March 31, 1955

Internal Memorandum

Interview with Mr. Earl B..Austin - Dallas, Texas

Mr. Austin corrected an earlier warning that the Liberty Loan records had been thrown out. It is his impression that the records of the Liberty Loans as well as of the Insolvent Bank Department are both in the Loan Department. (This was not checked at the time, and there may be a doubt about it).

In talking of the bank failures of the 1920's, Mr. Austin reminded me that oil had not been discovered in Oklahoma that early. Many of the loans were made on real estate, and when the real estate mortgages went bad, the paper stayed in the hands of the bank, and the mortgages were never released. Now that oil is an active factor in Oklahoma, the purchases of land supposed to have oil on it, that is, the purchasers, want to have a clear title to that land. The mortgages in bank vaults therefore become far more important than they were when they seemed to represent a dead debt.

One of the difficulties which the Federal Reserve Bank of Dallas has with its coverage of several states is that the statute of limitations on debt and on mortgage validity (?) vary in each state. The keeping of records is a highly individual matter.

In talking of the various incidents which had loomed large in the eleventh district history, Mr. Austin named first the Liberty Loan experience, beginning in 1917, then the par collection campaign, which is now a sleeping issue, then the insolvent banks of the 1920's, and last the bank holiday of the 1930's.

Regulation Q of the Federal Reserve Board says that member banks cannot absorb the exchange fee on collecting from non-par banks, but there is more than a suspicion that this happens from time to time. Par collection as an issue is by and large a matter of local business.

Mr. Austin made his own contribution to the history of these various crises' years. He said that in 1917 the Treasury Department sent out to Dallas its own publicity director. The Bank gave the director space. The Bank officers made speeches and so forth, but in his memory, it was most of all a Treasury operation in which the Bank participated, rather than, as in some other districts, a Bank operation under the general spur of the Treasury.

In the 1930's he himself took money out to hard-pressed banks by airplane. The telephone conversation which preceded this flight always had ~~the~~ illuminating phrases in it. First there was a question, "Where can we put a plane down near your town?" The answer was something like this, "Five miles north there is a clear and level space." Then would come the reply from Dallas and Mr. Austin, "All right, I'll be there. Put down a wagon sheet to mark the safe place where I can land with the money."

For some reason, the banks which were in trouble always wanted the Federal Reserve to bring the money that would save them in by the back door. The Federal Reserve said that they would not do this. They regarded it as a front door operation, and they were quite sure that what the worried crowd wanted most to see was money coming in. Hence, they always insisted on bringing in the money bags and boxes by the front door.

The situation in the 1920's was, in his mind, a straight business of having loaned too much money. The loans were out of all proportion to the deposits. The War Finance Corporation pattern was the RFC pattern. The paper they took was finally liquidated as a profit, but the profits kept declining.

In the mind of Mr. Austin the entire episode taught bankers a lesson. He regards Texas banking as far sounder since that happened than it was at the time.

Speaking of the airplane episode, he said, "One of those planes had so much money, it was flying sidewise."

Bank supervision, he said, was lax. The problem was too big to be handled. Examiners did not get around to it fast enough.

He also admitted, and this is the first time a bank officer has made this admission and it may represent the frankness of Mr. Austin, that there was a certain element of politics in the whole thing. There were gamblers in that district, and there were bank officers who might presumably have been involved. Mr. Austin thought it unlikely that such crashes would happen again. Bank supervision is stricter than it was. The FDIC has given a fine feeling of confidence to the public.

Mr. Austin says that state member banks now have two sets of examinations, the state and the Federal Reserve. The national banks come under the Comptroller's office. The Federal Reserve again also examine national banks under the law, but they leave that matter to the national bank examiners. The non-member banks in the FDIC are examined by the national office.

In the two crashes the banks have had to carry farmers who borrowed almost continually and had only one moment of liquidation in the year, that is, when the crops were sold. Diversification now is on a far greater scale than it used to be, and it makes things correspondingly safer.

Mr. Austin called attention to the fact that Dallas is now fifth in size among the regional banks. They are in a vast period of expansion. The space at the disposal of the Federal Reserve Bank of Dallas is to be more than doubled. San Antonio, Houston, and El Paso are going to have new buildings. (San Antonio is now an Army town, hence the rise in that sleepy border city).

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