks in operation was quite high because of the relatively small number of banks in operation in those States.

1/ In some States, particularly Florida, the use of June 1920 figures for active banks as a base for comparison with suspension figures gives a somewhat distorted picture because of the organization of new banks after 1920.

Table 12 -- STATES WITH MORE THAN 50 BANK SUSPENSIONS DURING 1921-1935 PER 100 ACTIVE BANKS

States	Number of suspensions 1921 - 1935	Suspensions during 1921-1935 per 100 active banks on June 30, 1920
Florida	279	107.3
South Dakota	574	82.7
South Carolina	326	71.8
Arkansas	335	68.9
North Dakota	587	65.4
Nevada	21	63.6
Iowa	1,197	61.9
Nebraska	737	61.6
Georgia	466	61.1
North Carolina	351	60.5
Mississippi	198	58.9
Montana	252	58.5
Arizona	49	56.3
New Mexico	69	56.1
Idaho	120	54.1
Michigan	442	51.0
Indiana	532	50.5
Louisiana	134	50.1

Size of Suspended banks, measured by loans and investments[1/]

Of the 13,636 banks suspended in the 15-year period 1921-1935, 5,138 had loans and investments under $150,000 each, 7,618 had loans and investments under $250,000, and 11,959, or 88 percent of the total number of suspended banks, had loans and investments under $1,000,000 each. Because of the pre-

1/ Loans and investments, rather than deposits, were used as a measure of size of suspended banks and of active banks by the Federal Reserve Committee on Branch, Group, and Chain Banking. In order to tie in with the data prepared by that committee, loans and investments have been used as a measure of size of banks in the present study. Total loans and investments bear a close relationship to total deposits; consequently, for the purpose at hand the use of total loans and investments as a basis of classification gives as satisfactory results as the use of total deposits.

ponderance of small banks in the banking structure, the rate of suspensions per 100 banks was not quite as high at small banks as these figures indicate; it was, however, much higher than at the larger banks, as may be seen from the percentages shown in the last column of table 13.

Table 13 -- NUMBER AND PERCENTAGE DISTRIBUTION OF ACTIVE BANKS ON JUNE 30, 1920 AND OF BANK SUSPENSIONS DURING 1921-1935, BY SIZE OF LOANS AND INVESTMENTS

Size group - loans and investments	Active banks on June 30, 1920		Bank suspensions, 1921-1935		Ratio of suspensions 1921-1935 per 100 active banks on June 30, 1920
	Number	Percent of total	Number	Percent of total	
Under $150,000	7,066	23.4	5,138	37.7	72.7
$150,000 to $250,000	5,321	17.6	2,480	18.2	46.6
$250,000 to $500,000	7,165	23.7	2,728	20.0	38.1
$500,000 to $1,000,000	5,059	16.8	1,613	11.8	31.9
$1,000,000 to $2,000,000	2,755	9.1	791	5.8	28.7
$2,000,000 to $5,000,000	1,577	5.2	457	3.4	29.0
$5,000,000 to $10,000,000	508	1.7	143	1.0	28.1
$10,000,000 to $50,000,000	369	1.2	82	.6	22.2
$50,000,000 and over	72	.2	9	.1	12.5
Not available	343	1.1	195	1.4	56.9
Total	30,235	100.0	13,636	100.0	45.1

It will be noted that among banks with loans and investments under $150,000 the suspension rate was 73 banks suspended during 1921-1935 per 100 banks in operation on June 30, 1920[1/]; in the size group with loans and investments from $150,000 to $250,000, 47 banks suspended per 100 active banks; and in the group with loans and investments from $250,000 to $500,000, 38 banks suspended per 100 active banks. The rate of suspension declined from group to group with the increase in size of banks.

Due, however, to the failure of quite a number of large and medium size banks in the latter part of the 15-year period 1921-1933, the percentage distribution of the number of bank suspensions changed considerably between 1921-1929 and 1930-1933. Table 14 shows that about 83 percent of all banks suspended during the 9-year period had loans and investments below $500,000, while during the 4-year period 1930-1933 banks of that size accounted for 70 percent of all suspensions. Conversely, banks with loans and investments over $1,000,000 accounted for 16 percent of all suspensions in 1930-1933 and only 8 percent in 1921-1929.

1/ As previously indicated, June 30, 1920, has been used as a base for active banks, though the distribution of banks by states and by size groups changed somewhat from year to year during the 15-year period. For example, most of the suspensions during the period occurred among the relatively small banks, with a consequent decrease in the proportion of active banks in the smaller size groups; the number of banks in the larger size groups on the other hand, was increasing at the same time through mergers, consolidations, etc. Hence the use of 1920 as a base against which to compare suspensions tends to show lower suspension rates for banks in the smaller size groups and higher rates in the larger size groups. This tendency is partly offset, however, by the fact that banks ordinarily liquidate loans and investments in meeting deposit withdrawals prior to suspension and at the time of suspension, therefore, banks are usually smaller than they are as active solvent institutions. This factor tends to raise the suspension rate among small banks. These factors exist with more or less equal force whatever year or combination of years may be taken as a base and usually affect a relatively small number of cases which fall close to the border line between the various size groups. In any event, figures of active banks by size of banks are not available by years and it is not possible, therefore, to compare suspensions each year with the active banks in that year.

Table 14 — NUMBER AND PERCENTAGE DISTRIBUTION OF BANK SUSPENSIONS GROUPED BY SIZE OF LOANS AND INVESTMENTS, 1930-1933 AND 1921-1929

Size group — loans and investments	1930-1933		1921-1929	
	Number of suspensions	Percent of total	Number of suspensions	Percent of total
Under $150,000	2,681	34.2	2,404	42.1
150,000 to 250,000	1,324	16.9	1,147	20.1
250,000 to 500,000	1,532	19.6	1,182	20.7
500,000 to 1,000,000	1,068	13.6	539	9.4
1,000,000 to 2,000,000	583	7.5	206	3.6
2,000,000 to 5,000,000	379	4.8	74	1.3
5,000,000 to 10,000,000	128	1.6	13	.2
10,000,000 to 50,000,000	78	1.0	4	.1
50,000,000 and over	9	.1	—	—
Not available	51	.7	143	2.5
Total	7,833	100.0	5,712	100.0

It is apparent from the above table that, although the proportion of suspensions among banks of larger size increased in the latter part of the 15-year period, the small banks continued nevertheless to show the highest mortality rate. Prolonged depression in agriculture affecting primarily the small communities with their small banks explains to some extent the continued poorer showing for the small banks. The fact that an increasing proportion of large banks suspended in the 4 years 1930-1933 suggests, however, that mere size alone in banks does not make them failure-proof.

By classes of banks. An analysis of the number of suspensions by classes of banks and by size of loans and investments indicates that the rate of suspension during 1921-1935 per 100 active banks on June 30,1920 was somewhat higher at small national banks (with loans and investments below $250,000) than at small State banks. In all size groups comprising banks with loans and investments of $250,000 and over, the rate of mortality was higher in the case of State banks than in the case of national banks. This is brought out in table 15.

Table 15 -- BANK SUSPENSIONS BY CLASSES OF BANKS AND BY SIZE OF LOANS AND INVESTMENTS, 1921-1935

Size group -- loans and investments	Total, All banks	Member banks		Nonmember banks	
		National	State	State	Private
Number of bank suspensions					
Under $150,000	5,138	273	74	4,555	236
150,000 to 250,000	2,480	405	71	1,937	67
250,000 to 500,000	2,728	701	114	1,844	69
500,000 to 1,000,000	1,613	559	111	921	22
1,000,000 to 2,000,000	791	340	57	386	8
2,000,000 to 5,000,000	457	189	41	224	3
5,000,000 to 10,000,000	143	62	23	58	--
10,000,000 to 50,000,000	82	26	24	32	--
50,000,000 and over	9	3	6	--	--
Not available	195	--	--	11	184
Total	13,636	2,558	521	9,968	589
Number of bank suspensions 1921-1935 per 100 active banks on June 30, 1920					
Under $150,000	72.7	79.1	2/ 74.6		1/
150,000 to 250,000	46.6	53.4	46.1		
250,000 to 500,000	38.1	34.5	39.6		
500,000 to 1,000,000	31.9	25.7	36.7		
1,000,000 to 2,000,000	28.7	23.9	33.8		
2,000,000 to 5,000,000	29.0	23.3	34.8		
5,000,000 to 10,000,000	28.1	23.8	32.7		
10,000,000 to 50,000,000	22.2	14.1	30.3		
50,000,000 and over	12.5	8.1	17.1		
Total	45.1	31.9	50.3		

1/ The suspension rate (per 100 active banks) is not shown for private banks because loan and investments figures are not available for 343 active private banks and for 184 private banks suspended. This would impair the value of figures for private banks, but, as may be seen by reference to table 16, it affects the suspension rate for all banks only slightly.

2/ The ratios in this column relate to all State banks; separate figures are not available for State member and nonmember banks, respectively.

The higher "rate of suspension" (per 100 active banks) at small national banks than at small State banks. results from the fact that there were relatively fewer small national banks than small State banks in operation in June 1920; conversely, the lower rate of suspension at large national banks comes about from the fact that there were relatively many more large national banks than large State banks in operation in June 1920. This shows also that the rate of mortality has been high in the case of small banks regardless of whether they were under national or State supervision, but that large banks under national supervision have been less subject to failure than large banks under varied State supervision.

By geographic divisions. Corresponding information by geographic divisions indicates that, with the exception of the New England and Middle Atlantic regions, the highest rate of bank failures was among the banks with loans and investments under $150,000, also that the rate declined as the size of banks increased. In the New England states the suspension rate was highest among banks with loans and investments of $5,000,000 to $50,000,000; in the Middle Atlantic states the suspension rate differed relatively little by size of bank, ranging from 20 to 30 suspensions during 1921-1935 per 100 active banks in June 1920 in each size group under $50,000,000 loans and investments.

Table 16 — NUMBER OF SUSPENSIONS DURING 1921-1935 PER 100 ACTIVE BANKS ON JUNE 30, 1920, BY GEOGRAPHIC DIVISIONS AND BY SIZE OF LOANS AND INVESTMENTS 1/

Size group -- Loans and investments (000 omitted)	Total, All banks	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Under $150	74.9	—	26.0	78.8	85.0	86.7	53.3	59.8	70.8	55.5
150 to 250	47.2	6.7	30.4	48.4	53.7	52.8	33.6	33.0	50.5	39.5
250 to 500	38.1	4.6	26.5	37.2	41.0	49.7	38.1	29.9	43.5	31.4
500 to 1,000	31.9	15.5	27.6	37.0	31.2	38.9	31.9	27.9	45.7	15.9
1,000 to 2,000	28.6	18.1	23.9	34.2	26.6	39.8	31.1	29.1	31.9	17.9
2,000 to 5,000	28.9	22.0	25.7	42.7	22.8	41.3	31.0	23.1	18.5	13.5
5,000 to 10,000	28.1	24.5	30.0	37.6	20.9	27.6	17.6	25.0	29.4	14.3
10,000 to 50,000	22.2	27.3	20.0	27.8	12.5	28.9	46.2	17.4	—	12.8
50,000 and over	12.5	—	5.6	27.8	—	—	—	100.0	—	—
Total	45.1	16.6	25.8	44.8	54.3	55.5	40.1	39.7	50.7	28.1

1/ Covers national and State banks only, figures for active private banks on June 30, 1920, by size of loans and investments and geographic divisions not being available.

The contrast in the rate of bank suspensions by size of banks, as between Northeastern states (New England and Middle Atlantic) and the other geographic regions suggests that the size of suspended banks is determined, in part at least, by the type of community in which the bank is located and by economic factors within the region. In the New England and Middle Atlantic sections agricultural activities differ from those in most other sections. There is a different type of agriculture, with big markets nearby for the products, and outlying agricultural communities in the East have not suffered to the same extent as agriculture in other sections of the country. The resulting higher degree of stability has aided the small banks in outlying agricultural communities. On the other hand, in the large industrial and financial centers in the East which suffered from severe business depression beginning in 1929-1930, the larger banks were called upon to meet a constant and prolonged strain which proved too great for many of them, resulting in the later years in a high suspension rate among the larger banks.

Average size of suspended banks. It has been previously pointed out that most of the suspensions during 1921-1933 occurred within the agricultural and semi-agricultural regions where the average bank is small in size. Table 17 gives the average size of active banks on June 30, 1920 and the average size of banks suspended during 1921-1935 by geographic divisions.

Table 17 -- AVERAGE SIZE OF ACTIVE BANKS JUNE 30, 1920 AND OF SUSPENDED BANKS 1921-1935, BY GEOGRAPHIC DIVISIONS

Geographic division	Average loans and investments per bank (in thousands of dollars)		
	of active banks on June 30, 1920	of suspended banks	
		1930-1933	1921-1929
New England	3,488	3,746	2,420
Middle Atlantic	4,718	2,630	1,518
East North Central	1,357	1,338	404
West North Central	515	316	264
South Atlantic	863	869	393
East South Central	652	657	310
West South Central	623	612	295
Mountain	623	464	345
Pacific	1,824	829	651
Total	1,252	958	332

It will be noted that the average bank suspended in the period 1930-1933 was nearly three times the size of the average bank suspended in the 9-year period 1921-1929, because of the suspension of quite a number of large banks in the later period. The use of average figures tends, however, to obscure the true size of the great bulk of the suspensions. For example, the average size in terms of loans and investments of banks suspended during 1930-1933 was $958,000 but 30 banks accounted for $1,850,000,000 of the total loans and investments of all banks suspended during this period. If these large banks were removed from the figures, the average size of banks suspended during 1930-1933 would be $714,000 in term of loans and investments. On June 30, 1920, the average bank had loans and investments of $1,252,000.

As table 17 shows, the average size of banks suspended increased in all sections of the country in 1930-1933 over 1921-1929, but particularly in the East North Central States in which the largest failures occurred. It will also be noted that in most regions the average size of banks suspended in 1930-1933 was close to the average size of active banks in the respective regions.

