

Internal MemorandumDallas, Texas - Interview with Mr. William D. Gentry

Mr. Gentry is a jovial, competent operating man who came to the Dallas Bank in 1916. He was first vice president when his president (R. R. Gilbert) resigned, and a great many people thought that he should be the successor to the presidency. However, his age was against him, and so also was the fact of the trend toward putting in men with more theoretic knowledge. Dr. Watrous Irons was put in as president over his head and probably made internal difficulties in the Bank. However, Mr. Gentry will be out in four years, and that fact is the reason given as to why the Board passed him over.

Mr. Gentry is more articulate and talks more easily than do some of his contemporaries who also have come up through the ranks and are operating officers. It was unfortunate that one could not talk to him for several days in succession, as his stories would probably increase with his familiarity in talking to an interviewer. So far as I was able to discover, he has not written diaries nor memoranda, and he is certainly one of the people whom Dr. Irons would want to encourage in his suggestion that he might ask his vice presidents to set down the things they chiefly remembered in their long careers.

When Mr. Gentry came into the Dallas Bank, there were 30 on the staff, both officers and employees, no branches. The Bank did not undertake check collection and clearance until mid-1916. At that time Mr. Talley was cashier. Mr. Talley set up a district clearing house and actually cleared checks in one or two days against a period of five or six days ~~against a period of five or six days~~ which it would take to get them back and through their home banks. This district clearing house process was discontinued after a couple of years in favor of the system prevailing in the present Transit Department.

At about the same time, the Dallas Bank also started a "direct return of unpaid items," a procedure which the American Bankers' Association recommended recently and tried

to start in the Banks but with very little success.

The year after Mr. Gentry came in the process of Liberty Loans and the Victory Loans began. As in other banks, this was a totally new experiment, and in Dallas it brought about so much confusion that Dallas was still out of balance on the First and Second Loans. When the Third Loan came along, the banking work of the Fed was done in at least seven places, and the amount of moving about and ^{the degree of} unanalyzed and inefficient work which this, among other factors, contributed was terrific.

Mr. Gentry said, as Dr. Watrous Irons had said earlier, that even in those days, Dallas was the financial center of Texas, thanks to the leadership of men like Mr. Tenison, Mr. Nathan Adams, etc. Dallas was always a distributing center. Houston and San Antonio made a strong bid to be the home of the new Federal Reserve Bank, but Dallas won out because of these characteristics and the men who were responsible for them.

The El Paso branch was established in 1918, the Houston branch in 1920, and the San Antonio branch in 1927. In February 1930, Mr. Gentry went down to Houston to take charge of that branch, just after the closing of the First National Bank of Fort Worth. He stayed in Houston for some years, and it is possible that in his own mind the fact that he was out of Dallas was a contributing detail in the failure to make him president. This has not been confirmed.

A constant thread in conversations in Dallas was the period of bank failures between 1920 and 1923. The apparent cause of these failures was the drop in prices after World War I in cotton and cattle. At that time cotton and cattle were the chief sources of Texas wealth. Texas depended more on export of cotton than it does now, and the drop from 60¢ a pound to 5¢ a pound meant terrific losses. There were also other elements such as over-lending and various habits which would now be classed as poor banking practice. There was also the fact, which now seems to be established (or at least it now seems to be considered a fact, although in those days such an idea would probably be derided), that more banks had been established than could usefully be used. (It would

be very interesting to find out how much of the growth of these western lands was due to the practices in what is now called wild-cat banking. It is possible to make an argument that if banking practices had been more closely supervised, growth would have been much inhibited).

The Federal Reserve Bank set up an Insolvent Banks Department to collect paper from closed banks, and it took four to five years to clear it. Money was lent by the small country banks on all sorts of things, not only on crops, but also on farm animals. The Insolvent Banks Department found itself faced with the problem of selling mules worth, according to the loan, \$100 per head (for a mere \$7 to \$10 per head). There was one story attributed possibly to Mr. Gentry that in making the rounds to check up on loans, he had found a pair of mules described in the loan as 15 hands high and 5 years old to be in actuality 5 hands high and 15 years old. He reported back that ^{either} the figures had been confused or that nature had done strange things.

The 1920 period of bank failures was very rough on everybody in the southwest. No credit was available, sometimes they were totally without banking service. El Paso had 11 banks in 1920, and all of them failed. (Check this). El Paso now has 4 banks which, although the town is much larger, seem to handle the necessary business.

The Federal Reserve Bank had loaned \$123,000,000, and as banks found themselves unable to repay, they were forced to discount with other Federal Reserve Banks. Their gold reserve position was down. They themselves had established a rediscount position with their member banks at 6%, but when they had to rediscount with other Federal Reserve Banks, they had to pay 7%, thus losing on the deal.

At one time in this period the progressive rediscount rate, credited to Governor W. P. G. Harding, was in effect in an effort to stop loose lending. They went up as high as 12%.

It is Mr. Gentry's opinion, and this has been confirmed by other people in the

Dallas Bank, that relatively speaking the 1920 failures were worse for the southwest than were the failures in the 1930's.

In the 1920's, the Dallas Bank was speculating in government securities for the sole purpose of making money. They had never made any money for their stockholders, and Mr. Talley decided that the Bank should have a backlog of \$10,000,000 in government securities. As the process went on, they switched from one issue to another to improve their income. In this process, there was no coordination between Federal Reserve Banks and no understanding of open market operations, as they are explained today. In Mr. Gentry's words, "We didn't know our own strength."

In the minds of the Federal Reserve men at that time, the jobs they thought they must do were first, to make credit available, second, to issue currency. It was a very simple duty ^{simply} laid out. As time went on, not only did their duties grow more complicated, but also the understanding of the implication of what those duties meant in a monetary world became more complicated.

The problem of any bank which had to make money in those days, and Federal Reserve Bank, that is, was what kind of paper could be bought profitably. Before World War I, there was no federal debt that amounted to much, ^{and hence no government paper to buy,} In 1914 the only government paper was a set of Panama Canal bonds and 2% Consol bonds. It was the start of the federal debt in World War I which brought government paper into existence. With no government paper to be bought and sold, the member banks handled commercial paper of the big industries and businesses of the country, but the mainstay of the member banks was loans on livestock and land.

This period of handling commercial paper has become progressively less important as handling government paper has increased in importance. Member banks now do not ordinarily rediscount commercial paper at the Federal Reserve Banks. They borrow only when they do not want to sell their government securities, whereas in the older days, they borrowed because their reserves were down and they had to borrow.

In 1929 the member banks had sizeable loans on stocks, ^{and when stocks fell the loans went bad,} In 1933 the RFC aided a great many banks, hurt previously by the stock market crash.

The Gold Reserve Act was passed in 1934 and shifted the entire banking picture. With no more gold reserves to look after, the attitude of banks changed enormously and so did the attitude of the public. The public was so confident after the banking holiday that they did not particularly mind the end of ^{refined, so} gold ^{supply} which could be got and used as currency. The gold stock of the country increased in technical value from 2.8 billion to 4 billion. After the holiday gold began floating in.

Dallas was one of the last banks to close. Cleveland and Detroit had already closed, and those banks had balances in Dallas. The threat was that planes would come with good checks which would take out the Dallas gold, unless the Dallas Bank closed. (The high degree of autonomous thinking which went on in those days was clearly indicated this conversation).

Secretary of the Treasury Woodin asked for a list of good banks. The branch managers were called into Dallas by plane. Scrip was issued by the clearing house.

Mr. Gentry wrote a Minute on the 1933 banking holiday for the Houston Bank. If we can get a copy of this, it might be valuable for our records.

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