THE NATIONAL BANKS OF OKLAHOMA DURING THE CHAOTIC YEARS--

A SURVEY OF THE CONDITION OF NATIONAL BANKING IN OKLAHOMA

FROM 1928 TO 1938

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1935

Submitted to the Department of Business Administration (Finance)

Oklahoma Agricultural and Mechanical College

In Partial Fulfillment of the Requirements

For the Degree of

MASTER OF SCIENCE

1938

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P R E F A C E

The following pages have been written as a result of the study of the national banking conditions in Oklahoma from 1928 to 1938. It is hoped that they will be of value to the student of banking and to those others interested in the financial status of the national banks in this state.

Deep appreciation is expressed to Dr. Fred E. Jewett for his patience, careful criticisms, and invaluable suggestions. Acknowledgment is made to Mr. William C. Caudill for his aid in the preparation of the charts, and to Mrs. R. B. Riggs for her assistance in the preparation of the manuscript in its final form.

F. H. G.

THE NATIONAL BANKS TODAY

A SURVEY AND A BACKGROUND

Chapter I

Each field of endeavor in this diversified commercial nation has its dates wherein succeeding phases of progress or regression have their inception. Communication has the first wireless, the first radio; transportation is marked by the first steamship, automobile and airplane; industry dates its patents and processes; business in general has the fall of 1929. Banking has March 1933. These periods of change and crises are followed by years of adjustment -- chaotic years.

To properly understand the present and future trends in any one restricted phase of this country's industrial and financial structure it is evident that the field as a whole must be grasp. Before treating the national banks of Oklahoma a few generalities concerning the field of banking will be presented.

It is the purpose of this chapter to examine the general field of banking by furnishing a background with reference to failures and the causes of them; by showing changes in legislation which affected the banks during the ten year period from 1928 to 1938; and by explaining the present condition of the banks relative to management, deposit insurance, correspondent and city bank relationships, political interference, and average size of banks.

Beginning far in advance of the fateful and oft-referred to year of 1929 the banks of this nation laid the foundations for a collapse which culminated with an enormous amount of failures. In 1932 there were 2,427 banks which failed, with a total capital of $223,034,000 and total deposits of $1,760,185,000. In the period from July 1, 1932 to the declaration of the bank holiday in March 1933, 1,089 banks failed with a total capital of $67,948,000 and total deposits for $441,430,000.[1]

How may we account for this complete breakdown? The very nature of the Federal Reserve System in conjunction with the World War and the aftermath of price booms and speculations led to a breakdown of individual banks, the causes of which were varied and complex as is common to any delicate mechanism. This generalization is further expanded by H. P. Willis in his pamphlet, "The Banks and You."

> How are these bank failures explained? There is a general notion that the five thousand or so banks which failed during the past three or four years failed because of the depression. This notion is absolutely wrong. Bank examiners had criticized the management of most of these banks before they failed. The bank officials had often been guilty of over-landing; they sometimes took advantage of their positions to line their own pockets; many of them knew almost nothing about banking principles; favoritism was the order of the day; and they encouraged speculation -- some of them speculating with the funds of others. Even today many bank administrators permit bank to misrepresent the value of their security holdings. The public is no longer inclined to tolerate violations of law such as have often been committed in the past.[2]

These varied reasons are dependant upon many conditions such as the size of the bank, the geographical location, and the banking policy of the management of the failed bank. An examination of the publications of several authorities reveals the fact that there are over thirty distinct causes of failure. A banker himself, Lewis E. Pierson,

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1 The figures on failures were taken from the book, Banking Theory and Practice by L. Harr, and W. Carlton, 1936, p. 541.

2 H. P. Willis, The Banks and You, 1934 (Unit Study Booklet No. 13) Modern Problem Series P. 15

of the Irving Trust Company and the Graduate School of Banking said recently in regard to these varied causes of failure:

> And the lesson of the past is clear, that in large part the troubles of our banking system, the criticisms which have been leveled against it, the losses suffered by depositors and stock holders, and the agitation for socialization of banking have had their origin in the existence within the banking structure of banks which have been badly managed or far less strong than they should have been. Some banks have been undercapitalized from their inception or lacked economic basis for existence; some have had their financial strength impaired by unsound and untested policies of one kind and another; some have made loans without due regard to the adequacy of the security or the integrity of the management and the soundness of the underlying ventures; some have invested with a view primarily to income or profits rather than the safety of principal or have employed demand funds in paper of longer maturities than is justified.[3]

For the purpose at hand the causal factors may be brought together into four groups: (1) unsound or frozen loans, (2) mismanagement, (3) depreciation of assets, and price declines, and (4) psychological fear.

The first group of causes is a result of the loan policy of management. Often the loans were unstable and non-liquid. The loans may not have been unsound, but they were long time capital loans and slow in collection. Closely allied to non-liquid loans are loans which were not completely secured by collateral or else the collateral was local in nature and without a market. Chief, however, in this group is the loan which was unsound because it did not arise from the production or distribution of goods. Of lesser significance are loans on inflated real estate or real estate not easily converted into cash.

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3 L. E. Pierson, "No Substitute for Soundness" Banking, June 1938, p. 82.

This first general grouping of the causes of failures is of major importance not from a standpoint of economic relationships, but because of the evident carelessness and ignorance of the men in managerial positions in the national banks of the United States.

To pass abruptly to the second of the four classifications we find the all inclusive term of "incompetent management." From thievery through patronage to speculation is included a large group of abuses and corrupt practices. Here are found the usual items of dishonesty, loans to affiliated concerns, political connections, loans to officers, excessive investments in plant facilities, and over investment in Wall Street. Such errors in judgment and character can only be placed upon the individual responsible. Failures in this group are, perhaps, due to lack of sufficient supervision and examination on the part of the national authorities. Nevertheless, it bespeaks poorly of the United States as a nation to allow its economic machinery to be disturbed by inefficiency and dishonesty.

The third in the classification series is that group most evidently due to the depression; the declines in the prices of farm products, real estate, and securities. Here, too, belongs bond depreciation and lack of credit information. This group of causal factors has been elevated to a position of prime importance by loud-spoken authorities who were less thorough in thought than they were impetuous in speech. These may be called secondary causes. They are the external stimuli which exposed and hastened the conditions of insecurity brought about by other more fundamental factors.

Last are the outward manifestations of such an unsound condition which is a result of the three foregoing groups. Runs by an untrusting public, closing of other banks in the area, rumors, and so forth are all a result of the prime psychological tone of the day, fear. People in the United States did not trust their money in such chaotic banking houses. Fear is all powerful. The mad scramble was like an avalanche. Something approaching terror as far as the security of money is concerned swept the nation. In reality these were results rather than the causes of failures.

The collapse that was produced by these stimuli was the product of an inadequate mechanism and faculty organization for:

> The test of 'soundness' in any banking system is always afforded by its ability to withstand the onslaughts which develop as the result of friction inside the economic mechanism, as well as those that are due to changes of a more profound nature in relationships of economic groups. Such a test the American banking structure has not found itself able to withstand, and the questions have thus inevitable arisen, (1) what must be done to adapt our banking system to immediate necessities and, (2) what changes of a longer-range variety must be attempted in order to make it responsive to the dictates of soundness and safety, thereby reducing the danger that there may be a recurrence of the banking difficulties which have been conspicuous since 1929.[4]

To keep the disorder of the banks of the United States from becoming a shapeless mass of confusion certain emergency laws were enacted, and government agencies created. The first was the Reconstruction Finance Corporation created on January 22, 1932. With the advent of Roosevelt came the Banking Act of 1933. It was an act which reformed rather than aided the banks. This act grew into a revolutionary Banking Act of 1935.

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4 H. P. Willis, and J. M. Chapman, The Banking Situation, 1934, pp. 4-5.

To alleviate conditions by providing an easier banking situation, the Banking Act of 1933 provided for the issuance of Federal Reserve Bank notes backed by United States obligations, promissory notes, acceptances, etc. Loans to individuals, partnerships, and corporations could be made by the Federal Reserve Banks when secured by promissory notes backed by direct obligations of the United States government. To prohibit the abuses common before the banking holiday certain interdictions were made. Interlocking directorates were forbidden as were loans to affiliated companies and the purchase of the securities of affiliates. Bonds and stocks of these related companies as collateral greater in amount than ten per cent of the capital of the bank could not be taken. Under the provisions of the act, too, powers were delegated to the Federal Reserve Banks to regulate and limit the amount of credit for member banks in order to prevent misuse of funds. The Federal Reserve Board was to fix the amount in per cent of capital and surplus that could be represented by loans on stocks and bonds. Bank deposits were insured. Interest on demand deposits was eliminated. Cumulative voting was allowed. Branch banking was allowed according to the laws for such banking in the various states. Directors were to hold a certain amount of stock. They also could not be directors or managers of a business dealing in securities nor make the banks act as correspondents for such a concern.

Sketchy as these provisions are it is easy to see that they promulagated wide reforms and changes in banking. Closely allied to the Banking Act of 1933 was the devaluation of the dollar on January 31, 1934, to 15.5 grains nine tenths fine -- a reduction of 40.94 per cent. The inflationary tendencies of this legislation are still the basis for inumberable arguments both pro and con. Bankers still are divided on the wiseness of this legislation.