Suspension of very large banks. As previously stated, 30 of the banks suspended in 1930-1933 had total loans and investments aggregating $1,850,000,000, comprising 25 percent of the total loans and investments of all banks suspended during this period. The individual bank figures ranged from $20,000,000 to $380,000,000 and five of the banks had loans and investments ranging from $100,000,000 to $380,000,000 each. These five are the Bank of the United States, New York City, which closed in the latter part of 1930, and the Guardian National Bank of Commerce and the First National Bank, both of Detroit, the Union Trust Company and the Guardian Trust Company, both of Cleveland, which closed with the banking holiday in 1933 and were ultimately placed in liquidation or receivership. The suspension of these large banks had a direct effect on other banks whose correspondent accounts were deposited with them and a profound psychological effect on bank depositors generally, and doubtless contributed in an important degree to the closing of many banks in various parts of the country. The number of suspensions indirectly attributable to the suspension of very large banks cannot of course be measured, but it is obvious that the effect is much more disastrous than the failure of many small banks. Table 18 gives the name and location, date of suspension, class of bank, total loans and investments, and total deposits of the 30 largest banks which suspended during 1921-1935.

Table 18 -- THIRTY LARGEST BANKS WHICH SUSPENDED DURING 1921-1935

(Arranged according to amount of loans and investments)

Name and location of bank		Date of suspension	Class of bank 1/	Loans and investments	Deposits
				(thousands of dollars)	
First National Bank of Detroit	Detroit, Mich.	5-12-33	Nat.	379,788	373,360
Bank of United States	New York, N.Y.	12-11-30	S.M.	213,403	161,000
Union Trust Company	Cleveland, Ohio	6-16-33	S.M.	189,563	194,906
Guardian Trust Company	Cleveland, Ohio	6-16-33	S.M.	122,038	109,752
Guardian National Bank of Commerce	Detroit, Mich.	5-12-33	Nat.	109,856	108,103
Canal Bank & Trust Company	New Orleans, La.	5-22-33	S.M.	60,720	58,012
First Central Trust Company	Akron, Ohio	6-21-33	S.M.	59,795	41,845
Bank of Pittsburgh, N.A.	Pittsburgh, Pa.	9-19-31	Nat.	58,426	43,759
Baltimore Trust Company	Baltimore, Md.	8- 7-33	S.M.	57,832	30,642
Bankers Trust Company	Philadelphia, Pa.	12-22-30	Non.	47,932	44,497
Hibernia Bank & Trust Co.	New Orleans, La.	5-22-33	S.M.	47,535	52,860
Ohio Savings Bank & Trust Co.	Toledo, Ohio	8-17-31	Non.	44,261	38,692
National Bank of Kentucky	Louisville, Ky.	11-15-30	Nat.	37,721	37,830
Franklin Trust Company	Philadelphia, Pa.	10- 6-31	Non.	35,763	21,777
American Savings Bk. & Tr. Co.	Davenport, Ia.	10- 1-31	S.M.	31,357	26,858
Fidelity National Bk. & Tr. Co.	Kansas City, Mo.	7-24-33	Nat.	29,749	18,407
Federal National Bank	Boston, Mass.	12-15-31	Nat.	28,484	24,000
Harriman National Bk. & Tr. Co.	New York, N. Y.	10-16-33	Nat.	25,944	22,630
City Bank & Trust Company	Hartford, Conn	1- 2-32	Non.	25,755	23,512
Security Home Trust Company	Toledo, Ohio	6-16-31	Non.	25,148	25,192
Fletcher American National Bk.	Indianapolis, Ind.	8-24-33	Nat.	24,235	15,269
Worcester Bank & Trust Co.	Worcester, Mass.	6-12-33	S.M.	24,045	23,453
Union Trust Company	Dayton, Ohio	10-30-31	S.M.	23,553	20,156
Union Savings Bk. & Trust Co.	Davenport, Iowa	12-28-32	Non.	22,315	12,525
Central National Bank	Oakland, Calif.	4-24-33	Nat.	22,096	18,651
Commerce Guardian Trust & Savings Bank	Toledo, Ohio	8-17-31	S.M.	20,756	15,458
The George D. Harter Bank	Canton, Ohio	10-22-31	Non.	20,591	17,982
Old First National Bank & Trust Company	Fort Wayne, Ind.	10-30-33	Nat.	20,175	12,464
Central Bank & Trust Company	Asheville, N.C.	11-20-30	Non.	20,124	17,563
East Tennessee National Bank	Knoxville, Tenn.	1-20-33	Nat.	19,952	9,000
Total				1,848,912	1,620,155

1/ Nat. - National bank; S.M. - State member bank; Non. - Nonmember bank.

Size of suspended banks, measured by capital stock.

Capital stock is not as good a measure of size of banks as loans and investments or deposits, because it is determined in part by requirements of law and because of the practice of some banks of building up large surpluses rather than increasing capital stock. Capital stock has been rather widely used, however, as a measure of size of suspended banks and, accordingly, a summary in terms of capital stock is shown in table 19, with details in the appendix.

Table 19 — BANK SUSPENSIONS 1921-1935, GROUPED BY SIZE OF CAPITAL STOCK

Size group — capital stock	Number of suspensions	Percent of total
Under $25,000	4,315	31.6
25,000 to 50,000	4,315	31.6
50,000 to 100,000	2,541	18.7
100,000 and over	2,465	18.1
Total	13,636	100.0

It will be seen that 11,171 banks, representing 82 percent of the 13,636 suspensions during 1921-1935, had capital stock of less than $100,000 each; 8,630, or 63 percent of the total, had capital stock of less than $50,000; and 4,315 suspended banks, or 32 percent of total suspensions, had capital stock of less than $25,000 each. This again indicates that suspensions were more numerous among small banks than among large banks.

Bank suspensions distributed by population of cities.

Of the 13,636 banks suspensions during 1921-1935, 4,524 or 33 percent occurred in towns of less than 500 population, and 9,748 banks or 71 percent in towns of less than 2,500 population. Only 734 banks, or 5 percent of total suspensions, were among banks in cities of a population of 100,000 and over.

Corresponding figures by classes of banks show a much smaller percentage of national banks than of State banks suspended in places of low population — only 10 percent of the national bank suspensions were in places of less than 500 population, compared with 39 percent in the case of nonmember State banks and 14 percent in the case of State member banks. This difference in the rate of suspension of national banks and State banks in small places follows, of course, from the fact that relatively fewer national than State banks are located in small towns and villages.

Although there were many more bank suspensions in small than in large places, the differences in the rates of suspension (per 100 active banks) were not nearly as marked, due, of course, to the fact that such a large number of banks (particularly State banks) operate in small cities, towns and villages. This may be seen from table 20, which shows the number of bank suspensions as well as the suspension rates.

Table 20 -- NUMBER AND RATE OF BANK SUSPENSIONS BY POPULATION OF CITIES
1921-1935

Population of city	Total, All banks	Member banks National	Member banks State	Nonmember banks State	Nonmember banks Private
	Number of bank suspensions				
Under 500	4,524	264	71	3,918	271
500 to 1,000	2,601	441	75	1,955	130
1,000 to 2,500	2,623	710	99	1,736	78
2,500 to 5,000	1,224	403	78	725	18
5,000 to 10,000	749	281	38	414	16
10,000 to 25,000	666	229	49	382	6
25,000 to 50,000	261	78	23	155	5
50,000 to 100,000	254	45	22	176	11
100,000 and over	734	107	66	507	54
Total	13,636	2,558	521	9,968	589
	Rate of suspension per 100 active banks on June 30, 1920				
Under 500	51.6	39.5	2/ 52.5		1/
500 to 1,000	48.0	37.9	51.0		
1,000 to 2,500	45.0	33.3	51.7		
2,500 to 5,000	39.9	30.1	47.5		
5,000 to 10,000	36.6	30.3	48.6		
10,000 to 25,000	38.1	28.5	46.3		
25,000 to 50,000	34.1	10.2	41.3		
50,000 to 100,000	38.1	19.6	47.8		
100,000 and over	41.1	23.6	48.4		
Total	45.3	31.9	50.3		

1/ The suspension rate in the case of private banks is somewhat impaired because a complete distribution of active private banks in 1920, by population, is not available.
2/ The ratios in this column relate to all State banks; separate figures are not available for State member and nonmember banks, respectively.

It will be noted that, taking all classes of banks as a whole, 52 banks for each 100 banks in operation on June 30, 1920, suspended during 1921-1935 in places of less than 500 population, 48 in places of 500 to 1,000 population, and 45 in places of 1,000 to 2,500 population, with a somewhat further declining rate as the size of towns and cities increased. It will also be noted that there was considerable difference between national banks and State banks in the rate of suspensions according to the size of the community in which the suspensions occurred. While the suspension rates are higher for State banks than for national banks in all sizes of cities, the differences are particularly noticeable in the larger cities where the rate of suspension of national banks per 100 active banks was much below the suspension rate of State banks.

The spread of suspensions during 1930-1933 into the larger centers was quite pronounced as may be seen from table 21, which compares the number of suspensions by size of community for the two periods 1930-1933 and 1921-1929. During 1930-1933, 29 percent of the suspensions occurred in places with a population of less than 500 and 66 percent in places of less than 2,500 population, compared with 39 percent and 79 percent, respectively, during the period 1921-1929. Cities with a population of 100,000 and over, on the other hand, contributed 7 percent of the total suspensions in 1930-1933, compared with only 3 percent in 1921-1929.

Table 21 — NUMBER AND PERCENTAGE DISTRIBUTION OF BANK SUSPENSIONS BY POPULATION OF CITIES, 1930-1933 AND 1921-1929

Population of city	1930-1933		1921-1929	
	Number of suspensions	Percent of total	Number of suspensions	Percent of total
Under 500	2,254	28.8	2,234	39.1
500 to 1,000	1,422	18.1	1,165	20.4
1,000 to 2,500	1,490	19.0	1,116	19.5
2,500 to 5,000	775	9.9	446	7.8
5,000 to 10,000	510	6.5	234	4.1
10,000 to 25,000	455	5.8	206	3.6
25,000 to 50,000	200	2.6	61	1.1
50,000 to 100,000	182	2.3	68	1.2
100,000 and over	545	7.0	182	3.2
Total	7,833	100.0	5,712	100.0

Overbanking and bank suspensions.

With some exceptions, suspensions during 1921-1935 were most numerous in States where the number of banks increased rapidly prior to 1920 and in those which had a low population per bank in 1920. In the majority of States with a high population per bank,suspension rates were substantially below the average for the country as a whole. This reflects the weakening effect on the banking structure of the establishment of an excessive number of banks prior to 1920. Table 22 gives (1) the percent change in the number of banks from 1900 to 1920, (2) the population per bank in 1920, and (3) the suspension ratio, for the ten States with the lowest and the ten States with the highest suspension ratios.

Table 22 -- PERCENT CHANGE IN THE NUMBER OF BANKS FROM 1900 TO 1920, POPULATION PER BANK IN 1920, AND NUMBER OF BANK SUSPENSIONS DURING 1921-1935 PER 100 ACTIVE BANKS ON JUNE 30, 1920, FOR THE TEN STATES WITH THE LOWEST AND THE TEN STATES WITH THE HIGHEST SUSPENSION RATIOS

States	Percent change in number of banks 1900-1920	Population per bank in 1920	Suspensions during 1921-1935 per 100 active banks on June 30, 1920
10 States with lowest suspension ratios			
New Hampshire	+ 21.2	5,550	10.0
Delaware	+ 66.7	4,978	10.3
Rhode Island	- 50.7	18,515	12.1
Massachusetts	- 54.1	14,423	15.5
Vermont	+ 79.6	4,000	15.9
New York	- 42.7	12,799	18.2
California	+148.5	4,812	18.5
Connecticut	+ 37.0	9,957	20.4
Maine	+ 7.3	6,517	24.6
Maryland	+ 79.8	5,498	25.0
10 States with highest suspension ratios			
North Carolina	+404.0	4,136	60.5
Georgia	+252.5	3,943	61.1
Nebraska	+103.4	1,089	61.6
Iowa	+ 67.4	1,412	61.9
Nevada	+371.4	2,333	63.6
North Dakota	+464.8	719	65.4
Arkansas	+667.2	3,616	68.9
South Carolina	+477.5	3,670	71.8
South Dakota	+266.5	924	82.7
Florida	+403.8	3,762	107.3
United States total	+118.3	3,713	45.1

The age of suspended banks.

Data regarding the age of banks at time of suspension are available at present for national banks and for State banks during 10 years only, 1921-1930. From table 23 it will be seen that 25 percent of banks suspended in

1921-1930 were less than 10 years old at time of closing and 64 percent were less than 20 years old; 36 percent, on the other hand, had been in operation for 20 years or more. This clearly indicates that, although many of the suspensions occurred among recently organized banks, long established institutions have by no means been immune to the difficulties which have prevailed. Due, however, to such factors as conversions, mergers, absorptions and reorganizations, the "charter age" of some banks is not a good measure of their span of existence; technically, some banks that resulted from mergers or conversions have been in existence only a few years, while as a practical matter they or their predecessors have been operating without interruption for a long time.

Table 23 — DISTRIBUTION OF BANK SUSPENSIONS ACCORDING TO AGE, 1921-1930 1/

Years in operation prior to suspension	Number of suspensions	Percent of total
Less than 5	735	11.1
5 to 9	925	14.0
10 to 14	1,266	19.1
15 to 19	1,283	19.4
20 to 24	1,213	18.3
25 to 29	561	8.5
30 to 34	272	4.1
35 to 39	180	2.7
40 to 44	100	1.5
45 to 49	43	.7
50 and over	40	.6
Total	6,618	100.0

1/ Covers national and state bank suspensions only and excludes 85 such banks for which data are not available.

Considerable variation among the several States and geographic divisions of the country obtained with respect to the age of suspended banks, as indicated in table 24. Banks suspended in the West North Central states during 1921-1930 were in existence prior to suspension for an average period of 18 years and 9 months, the longest of any region, whereas in the Mountain states the average age was only 11 years and 7 months, the shortest for any geographic division. The range is somewhat greater in the case of individual states: the age of banks suspended in Arizona, California, Colorado, Florida, Massachusetts, Montana and Wyoming is distinctly below the average for the United States as a whole, while in Rhode Island, Delaware, Iowa, Kentucky, Michigan, Nebraska, Nevada, Pennsylvania and West Virginia the age of suspended banks is appreciably above the average for the country.

Table 24 — AVERAGE AGE OF SUSPENDED BANKS, BY GEOGRAPHIC DIVISIONS, 1921-1930 1/

Geographic division	Number of suspensions	Average age	
		Years	Months
New England	18	17	10
Middle Atlantic	64	17	2
East North Central	631	16	5
West North Central	2,965	18	9
South Atlantic	1,165	15	4
East South Central	352	17	5
West South Central	811	14	1
Mountain	470	11	7
Pacific	142	14	11
Total	6,618	16	8

1/ Covers national and state banks only and excludes 85 such banks in Montana for which data are not available.

Suspension of banks with branches.

