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A Historical Analysis of the Loaning Activity of the Albuquerque National Bank

Robert W. Elder

LOANING ACTIVITY OF THE ALBUQUERQUE NATIONAL BANK - ELDER

A HISTORICAL ANALYSIS OF THE LOANING ACTIVITY OF THE ALBUQUERQUE NATIONAL BANK

By

Robert W. Elder

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MASTER OF ARTS

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April 21, 1960
DATE

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PREFACE

A bank's first responsibility is to itself; for the integrity of its assets, and the soundness of its credit. If for any reason, either charitable or mercenary, this imperative is compromised, it will result in the bank's failure to meet its responsibility to others.

A bank's primary function is to make loans, and it is in this area that its self-responsibility is most apparent. If it is too charitable, or too greedy, it will soon find that its loan portfolio will contain an inordinate amount of risk. This will inevitably lead to trouble. On the other hand, if the bank is too cautious, its loans will be comprised of only the best of credit risks, which will stunt both its own growth and the growth of its community. A favorable balance between these two poles is, of course, the ideal, but like all ideals it is hard to achieve.

This paper is an inquiry into the loaning activity of one bank, The Albuquerque National. This institution has prospered and grown in the face of every possible change in the business cycle. It has been confronted with most of the problems that might come to a bank, and yet it has been able to fulfill its responsibilities to self and community. This bank has helped spur the growth of the local economy and, also, it has been able to effectively minimize its loan risk. It has

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approached the ideal balance mentioned before. The manner in which this has been accomplished is the thesis of this paper.

The scope of the paper includes the Albuquerque National Bank's loan activities from the date of the bank's founding, January 21, 1924. It also, of necessity, includes background material about general economic conditions from that date.

The material about the bank has been drawn exclusively from its own records, and from personal interviews with some of the senior officers who have been associated with the bank, almost from its founding.

I take this opportunity to thank the Directors, Officers, and Staff of the Albuquerque National Bank for the cooperation and help they have extended to me in the preparation of this paper. To Mr. Fred Luthy, the Bank's President, I give my special thanks for the time he so generously gave to answer questions that arose as this work progressed.

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CHAPTER I

BEGINNINGS

Perhaps the most distinguishing feature of American banking prior to 1934 was its instability. The number of bank suspensions in the United States bears mute testimony to this fact. Before 1892 there are not reliable statistics relating to bank failures, but from that year until 1920 there were 2,926 bank failures in the United States. In later years the record proved more serious. The bank failure rate began to rise in 1921, and by the middle of the decade banks were suspending at the rate of about 620 a year. After 1929 this rate rose even more until in 1933 exactly 4,000 American banks failed in that single year.[1]

The most glaring cause of this appalling number of closed banks prior to 1934, was the fact that there were simply too many banks. In 1921 there were 30,419 banks of all types in this country, or one bank for every 3,500 people.[2] Although superabundance of banks in itself did not ruin any banks, it became the breeding ground for many dangerous and doubtful practices that proved quite fatal to a vast army of American banks.

As thousands of small communities developed throughout

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[1]Board of Governors of the Federal Reserve System, Banking and Monetary Statistics.

[2]Ibid.

this country, small independent banks sprang up within them. In almost every town more than one bank was organized. The reasons were two-fold. One, it was relatively easy to start a bank, and two, the ideal of competition was thought, and rightly so, to extend to banking. These small banks raised most of their capital locally, and in all too many cases it was borrowed. The assets of these banks were, likewise, invested locally in home town loans and home town bonds. When two or three banks developed in small communities -- competition became fierce, driving profits to a minimum and forcing bankers to provide services completely out of line with their abilities. As a result of low profits, bankers were paid minimum salaries, and mediocre talent was generally attracted to the business. Also, as profits declined bankers were tempted to loan large amounts of their institutions' funds for speculative ventures that brought high interest rates.

A damaging result of this redundancy of banks and its severity of competition was that bank capital was spread too thin, and the bankers took too many chances with the capital that they did have. Also, because of the ease of starting a new bank, many were brought into being as speculations. These things worked together to undermine that conservatism so necessary to sound banking, and thereby eroded the stability of the American banking system.