Immediately following the devaluation of the dollar came the Silver Purchase Act of June 19, 1934. The powers which it gave to the Treasury of the United States are such that they could have a marked effect on banking policy and management.

The Banking Act of August 23, 1935, has been called the most important piece of banking legislation of the New-Deal. It is also labeled the omnibus banking bill. It's titles are three in number. First is the one concerned with deposit insurance. It continued and modified the insurance of deposits set up in the Banking Act of 1933. Title two was the one which caused such far-reaching changes in the powers of the Reserve Board and the functions of the Reserve banks. Power to deal with open-market operations was moved to the Federal Reserve Board. Loans were made allowable on notes that are secured only to the satisfaction of the Federal Reserve Banks.

Such in summary fashion, is the banking legislation of the present decade.

The remainder of this chapter will indicate the present conditions of the national banks which are resultant of the legislation and changes in the banking system. Such items as bankers' attitudes, insurance of deposits, correspondent banks and city bank relationships, political interference, and average size of banks will be touched upon.

Despite the fundamental changes in the structure of the national banking system, the attitude of the bankers themselves has altered little. These managers, notwithstanding the increasing paternalism of the government are highly individualistic in action. Their ideas are local in attitude. The particular banks in which these bankers are involved is of immediate concern to them. They are not, however, interested in the relationships of their banks as affected by state or national banking policies. Such a narrow-minded outlook must be overcome if the banks are to be operated profitably and efficiently.

In connection with this individualistic manner is found the attitude of the bankers concerning the true valuation of assets. With the reorganization that followed the banking holiday the examiners noted that the majority of balance sheet items were marked up to excessive heights. Yet the authorities allowed this situation to prevail. Unless the assets are reduced to conform to value shrinkages caused by the stock-market collapse there can be only doubtful safety in banking. No investor is eager to buy bank stock of such a business house. Willis says of this condition:

> . . . .if bank assets were to be 'marked down' to true value, there would be left no equity for shareholders. There were indeed, not a few strong and well-managed banks here and there whose capitals and surpluses were intact or nearly so, but they were far more than offset by the great multitude whose assets had been enormously reduced in value through the shrinkage of stock-market quotations.[5]

A second prevailing condition that is new is that of the insurance of deposits for national banks. The insurance of deposits is in reality a participation by the government in banking. How far this influence will extend no one knows. That it does materially alter the relationships between large and small banks is an established fact. It would seem to throw a greater responsibility upon the larger

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5 H. P. Willis, The Banking Situation, 1934, p. 105.

banks than upon the country banks. Virtually it means the payment for failure of the small banks by the larger banks because of the assessments which are in proportion to size of banks. Centralized control with branch banking in the offing seemed certain under this circumstance in the terms of the Banking Act of 1933. Less remote than before there still is the chance of complete reorganization of the system which would be due in part to deposit insurance.

A third new situation exists in the business relationships between correspondent banks, that is, country banks, and the larger city institutions. This situation is a result of the cessation of payment of interest on demand deposits. No longer will the country banks send in money to be loaned by the city banks in the stock market. Consequently other institutions must take this duty of providing funds for short time money markets. The altered position of the city banks is a strange one. Much of their business in providing money for the various money markets has gone elsewhere and they must create new services to justify their existence.

Yet another circumstance hinted at before which arises is political pressure upon the banks. In agricultural localities governments and ambitious individuals demand hazardous loans. The refusal of the banks to make such loans because of restraint due to control on the part of the other banks will bring into conflict this old struggle: A struggle between bankers and politicians.

Leagued with this struggle is a reiteration of a statement made heretofore. The devaluation of the dollar gave to the Treasury great influence over the Federal Reserve System by moving to the Treasury many powers formerly delegated to the Reserve Board. In essence, the Federal Reserve System is now merely an agent of the government.

Willis says of this situation:

> For a good while past it has been observed that the Reserve system was steadily developing into a purely governmental, or government-financing, type of banking system or arrangement. This observation has been based upon the fact, well recognized by all, that the Reserve system was devoting itself almost exclusively, to government operations or to operations designed for the carrying out of the purposes of the Treasury Department. That this is the chief or essential mission of the Reserve banks has indeed been asserted by leading members of the present national administration, and they have attempted, confessedly, to 'crush' the Federal Reserve Board because of its presumed tendency to stand in the way of the complete attainment of some such object. A long step in this direction has indeed been taken in the so-called devaluation act, adopted in January, 1934, whereby many of the powers of the Board are in effect transferred to the Treasury. To deprive the Reserve System of what for reasons of circumstance and bad management, has become in recent years the major occupation of the system--the financing of speculation--means that the strong drift toward making it a medium more and more exclusively for the financing of Treasury operations will be further intensified. There can, indeed, be no other outcome.
>
> How far then will the banks which own and, in theory operate, the system be inclined to support it merely as a Treasury agency?[6]

Banks are engaged in an economic business and should have only a minimum of government regulation and manipulation.

With this background of the situation let us obtain an idea as to the number and size of the national banks in the United States. In 1932, which was the year in which so many banks failed, there were 6,130 national banks with a capital of $3,131,000,000 and resources of $22,368,000,000. The capital of the national banks was 32.1 per cent of the total. Of these national banks 27.5 per cent had in 1930

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6 Ibid., p. 116.

capital stock of less than \$50,000. However, as H. P. Willis suggests loans and investments are a better indication of the size of banks than is capital. Table I shows all the banks and the national banks in the United States grouped according to loans and investments groups in actual figures and percentages. It can be seen from Chart I that the majority of the banks in this country are those grouped in the smaller loan and investment size groups. The highest percentage of national banks fall in the \$250,000 to \$500,000 loan and investment group. For the year given (1930) 68.5 per cent of all banks in the United States had less than \$750,000 worth of loans and investments while national banks in this size group amounted to 49.6 per cent of the total.

It is notable that the majority of banks in the United States are small in size, and are located in small towns. Especially is this true of agricultural regions. One fourth of all banks in the United States are located in towns with less than 500 population, while 83.5 per cent of this total are located in towns with population of 10,000 or less. Table II shows in percentages the banks located according to population of town and the comparative figures for loans and investments.

On the other hand the banking business is concentrated in the larger size establishments. "The banks in cities of more than 1000,000 inhabitant, only 7 per cent of the total number, had 63 per cent of the total loans and investments."[7] Evidence of this fact is

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7 H. P. Willis, "Report of the Federal Reserve Committee", in The Banking Situation, 1934, p. 144.

TABLE I

DISTRIBUTION OF BANKS

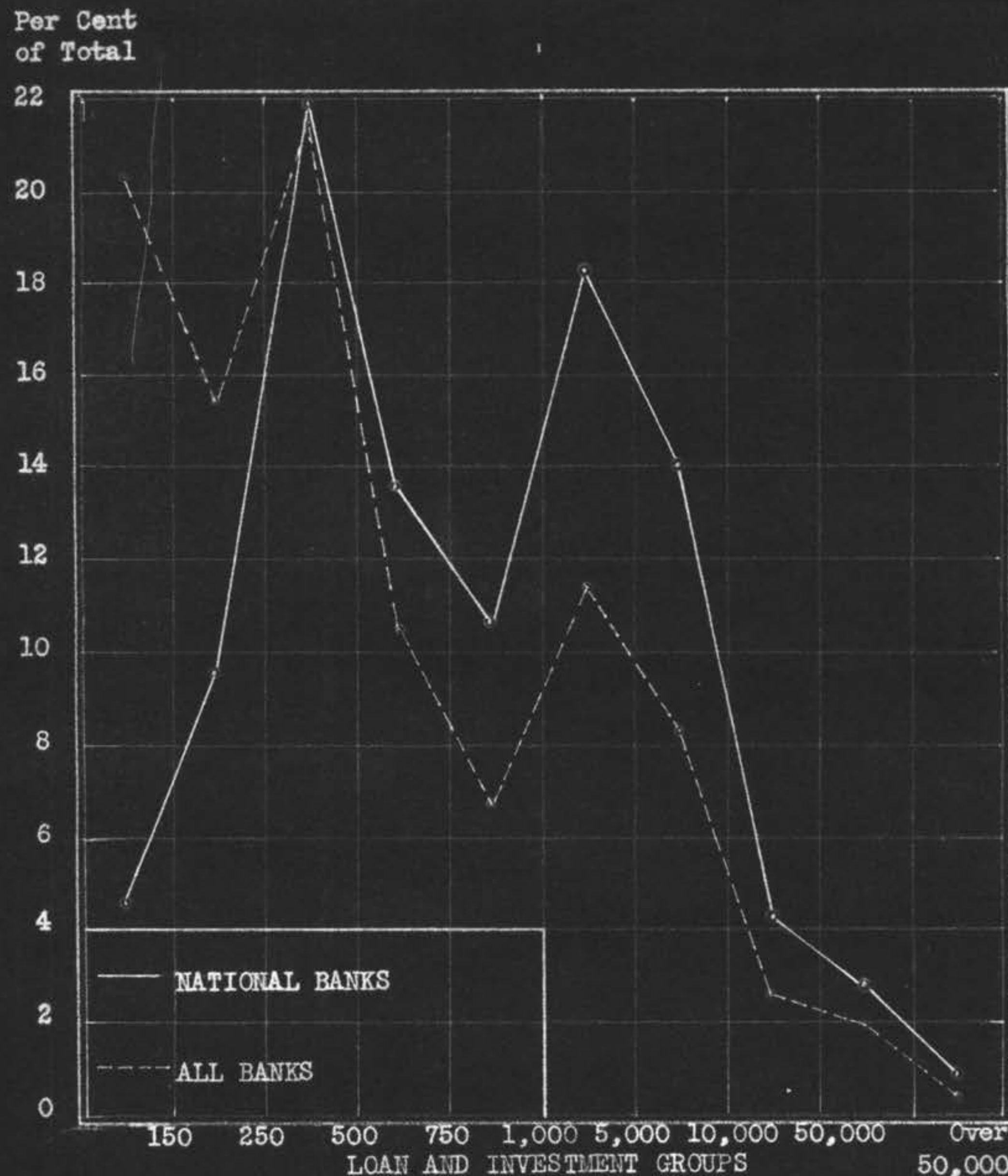
BY LOAN AND INVESTMENT SIZE GROUPS IN 1930*