Of the 13,636 banks suspended during the 15-year period 1921-1935, 331 banks with loans and investments of $2,937,000,000 were operating 1,175 branches at time of suspension. The suspension of banks operating branches has been made the subject of a detailed analysis in the study of branch banking.

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BANK SUSPENSIONS, 1892-1935

CHAPTER III

SUSPENSIONS DURING 1930-1933

In the preceding chapter it was pointed out that not only were bank suspensions more numerous in the four critical years 1930-1933 than in previous years, but that suspensions became more diffused over the entire country among all sizes and classes of banks. During this period of nation-wide economic depression there was a rapid decline in the value of securities and real estate held as collateral for bank loans, as well as in the prices of agricultural products, livestock and other commodities, all of which resulted in a reduction in income of banks' customers. The consequent difficulty of liquidating loans at maturity, combined with severe drought in many of the agricultural sections, made it difficult even for institutions of long standing and sound condition to hold up in the enveloping tide. Another factor undermining the position of many banks was the withdrawal of funds by depositors for hoarding. A vicious circle thus was created -- as economic conditions grew steadily worse suspensions increased, and as suspensions increased depositors became alarmed and withdrew funds, causing additional suspensions and adding to the depth of the economic depression.

Because of these factors and the large number of suspensions during this period, as well because of the various attempts made by supervisory and banking officials to avert the wholesale closing of banks, the period 1930-1933 is discussed separately, year by year, in this chapter.

1930

During 1930 bank suspensions increased to 1,350 banks with deposits of $837,000,000, compared with 659 banks with deposits of $231,000,000 suspended in the previous year. The highest previous figure was recorded in 1926 when 976 banks with deposits of $260,000,000 suspended.

From January through October 1930 the rate of suspensions reported for each month was not far above the monthly average for the previous 9-year period. Near the end of 1930 difficulties centering largely in the East and West North Central states and in Arkansas, Kentucky, and North Carolina accounted for the suspension of 256 banks in November and 352 banks in December. In these months 9 large banks in different sections of the country suspended, including the Bank of the United States in New York City with deposits of $161,000,000, the Bankers Trust Company of Philadelphia with deposits of $44,000,000, the National Bank of Kentucky and the Louisville Trust Company, both of Louisville, with deposits totaling $52,000,000, the American Exchange Trust Company of Little Rock with deposits of $11,000,000, the Bank of Tennessee of Nashville with deposits of $10,000,000, and the Central Bank and Trust Company of Asheville with deposits of $17,500,000. The closing of these large banks resulted in the closing of many other banks, partly because of affiliated and correspondent relationships, and partly because the spread of fear among depositors, particularly in territory near the location of the banks.

The bank merger movement, which had been started prior to 1930 through an open competition on the part of banks for size and controlling influence, continued in 1930 but generally for a somewhat different purpose --

that of taking over weak banks to prevent their closing and avert possible resulting runs on the absorbing banks and other institutions.

1931

Following January 1931 when about 200 banks suspended the number of suspensions declined to less than 100 each month until June when 167 banks suspended. During the last four months of 1931, 1,360 banks suspended, more than in any previous full year. The peak of this period was in October, after the suspension of the gold standard in England, when 522 banks suspended. By the end of the year a total of 2,293 banks had suspended.

In 1931, as in 1930, the East and West North Central groups of states accounted for the largest proportion of suspensions - 610 and 717, respectively, or more than half of all bank suspensions in 1931. Illinois and Iowa each reported more than 200 suspensions during the year. The New England states, which had previously been comparatively free from suspensions, reported 33 suspensions in 1931 and 11 in 1930, compared with a yearly average of 2 for the 9-year period 1921-1929. The Middle Atlantic states also were seriously affected during 1931; 230 banks suspended in that region in 1931, compared with 30 in 1930 and a yearly average of 9 during 1921-1929.

While the number of suspensions was greater in 1931 than in any previous year — about 4 times the yearly average for the 9-year period 1921-1929, deposits of suspended banks in 1931 were proportionately even greater — about 9 times the yearly average for the 9-year period.

No single bank failure in 1931 approximated the size of the Bank of the United States, New York City, which suspended in 1930, but quite a number of the banks that suspended in 1931 were of substantial size; 20 of the suspended banks had deposits of $10,000,000 or more, aggregating $380,000,000. The largest bank failure during the year was the Bank of Pittsburgh, N.A., with deposits of about $44,000,000.

In an effort to stem the increasing tide of suspensions the National Credit Corporation was formed in October 1931 by the banks at the suggestion of the President. This corporation sought to relieve the situation by making loans to banks on sound but not readily marketable assets. The benefits, if any, of this new corporation were short lived, for while the number of suspensions decreased in November to 175 from 522 in October, December witnessed an increase to 358.

1932

By January 1932 the banking situation was generally recognized as extremely critical. Depositors were becoming increasingly alarmed. Overnight mergers were reported in many sections of the country.

The placing of restrictions on deposit withdrawals, a practice that had been used in 1931 in the East North Central states, particularly in Wisconsin and Michigan, became more prevalent in 1932 as a measure to cope with the steady withdrawal of funds. These restrictions on deposit withdrawals were usually imposed through "depositors' agreements" deferring withdrawal of varying percentages of deposits over periods of time ranging from one to five years, certain percentages of deposits to be released at the end of the first year and additional percentages at the end of the succeeding years.

New business was conducted on an unrestricted basis. Unfortunately, comprehensive figures are not available to show the number of banks that obtained deposit deferment agreements, or the amount of deposits involved in such deferment agreements, but from what information is available it appears that the practice was widely followed.

Another type of bank moratoria that became common during this period, particularly in the East North Central states, was the reorganization of banks through the waiving or surrender of a portion of deposits by the depositors. This was accomplished in some cases through outright contributions by certain of the depositors, but usually there was a segregation of assets for the benefit of waiving depositors under a trust agreement, with a right in the bank to substitute assets during a period of time running generally from two to five years. Figures are not available at present showing the losses sustained by depositors through this type of reorganization of distressed banks.

Many banks in a number of states closed temporarily under special "banking holidays" declared by civil authorities. The first of a series of state-wide banking holidays was declared in November by the Governor of Nevada.

In spite of these efforts, suspensions and the accompanying epidemic of fear were spreading. The Reconstruction Finance Corporation was organized in January 1932 and began almost immediately to make loans to banks. Member banks were granted additional assistance through the provisions of the Glass-Steagall Act adopted in February. The Act gave the Federal Reserve Board power to permit the use of United States Government securities as collateral against Federal Reserve notes. This made it possible for the Federal Reserve banks to increase their purchases of United States Government securities, thereby providing member banks with funds to meet additional demands for currency and gold and at the same time to reduce their indebtedness at the Reserve banks. The Glass-Steagall Act also contained provisions under which member banks that were without adequate amounts of eligible and acceptable assets could under certain conditions receive assistance on the basis of other security satisfactory to the Reserve banks.

During the spring, summer, and autumn of 1932 the number of bank suspensions declined to less than 100 per month, with the exception of the months of June when 151 banks suspended and July when 132 banks suspended. In those two months difficulties centered in Chicago and elsewhere in Illinois and in Iowa. Near the end of the year suspensions again increased in number, mainly in the Mid-Western and Far Western states. A total of 1,453 banks suspended during the year, involving deposits aggregating more than $700,000,000. Fewer large banks suspended in 1932 than in either 1930 or 1931, but among these were the Peoples State Bank of Charleston, South Carolina, a large branch bank with deposits of $23,000,000, and the City Bank and Trust Company of Hartford, Connecticut, with deposits of about the same amount.

1933

Early in 1933 banking difficulties, which had been growing steadily worse since the beginning of the depression in 1929, became greatly intensified. During the first two months of 1933, 386 banks with deposits of about $200,000,000 suspended. These figures, however, do not measure the extent of the banking difficulties that had developed during this period to catastrophic proportions. Banks which without actually closing obtained agreements from their depositors for the waiver or deferment of their claims, as previously stated, are not included in suspension figures. In addition, in January and February of 1933 local bank holidays were declared by city authorities in order to permit banks to obtain deposit deferment or waiver agreements, and to afford banks an opportunity to raise funds and made adjustments necessary to enable them to continue to meet their obligations. These holidays in many cases were extended from time to time, and in a few instances they lasted for more than two months' time, culminating with the national banking holiday in March.

These local types of bank moratoria could not cope with the problem. More drastic action became necessary, and banking authorities in the different States were obliged to adopt emergency measures. In a number of States new laws were passed to provide for safeguarding of bank deposits or for readjusting the liabilities of banks without establishing receiverships. With a view to enabling the banking situation in any particular State to be better handled as a whole a joint resolution was adopted on February 25 by Congress authorizing the Comptroller of the Currency to exercise with respect to national banks such powers as State officials might have for State banks.

On February 4 a one-day holiday was declared in Louisiana because of difficulties in New Orleans. On February 14 a four-day banking holiday was declared in Michigan because of difficulties centering in Detroit. Satisfactory settlement of the difficulties in Michigan was not reached, however, and the holiday was extended. While the Michigan holiday arrested withdrawals of deposits from banks in that State, outside Michigan there was an increase in the movement of funds from weaker to stronger banks and in currency withdrawals. Funds were withdrawn from banks in other States to send to Michigan or to meet payments that otherwise would have been met from deposits in Michigan banks. Developments of this nature were partly responsible for the rapid spread of the banking holiday movement among other States. On February 25 the Governor of Maryland declared a banking holiday, chiefly on account of conditions in Baltimore, and at about the same time restrictions were authorized on withdrawals of bank deposits in Indiana, Arkansas and Ohio.

On March 1 bank holidays were declared in Alabama, Kentucky, Tennessee and Nevada and similar action was taken in six other States on March 2 and in seven others on March 3. On the morning of March 4, the Governor of the State of New York issued a proclamation declaring htat day, which was a Saturday, and the following Monday to be bank holidays. Similar action was taken in Illinois, Massachusetts, New Jersey, Pennsylvania and elsewhere. These declarations of State holidays in the various States had by March 4 closed or placed restrictions on practically all banks in the country. Federal Reserve banks also observed State holidays and closed on March 4. All leading exchanges ceased operations and business in general was practically at a standstill. The following compilation by the Associated Press published in the March 5, 1933, issue of the New York Times shows the limitations on banking in effect at this time, State by State:

Alabama - Closed until further notice
Arizona - Closed until March 13
Arkansas - Closed until March 7
California - Almost all closed until March 9

Colorado - Closed until March 8
Connecticut - Closed until March 7
Delaware - Closed indefinitely
District of Columbia - Three banks limited to 5%; nine savings banks invoke sixty-days' notice

Florida - Withdrawals restricted to 5% plus $10 until March 8
Georgia - Mostly closed until March 7, closing optional
Idaho - Some closed until March 18, closing optional
Illinois - Closed until March 8, then to be opened on 5% restriction basis for seven days

Indiana - About half restricted to 5% indefinitely
Iowa - Closed "temporarily"
Kansas - Restricted to 5% withdrawals indefinitely
Kentucky - Mostly restricted to 5% withdrawals until March 11

Louisiana - Closing mandatory until March 7
Maine - Closed until March 7
Maryland - Closed until March 6
Massachusetts - Closed until March 7

Michigan - Mostly closed, others restricted to 5% indefinitely; Upper Peninsula banks open
Minnesota - Closed "temporarily"
Mississippi - Restricted to 5% indefinitely
Missouri - Closed until March 7

Montana - Closed until further notice
Nebraska - Closed until March 8
Nevada - Closed until March 8, also schools
New Hampshire - Closed subject to further proclamation

New Jersey - Closed until March 7
New Mexico - Mostly closed until March 8
New York - Closed until March 7
North Carolina - Some banks restricted to 5% withdrawals

North Dakota - Closed temporarily
Ohio - Mostly restricted to 5% withdrawals indefinitely
Oklahoma - All closed until March 8
Oregon - All closed until March 7

Pennsylvania - Mostly closed until March 7, Pittsburgh banks open
Rhode Island - Closed yesterday
South Carolina - Some closed, some restricted, all on own initiative
South Dakota - Closed indefinitely

Tennessee - A few closed, others restricted, until March 9
Texas - Mostly closed, others restricted to withdrawals on
$15 daily until March 8
Utah - Mostly closed until March 8
Vermont - Closed until March 7

Virginia - All closed until March 8
Washington - Some closed until March 7
West Virginia - Restricted to 5% monthly withdrawals indefinitely
Wisconsin - Closed until March 17
Wyoming - Withdrawals restricted to 5% indefinitely

On March 6 the President issued a proclamation declaring a nation-wide bank holiday to continue through the four days ending Thursday, March 9. An important purpose of this action was to attack the problem of bank failures comprehensively by reviewing at one time the condition of all banks and reopening only such banks as could be determined to be in sound financial condition. This procedure was intended to insure more equitable treatment as between the depositors who were making withdrawals and those who were not and to restore confidence in the banking structure as a whole. The proclamation declared that there had been heavy and unwarranted withdrawals of gold and currency and extensive speculative activity in foreign exchanges, which had created a national emergency, and the bank holiday was ordered to prevent a continuation of such hoarding and speculation and to permit the application of appropriate measures for protecting the interests of all bank depositors and other persons dependent on banks. During the holiday, banks were not to pay out any coin, bullion or currency or to transact any other banking business whatever except as might be permitted by the Secretary of the Treasury. The Secretary of the Treasury was authorized to permit banks to perform any or all banking functions, to require or permit the issuance of clearing house certificates, and to authorize special trust accounts for receipt of new deposits.

On March 9 the Emergency Banking Act was passed by Congress and signed by the President. On this day also the President issued a proclamation indefinitely extending the bank holiday, and on March 10, by Executive Order he conferred power on the Secretary of the Treasury to license member banks of the Federal Reserve System found to be in satisfactory condition to conduct a usual banking business with exceptions as to paying out of gold and the furnishing of currency for hoarding purposes. Similar powers were granted authorities of the various States with respect to banks not members of the Federal Reserve System. On Saturday, March 11, the Reserve banks were authorized by the Secretary of the Treasury to reopen on the following Monday. On the same date it was announced that on March 13 banks in the 12 Federal Reserve bank cities would be reopened, on March 14 banks in approximately 250 other cities having recognized clearing houses, and on March 15 banks in other places.

On March 15, 4,507 national banks and 571 State bank members of the Federal Reserve System with deposits of $16,200,000,000 and $9,350,000,000, respectively, were licensed to reopen; 1,400 national banks and 221 State bank members, with deposits of $1,900,000,000 and $925,000,000, respectively, were not granted licenses to reopen. Corresponding figures with respect to banks not members of the Federal Reserve System were not available prior to April 12, 1933, by which date 7,394 nonmember banks with deposits of $4,950,000,000 had been authorized to reopen and 2,938 banks with deposits of $1,300,000,000 had not been granted authority to reopen.

