April 1, 1955

Internal Memorandum

Interview with Mr. Coleman - Dallas, Texas

Mr. Coleman is a retired officer of the Federal Reserve Bank of Dallas, who came to work there on July 2, 1915. He is now a farmer or at least carrying on a farm outside of Dallas. He was not an easy talker, and these notes will be very scattered. The interview was held in the presence of Mr. Morgan Rice who helped by conversation of his own and by reminding Mr. Coleman of things which he had forgotten.

As usual with these Dallas interviews, the closed bank situation of the 1920's was a primary topic of conversation. Mr. Coleman said that 101 banks were closed at one time in the early '20's. The trouble was chiefly in the agricultural banks. Cotton was selling in 1920 at 40¢ a pound. The merchants loaned to the farmers. At the same time they had big inventories, and they could not pay their loans to the banks, which in turn went to the Federal Reserve Bank. What hurt the banks in Texas at that time was the previous easy availability of credit, and this Mr. Coleman attributed to policies of the Federal Reserve Bank. Rediscounting was carried to such an extreme that one bank had rediscounted paper amounting to four times its capital stock. The New Mexico banks which are in this district had very limited credit. In that region, a drought had started in 1917. The banks thought they would ride it through, but the drought continued.

The 1920 failures were not accompanied by spectacular runs such as were characteristic of the 1930's. They simply ran out of cash and could not collect their loans. In El Paso there were at the time 13 banks, all but one of which closed. This situation partly reflected too many banks in a small town. El Paso which is now much larger has at the present time 3 banks.

This region had no industry, which amounted to anything, with which agriculture could be balanced. Colgate, Oklahoma had some small coal-mining but not enough to balance the agriculture in that region. All the banks in southeast Oklahoma were closed. The Federal Reserve Bank of Dallas had so many loans out in member banks that they in turn had to rediscount at other Federal Reserve banks. At the time, they were loaning $117,000,000 of which $50,000,000 was rediscounted with other Federal Reserve banks. When the whole situation was finally cleared up, the Federal Reserve Bank of Dallas had lost only $1,000,000.

In Hugo, Texas two men had controlling interests in 13 banks. They were convinced that if the Federal Reserve would only help them out, they could weather the storm, but they were closed just the same.

Things grew so bad that the Federal Reserve Bank itself had men out collecting from the original debtors of its closed member banks. They were not always welcome by any means, and there are stories of being shot at by Indians and having to count mules on which loans had been made. A report came back from Philadelphia, where the Federal Reserve Bank of Dallas was rediscounting some of its loans, that an examiner had said, "I know what a sheep is, but what is an ewee (ewe)?"

In the 1920's, it was the smaller banks which failed. In the 1930's, it was the larger ones. A Fort Worth bank in the 1920's, sure that it was sound and could lure its depositors back, hired an orchestra and set up a stand with sandwiches and coffee. They then got the Federal Reserve Bank to bring them in more money, and at 10 p.m. the run ended when people started putting their cash back in.

In the process, some 13,000 banks were washed out. A San Antonio bank lost $17,000,000 in the run, and its president was so angry that he stood at the front door and told depositors going out with their cash in hand never to come back again.

The stories of the run or the tag lines that it created are innumerable. Collyer, a national bank examiner, told of going to one town where there were two banks on opposite sides of the street. One bank had a run, and the other did not. He asked someone in the line of people why, and the answer was, "Well, it's shadier on one side of the street than on the other." The general attitude of bankers telling of the incident was that there was very little reason in the whole business.

Another reason advanced for it was that the whole Federal Reserve System was set up on the basis of rediscounting eligible paper, and there was not enough eligible paper to hold a situation of this kind in order. The contention of Mr. Morgan Rice is that the whole episode was set off by a speech made by Carter Glass in which he averred that there was not gold enough in the country. to meet the needs.

In many ways the southwest was worse hit in the 1920's than in the 1930's. Part of this was, of course, because in the 1930's their plight was shared by the rest of the country, whereas in the 1920's the agricultural regions were the ones that were the hardest hit.