Size Groups Loans and Investments	1 9 3 0 Number of Banks		Percentages of Total	
	All Banks	National Banks	All Banks	National Banks
0-150,000	4,839	335	21.2	4.6
150,000-250,000	3,510	701	15.3	9.7
250,000-500,000	4,966	1,594	21.7	21.9
500,000-750,000	2,362	968	10.3	13.4
750,000-1,000,000	1,552	767	6.8	10.6
1,000,000-2,000,000	2,600	1,320	11.4	18.2
2,000,000-5,000,000	1,887	1,014	8.3	14.0
5,000,000-10,000,000	595	307	2.6	4.2
10,000,000-50,000,000	454	202	2.0	2.8
50,000,000-Over	104	42	0.4	0.6

*Willis, H. P. The Banking Situation, 1934, p. 139.

CHART I

DISTRIBUTION OF BANKS
BY SIZE OF LOAN AND INVESTMENT GROUPS
IN THE YEAR 1930
IN PERCENTAGES*



* Willis, H. P. The Banking Situation, 1934, p. 139

TABLE II

DISTRIBUTION OF THE NUMBER OF BANKS
AND OF LOANS AND INVESTMENTS BY SIZE OF TOWN
IN PERCENTAGE OF TOTAL*

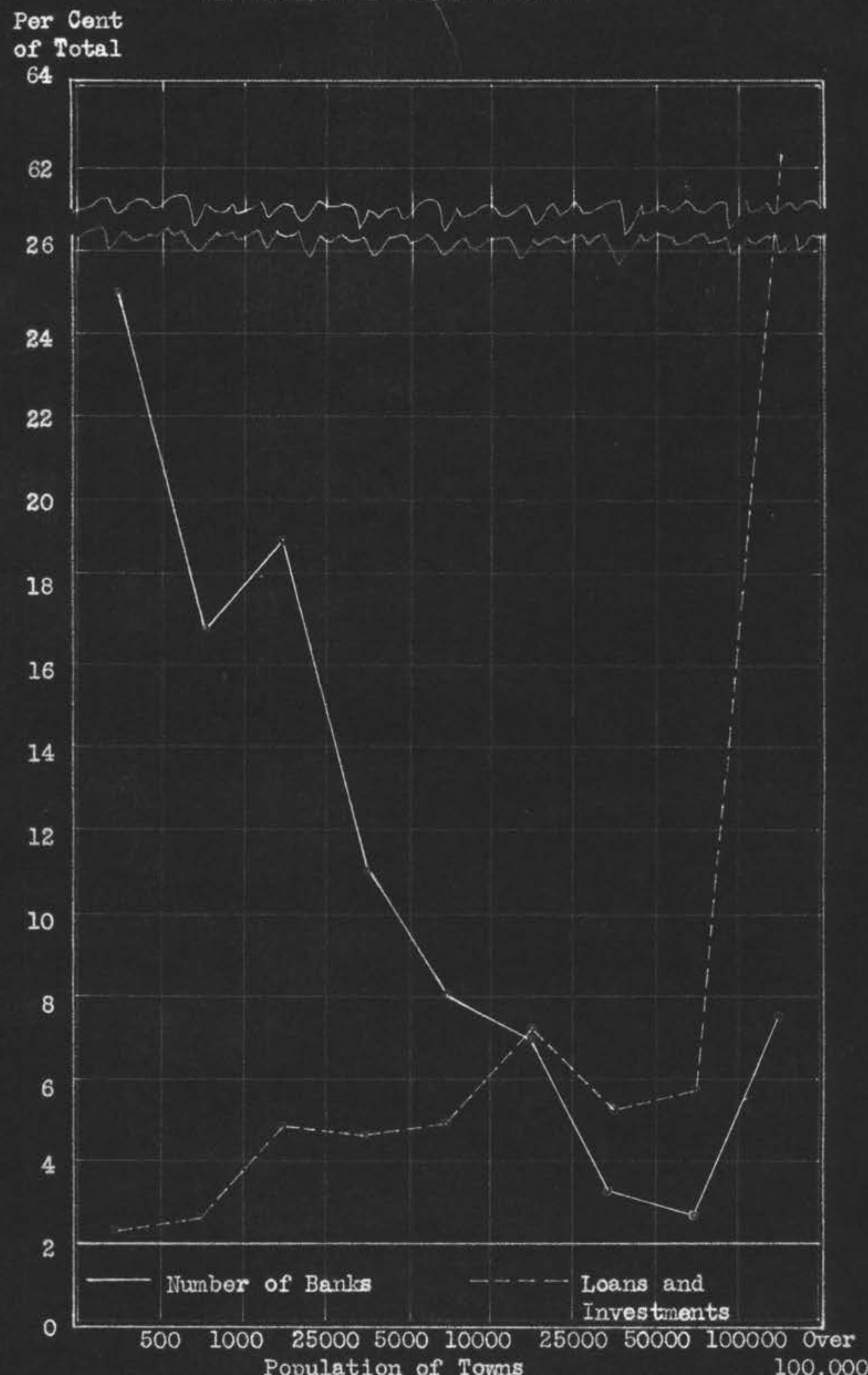
Population of Town	Number of Banks 1930	Loans and Investments 1930
Under 500	25.0	2.1
500-1,000	16.9	2.5
1,000-2,500	19.0	4.7
2,500-5,000	10.9	4.5
5,000-10,000	8.0	4.9
10,000-25,000	7.0	7.3
25,000-50,000	3.3	5.2
50,000-100,000	2.5	5.7
100,000 and Over	7.4	63.1

*H. P. Willis, The Banking Situation, 1934, p. 144.

obtained from Chart II on page 14, where the two lines, one for the number of banks and the other for loans and investments, run in opposite directions.

To conclude, then, we find the banking institutions of the United States in a state of flux and change resultant from legislation and business conditions. This legislation has left a changing bank situation in its wake, and the system of national banks must adjust itself to these altered conditions. As to the size of banks we have seen that the small institution is in the majority. The largest amount of business is not located where the largest number of banks are, but in the towns with the larger populations. With this background we turn to Oklahoma and its national banks with the question in mind: What is the position of the national banks in Oklahoma, and what is wrong with the national banks of Oklahoma?

CHART II
DISTRIBUTION OF BANKS
AND LOANS AND INVESTMENTS BY SIZE OF TOWNS
PERCENTAGE OF TOTAL IN 1930*



* Willis, H. P., The Banking Situation, 1934, p. 144

OKLAHOMA'S NATIONAL BANKS -- A PREMISE

Chapter II

Chapter two surveys the present position of the banks in Oklahoma according to (1) the national banks in existence, (2) the size of the banks, and (3) the failures of the national banks in Oklahoma. The first section, the banks in existence, will treat the decline in number of banks, the increase in liquidation, the return to normalcy, and the lag of banking data for Oklahoma behind that of the nation. The second group of material, the size of the banks, shows the average size of banks in Oklahoma according to the size of town, size of capital, and size of loans and investments. The third division discusses the failures in Oklahoma with the data divided into regions and the size of capital and deposits divided for each group.

From Table III[1] it is possible to make a study of the number of national banks in existence in Oklahoma from 1928 to 1937. In 1938 there was a total of 214 national banks in existence out of a total of 739 banks organized within the state since the establishment of the first bank. This failure of 525 of the total banks organized is an

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1 The material in these pages has been compiled from the Annual Reports of the Comptroller of the Currency from 1928 to 1938. Often the figures cannot be found in a single table for the method of tabulation changes from year to year and is found under sundry captions. Although these are government figures and so published, it is possible to find discrepancies and inaccuracies in various tables giving identical data. There must be allowed, then, a margin of error and accuracy. However, the data is the most complete and the best of all sources. The figures are not biased and material is placed perhaps where it often smoothed rather than accentuated the point at hand.

evidence of high mortality. Only 29.09 per cent of all the national banks established have survived in Oklahoma. This steady decline in the number of banks in existence no doubt finds partial explanation in the conditions which rocked the banks all over the country from 1929 to 1933. The period of largest decline was from 1931 through 1933.