On December 30, 1933, there were 512 member banks with deposits of $528,000,000 and 1,257 nonmember banks with deposits of $497,000,000 that had not been granted licenses to reopen or had not been placed in liquidation or receivership. By December 31, 1934, all but 9 of the member banks and 147 of the nonmember banks not licensed following the banking holiday had either been granted licenses to reopen or had been placed in liquidation or receivership. Table 25 shows the number and deposits of banks licensed and not licensed on a series of dates following the national banking holiday.

Table 25 - NUMBER AND DEPOSITS OF BANKS LICENSED AND NOT LICENSED ON A SERIES OF DATES

Classes of banks and dates	Banks licensed: Number of banks	Banks licensed: Deposits 1/ (in thousands)	Banks not licensed: Number of banks	Banks not licensed: Deposits 1/ (in thousands)
All banks				
March 15, 1933	(Not available)		(Not available)	
April 12, 1933	12,819	30,932,272	4,194	3,977,530
June 30, 1933	13,794	31,635,591	3,078	2,329,999
December 30, 1933	14,344	32,229,882	1,769	1,024,942
June 30, 1934 2/	15,135	36,325,932	622	346,228
December 31, 1934	15,370	39,909,817	158	88,332
National banks				
March 15, 1933	4,507	16,195,145	1,400	1,942,574
April 12, 1933	4,789	16,494,549	1,108	1,818,541
June 30, 1933	4,897	16,741,289	985	1,028,347
December 30, 1933	5,154	17,555,239	452	434,978
June 30, 1934	5,417	19,895,897	95	97,999
December 31, 1934	5,462	21,637,150	5	6,510
State bank members				
March 15, 1933	571	9,359,142	221	924,177
April 12, 1933	636	9,491,634	148	841,382
June 30, 1933	709	9,822,638	110	237,668
December 30, 1933	857	9,611,735	60	92,876
June 30, 1934	958	11,116,470	18	12,995
December 31, 1934	980	12,211,255	4	1,795
Nonmember banks 3/				
March 15, 1933	(Not available)		(Not available)	
April 12, 1933	7,394	4,946,089	2,938	1,317,607
June 30, 1933	8,188	5,071,664	1,983	1,063,984
December 30, 1933	8,333	5,062,908	1,257	497,088
June 27, 1934	8,760	5,313,565	519	234,234
December 31, 1934	8,928	6,061,412	149	80,027

1/ Deposits of national banks and State bank members are as of the nearest prior call dates; deposits of nonmember banks for April 12 and June 30, 1933, are as of December 30, 1932, or the nearest available call date prior thereto; deposits of nonmember banks for December 30, 1933 and June 27, 1934, are as of December 30, 1933, or the nearest available call date prior thereto; and deposits of nonmember banks for December 31, 1934, are as of that date, or nearest available call date prior thereto.

2/ June 27, 1934, in the case of nonmember banks.

3/ Exclusive of mutual savings banks.

Effect of bank moratoria, holidays, etc., on bank suspension statistics.

Because of restrictions on deposit withdrawals and the reorganization of banks through deposit waivers, accomplished during local and State bank holidays without the "suspension" of the banks, and because the changes in status of all banks incident to the national banking holiday, statistics of bank suspensions for 1933 are not wholly comparable with those for previous years. The figures for 1933 as used in the present report are, however, thought to be fairly in line with statistics of suspensions in former years. The figures for 1933 comprise, as shown by table 26, (1) 447 banks suspended from January 1 to March 15, 1933; (2) 179 banks that were licensed after the banking holiday but which later closed (between March 16 and December 31 1933) because of financial difficulties; and (3) 2,111 banks which were not licensed following the banking holiday and which were subsequently (between March 16, 1933 and December 31, 1935) placed in liquidation or receivership.

Table 26 -- BANK SUSPENSIONS DURING 1933

	Total, All banks	Member banks		Nonmember banks	
		National	State	State	Private
Number of bank suspensions:					
January 1 to March 15	447	66	23	336	22
March 16 to December 31	179	9	6	154	10
Banks not licensed following banking holiday, placed in liquidation or receivership between March 16,1933 and Dec. 31,1935 1/	2,111	866	74	1,103	68
Total	2,737	941	103	1,593	100
Deposits of suspended banks 2/ (In thousands of dollars)					
January 1 to March 15	213,497	73,183	21,742	114,847	3,725
March 16 to December 31	145,710	17,322	3,527	123,958	903
Banks not licensed following banking holiday, placed in liquidation or receivership between March 16,1933 and Dec. 31,1935 1/	2,523,505	1,363,393	672,260	480,127	7,725
Total	2,882,712	1,453,898	697,529	718,932	12,353

1/ By the end of 1935 all but 27 (all nonmembers) of the banks not licensed immediately following the banking holiday had either been licensed or had been placed in liquidation or receivership. These 27 banks had deposits of $19,361,000.

2/ Deposits of member banks suspended are as of dates of suspension; deposits of non-licensed national banks placed in liquidation or receivership are as of dates of conservatorship; deposits of non-licensed state member banks placed in liquidation or receivership are as of the nearest call dates prior to liquidation or receivership; and deposits of nonmember banks are based on the latest data available at the time of the reported closing of the banks.

The above figures exclude banks which, without actually closing, reorganized prior to the banking holiday through deposit waiver or deferment agreements. The figures also exclude banks that were not licensed immediately following the banking holiday but which were subsequently licensed under existing charters, whether or not the banks underwent any reorganization incident to their reopening. If the figures of bank suspensions during 1933 are deficient, therefore, it is because they understate rather than exaggerate the banking difficulties in 1933.

In view of the amount of work involved in the examining and certifying of banks for licensing during the banking holiday, it is fair to assume that many institutions failed to open on the first three days of licensing, March 13-15, through no fault of their own but simply because of procedural difficulties resulting from the magnitude of the burden placed on supervisory authorities. This is evidenced by the comparatively large number of member banks which opened between March 15 and April 12, 1933 — 279 national banks with deposits of $316,000,000 and 48 State bank members with deposits of $67,000,000. If it is assumed that all banks that could qualify for reopening without considerable reorganization and loss to depositors had opened by April 12, 1933, and that any banks not reopened by that date failed to do so because of financial difficulties which would result in loss to depositors, bank suspension figures for 1933 will be increased by more than 2,200 banks with deposits of $1,180,000,000, representing banks licensed subsequent to April 12, 1933. The addition of these banks would bring suspensions in 1933 up to a total of 4,965 banks with deposits of $4,062,000,000, instead of 2,737 banks with deposits of $2,883,000,000 as used throughout this study. Table 27 shows, by classes of banks, the number and deposits of banks suspended during 1933 and the number and deposits of banks granted licenses between April 12, 1933 and December 31, 1935.

Table 27 — BANKS SUSPENDED IN 1933 AND NON-LICENSED BANKS GRANTED LICENSES

	Number of banks			Deposits (In thousands of dollars)		
	Total	Banks suspended	Banks granted licenses 2/	Total	Banks suspended	Banks granted licenses 2/
National banks	1,192	941	251	1,730,033	1,453,898	276,135
State member banks 1/	195	103	92	834,083	697,529	136,554
Nonmember banks						
State	3,461	1,593	1,868	1,483,915	718,932	764,983
Private	117	100	17	14,090	12,353	1,737
Total	4,965	2,737	2,228	4,062,121	2,882,712	1,179,409

1/ Includes non-licensed state member banks that withdrew from membership in the Federal Reserve System prior to date of liquidation or receivership or date of licensing.

2/ Includes banks licensed to reopen between April 12, 1933 and December 31, 1935 under existing charters, whether or not the banks required reorganization and rehabilitation, capital correction, etc., prior to licensing.

While the addition of the 2,228 banks (granted licenses after April 12, 1933) to suspension figures would serve to emphasize the banking difficulties in 1933, analysis of the figures for these 2,228 banks by states, geographic divisions, and size of banks shows a distribution very similar to that of the 2,737 banks included as suspensions in 1933 in the present analyses. Very little data are available with respect to losses sustained by depositors in the process of reorganization or reopening of banks which were licensed after April 12, 1933 under their own charters. It is safe to assume, however, that whatever the losses were they were not as great as losses sustained by depositors in banks which never obtained permission to reopen and were ultimately liquidated through receivership or by sale to a new or existing bank[1]. Detailed figures covering banks granted licenses between April 12, 1933 and December 31, 1935 according to states, geographic divisions, deposits, loans and investments, capital stock, and population of cities are given in the appendix.

1/ By October 31, 1935, 90.59 percent of the total deposits had been released in 531 national banks licensed following the banking holiday under existing charters, compared with 58.1 percent of total deposits in 554 national banks placed in liquidation or receivership following reorganization. The percentage covering 332 banks placed in receivership without prior reorganization was not given. (See 1935 Annual Report of the Comptroller of the Currency, page 45).

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BANK SUSPENSIONS, 1892-1935

CHAPTER IV

FEDERAL AID TO BANKS

Loans to open banks

In the autumn of 1931 the National Credit Corporation, a private organization, was formed at the suggestion of the President to bolster the financial structure of the weaker banks through the aid of the stronger institutions. This corporation made loans amounting to about $155,000,000 by the end of January 1932[1/]. With the vast tide of suspensions during the latter part of 1931, however, (1,611 banks suspended during the last half of 1931 with deposits aggregating more than $1,270,000,000) it was evident that the Government itself must take immediate steps if a complete collapse of the banking structure was to be avoided. The Reconstruction Finance Corporation was, therefore, organized in January 1932 and within a very short time thereafter this organization began to make loans to banks; by the middle of 1932 loans aggregating $611,000,000 to about 3,600 banks had been authorized. Table 28 shows, by quarters, cumulative figures of the amount of loans to banks authorized and disbursed by the Reconstruction Finance Corporation from January 1932 to December 1935:

1/ "Closed and Distressed Banks," Upham and Lamke, Page 7.
For statements of purpose of the corporation and for general plan of organization and operation, see Federal Reserve Bulletin for October 1931, pages 551-557.

Table 28 — LOANS BY THE RECONSTRUCTION FINANCE CORPORATION TO OPEN BANKS, BY QUARTERS, FROM JANUARY 1932 THROUGH DECEMBER 1935

(Cumulative figures, in thousands of dollars)

Quarter	Amount authorized	Amount disbursed	Amount outstanding
1932			
First quarter	156,009	124,107	117,886
Second "	615,391	487,062	419,965
Third "	809,318	675,254	525,537
Fourth "	893,745	810,110	576,178
1933			
First quarter	1,172,520	987,445	677,611
Second "	1,234,058	1,038,930	614,467
Third "	1,268,023	1,077,094	532,953
Fourth "	1,290,700	1,091,785	462,950
1934			
First quarter	1,309,442	1,103,080	353,066
Second "	1,322,062	1,122,110	290,110
Third "	1,326,733	1,130,377	259,949
Fourth "	1,329,239	1,133,063	229,184
1935			
First quarter	1,334,436	1,135,083	204,785
Second "	1,337,310	1,141,923	194,741
Third "	1,339,386	1,142,290	180,611
Fourth "	1,339,835	1,142,590	167,003

In the light of later developments, including the closing of all banks incident to the banking holiday, it is an open question whether Reconstruction Finance Corporation loans to open banks in its effort to support the collapsing banking structure were beneficial or detrimental to the interest of depositors. During 1932 and the early part of 1933, however, when the bulk of these loans was made, it appeared most obvious that wholesale suspensions could only be averted by such a course of action on the part of this new Government agency. In many cases, such loans doubtless did furnish the assistance necessary to enable the banks to go through the crisis without suspension, but in other cases the banks which obtained Reconstruction Finance Corporation aid eventually suspended. Figures showing the number and deposits of banks that did not suspend after being aided by the Reconstruction Finance Corporation, compared with those that did suspend after such assistance, are not available.

Where banks failed in spite of Reconstruction Finance Corporation loans their depositors probably were in a less favorable position, at least temporarily, than if their banks had not borrowed, as the banks' good assets had been pledged to the Reconstruction Finance Corporation and interest had to be borne by the depositors' funds. It would not be practicable, however, to determine whether higher or lower losses would have been sustained by depositors if Reconstruction Finance Corporation aid had not been extended, in view of the many factors that have affected the value of bank assets since the banking holiday. In individual cases large depositors with knowledge of the banks' borrowings may have been able to withdraw the bulk of their deposits, after the banks had been aided by the Reconstruction Finance Corporation, leaving the smaller uninformed depositors in a less favorable position than if the loans had not been made. This, however, is not susceptible of statistical analysis.

In 1932 bank suspensions declined from their high 1931 level to 85 in August and to 67 in September, totaling 1,433 for the year compared with 2,293 in 1931. Temporarily there appeared to have been a restoration of confidence in the banking structure. The Reconstruction Finance Corporation during 1932 authorized loans to banks in an amount greater than the total amount of deposits involved in bank suspensions. The heavy withdrawals of deposits during the latter part of 1932 and early 1933, however, in spite of the restrictions placed on deposit withdrawals by many banks throughout the country and the declaration of local bank holidays, were more than could be met by Reconstruction Finance Corporation loans, and the national banking holiday in March 1933 resulted. Nothing short of complete guarantee of bank deposits by the Government, which may have required the absorption of heavy losses by the Treasury, could have averted the closing of all banks.

Loans to closed banks

Deposits remaining tied up in banks that suspended in 1930 - 1932, together with the approximately $4,500,000,000 of deposits in banks that were not granted licenses immediately following the banking holiday, constituted a serious deflationary factor retarding recovery. Agitation arose for the Federal Government to take over the liquidation of closed banks and to make depositors' funds immediately available, and the task of assisting in the liquidation of closed banks was turned over to the Reconstruction Finance Corporation. The Liquidation Division of the Reconstruction Finance Corporation was established and machinery was set up to handle loans to closed banks. Banks that closed after January 1, 1933, were given first attention; later loans were made to banks that closed prior to January 1933. By June 1934 loans amounting to $802,000,000 had been authorized by the Reconstruction Finance Corporation to closed banks, of which amount $544,000,000 had been disbursed. By this time the work of appraising assets and making loans to closed banks was practically finished. Table 29 gives cumulative figures of the amount of loans to closed banks authorized and disbursed by the Reconstruction Finance Corporation, by quarters, from January 1933 through December 1935.