(It should be noted that Frank Betts, President of the American National Bank of Beaumont, Texas, did a thesis on the banking holiday. This would be worthwhile getting for the history of the southwest banks).(wrote Betts 7/18/54)

At the time of the banking moratorium, Mr. Coleman spent three nights as well as days with Messrs. Gilbert, Walsh and Kraut analyzing the examiners' reports and sending recommendations to Washington concerning the re-opening of member banks. They went according to a stagger system by which banks in the biggest towns were opened on Monday, in the next size towns on Tuesday, and in the small towns on Wednesday. The banks had to meet certain conditions imposed by the Board and the Treasury (?). Licenses had to be issued by the Federal Reserve Board (or the Treasury?).

Speaking of the discount rates, Mr. Coleman recalled that Dallas had a different discount rate from that of the rest of the country. This was a localized situation, made more easy by the lack of branch offices and by the lack of quick transportation between towns. In his mind, it would be impossible for the various Federal Reserve Banks to have different discount rates at the present time.

He talked in some detail about the changes made possible by speed-up in transportation. In the old days, deferred availability used to be a matter of seven days in

Texas. Now it is two days all over the country. However, he believes that the actual time required has not been cut as completely as has the legal availability. The trend is toward immediate availability.

In the old days, the Dallas Bank had 9 bank adding machines, and all checks were sorted by hand. They are now sorted by electronic devices.

Since July, 1954 the Federal Reserve Bank of Dallas is able to pay out Federal Reserve Notes of other banks. Mr. Coleman believes that President Young of the Chicago Federal Reserve Bank was probably responsible for the change. Previously it was necessary for the Federal Reserve Banks to sort notes according to the bank of issue and return the originals to whatever Federal Reserve district they belonged in. This process became very expensive. In his mind, there is no real reason why there should not be a single issue of notes by the Federal Reserve System, except the vestige of regional pride which governs in all districts.

He is also of the opinion that Federal Reserve policies must be on a national scale, but that the administration of those policies can still, rather, must still have a regional flavor and be adopted to the habits of the district. Even within the district, there are differences which need to be conceded. Louisiana is different from Oklahoma. Amarillo, which is in west Texas, is different from east Texas. The Board staff will always try to tell the regions how to run themselves, but the local directors will be much more tolerant of local differences.

In regard to the functions of the Board of Governors, Mr. Coleman said that Mr. Morrison of San Antonio was the first Texan on the Federal Reserve Board. He was a public utility man with properties all over the southwest. He stayed at the Board only two days, although he was on its list as a Governor for 6 months. (This is the man we were having difficulty finding).

Mr. Coleman said that the functions of members of the Board of the Federal Reserve System were first allocated according to regions, then according to functions, Now Mr. Martin is said to run it as a whole Board with daily meetings and no special assignment of interest.

Mr. Adolph Miller is said to have come almost to the point of ending all Board research in 1927 or 1929. He questioned whether "As a system, can we afford two billion dollars for research?" to which Mr. Ransom replied, "Can we afford to do without it?"

Reverting to the Dallas Bank, it is said to have started in a small building on Main Street. They then had a 25 foot lot and a 5-story building on Commerce Street. Before they moved in, the war came, and the demands of the Liberty Loan drives were so great that they had to divide themselves into parts of 5 separate buildings.

The First World War, in the minds of these gentlemen, made the System what it is. The loans weren't marketable issues at that time. People had to be forced to buy Liberty Bonds which were an entirely new type of investment for the private individual.

The Second World War bonds were much harder to sell than the First World War bonds, but very shortly the banks found them profitable and over-subscribed. The October 1942 issue looked bad for a while, but the Treasury got on the phone and persuaded banks to again take it on. The biggest job was policing banks on purchases of World War II bonds. When it came to the Victory Bond of December, 1945, this was unlimited. Mr. Vinson had succeeded Mr. Morgenthau, and although they had tried not to have the banks take on this loan so as to avoid monetization, Mr. Vinson could not bear to have Mr. Morgenthau's issues more popular than his were. Hence, they split their activities into two parts, on the one hand, trying to persuade people that this was entirely a loan to the public, and on the other hand, pressuring the banks to purchase.

MA:IB