TABLE III

NUMBERS OF OKLAHOMA NATIONAL BANKS IN EXISTENCE
DURING THE YEARS 1928 - 1938*

Year	Organized	Consolidated	Insolvent	Liquidation	Existence
1928	715	3	56	323	333
1929	718	7	57	352	302
1930	719	11	62	370	276
1931	720	12	64	386	258
1932	720	12	69	397	242
1933	726	12	81	408	225
1934	733	12	84	415	222
1935	736	12	83	424	217
1936	737	12	83	426	216
1937	739	12	83	427	214

*Compiled from the Annual Reports of the Comptroller of the Currency.

One would suppose that liquidations would grow in number as the banks in existence declined. A glance at Table IV shows in percentages the decrease in existence of the banks which were organized and the increase in liquidations. For a more vivid picture Chart III on page 20 illustrates the circumstance. The same data when presented as percentages makes the relationship even more clear cut. This material is given in Chart IV on page 21.

In 1928 46.57 per cent of all the banks organized had survived. But the chaotic years took their toll and at the end of ten years only 29.09 per cent had survived. Consolidations were negligible and are ignored in studying the liquidations. Approximately one-half of all banks organized survived in 1928. From that figure to practically one-fourth is a descent both precipitous and demoralizing.

TABLE IV

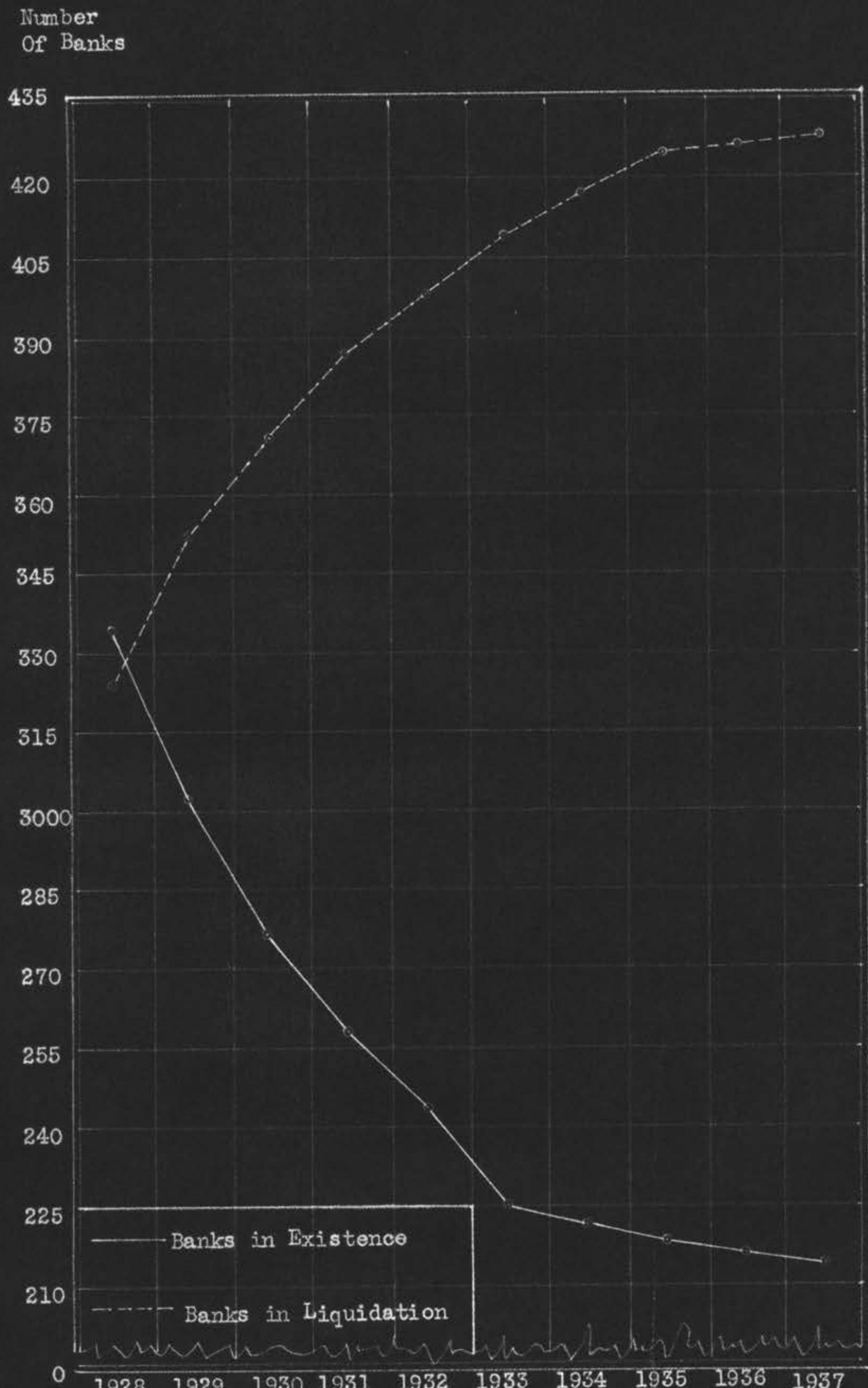
PERCENTAGES OF OKLAHOMA NATIONAL BANKS IN EXISTENCE DURING THE YEARS 1928 -- 1938*

Year	Per Cent Number Organized in Existence	Per Cent Organized In Liquidation
1928	46.57	45.17
1929	42.06	49.02
1930	38.38	51.46
1931	35.83	53.61
1932	33.61	55.13
1933	30.99	56.19
1934	30.28	56.61
1935	29.48	57.60
1936	29.30	57.80
1937	29.09	57.87

*Compiled from _Annual Reports of the Comptroller of the Currency_.

Leaving liquidations and number of banks in existence, the study is directed at the returning stability of national banks in Oklahoma. There is some indication of a return to stability and normalcy in the percentages of banks organized and in liquidations which cease to increase at a marked rate after the year of 1934. The percentages of the total banks organized in process of liquidation has leveled off. The percentages of the last three years; 1935, 57.60 per cent; and

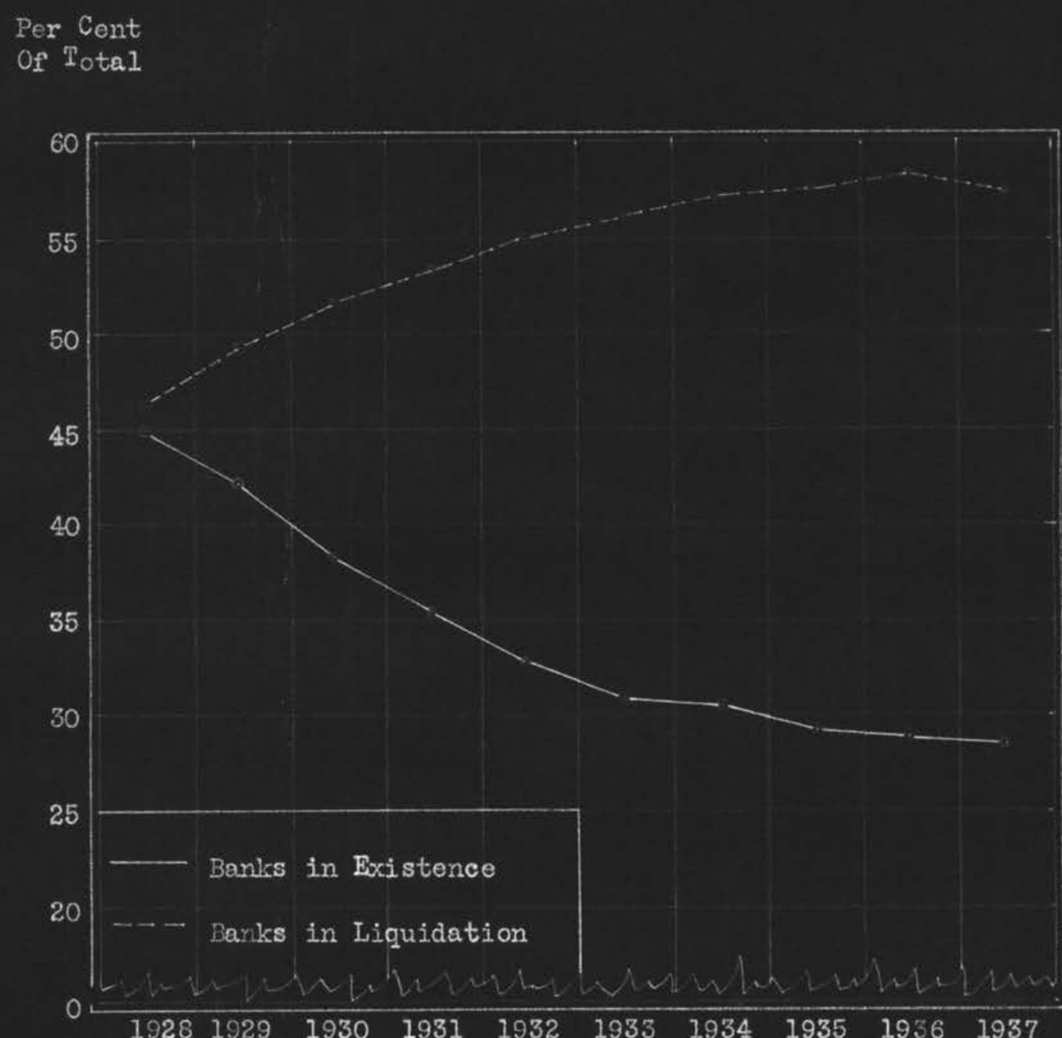
CHART III
OKLAHOMA NATIONAL BANKS
IN EXISTENCE AND IN LIQUIDATION
DURING THE YEARS 1928 - 1937*
(In Actual Figures)



* Table III

CHART IV

OKLAHOMA NATIONAL BANKS
IN EXISTENCE AND LIQUIDATION
DURING THE YEARS 1928 - 1938 *
(In Percentages)



* Table IV

1936, 57.80 per cent; and 1937, 57.78 per cent, are an indication of this trend. May we infer from these figures that an end of bank failures has been reached? If we ignore the preventive efforts of the government perhaps the indications would not be so evident. Legislations, accordingly, may have stopped the number of failures with the laws governing insurance of deposits. Perhaps the three year period is too small to judge by. Yet, again, we may assume that the disorder is at an end, and that confusion has given way to a measure of stability. Charts III and IV show this tendency plainly.