Table 29 -- LOANS BY THE RECONSTRUCTION FINANCE CORPORATION TO CLOSED BANKS, BY QUARTERS, FROM JANUARY 1933 THROUGH DECEMBER 1935 1/

(Cumulative figures, in thousands of dollars)

Quarter	Amount authorized	Amount disbursed	Amount outstanding
1933			
First quarter	97,535	78,251	48,292
Second "	193,112	150,663	99,918
Third "	321,260	249,258	181,397
Fourth "	572,230	383,377	291,604
1934			
First quarter	713,037	477,836	349,059
Second "	802,713	544,060	361,296
Third "	961,429	622,138	367,114
Fourth "	1,035,733	761,704	443,343
1935			
First quarter	1,069,976	795,632	372,065
Second "	1,117,928	822,557	320,135
Third "	1,140,972	850,551	287,399
Fourth "	1,170,157	876,125	245,725

1/ Includes loans to receivers, conservators, and liquidating agents, loans through mortgage loan companies to aid closed banks, and loans on assets of closed banks under Sec. 5e of the Reconstruction Finance Corporation Act.

Loans to closed banks by the Reconstruction Finance Corporation provided immediate cash which, in the ordinary liquidation process, would not have been available for distribution to depositors for a considerable length of time. Loans on the assets of closed banks provided the means for the prompt opening of successor banks, at which a substantial part of the funds of the closed banks became immediately available. Such loans also avoided the necessity of the dumping of large blocks of securities and mortgages by the receivers of closed banks on an abnormally low market in an effort to make depositors' claims available. It is quite probable, therefore, that in spite of interest charges on loans by the Reconstruction Finance Corporation, depositors of banks realized a higher percentage of their claims than would have been realized through the immediate liquidation of the banks without such loans.

Strengthening of the capital structure of banks following the banking holiday.

Many of the banks that did not reopen immediately following the banking holiday needed additional capital. Existing stockholders and the public in general could not, however, provide very much of the additional capital funds necessary and the Government, through the Reconstruction Finance Corporation, made extensive purchases of stock in such banks. Banks that had been licensed immediately following the banking holiday without reorganization were invited to join in the program for strengthening the capital structure of banks, and as a result many of the larger metropolitan banks also sold capital stock to the Reconstruction Finance Corporation. A large number of banks were required to obtain additional capital funds before admission to Federal deposit insurance.

By the end of June 1934 the program of capital rehibilitation was well under way, the Reconstruction Finance Corporation having outstanding on that date $814,707,000 investment in capital of banks. At the end of June 1935, which marked the approximate peak, the Reconstruction Finance Corporation investment in preferred stock, capital notes and debentures of 5,752 banks amounted to $904,341,000. On December 31, 1935, it amounted to $899,486,000. These figures are shown by quarters, from January 1933 through December 1935, in table 30.

Table 30 — PURCHASES BY THE RECONSTRUCTION FINANCE CORPORATION OF PREFERRED STOCK AND CAPITAL NOTES OR DEBENTURES OF BANKS, AND LOANS ON PREFERRED STOCK OF BANKS, BY QUARTERS, FROM JANUARY 1933 THROUGH DECEMBER 1935

(Cumulative figures, in thousands of dollars)

Quarter	Amount authorized	Amount disbursed	Amount outstanding
1933			
First quarter	14,933	12,750	12,750
Second "	47,419	43,468	43,463
Third "	70,073	63,107	63,095
Fourth "	496,866	264,346	264,188
1934			
First quarter	932,623	493,577	593,039
Second "	1,047,659	817,303	814,707
Third "	1,104,772	890,775	827,660
Fourth "	1,156,904	938,004	865,083
1935			
First quarter	1,176,942	989,756	902,846
Second "	1,188,462	1,006,895	905,262
Third "	1,232,068	1,026,070	904,341
Fourth "	1,252,018	1,040,973	899,486

A number of other Government agencies assisted in the liquidation of bank assets, thereby strengthening the position of open banks and assisting in the liquidation of closed banks. Most of this aid consisted of the replacement of "frozen" mortgages held in bank portfolios by marketable bonds guaranteed by the Government. In this refinancing program, preferred consideration was given to cases threatened with foreclosure, or where the loans represented frozen assets of closed banks. For discussion of related operations of Farm Credit Administration, Home Owners' Loan Corporation, etc., as well as for discussion of general activities of the Reconstruction Finance Corporation, see Study No. 15, "Effect of Governmental Lending Agencies and Postal Savings System upon Banks."

Preliminary draft
Confidential

BANK SUSPENSIONS, 1892-1935

CHAPTER V

LOSSES TO DEPOSITORS OF SUSPENDED BANKS

Depositors of banks suspended in this country have sustained losses running into billions of dollars. According to estimates prepared by the Federal Deposit Insurance Corporation, depositors' losses in the banks that suspended during 1931-1934 amounted to more than $2,300,000,000, in banks suspended during 1921-1930 to about $815,000,000, and in banks suspended during 1865-1920 to about $265,000,000. Estimated losses in the 70-year period 1865-1934 thus amounted to nearly $3,500,000,000. The figures are summarized in Table 31.

Table 31 — ESTIMATED LOSSES SUSTAINED BY UNSECURED DEPOSITORS IN SUSPENDED BANKS, 1865-1934 1/

Period	Estimated losses to depositors (In thousands of dollars)		
	Total - all banks	National banks	State and private banks
Total, 1865-1934	3,411,029	1,129,719	2,281,310
1931-1934	2,333,121	879,711	1,453,410
1921-1930	815,309	196,100	619,209
1865-1920	262,599	53,908	208,691

1/ Estimate prepared by the Federal Deposit Insurance Corporation. (See Table 33 of the 1934 Annual Report of the Federal Deposit Insurance Corporation.)

Available data with respect to losses resulting from closed banks are rather sparce. Many of the banks that closed in recent years are still in process of liquidation and it is impossible to determine the ultimate losses in these banks. Even in the case of banks completely liquidated, reopened, or taken over by other banks, complete information is not available. It is believed, however, that a fairly accurate measure of the losses involved in closed banks can be obtained from such information as is available. The following analysis is designed to show the rate of loss sustained in (1) suspended banks reopened and taken over, and (2) suspended banks completely liquidated. The material is presented by geographic divisions, size of suspended banks, and population of cities in which the banks were located. The sources of the available data and the limitations thereof are outlined below.

Source and scope of data for 1921-1930. The information covering the period 1921-1930, contained in this chapter, has been taken from data prepared by the Federal Reserve System Committee on Branch, Group, and Chain Banking[1] and covers both national and State banks. Estimates of losses

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1/ An individual schedule was obtained by the Committee for each bank that suspended during the period, on the basis of which schedules the Committee's compilations were prepared. The information presented reflects the status of the liquidation of the banks at the time the schedules were prepared (during the latter half of 1930 and the first half of 1931). The time required for preparation of the schedules was several weeks or even months in some of the states, and the date of the completion of the schedules varied considerably from state to state.
Many complicating factors arose in the attempt to arrive at comparable results representing losses to depositors in different states. The detailed instructions prepared by the Committee when the original requests for data on suspensions were submitted to the Comptroller of the Currency and the several State banking departments called for information on deposit claims only, divided into three classes: secured, preferred, and unsecured. It was particularly stressed that any departures

were made only with respect to claims of unsecured depositors, it having been assumed that, unless the percentage of dividends paid to unsecured depositors was abnormally low, preferred and secured depositors were paid in full. In those cases where the dividend payments (to unsecured depositors) were unusually low it is possible that the value of the collateral held by secured depositors also may have been low, and that the secured claimants in such cases suffered some loss. Under the prevailing practice, secured creditors receive the same dividend payments as unsecured creditors, until their claims are met in full either from dividends or from the liquidation of collateral held or both.

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from this practice should be fully explained. Nothwithstanding these precautions, the returns from certain states showed that the data were not always in the form requested, either because of inadvertence or because they were not available in that form. In some states, for instance, deposit claims were not segregated from other types of claims. Moreover, the same types of liabilities were classified differently on the suspension schedules from one state to another, sometimes apparently because of a difference in statutory priority, and sometimes simply because of a difference in the judgment of those who prepared the schedules at the source.

An effort was made by the Committee, through further correspondence, to determine in each state: (1) the statutory priority of lien of the various types of deposits; (2) the precise character of deposits reported on the suspension schedules as (a) secured, (b) preferred, and (c) unsecured; and (3) the precise character of other claims included in the suspension schedules with depositors' claims. The replies to this inquiry were so diverse in character as to make impracticable any attempt to show comparable results for the different states with respect to the claims of preferred or secured creditors and the payments thereon in suspended state banks.

With respect to national bank suspensions for the period 1921-1930, it was found that the work of segregating the claims of secured, preferred and unsecured creditors was prohibitive; hence, for banks completely liquidated or in process of liquidation, only the amount of claims of unsecured depositors and the percentage payments thereon were obtained. From the amount of claims of unsecured depositors and the percentage of payments thereon, estimates have been made of the amounts paid to unsecured depositors. For banks reopened or taken over, no losses of secured or preferred claimants were recorded on suspension schedules.

<u>Source and scope of data for 1931-1935</u>. In connection with suspended banks liquidated during the 5-year period 1931-1935, it was deemed impracticable, because of the magnitude of such an undertaking and the lack of sufficient time, to forward requests to the Comptroller of the Currency and to the various State banking authorities for sufficient data to permit the compilation of statistics comparable to those used for the period 1921-1930 by the Committee on Branch, Group and Chain Banking. Consequently, the data presented herein for banks liquidated during 1931-1935 were compiled principally from annual reports of the Comptroller of the Currency in connection with national banks. Only a few of the annual reports of State banking departments contain information on the subject, and a number of such reports omit all reference to insolvent banks. In the State reports which contain such data, widely diverse methods of presentation are used by the various supervisory authorities, and in most instances the information presented was found to be of little value for the purposes desired.

For the period 1931-1935 the estimates in the case of national banks represent losses sustained by all unsecured <u>creditors</u>, whereas in the earlier period the estimates represent losses by unsecured <u>depositors</u> only. The reason for this variation is that the Comptroller's annual reports do not show the portion of unsecured claims which is represented by unsecured deposits. It is believed, however, that in the majority of cases unsecured claims consist almost entirely of deposits, since other claims against national banks, such as those represented by bills payable or similar liabilities, were usually on a secured basis. The Comptroller's reports do not show the dollar amounts of creditors' unsecured claims, but the total amounts of dividends paid are shown together with the percentage ratio of such dividends to unsecured claims, and, by applying the percentage ratio to total dividend payments, an estimate of the original unsecured claims was made.

Losses in suspended banks reopened or taken over.

1921-1930. Unsecured depositors of banks which suspended and were reopened or taken over during the 10-year period 1921-1930 suffered relatively small losses, as a rule, compared with those incurred by depositors in banks which were liquidated. In Table 32 the suspended national and State banks which were reopened or taken over during that period are classified according to the percentage of claims realized by unsecured depositors.

Table 32 -- NUMBER OF BANKS SUSPENDED AND REOPENED OR TAKEN-OVER DURING 1921-1930, CLASSIFIED ACCORDING TO PERCENT OF CLAIMS REALIZED BY UNSECURED DEPOSITORS, BY CLASSES OF BANKS 1/

Percent of unsecured claims realized (exclusive of offsets)	Number of banks		
	Total-National and state banks	National banks	State banks
0% - 19%	6	--	6
20 - 39	31	1	30
40 - 59	94	7	87
60 - 79	114	17	97
80 - 99	48	9	39
100	904	119	785
Total	1,197	153	1,044

1/ Banks suspended during 1921-1930 which had been reopened or taken over by other institutions at the time the suspension schedules were prepared for the Committee on Branch, Group and Chain Banking. Figures for 1 national bank and 139 State banks reopened or taken over during the period are not available.

It will be noted that, of the 1,197 banks included in the table, 904 or slightly more than 75 percent paid unsecured depositors in full, and that only 131 banks or roughly 11 percent of the total number paid unsecured depositors less than sixty cents on the dollar. There are instances, however, in which unsecured depositors received only 10 or 15 percent of their claims. In Florida the deposits in most reopened banks were frozen by waiver agreements for periods ranging from a few months to as many as four or five years. Under such circumstances it is evident that the Florida percentages constitute nothing more than tentative estimates which may or may not be actually realized. Taken as a group, the West North Central states made the poorest showing, nearly a fourth of all reopened and taken-over banks in that area having paid depositors less than 60 percent of their claims, as may be seen from table 33, which presents these figures by geographic divisions.

Table 33 -- NUMBER OF BANKS SUSPENDED AND REOPENED OR TAKEN OVER DURING 1921-1930, CLASSIFIED ACCORDING TO PERCENT OF CLAIMS REALIZED BY UNSECURED DEPOSITORS, BY GEOGRAPHIC DIVISIONS 1/

Geographic division	Total	Number of banks which paid unsecured depositors the following percentages of their claims (exclusive of offsets)					
		0%-19%	20%-39%	40%-59%	60%-79%	80%-99%	100%
New England	2	---	---	---	---	---	2
Middle Atlantic	15	---	---	---	1	---	14
East North Central	184	---	2	5	14	7	156
West North Central	431	6	27	65	55	21	257
South Atlantic	216	---	---	10	15	8	183
East South Central	58	---	1	1	2	---	54
West South Central	203	---	1	6	17	6	173
Mountain	64	---	---	4	6	5	49
Pacific	24	---	---	3	4	1	16
Total	1,197	6	31	94	114	48	904

1/ Banks suspended during 1921-1930 which had been reopened or taken over by other institutions at the time the suspension schedules were prepared for the Committee on Branch, Group and Chain Banking. Figures for 1 national bank and 139 State banks reopened or taken over during the period are not available.

The dollar amounts of losses to unsecured depositors in reopened and taken-over banks were not always reported. They were computed in each case, however, by multiplying total deposits by the reported percentage loss. If it is assumed that about the same average proportionate loss occurred among the 140 banks for which no information as to losses was reported, as among other reopened and taken-over banks in the same areas, the total losses sustained by unsecured depositors in the 1,337 banks which suspended or were taken-over during 1921-1930 aggregated approximately $54,000,000. The deposits of these 1,337 banks aggregated $487,000,000[1/] and, therefore, the unsecured depositors suffered an average loss of about 11 percent. For the 154 national banks the estimated loss was about 8 percent of total unsecured deposits, and for the 1,183 State banks it was nearly 12 percent. Estimated losses of national and State banks reopened or taken over during 1921-1930 are given, by geographic divisions, in table 34.