Further evidences of this approaching equilibrium are found in Table V which shows the comparitive stability in the last three years of certain selected items such as loans, investments, demand and time deposits, and real estate loans. It is to be noted that the loans and investments which began an increase in 1934 continued so to rise in number during the succeeding three years with a somewhat static number for 1936 and 1937. Demand deposits were also enlarged. Following demand deposits we have an increase in real estate loans and a slight change for time deposits although the change was negligible and the figures point to a stand-still.

An interesting side issue in this first section is an illustration of the lead and lag principle of forecasting and its application to banking in Oklahoma. The degree of sensitivity of each of the items in Table V illustrates a lage behind the nation. The order of increase of the items of Table V is as follows: (1) Demand deposit increases lag a year behind the failures of 1933. (2) After this year, 1934, come investment increases and loan increases in 1935. (3) Following these in 1936 are real estate loans and time deposit increases in

1937. Oklahoma banks, then, respond later to the conditions prevalent a year or so before in the banking system at large. If this leg is true for the increases in these items, then, conversely, Oklahoma bankers might watch for recession by perceiving the changes in reverse order in these selected times.

TABLE V

SELECTED ITEMS OF OKLAHOMA NATIONAL BANKS
SHOWING APPROACHING STABILITY AND SENSITIVITY OF
CHANGE DURING THE YEARS 1928 -- 1938*

(In thousands of dollars)

Year	No.	Bank Loans	Investments	Demand Deposits	Time Deposits	Real Estate Loans
1928	330	207,753	122,167	242,923	103,331	2,369
1929	300	213,055	123,061	234,083	106,526	3,231
1930	247	195,800	108,214	209,988	107,694	3,081
1931	257	156,141	101,654	156,001	98,336	3,226
1932	241	110,968	106,280	137,040	85,247	3,029
1933	217	91,278	105,975	136,001	75,247	2,272
1934	218	82,976	122,855	170,144	71,817	1,887
1935	215	91,102	124,216	203,161	69,844	1,645
1936	214	102,145	135,971	226,748	69,071	2,202
1937	214	111,646	135,798	246,987	70,167	2,704

*Compiled from Annual Report of the Comptroller of the Currency.

The second section of this chapter discusses the size of the 200 odd national banks remaining in existence in 1938 in Oklahoma.

A tabulation from data available in 1936 for 198 banks in Oklahoma reveals the fact that the majority of national banks are in towns that are extremely small, under 2,500. Although this is in accord with the national survey, Oklahoma's banks are found in relatively smaller towns than those of the majority for the nation at large. Table VI classifies the banks according to population of towns. Over 58 per cent of the banks are located in communities of less than 2,500.

TABLE VI

NATIONAL BANKS IN OKLAHOMA
ACCORDING TO POPULATION OF TOWNS*

Population of Towns	Number of Banks	Per Cent**
0-500	24	12.12
500-2,500	91	45.95
2,500-4,500	36	18.18
4,500-6,500	12	6.06
6,500-8,500	5	2.52
8,500-10,500	4	2.02
10,500-12,500	4	2.02
12,500-14,500	4	2.02
14,500-16,500	3	1.06
16,500- and Over	15	7.57

*Compiled from the _Annual Reports of the Comptroller of the Currency_.

**The percentages in these tables does not add to 100 because the division was only carried two places.

While 76.25 per cent of the national banks of Oklahoma are in operation in towns of 4,500 inhabitants or less in the United States as a whole approximately one-fourth are located in towns of less than 500 population and 83.6 per cent in towns of less than 10,000 people. The nation as an entity included state as well as national banks. This inclusion of state bank accounts for the fact that Oklahoma's national banks are located in somewhat larger towns, 500 to 4,500. It is probable, however, that the inclusion accounts for the absence of so many banks in towns of less than 500 because the small state banks are responsible for the high percentage of banks located in towns of less than 500. On the other hand the state banks in the larger towns and cities would tend to enlarge the percentage of banks located in them. Thus the elimination of state banks eliminates both the extremely high and extremely low percentages of banks located in small and larger towns. With the elimination of these extreme percentages (which are allocated to the state banks) Oklahoma's national banks when compared with the nation would probably fall into smaller towns with less percentage of them in towns of an extremely low or high population.

Will it follow that the national banks located in small communities are necessarily small in size? There are two measures of a bank's size, its capital and its loans and investments. The first measure, capital stock, is illustrated in Table VII. This table groups the national banks of Oklahoma according to various capital classifications. In the nation 27.5 per cent of all national banks were capitalized at $50,000 or less. Oklahoma on the other hand, in 1937, had 52.80 per cent banks with a capital of less than $50,000 and 39.7 per cent with capital between $50,000 and $200,000. The Redman's state is indeed a state with small banks as far as capitalization is con-

TABLE VII

SIZE OF OKLAHOMA NATIONAL BANKS ACCORDING TO CAPITAL GROUPINGS
DURING 1937 AND 1928
(In thousands of Dollars)

Capital	Banks	Loans	Investments	Assets	Capital	Deposits	Per Cent
			1937				
0-50,000	113	10,706	10,307	36,047	3,043	31,215	52.80
50,000-200,000	85	26,177	36,845	107,832	6,067	96,318	39.71
200,000-500,000	7	7,195	11,722	31,735	1,900	28,036	.32
			1928				
0-50,000	209	32,240	19,611	78,899	5,390	68,668	29.23
50,000-200,000	108	49,093	38,151	119,359	7,500	104,975	15.10
200,00-500,000	9	11,736	7,399	26,347	2,050	23,136	.11

*Compiled from Annual Reports of the Comptroller of the Currency.

cerned. A comparison with the year 1928 shows that at the beginning of this decade only 29.23 per cent of the banks had capital below the $50,000 mark. The years since then show a reduced size of banks rather than an enlarged size. The surviving banks are small banks.

A better measure than capitalization of a bank's actual business and size is the amount of loans and investments it has. Table VIII groups the size of national banks in Oklahoma according to the loans and investments measure. This is the second measure of size. From Table I[3] it is seen that 36 per cent of the national banks in the United States had $500,000 or less of loans and investments. In 1936 the banks in Oklahoma had 46.03 per cent of loans and investments of less than $250,000 and 70.25 per cent of these institutions had less than $500,000 worth of total loans and investments. This percentage is almost twice the percentage for the entire United States which has only 36.00 per cent. Oklahoma's banks, then, are abnormally small in size in comparison with the nation.

TABLE VIII

LOANS AND INVESTMENTS OF
OKLAHOMA NATIONAL BANKS IN 1936*

Loans and Investments Group	Number of Banks	Per Cent
0-250,000	91	46.03
250,000-500,000	48	24.22
500,000-750,000	16	8.24
750,000-1,000,000	11	5.67
1,000,000-2,000,000	15	7.73
2,000,000-5,000,000	7	.36
5,000,000-10,000,000	2	.10
Over 10,000,000	4	.20

* Compiled from the Annual Reports of the Comptroller of the Currency.

3 Page 12.

After examining these features of the national banks of Oklahoma the study turns to the third section of this chapter, failures. The relationship will be shown: (1) between the size of banks in the regions and the failures in these regions; and (2) between the size of banks and failures in these regions and the failures in Oklahoma and in the nations at large.

The number of failures with capital and assets are listed in Table IX. From data in this table it is seen that there was a total of 35 failures from 1928 to 1938 with an aggregate capital of $1,835,000 and assets of $16,683,637. The highest per cent of failures came in 1933 with 34.28 per cent of the total failures for the ten year period occurring in that year. Individually, as is to be expected, these banks were located in small towns and were small in size in the majority.

TABLE IX

FAILURES OF THE NATIONAL BANKS IN OKLAHOMA
DURING THE YEARS 1928 — 1938*

Year	Number Failed	Capital	Assets	Per Cent
1928	5	185,000	1,650,884	14.28
1929	1	25,000	207,769	.28
1930	5	200,000	2,512,171	14.28
1931	2	50,000	266,921	.57
1932	5	400,000	2,735,526	14.28
1933	12	525,000	3,968,267	34.28
1934[4]	5	450,000	5,342,099	14.28

*Compiled from the Annual Reports of the Comptroller of the Currency.

4 There were no failures from 1934 to 1938.

According to population of towns the failed banks are as is shown in Table X. The highest percentage of failures, 45.71 per cent, occurred in towns having a population between 500 and 2,500.

TABLE X

FAILURES IN OKLAHOMA GROUPED ACCORDING TO POPULATION DURING THE YEARS 1928 -- 1938*

Population of Town	Number of Banks	Per Cent
0-500	2	.57
500-2,500	16	45.71
2,500-4,500	8	22.85
4,500-6,500	2	.57
6,500-8,500	1	.28
8,500-10,500	2	.57
10,500-12,500	0	
12,500-14,500	3	8.55
14,500-16,500	1	.28
16,500 and Over	1	.28

*Compiled from the Annual Reports of the Comptroller of the Currency.

In order to ascertain those sections of the state wherein the greatest number of failures occurred, the state was divided into regions according to various products peculiar to each section. These regions were five in number, grains, cotton, oil and gas, livestock, and general farming. On page 30 is a map showing these divisions. That banks in agricultural communities are in a less sound state than banks in other regions was an assumption which proved to be a fact when the failures were classified within the various regions. This fact is due to the size of the banks in the agricultural localities. When the results were tabulated it was found that 28.50 per cent of

* The darker the area the great the number of failures.

the insolvent banks were located in the grain areas; 25.6 per cent in the cotton regions; 22.8 per cent in the general farming communities;[5] 11.4 per cent each in the oil and gas and livestock sections. Other than the oil and gas industry, Oklahoma is essentially an agricultural state and the failures show up accordingly.

For the purpose of obtaining an average size of the banks in each district an average and median capital and an average deposit was computed for each geographical region. These figures are given in Table XI. It should be kept in mind that the capital used was the capital at the date of failure and not at the time of organization. This will cause the capital figures to run nearly 25 per cent larger than otherwise.

TABLE XI

AVERAGE COMPUTATIONS FOR FAILED BANKS
ACCORDING TO PRODUCTION REGIONS*

Production Regions	Average Capital	Median Capital	Average Deposits	Failures	Per Cent Failures
Grains	39,500	45,000	306,525	10	27.1
Cotton	73,888	40,000	242,749	9	25.7
General Farming	59,375	25,000	618,632	8	22.8
Livestock	68,750	25,000	380,214	4	11.4
Oil and Gas	118,750	100,000	1,513,470	4	11.4

*Compiled from Annual Reports of the Comptroller of the Currency.

5 General farming is understood to be those areas wherein two or more crops were in evidence and no single one was relied upon for support of the farmer.

There is a definite relationship in these geographical regions between the failures and the size of the banks as evidenced by capitalization and the deposits. The banks which failed were located in the production regions as follows with the highest number of failures first: grain, cotton, general farming, livestock, and oil and gas. That region with the highest percentage of failures is the grain region which had 27.1 per cent of the failures. Not only does this region have the smallest average capital, $39,500, but it is second in small deposits with an average of $306,525. The banks in the cotton localities were second in the percentage of failures with 25.7 per cent. This region was smallest with respect to deposits with an average of $242,749. The third ranking area in failures, that of general farming, had 22.8 per cent of the failures and was second smallest in respect to average capital with $59,375. The livestock area with 11.4 per cent of the failures and $68,750 average capital was third in size according to the capitalization and third in size according to deposits with an average of $380,214. Largest in size of banks is the oil and gas region. The average capital of $108,750 and average deposits of $1,513,470 are far larger than those of any other region. The percentage of failures was 11.4 per cent.

These figures, in spite of the fact that the deposits and capitalizations do not ascend in amount together for the regions, show some interesting things. The first facts are that the smaller banks are located in the agricultural localities and the greatest number of failures occurs where the smaller banks are. There is, then, a correlation between the capitalization and failures and the deposits and failures for these two are in~~d~~ices of the size of the banks. In general, we may conclude that the regions with the smaller banks had the highest percentage of failures.

When compared with the average size of the national banks in Oklahoma and the nation at large we find that the banks in these five regions are in the larger groups of small size banks. For the nation as a whole 27.5 per cent of the national banks had capital of $50,000 or less. For Oklahoma 52.8 per cent of the national banks are capitalized at $50,000 or less. There is a much higher per cent in the regions just discussed for 88.5 per cent of the banks fall in this capitalization group. Naturally these are all failed banks, but the comparison in size is interesting when we recall that 60.05 per cent of the banks in the nation which failed had capitals of $50,000 or less. The danger point for Oklahoma national banks is found from this evidence in the small banks of the small agricultural communities.

Chapter two has shown that the national banks of Oklahoma are decreasing in number; that the size of bank is generally small and located in towns of small populations; and that the regions of production have a marked correlation with the failures from the standpoint of size of banks.

WHAT IS WRONG WITH OKLAHOMA'S NATIONAL BANKS?

Chapter III

The purpose of this chapter is to discuss the faults of the Oklahoma national banks that are of general significance and those that are of specific interest. Material is presented concerning the economic significance of the number of banks; the application of managerial policies to investing securities, and making loans; and a further identification of the specific weaknesses of these banks relative to liquidity, solvency, and earning power.

First among the faults of general significance we find that Oklahoma has had too many national banks -- far more than has been necessary to service the state. This is in accord with the over-banked conditions of the nation. A commission set up by the American Bankers Association presents the following summary of the causes for the over-banked conditions:

> 1. The history of bank chartering in the United States shows that for years prior to the depression which began in 1929 there was a wide spread disregard of the proper relationship between the economic needs of the country and the numbers and localities of banks permitted to open for business.
>
> 2. This disregard prevailed not only among the general public but frequently also among both state and national banking authorities who were responsible and empowered by law to guard against unsound charter policies.
>
> 3. A major cause in the over-production of banks was the competition between the national and state banking systems to outdo each other in respect to the numbers of banks under their jurisdictions.
>
> 4. It also became a matter of public policy in both jurisdictions to encourage the establishment of banks with small capital in small places as a popular political measure, mistakenly considered a means of fostering national development, especially in the

rural sections.

> 5. These policies were persisted in despite warning voices and the danger signals presented by a disastrous bank failure rate from 1920 to 1929, indicating clearly that the nation had become heavily over-banked. Faster than old banks failed, new bank charters were granted often to persons unfit to be entrusted with such responsibilities.[1]

In the comparison of the banks actually in existence year by year with the banks organized over the same period it was noted in Table I, page 12, that approximately one-half of the banks chartered failed at the beginning of the period. At the end of the study, 1938, only 29.09 per cent of these institutions which were established were in operation. The inference would seem to be that banks were organized for which there was no economic justification. When over fifty per cent of the banks organized failed there must be a surfeit of banks.

One of the causes in the over-organization of banks as given in the quotation above was the rivalry between state and national banking systems. Each tried to out do the other in regard to the number of banks by encouraging the establishment of banks with small capitalizations and located in small places. Such a procedure was considered a political means of aiding the development of rural communities. From 1920 until the bank holiday this condition was prevalent. This over-expansion explains in part the collapse of the system and the subsequent state of affairs. The Economic Policy Commission of the American Bankers Association summarizes this point as follows:

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1 Economic Policy Commission, American Bankers Commission, <u>The Bank Chartering History and Policies of the United States</u>, p. 47.

6. Both state and national governments progressively and competitively liberalized their charter provisions to attract new banks.

7. These conditions contributed heavily to creating a banking structure unable to meet the stresses and strains and the destructive shocks of depressed national conditions which began in 1929.

8. Analysis of the data shows that there is a distinct causal relationship between the over-chartering of banks and the abnormal bank failure conditions that prevailed from 1929 to the bank holiday in 1933.[2]

Not only were these banks too numerous, but there was also an improper distribution of banks in Oklahoma relative to population. In 1929 there was one bank for every 2,115 people within the state. When it is stated that the increase in population in Oklahoma from 1921 to 1929 was only 340,000, and that there were 148 charters granted (2,297 for each new bank) there remains little doubt that the economic justification for their existence was slight. In the present year, 1938, there are 5,732 people for each bank in existence. The generalization is that this particular condition has improved since 1929 because there are more people per bank. There are between 10,000 and 11,000 people for each national bank in Oklahoma in 1938. An agricultural state such as this one does not need a maximum of weak banks to serve its scattered population, but a minimum of strong banks if a repetition of the record of failures in this state is to be avoided.

Statements made by two prominent banking officials show that although liquidations and failures have alleviated the circumstances somewhat, there is a possibility of a return to too many banks in an already well crowded field. Mr. J. F. T. O'Conner, Comptroller of the Currency, speaking before the American Bankers Association said:

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2 Ibid., p. 47.