1/ Condition figures reported on the suspension schedules for national banks are as of the last examiner's or call report prior to suspension, rather than at time of closing. Since deposits ordinarily decline somewhat as suspension approaches, some overstatement of estimated losses results from the computation of losses by multiplying the percentage of loss in each bank by deposits as shown on the suspension schedules.

Table 34 -- TOTAL ESTIMATED LOSSES TO UNSECURED DEPOSITORS OF 1,337 BANKS WHICH SUSPENDED AND WERE REOPENED OR TAKEN OVER DURING 1921-1930 1/

(In thousands of dollars)

Geographic division	National and State banks	National banks	State banks
New England	---	---	---
Middle Atlantic	257	257	---
East North Central	6,607	215	6,392
West North Central	32,109	1,046	31,063
South Atlantic	7,542	232	7,310
East South Central	566	53	513
West South Central	2,432	925	1,507
Mountain	2,517	1,377	1,140
Pacific	2,051	1,633	418
Total	54,081	5,738	48,343

1/ Banks suspended during 1921-1930 which had been reopened or taken over by other institutions at the time the suspension schedules were prepared for the Committee on Branch, Group and Chain Banking. Figures for 1 national bank and 139 State banks reopened or taken over during the period are not available.

1931-1935. Information in connection with losses to unsecured creditors of suspended banks reopened or taken-over during the period 1931-1935 is not available. However, available data in connection with national banks which were not given licenses immediately after the banking holiday but which were licensed later on indicate that unsecured depositors of such banks sustained relatively small losses, as compared with losses sustained by depositors of unlicensed national banks placed in receivership 1/.

Data with respect to the losses sustained by depositors in banks that were not licensed immediately following the banking holiday in March 1933 are available only for national banks. Between 4,500 and 5,000 national

1/ See 1935 Annual Report of the Comptroller of the Currency, page 45.

and State banks were not granted licenses at the end of the banking holiday, and their deposits aggregated about $4,500,000,000. More than 2,700 of these banks with deposits of approximately $1,700,000,000 were reorganized and eventually reopened under their own charters. From rather sparce data available with respect to national banks it appears that the rate of loss was comparatively low at such banks (about the same as experienced by suspended banks reopened and taken over during 1921-1930). Figures for unlicensed national banks placed in receivership and completely liquidated by 1935 are included in the figures presented in the next section, which relates to suspended national banks completely liquidated during 1931-1935. Depositors of unlicensed national banks which were placed in voluntary liquidation, rather than in receivership, had received approximately 69 cents on the dollar by October 31, 1935 1/. Since that time, additional amounts have been released to depositors in these banks which will increase the return somewhat.

Losses in suspended banks which have been completely liquidated.

National banks. Of the 2,558 national banks which suspended operations during the 15 years 1921-1935, 267 had been completely liquidated at the time the data for the period 1921-1930 were compiled by the Federal Reserve Committee on Branch, Group, and Chain Banking, and 423 2/ additional national banks had been completely liquidated by October 31, 1935.

During the 10-year period 1921-1930, receivers for 267 national banks allowed claims to unsecured depositors, as distinugished from claims

1/ See 1935 Annual Report of the Comptroller of the Currency, page 45.

2/ Exclusive of 4 banks that had only nominal amounts of assets administered by receivers, the majority of creditors' claims having been assumed by purchasing banks, also of 42 banks that had no unsecured claims when receivers were appointed.

of preferred or secured creditors, in the amount of $68,489,000[1], on which aggregate payments of $34,034,000 were made. Unsecured depositors, therefore, received about 50 cents on the dollar, exclusive of offsets[2].

During the 5-year period 1931-1935, receivers for 423 national banks allowed claims to unsecured creditors to the extent of $148,771,000, on which aggregate payments of $92,205,000 were made. Unsecured creditors, therefore, received approximately 62 cents on the dollar, exclusive of offsets, which represents a considerable improvement over payments during the earlier period.

State banks. Corresponding data for completely liquidated State banks for the period 1921-1930 are much less satisfactory than in the case of national banks, and for the period 1931-1935 no such figures whatever are available at this time. As heretofore stated, no attempt has been made to obtain the required data from the various State supervisory authorities for the latter period, and the annual reports of State banking departments contain only fragmentary information on the subject.

Of the 1,130 suspended State banks which were liquidated during the earlier period 1921-1930, satisfactory data as to claims and payments were received on only 988. Aggregate unsecured claims in these 988 banks amounted to $155,809,000, on which payments of $90,891,000 were made, depositors thus receiving an average of 58.3 cents on the dollar, exclusive of offsets.

1/ This figure includes a negligible amount of claims of secured creditors which it has not been possible to segregate.

2/ A depositor who is also a borrower usually has his deposit applied against his indebtedness to the bank.

By geographic divisions and States. Considerable differences are shown by a study of results for individual States and geographic districts. In table 35 the average percentage of claims received by unsecured creditors of completely liquidated banks are shown by geographic divisions. From the table it is evident that, in general, depositors in the areas which have had the most failures have realized the smallest percentage of their claims upon liquidation. Depositors in mid-western States, on the whole, suffered larger losses proportionately than those in the eastern portion of the United States. This is true of banks liquidated during 1921-1930 and of those liquidated in 1931-1935.

Table 35 -- PERCENTAGE OF CLAIMS REALIZED BY UNSECURED DEPOSITORS AND CREDITORS OF SUSPENDED BANKS, BY GEOGRAPHIC DIVISIONS

Geographic division	Average percentage of claims realized by unsecured depositors in 1,255 completely liquidated national and State banks 1/		Average percentage of claims realized by unsecured creditors in 423 national banks 2/
	267 National banks	988 State banks 3/	
New England	67.0	100.0	83.1
Middle Atlantic	80.5	88.6	65.2
East North Central	59.0	68.5	76.4
West North Central	50.6	55.5	58.9
South Atlantic	54.6	43.3	58.7
East South Central	94.0	74.4	75.4
West South Central	45.4	49.6	57.1
Mountain	42.5	58.1	56.1
Pacific	61.9	73.7	62.4
United States	49.7	58.3	62.0

1/ Banks suspending during 1921-1930 which had been completely liquidated at the time the schedules were prepared for the Committee on Branch, Group and Chain Banking, with the exception of 142 State banks for which information as to claims and payments was not available.

2/ Banks suspending during 1921-1935 which had been completely liquidated by October 31, 1935. Exclusive of 4 banks that had only nominal amounts of assets administered by receivers, the majority of creditors' claims having been assumed by purchasing banks, also of 42 national banks that had no unsecured claims when receivers were appointed.

3/ Guaranty Fund payments included.

Within each geographic division there are appreciable differences among the several States in the percentage of deposits lost by unsecured depositors of suspended banks, as is shown by tables included in the appendix. Leaving out of consideration those States in which the number of banks that have been completely liquidated is inadequate to give a fair indication of what more inclusive data might show, the proportion of unsecured claims realized in national banks completely liquidated during the period 1921-1930 ranged from 28 percent in Montana, 35 percent in Oklahoma and 37 percent in Idaho to 65 percent in Iowa, 66 percent in Wyoming and 67 percent in California. For national banks liquidated during the period 1931-1935, realized claims were higher on the average, ranging from 32 percent in Alabama and 44 percent in South Dakota to 75 percent in California, 79 percent in New York and 92 percent in Ohio.

In the case of suspended State banks completely liquidated during 1921-1930, the proportion of claims realized by unsecured depositors ranged from 28 percent in North Dakota, 32 percent in Arkansas and 35 percent in Montana to 66 percent in Colorado, 73 percent in Washington, 83 percent in Tennessee, 84 percent in Texas and 100 percent in Nebraska.

Explanation of differences in rate of loss in national banks compared with State banks. The Nebraska banks which were reported as having been completely liquidated during 1921-1930 all failed during 1921-1923, when the Depositors' Guaranty Fund was still in operation. For a period of years the depositors in suspended Nebraska State banks were paid in full, the difference between the amount realized from a bank's assets and the liabilities assumed being paid out of the Depositors' Guaranty Fund. In later years, however, as bank failures increased, the Guaranty Fund was inadequate to pay all deposit claims. By 1930 a deficit of about $20,000,000 is reported to have accumulated, and the Guaranty Fund law was repealed early in that year. The deficit at that time was greater than the total capital stock of all active State banks in the State.

In seven other States the operation of State guaranty deposit funds increased during a limited period the returns which depositors in State banks received. The guaranty funds were responsible in part for the fact that, as shown in table 35, depositors in the liquidated State banks received a higher percentage of their claims than those in national banks. The majority of the banks included in that table suspended during the early part of the period under study, when several of the guaranty funds were still in operation. After the guaranty funds became inoperative, however, the depositors of many State banks which had contributed heavily to the maintenance of these funds received no benefits therefrom.

Oklahoma passed a guaranty law in 1907; Kansas, Nebraska, and Texas in 1909; Mississippi in 1914; South Dakota in 1915; and North Dakota and Washington in 1917. In six of these States, all except Kansas and Washington, membership in the guaranty system was compulsory for all State banks. In all of these States it was the intention that the guaranty funds should be built up and maintained by initial, annual, and special assessments on the banks. Increasing bank failures after 1920, however, disrupted all of the systems, leaving in all cases substantial deficiencies in the guaranty funds. These deficiencies ranged from three or four million dollars to over thirty million dollars, according to a statement of the Comptroller of the Currency to the Subcommittee of the Committee on Banking and Currency of the House of Representatives[1]. In Washington the guaranty fund was inoperative

1/ 72nd Congress, 1st Session, Hearings on H.R. (10241) 11362.

after 1921, and the Oklahoma law, after an experience of 15 years, was repealed in 1923. The laws in the other six States were either repealed or became inoperative in the period 1927-1930.

Another important factor in the differences between national and State bank payments, as shown in table 35, is that the data for completely liquidated State banks are not strictly comparable with those for national banks. Claims of preferred and secured creditors and the payments thereon were not segregated from the claims of unsecured depositors in the case of some State banks. This fact would tend to improve the showing of State banks, since a higher percentage is paid on the claims of secured and preferred creditors. In some States, Idaho and Oregon for example, the depositors are preferred by law over other creditors. This, of course, increases the depositors' share of dividends. Furthermore, the data for 142 completely liquidated State banks were too fragmentary to be included in the tabulations. While there is no proof that depositors in these banks received a low percentage of claims, many of the 142 omitted cases were in States in which the payments received by depositors were well below the average for all completely liquidated State banks.

The figures for national and State banks for the period 1921-1930, by States, are shown in the appendix. In most of the States and in some of the geographic divisions the number of cases of completely liquidated banks is so small that comparisons of national and State banks are practically meaningless. In some of the States, however, where suspensions have been heaviest and where significant comparisons can be made, the national banks show a higher percentageof claims realized than do State banks, notably in Iowa, Minnesota, North Dakota, and Wyoming. For the majority of States and for the country as a whole, however, available data indicates that the State banks (partly because of the guaranty funds) showed somewhat better liquidating results for the period 1921-1930. As previously stated, no comparable data whatever are available for State banks for the period since 1930.

Losses by Size of Banks.

The classification of banks reopened, taken-over, and completely liquidated during the period 1921-1930, according to size, as presented in table 36, shows that depositors in banks with loans and investments of $1,000,000 and over realized a somewhat higher percentage of claims than depositors in smaller banks. Within the group of banks with less than $1,000,000 of loans and investments, however, size appears to have little relation to the percentage of claims paid, for banks with less than $150,000 of loans and investments paid approximately the same percentage of claims as those with $500,000 to $1,000,000 of loans and investments.

Table 36 -- DISTRIBUTION OF REOPENED, TAKEN-OVER, AND COMPLETELY LIQUIDATED NATIONAL AND STATE BANKS, ACCORDING TO PERCENT OF CLAIMS REALIZED BY UNSECURED DEPOSITORS AND BY SIZE OF LOANS AND INVESTMENTS 1/

Size group - loans and investments	Number of banks which paid unsecured depositors the following percentages of their claims (exclusive of offsets):			
	Less than 40%	40-79%	80-100%	Total
Under $150,000	233	268	539	1,040
150,000-500,000	239	320	553	1,112
500,000-1,000,000	47	76	120	243
1,000,000 and over	14	36	78	128
Total	533	700	1,290	2,523
	Percent of banks which paid unsecured depositors the above percentages of their claims (exclusive of offsets)			
Under $150,000	22.5	25.7	51.8	100.0
150,000-500,000	21.5	28.8	49.7	100.0
500,000-1,000,000	19.5	31.3	49.3	100.0
1,000,000 and over	10.9	28.1	61.0	100.0
Total	21.2	27.7	51.1	100.0

1/ Banks suspending during 1921-1930 which had been reopened, taken-over, or liquidated at the time the suspension schedules were prepared for the Committee on Branch, Group and Chain Banking during the last half of 1930 and the first half of 1931, excluding 211 banks for which information is not available as to the percentage of claims realized by depositors.

Comparable data for national and State banks are not available for the period 1931-1935. The appendix contains, however, a distribution of suspended national banks completely liquidated during the period 1931-1935 according to the percentage of claims realized by unsecured creditors and according to total assets at date of suspension. Such figures indicate that, insofar as the period of liquidation 1931-1935 is concerned, there is relatively little difference, as between large and small banks, in the percentage of claims realized by unsecured creditors.

Losses by Size of Towns

The average percentage of claims realized by depositors in completely liquidated banks, distributed by the size of towns in which the suspended banks were located, is shown below.

Table 37 — PERCENTAGE OF CLAIMS REALIZED BY UNSECURED DEPOSITORS AND CREDITORS IN SUSPENDED BANKS, BY SIZE OF TOWN

Population of town	Average percentage of claims realized by —	
	Unsecured depositors in 1,255 completely liquidated national and State banks 1/	Unsecured creditors in 423 national banks 2/
Under 1,000	49.0	55.8
1,000-5,000	52.0	55.7
5,000-10,000	53.6	68.4
10,000-25,000	67.7	64.3
25,000 and over	67.3	77.3
Total	55.7	62.0

1/ Banks suspending during 1921-1930 which had been completely liquidated at the time the schedules were prepared for the Committee on Branch, Group and Chain Banking, with the exception of 142 State banks for which information as to claims and payments was not available.

2/ Banks suspending during 1921-1935 which had been completely liquidated by October 31, 1935. Exclusive of 4 banks that had only nominal amounts of assets administered by receivers, the majority of creditors' claims having been assumed by purchasing banks, also of 42 national banks that had no unsecured claims when receivers were appointed.