> Some bank failures have been due to poor management and bad investments, but in addition, this nation has been over-banked. A mad scramble to establish a bank opposite every gasoline station across this continent is not a situation which can be contemplated with any degree of satisfaction.[3]

In less vivid, but more definite terms the chairman of the Board of Directors of the Federal Deposit Insurance Corporation, Mr. L. T. Cowley, on the same occasion spoke as follows:

> It should help to prevent a recurrence of the evil which is greatly feared namely, the return of the over-banked condition of the early twenties. . . . For the eighteen months period from January 1, 1934, to June 30, 1935, over 1,400 new banks were licensed by supervisory authorities. Ninety were in communities with a population of 250 or less; 169 were in communities with a population of 250 to 500, and in some instances, there were already other banks in these very towns. . . . Whether or not the uneconomic unit is insured, its influence on the general banking system can not be anything but destructive. . . . Unless state supervising authorities, your association and the public discourage the organization of banks doomed to failure, the over-banked conditions and consequent evils thereof are bound to return. . . The public is friendlily disposed to the efforts the Corporation and your Association are making towards bringing about an improved banking system. Once the public starts to lose confidence in the Corporation, its faith in all banks will again diminish. The public must be taught that a surplus of banks is no indication of well being.[4]

The second fault of general significance which is discussed is a result of the general managerial policies throughout the state of Oklahoma in regard to investments in securities. There has been too much application of funds available to long time securities. Table XII shows investments of the national banks of Oklahoma from 1928 to 1938, classified by fields of investment. Although the total amount of

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3 Ibid., p. 6.

4 Ibid., p. 5.

TABLE XII

INVESTMENTS OF THE NATIONAL BANKS OF OKLAHOMA
DURING THE YEARS 1928 - 1938*

Year	U. S. Govt.	State County Municipal	Rail-road	Public Service	Foreign	Total Securities
1928	28,096	19,922	469	916	1010	62,184
1929	30,342	20,634	532	942	1765	67,986
1930	27,348	21,381	462	913	1700	65,063
1931	18,848	22,600	273	875	1360	61,347
1932	20,407	22,113	265	617	901	60,083
1933	19,523	20,521	278	591	588	54,901
1934	22,562	30,128	594	606	404	57,733
1935	21,545	20,033	959	1,034	337	57,567
1936	22,737	27,101	985	1,033	381	55,186
1937	25,137	26,182	721	468	367	55,380

*Compiled from the Annual Reports of the Comptroller of the Currency.

securities seems to have decreased with the passing years, it must be kept in mind that the total number of banks and bank assets has decreased. There are only 29.09 per cent of the banks organized in existence in 1938 as compared with 46.57 per cent in 1928. For this reason the actual decrease in securities has been slight. When expressed as a percent of the total assets the decrease in 1937 from the 1928 percentage is only 1.2 per cent.

A further analysis of these securities shows two major criticisms of the investment policy of the managements of the national banks of Oklahoma; i.e., (1) investments are not readily marketable, and (2) are too large in proportion to total assets. Table XIII shows the relationship between total assets and securities. It is a notorious fact that the present trading in government securities is "frozen." Not only is this true of national issues but still more is it true of state,

TABLE XIII

PERCENTAGE WHICH SECURITIES WERE OF TOTAL ASSETS
OF THE NATIONAL BANKS OF OKLAHOMA
DURING THE YEARS 1928 - 1938*
(In thousands of dollars)

Year	Total Assets	Total Securities	Per Cent Securities of Total Assets
1928	453,501	62,184	13.9
1929	450,006	67,984	15.1
1930	417,991	65,063	15.5
1931	333,984	61,347	18.2
1932	298,609	60,083	20.1
1933	294,574	54,991	15.2
1934	324,599	57,733	17.5
1935	369,577	57,567	15.6
1936	411,345	55,186	13.4
1937	434,436	55,380	12.7

*Compiled from the Annual Reports of the Comptroller of the Currency.

county, and municipal bonds. The latter group has only limited market ability. Twenty, fifteen, even twelve per cent of bank assets when invested in long time securities give to that bank a major problem to solve in case of the demand of depositors for cash.

To further substantiate the statement that the investment portfolios are too large the data in Table XII was converted into percentages. This data so arranged makes comparison easy, which is shown in Table XIV. These percentages bring into prominence the increasing importance of United States Government securities and the securities of state, local, and municipal issues. All other holdings are declining in amount and are of negligible importance since they make up only 7.5 per cent of the total at the present time. Chart V on page 41 shows the great amounts of securities held in Oklahoma today in the govern-

TABLE XIV

PERCENTAGE DISTRIBUTION OF INVESTMENTS FOR OKLAHOMA NATIONAL BANKS DURING THE YEARS 1928 - 1938*

Year	U. S. Govt.	State, County and Municipal	Public Service	Foreign	All Others
1928	45.2	32.0	1.4	1.6	22.8
1929	44.6	30.3	1.3	2.5	25.1
1930	42.0	32.8	1.4	2.5	25.2
1931	30.7	36.8	1.4	2.2	24.5
1932	33.9	36.8	1.0	1.4	29.3
1933	35.5	37.3	1.0	.9	27.2
1934	39.0	52.1	1.0	.7	8.9
1935	37.2	52.3	1.7	.6	11.5
1936	41.2	49.1	1.8	.6	9.7
1937	45.3	47.2	1.3	.6	7.5

*Compiled from the Annual Reports of the Comptroller of the Currency.

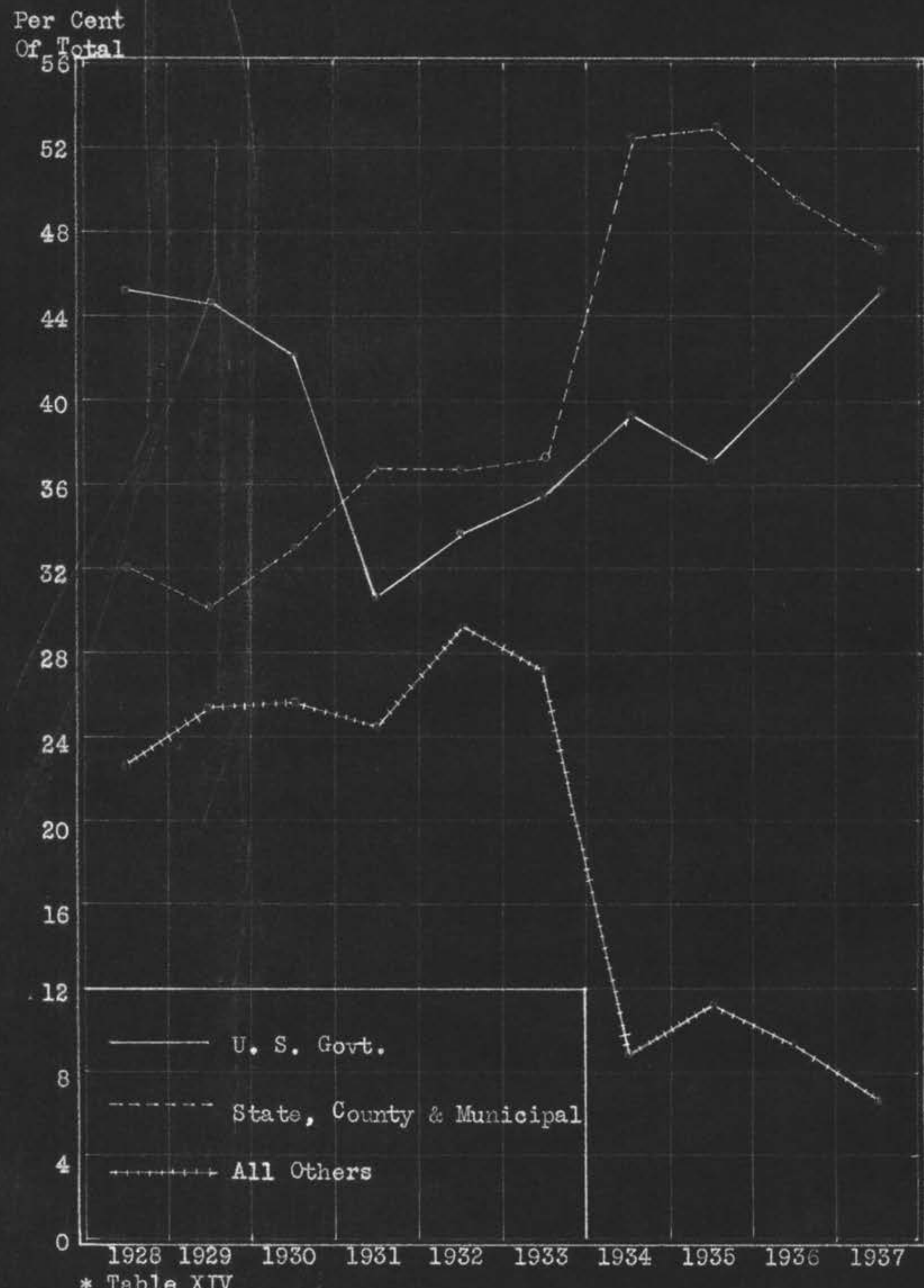
mental field. It is evident at a glance despite the eratic fluctuations of the three lines of trend that (1) state, local, and municipal issues are monopolizing the investments of national banks; (2) the United States Government issues are steadily increasing measuring in amount.

From this data two conclusions may be drawn. The first is that the investments of the national banks of Oklahoma are not liquid. The second statement is that the holdings are too large. Both of these conditions are faulty if a bank is to be steady and sound.