The table shows that, in the case of 1,255 national and State banks completely liquidated during the 10-year period 1921-1930, unsecured depositors of suspended banks in towns with a population under 1,000 realized an average of 49 percent of their claims, and that the percentage increased as the size of towns increased to an average of 67 percent in the case of suspended banks located in places with a population of 25,000 and over.

Similarly, in the case of 423 national banks liquidated during the 5-year period 1931-1935 the percentage of claims realized by unsecured creditors rose from 56 percent in the case of banks located in places with a population under 1,000 to 77 percent at banks located in places with a population of 25,000 and over.

Losses by year of suspension

The percentage of claims realized by unsecured depositors and creditors of banks suspended in the early 1920's was lower than at banks suspended later, except in the case of State banks during the early years of operation of the deposit guaranty funds. Only very general comparisons by year of suspension can be made, however, because of the fact that the amount collected by receivers is greatly affected by changes in the values of bank assets after suspension. The recovery of values since the banking holiday, for example, has made it possible in many cases to pay creditors in full. Another factor which makes such comparisons inconclusive is that many of the banks suspended in the later years have not as yet been completely liquidated, particularly those that were most heavily involved, with the result that the indicated experience of banks suspended in recent years and already liquidated is not a true average. Still another factor making for a high rate of return on claims against banks closed in recent years is the granting of loans by the Reconstruction Finance Corporation to receivers of closed banks for the very purpose of expediting dividends to depositors. Nevertheless, there were factors in the early 1920's which made for low dividends to unsecured depositors, such as the heavy borrowings so common to the post-war period. The table below shows such data by year of suspension as are available subject to the limitations already indicated. It also indicates the relatively large part of collections by national bank receivers used to make payments to secured and preferred creditors in the early years, which, of course, had an adverse effect on payments to unsecured depositors.

Table 38 -- PERCENTAGE OF CLAIMS REALIZED BY UNSECURED DEPOSITORS AND CREDITORS OF SUSPENDED BANKS, BY YEAR OF SUSPENSION

Year of suspension	Average percentage of claims realized by unsecured depositors in 1,255 completely liquidated national and state banks 1/		Average percentage of claims realized by unsecured creditors in 423 national banks 4/	Percentage of payments from collections made to secured and preferred creditors	
	267 national banks	988 State banks 2/		267 national banks 1/	423 National banks 4/
1921	35.1	60.3	3/	3/	82.5
1922	40.6	43.1	3/	3/	79.2
1923	35.9	49.3	30.0	51.6	59.1
1924	51.3	45.3	55.1	44.7	48.8
1925	58.5	50.4	59.7	34.5	39.7
1926	71.6	58.8	51.4	24.1	41.3
1927	61.0	68.0	60.2	40.9	36.2
1928	3/	3/	64.4	3/	42.0
1929	3/	3/	59.6	3/	38.7
1930	3/	3/	81.7	3/	39.6
1931	3/	3/	80.0	3/	28.4

1/ Banks suspending during 1921-1930 which had been completely liquidated at the time the schedules were prepared for the Committee on Branch, Group and Chain Banking, with the exception of 142 State banks for which information as to claims and payments was not available.

2/ Guaranty Fund payments included.

3/ Percentages omitted because the number of banks is not sufficient to produce a significant average.

4/ Banks suspending during 1921-1935 which had been completely liquidated by October 31, 1935. Exclusive of 4 banks that had only nominal amounts of assets administered by receivers, the majority of creditors' claims having been assumed by purchasing banks, also of 42 national banks that had no unsecured claims when receivers were appointed.

CHAPTER VI

EXPENSES OF LIQUIDATION AND LOSSES TO STOCKHOLDERS OF SUSPENDED BANKS

Expenses of liquidation

National banks. Liquidation of suspended banks is generally a slow and costly process. In order to throw some light on these costs, the expenses of liquidating national banks during 1921-1935 have been compiled from annual reports of the Comptroller of the Currency and computations have been made of the ratios of such expenses to total assets at time of suspension and to collections from these assets. The ratios are presented by geographic divisions in table 39 for national banks completely liquidated during 1921-1930 and 1931-1935, respectively. A comparison of the two periods shows that the average ratio of expenses to total assets declined slightly, for the United States as a whole, from 5 percent for 267 suspended national banks whose liquidation was completed during the earlier period to 4.7 percent for 465 national banks completely liquidated during 1931-1935. The ratio of expenses to total collections declined in a larger proportion, from 8.5 percent to 6.4 percent. The lower average ratios in the period 1931-1935 may be accounted for in part by the fact that, of the 465 banks liquidated in this period, 73 paid unsecured creditors 90-100 percent of their claims and incurred less expenses because the liquidation period generally was shorter. In the latest annual report of the Comptroller of the Currency, however, it is stated that during the past two years an entirely new item of expense has been incurred in the liquidation of national banks, namely, interest paid on money borrowed from the Reconstruction Finance Corporation against assets in closed banks for the purpose of expediting payments to creditors.

Table 39 - RATIOS OF EXPENSES OF LIQUIDATION OF NATIONAL BANKS TO TOTAL ASSETS AT TIME OF SUSPENSION AND TO COLLECTIONS FROM SUCH ASSETS, BY GEOGRAPHIC DIVISIONS

Geographic division	Ratio of expenses to assets at time of suspension		Ratio of expenses to collections from assets	
	267 banks liquidated in 1921-1930 1/	465 banks liquidated in 1931-1935 2/	267 banks liquidated in 1921-1930 1/	465 banks liquidated in 1931-1935 2/
New England	3/ 20.0	4.5	3/ 13.7	4.9
Middle Atlantic	3.2	3.3	4.5	4.8
East North Central	3.8	4.6	5.0	5.7
West North Central	5.5	5.4	9.3	7.6
South Atlantic	5.4	3.5	9.6	4.7
East North Central	4.0	2.2	6.4	3.0
West North Central	4.1	5.2	7.2	7.9
Mountain	5.3	4.6	9.6	6.5
Pacific	5.9	5.6	8.1	6.6
United States	5.0	4.7	8.5	6.4

1/ Banks which suspended during 1921-1930 and which had been completely liquidated at the time the suspension schedules were prepared.

2/ Banks which suspended during 1921-1935 and which were completely liquidated during the period October 31, 1930 to October 31, 1935.

3/ Not representative -- covers only 1 small bank.

Considerable variations in the ratio of expenses of liquidation are evident in different sections of the country. Too few banks are included, however, in the figures for some of the geographic divisions to justify very definite conclusions. Nevertheless it is clear that the ratios of expenses of liquidation to total assets and to total collections were highest at banks in the western states, where suspensions were most numerous.

Table 40 gives a percentage distribution of national banks completely liquidated during 1921-1930 and 1931-1935, by amount of total assets and by ratio of expenses of liquidation to total assets. The table shows that the expenses of liquidation in proportion to total assets have been materially higher at the smaller banks than at the larger banks — about 25 percent of the small national banks during both periods were liquidated at a cost of more than 10 cents per $1 of assets remaining at the time of suspension, whereas the expenses of liquidating the majority of the larger banks was less than 4 cents per $1 of book assets at time of suspension.

Table 40 -- PERCENTAGE DISTRIBUTION OF LIQUIDATED NATIONAL BANKS, BY AMOUNT OF TOTAL ASSETS AND BY RATIO OF EXPENSES OF LIQUIDATION TO TOTAL ASSETS

Size group — total assets	Percentage of liquidated banks with following ratios of expenses of liquidation to total assets					
	4% or less	4-6%	6-8%	8-10%	10% or over	Total
	267 banks liquidated in 1921-1930 1/					
Under $250,000	13.6	11.8	26.4	23.6	24.6	100.0
250,000-500,000	9.9	35.8	30.8	12.4	11.1	100.0
500,000-1,000,000	42.9	46.9	8.2	2.0	---	100.0
1,000,000 and over	66.7	18.5	11.1	3.7	---	100.0
Total	23.2	26.2	22.9	14.2	13.5	100.0
	465 banks liquidated in 1931-1935 2/					
Under $250,000	13.0	20.7	21.3	18.4	26.6	100.0
250,000-500,000	10.3	32.6	23.0	20.8	13.3	100.0
500,000-1,000,000	25.9	44.7	25.9	2.3	1.2	100.0
1,000,000 and over	55.5	38.9	3.7	1.9	---	100.0
Total	19.9	31.2	20.5	14.0	14.4	100.0

1/ Banks which suspended during 1921-1930 and which had been completely liquidated at the time the suspension schedules were prepared.

2/ Banks which suspended during 1921-1935 and which were completely liquidated during the period October 31, 1930 to October 31, 1935.

State banks. Comparable information in connection with the expense of liquidating State banks is not available, since annual reports of State bank commissioners generally give little or no data on the subject. In the case of three states, however, where the annual reports do contain sufficient information to permit the calculation of the ratios of expenses of liquidation to total collections from assets, the following ratios have been derived:

	Period	Number of banks completely liquidated	Ratio of expenses of liquidation to total collections (percent)
Oregon	1921-1934	28	7.16
North Carolina	1927-1934	79	8.44
Michigan 1/	1889-1935	22	11.10

1/ Court receiverships only.

The Oregon ratio is about the same as the average for national banks, while the ratio for North Carolina is somewhat higher and that for Michigan materially higher. The Michigan ratio, however, relates to court receiverships only.

Losses to stockholders of suspended banks

The 5,712 banks that suspended during 1921-1929 had an aggregate capital stock of $225,000,000 and the 7,924 that suspended during 1930-1935 had an aggregate capital stock of $780,000,000, or a total of $1,000,000,000 for the 15-year period. In view of the heavy losses sustained by bank depositors, even after collections from assessments made upon stockholders, it is obvious that the stockholders lost practically their entire capital investment, apart from assessments paid under the double liability clause[1/]. At the time of suspension, of course, any surplus and undivided profits shown by the books of suspended banks was non-existent, since even the capital stock account was impaired in nearly all cases. Even the aggregate amount of capital stock of the suspended banks and of assessments collected does not adequately measure the losses sustained by stockholders, as many of

1/ Recent changes in the National Bank Act and in the banking laws of many States have done away with assessments on stockholders of insolvent banks.

them purchased the stock considerably above par value and in some cases the stock could have been sold far above par value when times were good and bank earnings were high. Nevertheless, the only satisfactory measure of losses sustained by depositors are the figures of capital stock of suspended banks and such data as are available with respect to assessments collected from the stockholders.

A computation made covering 267 suspended national banks which were completely liquidated during the period 1921-1930 indicates that collections on assessments averaged 45 percent of the aggregate capital stock, and a similar computation recently made covering 465 suspended national banks completely liquidated during 1931-1935 gives practically the same ratio. The only corresponding information now available for State banks relates to 529 suspended State banks that were completely liquidated during the period 1921-1930; in the case of these banks collections averaged 37 percent of aggregate holdings of capital stock.

In many instances, also, a considerable amount of assessments were collected before the suspension of the banks, in fact, in the case of 927 national banks which suspended during the period 1921-1930 it was found that assessments prior to suspension averaged 34 percent of capital stock. Data regarding assessments on shareholders of State banks prior to suspension are much less satisfactory than for national banks, but the study made by the Federal Reserve Committee on Branch, Group and Chain Banking indicates that, in a number of States where the information was reported, assessments before suspension averaged around 30 to 35 percent of capital stock, or about the same as in the case of national banks. On the other hand, many of the States with heavy suspensions reported practically no or very little assessments before suspension. It is known, however, that in many instances important directors or stockholders (of national as well as of State banks) either made large outright contributions to capital accounts of banks in efforts to save their institutions, or purchased at book value worthless or questionable assets. Furthermore, in some instances large amounts of such assets have been transferred to affiliated companies organized or used for that purpose.

Assessments in the case of suspended banks which were later reopened or taken over were probably not as high as those liquidated, but it is likely that a higher percentage of such assessments was collected. While there are no data to base an estimate of collections from suspended banks reopened or taken over, there is no reason to suppose they would average materially lower than in the case of liquidated banks.

In the above circumstances, it would appear that losses sustained by stockholders of national and State banks suspended during 1921-1935 amounted to at least $1,400,000,000, made up as follows:

Table 41 -- ESTIMATED LOSSES SUSTAINED BY STOCKHOLDERS OF SUSPENDED NATIONAL AND STATE BANKS, 1921-1935

(In thousands of dollars)

	Total	National banks	State banks
Capital stock of banks suspended in --			
1921-1929	219,350	47,352	171,998
1930-1935	772,753	261,846	510,907
Estimated assessments collected from stockholders 1/	391,814	139,139	252,675
Total	1,383,917	448,337	935,580

1/ 45 percent of capital stock in the case of national banks and 37 percent in the case of State banks.

Available statistics by states and classes of banks, pertaining to losses sustained by stockholders of suspended banks, are shown in the appendix.

Preliminary draft
Confidential

BANK SUSPENSIONS, 1892-1935

CHAPTER VII

CAUSES OF BANK SUSPENSIONS

The foregoing review of bank suspensions in the United States shows that in "good times" as well as in "bad times" large numbers of banks have suspended, involving depositors' losses running into billions of dollars, and when through successive years of economic depression conditions became steadily worse the banking structure collapsed completely. This clearly demonstrates that our banking structure has been indefensibly weak. Some measures of reform have been adopted, particularly in the last few years, but these corrections have not exhausted all of the channels of improvement. The complete correction or reform of the banking structure can be accomplished only if the causes of weakness and failure are known and understood. "Causes" of bank suspensions, however, cannot be enumerated in a straight-forward list, since the underlying factors are by no means coordinate and of equal importance; they are likely to occur in a number of combinations and with different degrees of importance in different circumstances, and individual failures often are the result of a combination of causes varying in importance and character.

"Immediate" causes of bank failures. In our long, failure-studded history of banking most of the institutions which suspended business were subsequently proved to be insolvent. This, however, does not prove that insolvency is the prime cause of failure. Indeed the large number of banks which were found to be insolvent and unworthy of support at the time of the banking holiday is substantive proof that insolvent banks can, with good luck and without supervisory interference, remain open for a long time. The immediate factor which has caused banks to fail has almost always been the lack of cash. In a few instances supervisory authorities have closed banks before cash shortages were evident and in other instances boards of directors have closed their banks before cash reserves were depleted, but generally this action was in contemplation of an inevitable shortage of cash. Such shortages are almost always due to deposit losses, which, in turn, arise from a number of circumstances. In some cases, the confidence of depositors has been shattered, and the resulting withdrawals of deposits through either the tellers' windows or the clearing houses have reduced cash reserves. In other instances, as in the case of agricultural communities or other areas where seasonal industries predominate, payments are made to outsiders during the production season in excess of cash income, resulting also in depleted cash reserves. In declining communities the excess of payments to outsiders constitutes a regular drain on the cash reserves of the local bank or banks.