A weakness of general significance is found in the type of investment held by the national banks of Oklahoma in that they are all in one field. There is a minority of foreign holdings and public service holdings. A variety of issues is better than a large amount of any single issue if risk is to be avoided and liquidity assured. Chart V on page 41 shows the declining importance of all issues other than

CHART V

DISTRIBUTION OF INVESTMENTS
IN OKLAHOMA NATIONAL BANKS FROM 1928 to 1938*



* Table XIV

government issues. Table XIV also shows the declining investments in other fields. Two other faults, if less important, are of general concern, viz.: (1) a decline in loans, and (2) a growth of excess reserves. The decline in loans on the part of the country banks in Oklahoma may be seen by referring to Table II. Banks are doing less business than they formerly did for the communities in which they are located. This reflects the general condition of business and is a weakness of necessity rather than choice. There is, nevertheless, a decline in actual transactions. In 1928 there was a total of $629,554 worth of loans per bank; in 1937 there was only $521,710 worth of loans made per bank.

> Over several decades preceding the period of depression the earnings on bank loans averaged around 5 per cent. But during the past several years, the returns on both loans and investments have been much less. Loans are now yielding on an average about 4 per cent and investments from 20 to 2½ per cent. <u>Commercial bank loans have declined from about 75 per cent of earning assets to about 45 per cent</u>, while investments have increased from about 25 per cent until at present they are about 55 per cent. Bank loans have become a secondary factor, but generally speaking, very few banks are equipped in their official staff to handle efficiently investment portfolios, from which they are now deriving a much larger part of their income.[5]

This weakness is due to the changing conditions of banking and government pressure. It is a new trend and one with which the bankers of Oklahoma must cope.

There is, to take up the second minor fault, an increase in the reserves held by the national banks. In reality this is not a fault, but an observation. It is due entirely to business conditions and cannot be remedied by the banks. The banks are not loaning money.

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5 W. F. Gephart, "Commercial Banking Prospects," <u>Banking</u>, June, 1938, p. 89 (Italics mine).

Table XV shows the reserves required, reserves held, and the excess reserves over the requirements. The danger here is that of credit inflation and for that reason this point is brought up as a warning. This data is merely supplementary to that on liquidity.

TABLE XV

RESERVES OF THE NATIONAL BANKS IN OKLAHOMA
DURING THE YEARS 1928 - 1938*

Year	R E S E R V E S Required	Held	Excess	Ratio of Required Reserves to Deposits
1928	10,729	11,548	819	5.94
1929	9,740	10,371	631	5.89
1930	9,220	9,553	632	5.76
1931	7,564	8,202	638	5.60
1932	6,049	6,717	668	5.43
1933	5,519	8,423	2,904	5.55
1934	6,489	11,741	5,252	5.71
1935	7,377	13,455	6,078	5.87
1936	5,750	13,587	7,828	5.56
1937	12,569	17,646	5,027	11.26

*Compiled from the Annual Reports of the Comptroller of the Currency.

The second section of this chapter will deal with faults that are of more specific significance in regard to liquidity, solvency, and earning power.

A depositor is interested in the high liquidity of a bank, the quick availability of his money, and an interest on his deposit. To ascertain this degree of protection a liquidity ratio may be used. This ratio is dependable and consists of cash resources divided first by demand deposits and then by total deposits. Three representative years, 1928, 1934, and 1937, were chosen to illustrate the liquid condition of the national banks of Oklahoma. These ratios are given in

Table XVI. The average ratios for the prosperity period which includes 1928 for country banks for the nation are 25.0 per cent of cash re-

TABLE XVI

LIQUIDITY RATIOS FOR THREE REPRESENTATIVE YEARS FOR THE NATIONAL BANKS OF OKLAHOMA*

Year	Ratio of Net Available Cash to: Demand Deposits	And to: Total Deposits
1928	29.7	29.4
1934	45.0	21.5
1937	17.9	12.6

*Compiled from the Annual Reports of the Comptroller of the Currency.

sources to demand deposits. Oklahoma's ratios are larger, being 29.7 per cent and 29.4 per cent respectively. In 1934, the deflation period, the average ratios were 47.3 per cent to demand deposits and 24.0 per cent to total deposits; for Oklahoma the figures are 45.0 per cent and 21.5 per cent respectively. In 1937 in Oklahoma the available cash resources to demand deposits was 17.9 per cent and to total deposits 12.6 per cent. The national average ratio for this period is between 15 and 20 per cent. The significance of these figures is especially apparent in 1934. At that time Oklahoma's national banks were less liquid than the average by five per cent. A further fact belonging here is that Oklahoma's deposits are mostly demand deposits. Such deposits require larger cash reserves than time deposits. This further accentuates the lack of liquidity for Oklahoma.

A second consideration of specific significance is that the earning power of the national banks in this state is below the average for the nation. Since government securities and total securities are the most obvious of the earning assets of a bank, the ratios used are those of total loans and investments divided by total deposits and United States securities divided by total deposits. These ratios are given in Table XVII. It is here that the national banks of Oklahoma are noticeably under the average for the country banks of the nation

TABLE XVII

INVESTMENT RATIOS OF OKLAHOMA NATIONAL BANKS
DURING THE YEARS 1928 - 1938*

Year	Total Deposit	Total Investments	Government Securities	Per Cent Total	Per Cent Govt.
1928	346,254	62,184	28,096	17.9	8.1
1929	340,665	67,986	30,342	19.9	8.9
1930	317,682	65,063	27,348	20.4	8.9
1931	254,337	61,347	18,848	24.1	7.4
1932	222,287	60,083	20,407	27.0	9.2
1933	212,471	54,991	19,523	25.8	9.1
1934	241,961	57,733	22,562	23.8	9.3
1935	272,005	57,567	21,545	21.1	7.9
1936	295,765	55,186	22,737	18.6	7.6
1937	317,154	55,380	25,137	17.4	7.9

*Compiled from the Annual Reports of the Comptroller of the Currency.

as a whole. In 1928 the average ratio of total securities to total deposits for the nation was 25.2 per cent. For Oklahoma, however, it was only 17.3 per cent. The United States average ratios run almost universally 8 per cent higher than the banks in Oklahoma. In 1932 the nation's average was 39.7 per cent. Oklahoma had an average of 27.0 per cent.

This condition of below average ratios prevails in the ratio for government securities to total deposits also. In 1931 the national average ratio of 9.4 per cent was followed by the Oklahoma ratio of 7.4 per cent. Again in 1932 the national average ratio was 10.8 per cent and the Oklahoma average was 9.2 per cent. Only for the earlier years of this study are the national average ratios available. It is an indication, however, that the earning power of Oklahoma's national banks is not as high as that of the nation as a whole for the last two years.

A second consideration in earning power is the type of deposits making up the total deposits for the national banks. In general, time deposits have increased throughout the country, but Table XVIII will

TABLE XVIII

COMPOSITION OF DEPOSITS IN OKLAHOMA NATIONAL BANKS
PERCENTAGES AND ACTUAL FIGURES DURING THE YEARS 1928 - 1938*

Year	Total Deposits	Time Deposits	Demand Deposits	Per Cent Time	Per Cent Demand
1928	346,354	103,331	242,923	29.5	70.5
1929	340,665	106,562	234,083	31.2	68.8
1930	317,683	107,694	209,988	33.8	66.2
1931	254,337	98,336	156,001	28.6	61.4
1932	222,287	85,247	137,040	38.3	61.7
1933	212,471	75,960	136,511	35.7	64.3
1934	241,961	71,817	170,144	32.1	76.7
1935	272,005	69,844	203,161	35.6	74.4
1936	295,765	69,017	226,748	23.3	76.7
1937	317,154	70,167	246,987	22.1	77.9

*Compiled from the Annual Reports of the Comptroller of the Currency.

indicate that time deposits have decreased steadily in Oklahoma since 1931. In 1929 the ratio of time deposits to total deposits was 34.8 per cent for the nation. On the other hand, Oklahoma had a ratio of

31.2 per cent. Five years later the national ratio was 29.3 per cent and the ratio for Oklahoma was 23.1 per cent.

From a study of these ratios we conclude that Oklahoma's national banks are not so liquid as they should be, nor do they earn the amount they should. Part of this discrepancy may be due to the agricultural nature of the state. Naturally each individual bank may not be as faulty as the analyses have disclosed, but the aggregate national banks in Oklahoma are full of weaknesses.

In conclusion there is this brief summary:

The first chapter disclosed the fact that there have been many failures in the United States banks and gave the causes for them. It further disclosed that the United States banks were in a state of flux and change which was the result of the legislation of the ten year period from 1928 to 1938. The size of the banks was discussed, and it was found that the small banks were in the majority, but the largest amount of business was located not where the majority of the institutions were, in the small towns, but in towns with the larger banks and the larger populations. The present conditions of the banks were discussed in regard to management, deposit insurance, etc. This section pointed out that management was purely local in attitude; that the cessation of the payment of interest on demand deposits lessened the usefulness of the city banks, and that the Federal Reserve System was becoming a government agency.

The second chapter noted that the national banks in Oklahoma were decreasing in number and that the size of the banks was very small. It was suggested that the banking field was returning to normal in Oklahoma. The last section of chapter two was devoted to the failures in Oklahoma. Here it was noted that the failures of the various regions of the state were in small banks and that the correlation of failures to size was most noticeable in the production regions of grain and cotton.

The third chapter examined the general and specific faults of the national banks of Oklahoma. It was found that the banks were not highly liquid; that investments were not diversified nor particularly high in earning power; and that government securities occupied too large a per cent of the portfolios of the banks of this state.

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Typist: Maurine Chilton Riggs