Fundamental or underlying causes. While the loss of cash reserves is the immediate cause of the majority of suspensions it is not the fundamental or underlying cause. The loss of cash is something that can happen to almost any bank, and by the tenets of sound banking this contingency should be provided for in the loan, investment, and reserve policies. The inability to replenish cash reserves is a condition which arises from holding assets of an inferior quality -- assets which cannot be sold without loss or used as collateral for borrowing. It is usual among authorities to charge this regrettable condition to bad management; it is certainly reasonable to assume that with management of the highest integrity and intelligence there would have been fewer bank suspensions. The supposition of management of the highest order, however, is rather contrary to the characteristics of our banking structure. In the two decades following the turn of the century the number of new banks organized was considerable, and with this expansion in the number of banks during a relatively short period the quality of bank personnel declined.

Weaknesses in the banking structure. Many factors of weakness in the banking structure have previously been demonstrated in the chapter dealing with the distribution of bank suspensions among the various sizes of banks, communities, etc. The preponderance of failures among the small banks and in small communities, particularly in the States that experienced a considerable expansion in the number of banks during the first two decades of this century, is convincing evidence that there were too many banks.

Another weakness of the structure was revealed by the large number of failures of very large banks in 1930 - 1933, many of which had grown rapidly as a result of promotional methods or had been associated with the promotional development of large groups and chains. The failures of such banks as the Bank of the United States, New York City, and of two large banks in both Detroit and Cleveland, demonstrate that size attained in a competitive market of mergers and consolidations may be quite disadvantageous. The advantages of size gained by the bank itself through participation in expanding group banking organizations were not necessarily beneficial to the general run of depositors, as the weakness of parts of such organizations spread and affect affiliated banks.

In a number of cases banks have been forced to close because of the loss of cash funds sustained in the failure of an important city correspondent. For example, a number of banks in Kentucky and southern

Indiana were forced to close soon after the failure of the National Bank of Kentucky in Louisville.

There is one structural matter which has not been dealt with in this report but which is an important element in the strength of our banks -- the gradual drift away from commercial banking 1/. The growth of time deposits in the member banks of the Federal Reserve System was due, in part, to the lower reserve requirements put on such deposits. Their growth raised the problem of finding employment for these deposits (because the commercial demand was not adequate to absorb them) at a rate which would justify the interest cost which resulted from the competition for such deposits. The testimony of bank examiners and others familiar with the internal matters of such banks has uniformly criticized the results of this general change. It has been claimed that the banks assumed additional liabilities with essentially the same degree of volatility as their demand liabilities but without the compensating advantage of greater liquidity and "shiftability" of commercial assets.

General economic factors. The direct responsibility of bank management and the flaws of our banking structure have not been the only causes of bank suspensions. There are certain elements in economic affairs such as local or general business depressions and land and security booms, which cannot but affect the fortunes of even the strongest and most prudently managed banks. In addition the vagaries of nature such as flood, drought, hail, etc., may be factors causing bank suspensions. A reasonably prudent bank management in a good banking structure should be

1/ The changing character of bank assets and liabilities is discussed in Studay No. 3, "The Complexity of the Banking Structure."

able to nullify a part of the effect of these factors, but the fluctuations in asset values which occurred in the business depressions of 1921 and 1930 - 1933 were greater than could be reasonably anticipated by competent bankers. In the cases where this factor has been combined with heavy losses of deposits, many well-managed banks failed.

The great increase in bank failures which followed the World War has been generally ascribed to the depression of agriculture during this period. The expanded farming facilities produced more goods than the post-war markets could absorb, so that the prices of agricultural products and land were seriously depressed.

Lax loan and collection policies. The measurement of the element of bank management 1/ and its part in causing or averting bank suspensions is a complex problem. One of the few works on internal factors of weakness in banks is a study prepared by the Federal Reserve Committee on Branch, Group, and Chain Banking, "225 Bank Suspensions -- Case Histories From Examiners' Reports". This chapter has drawn heavily on the findings of the Committee's report and the material has been used to a large extent without specific reference thereto. The Committee study includes a frequency tabulation of the various types of criticism made by the examiners, classified under the following heads:

Loan and collection policies
Investment policies
Other operating policies
Criticism of bank personnel
Economic, climatic, and competitive factors

1/ For detailed discussion of problems relating to bank management, see the separate report on that subject. That report indicates that incompetent management was the cause of failure in the case of one-third of the 1,786 national banks which suspended during 1865 - 1931, and a "combination of incompetent management and local financial depression from unforeseen disaster" was given as the cause in another one-sixth of the cases. The "Report of Study Commission for Indiana Financial Institutions (1932)" indicates that the principal causes of failure of Indiana banks in 1925 - 1931 were improper loan policies, inefficient management, declining price levels and earnings of borrowers, psychological attitude of the public, and improper chartering of banks.

Criticisms of loan and collection policies of the 225 banks included in the survey were summarized under the categories listed below. Opposite each heading is shown the frequency of occurrence in the examiners' reports.

Type of criticism	Number of times mentioned out of 225 cases
Lax lending methods	152
Slack collection methods	133
Unwise loans to directors and officers	110
Lack of credit data	83
Capital loans	46
"Placed paper"	27
Excessive loans to tenants	27
Loans subject to prior liens	23
Loans to accommodate other banks	22
Loans based on inflated land values	21
Excessive loans on city real estate	15
Evasion of loan limit by splitting lines with other banks	15
Unwise loans to relatives and friends	14
Attempts to capture business by loans	13
Emphasis on profits over safety	12
Non-resident loans	10
Loans collateralled by bank's own stock	8
Automobile paper	6
Belief in "service to community by loans"	4
Loans for security speculation	3
Concentration of credit on "one crop" or industry	3
Loans to "straw men" to permit speculation by officers	2

The most common criticisms of loan policies in the above list are those that relate to the care and skill with which loans are made. The making of loans to the interests of bank officers or directors, their friends and relatives was also important. These malpractices are scrupulously avoided by well-trained bankers with professional integrity. The evidence suggests that a more careful training of those that engage in the banking business would be of substantial assistance in eliminating these evils.

A number of rather lengthy quotations excerpted from the examination reports gave further information of interest in this connection. They indicate that improper loan policies were usually matters of long standing, and that the actual suspension of banking operations did not occur in many cases until long after the bank was seriously involved with poor loans. This supports the general proposition that the immediate occasions for bank suspensions are usually external circumstances, while the underlying weakness of such banks arises from internal policy.

The quotations referred to above also indicate that the loans made to officers, directors, relatives, and friends, though improper, usually were not made with vicious intent, but frequently with the honest conviction, born of optimism, that the loans were good and proper. Mistakes made with the best of intention, however, are not the less damaging and are all the more dangerous since examiners do not have the same moral ground on which to force corrections.

Capital loans of suspended banks, according to the comments by examiners, frequently had their origin in short-term loans which became slow and on which long-term and capital assets were taken as collateral. Insofar as this was true, the criticism of capital loans is, of course, nothing more than further elaboration of the criticism of "Lax lending methods".

A balance sheet analysis showed that the ratio of "Other real estate" to total assets held by the 225 banks that subsequently failed increased in the years prior to failure, whereas the ratio at banks which did not fail. did not increase during the same interval. The usual origin of "Other real estate" is by foreclosure following default on loans.

<u>Poor investment practices</u>. Prior to 1931 the market for the type of investment securities commonly purchased by banks was so stable that the contribution of poor investment practices to the insolvency of banks was probably negligible. There undoubtedly were many cases in which banks sustained serious losses on securities, but the criticism by examiners of investment policies was infrequent during this period. In the years 1931 and 1932 the situation was changed considerably, and the market for investment securities became so unsettled that many issues which were deemed to be reasonably conservative in the pre-depression period dropped to but a fraction of their former value. Even with this considerable factor it was found that depreciation of securities was the main cause of failure in only six out of 105 cases of bank failures and was a major contributing cause in only four other cases.

In this study of investment policies there were several specific types of malpractice which were uncovered, such as —

- The purchase of bonds with high yields
- The trading of bonds for turnover profits
- The purchase of convertible bonds which fluctuate in value with changes in stock prices
- The purchase of unlisted bonds and so-called "one-house" bonds
- The purchase of real estate and irrigation bonds

The bonds of well-known companies enjoying a high investment repute have typically borne only a modest yield, and high yields are typical only of the bonds of lesser-known enterprises not enjoying a wide market. Such investments obviously do not qualify in any way as secondary reserves. Likewise, the type of securities which give trading profits must fluctuate in price and such movements can produce losses as well as gains. The practice of bond trading, therefore, can be carried on only in second rate issues which are likely to cause losses. The purchase of securities limited to a narrow market and having only real estate security is most obviously an improper banking practice.

In addition to the improper practices described in the case study to which reference has been made, there are several other improper and imprudent practices, some of which are covered by provisions of the Banking Act of 1933. Most important of these practices has been the purchase of securities by banks from their own security affiliates, or from the security affiliates of correspondents which were engaged in the sale or underwriting of securities.

Over-extension of loans and excessive borrowings by banks. Regardless of the high quality of loans and investments of a bank, it is easily possible for an institution to get itself in such an over-extended condition that deposit losses necessitate disadvantageous sales of assets or continuous borrowings. This condition is not necessarily unsafe if all the earning assets are of impeccable character but, because of the narrow margin of safety, such a bank is less able to withstand natural and unpredictable hazards, such as business depressions, droughts, floods, crop failures, etc. In the Committee's case study previously alluded to, it was observed that the proportions of loans and investments to deposits were considerably higher for the banks that suspended than for the banks that survived. This was true for a number of years prior to failure.

In addition, the examination reports of these institutions mentioned an over-extended condition in 106 of the 225 cases and continuous borrowing (the same condition) was mentioned as a criticism in 76 cases. The study brought out that the suspended banks showed a much greater proportion of borrowings than the banks that survived; that the policy of heavy borrowing existed for a number of years prior to failure; and finally, that the banks that suspended in the years 1921 to 1930 were heavier borrowers than the banks that suspended in the year 1931. Of the 225 banks included in the study, those which suspended in 1921 - 1927 had combined borrowings of more than 100 percent of their combined capital and surplus, and in most cases these borrowings dated back to the last half of 1920. The banks that failed in the years 1928 - 1931, on the other hand, did not have such a large proportion of borrowings at the date of suspension, nor did they have a history of such excess borrowings, though the amount that they did borrow was in excess of the amounts borrowed by banks which remained active. As a matter of fact the sample of banks which remained active had no borrowings after 1922.

Large investments in banking house. Large investments by banks in banking house and fixtures may be a strong competitive force in attracting and holding depositors, but such expenditures have no doubt contributed a great deal to the difficulties of banks by causing shortages of reserves and the impairment of effective capital. The proportion of funds invested in such items was almost twice as large for the banks that failed as for the banks that survived, as shown by the case study already cited. Both the "marking up" of bank buildings and the failure to depreciate this item were mentioned as criticisms of operating policies.

Dividend policies, operating losses, etc. Just as excessive investment of banking funds in non-earning assets such as bank building may impair the capital which protects deposits, the depreciation of capital by the payment of unearned dividends or large salaries, high rates of interest paid on deposits, and other operating expenses may give rise to operating losses which impair capital. In the case study made by the Branch, Group, and Chain Banking Committee, the payment of dividends not currently earned was criticized by the examiners in 29 instances. A survey of the earnings and dividend reports of the banks involved indicated that an even larger number had been guilty of this practice.

The result of inadequate earnings either because of inadequate gross revenues or excessive operating expenses is important not only because of the direct capital impairment created by the loss, but because of the incentive which such a condition gives bankers to take extra hazards and invest in high-yield and unsafe forms of securities.

One of the expenses which has been an important source of operating losses has been the payment of excessive rates of interest to depostors 1/ which resulted from the active competition for deposits. The payment of excessive rates of interest was mentioned as a criticism of operating policies in 18 of the 225 cases in the Committee Report. Direct quotations given in this report mention the payment of rates as high as 5 percent to 8 percent on deposits. Provisions of the Banking Acts of 1933 and 1935 have been directed against this practice.

Large deposit accounts. Small banks have accepted large deposit accounts from a single source in many cases. Public funds are a common form of such deposits. Where banks holding such deposits have not pursued

1/For a detailed discussion of this and related points, see Study No. 2, "Banking Profits, 1892 - 1935".

an investment policy which protected them against reduction or withdrawal of such accounts, this factor has contributed to their suspensions. The Branch, Group, and Chain Banking Committee's case study reports that public deposits were mentioned in 18 examination reports. Other quotations indicate that such deposits have been a substantial factor in the failure of a number of banks.

Criminal acts. Various criminal acts including defalcation, embezzlement, and larceny have frequently been mentioned as important factors in the failure of some banks. The Comptroller's reports mentioned criminal acts as a major cause of failure in about 58 percent of the national bank suspensions prior to 1920, but after 1920 this accounted for a much less significant percentage of the national bank failures. Since January 1934, when Federal deposit insurance became operative, the major cause of suspensions cited is criminal acts of bank officers1/.

Many men of prominence, including public officials, bankers, economists, business men and others, have made statements in speeches, writings, hearings, etc., on the causes of bank suspensions. As may be expected, differences of opinion are apparent from a review of these statements, but weaknesses both in the banking structure and in the management of banks are generally included in all of these statements. A number of these statements have been included in the appendix of this report.

1/ "In the case of five of the nine insured banks failing in 1934, suspension was the direct result of criminal activities of bank officers." See 1934 Annual Report of the Federal Deposit Insurance Corporation, pages 68 and 69.

BANK SUSPENSIONS, 1890 - 1935

APPENDIX

Note

It is contemplated that the appendix will include approximately 25 statistical tables which will present detailed figures of bank suspensions, by classes of banks, years, geographic divisions and States, supporting the summary text tables. These tables will cover about 125 pages. In addition to the tables it is contemplated that the appendix will include selected statements by a number of men of prominence, including public officials, bankers, economists, business men and others, relating to causes of bank suspensions.

The appendix to the corresponding volume of the report of the Federal Reserve System Committee on Branch, Group and Chain Banking covered 75 pages. The present study covers a longer period of time than that covered by the Committee, and since this report is intended to be a primary source of information with respect to bank suspensions the appendix to the present study will be somewhat more detailed and consequently larger than the appendix to the Committee report.