Such doubtful banking practices that arose because of an overabundance of banks,undoubtedly caused most of the bank failures in this country from 1920 to 1934. Aside from this,

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TABLE I

Commercial Bank Suspensions in the United States
By Class of Bank

1920-1934

Year	Number of Banks	Suspensions	National Banks	State & Unincorporated Banks
1920	29,715	167	7	160
1921	30,419	505	52	453
1922	30,086	366	49	317
1923	29,505	646	90	556
1924	28,806	775	122	653
1925	28,257	618	118	500
1926	27,376	976	123	853
1927	26,416	669	91	578
1928	25,579	498	57	441
1929	24,633	659	64	595
1930	22,733	1,350	161	1,189
1931	19,907	2,293	409	1,884
1932	18,394	1,453	276	1,177
1933	15,015	4,000	1,101	2,899
1934	16,096	57	1	56

Source: Banking and Monetary Statistics - Federal Reserve Board of Governors.

Aside from this, however, and almost unique to this country, was the frequency that banker fraud and dishonesty appeared as a cause of bank failure. Fully ten per cent of all of the bank suspensions that occurred from 1920 to 1934 was a direct result of illegal bank practices of one sort or another, a black mark that bankers found difficult to live down.

Although this country had more laws regulating banking practice than any other country in the world, its banks failed in far greater numbers than the banks of other nations. The Federal and state governments employed thousands of examiners and gave them arbitrary powers over the banks, yet they continued to fail in wholesale numbers. Banking was,

at best, an uncertain undertaking, fraught with weakness and instability that only a painful depression would change.

An aggravating influence in this picture was that the majority of these defunct banks in the 1920's were located in rural communities. The bulk of their loans had been extensions of credit for agricultural purposes. Thus, they had been tied to a depressed industry. Farm prices had been declining since 1921, pressing the farmer between high production costs and low selling prices. Farm equities were being liquidated as a consequence, and rural banks were finding it difficult to remain solvent with the majority of their loans represented by those vanishing equities. The almost inevitable result was that banks in rural areas across the country suspended at an extremely high rate.

Albuquerque, New Mexico was, in reality, a rural community in the 1920's, and it was facing the same difficulties that were prevalent in other rural towns. Two of its banks, The State National and The State Savings Bank and Trust Company, failed in 1923, and another, the Citizens Bank, was closed in 1925. Such was the situation that faced the Albuquerque National Bank on the day that it opened for business for the first time on January 21, 1924. It certainly would not have appeared probable on that day that this little bank would become, in a few short years, the largest bank in New Mexico.

On January 14, 1924 the first board of directors and stockholders meetings had been held at the Albuquerque

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not have appeared [illegible]

would become, [illegible]

Mexico.

On January [illegible]

stockholders meeting [illegible]

National Bank. The minutes of those meetings reveal the following about the organization of the new institution. The bank was initially capitalized at $250,000.00 with 2500 shares of $100.00 par value common stock divided among the five signers of the articles of association. The original five stockholders also comprised the first board. Colonel George E. Breece was elected chairman, holding 500 shares of the bank's stock. Col. Breece had been a prominent lumber dealer in Albuquerque for many years. The other members of the board were William C. Reed, who held 25 shares of stock; Mr. George A. Kaseman, the bank's first president and its founder, who held 1765 shares of stock; Mr. Owen N. Marron, an Albuquerque attorney with 200 shares; Mr. Joseph D. Watters, the owner of 10 shares of the bank's stock. The board approved the articles of association and by-laws of the bank. It elected the first group of officers for the bank as follows: Mr. George A. Kaseman, president; Mr. William C. Reed, vice-president; Mr. Roy McDonald, vice-president and cashier; Mr. Jerry Haggard, vice-president.

The general bookkeeper's proof for the first day of operation shows deposits of slightly over $83,000.00 and loans of just above $9,000.00. By the first call date, March 31, 1924, deposits had grown to $698,393.00 and loans to $493,421.94.

From its inception, the bank grew steadily and impressively. In those early years, the officers and directors applied a great deal of effort to gaining new accounts, and virtually every directors' meeting recorded pledges of

government obligations for the securing of deposits of various municipalities throughout the state.

The bank's loans comprised a rather large proportion of its assets in the very early months of operation. This proportion diminished rather rapidly as the bank's assets increased through the acquisition of new deposits. Table 2 illustrates this point.

TABLE 2

Relationship of Loans to Total Assets and to Deposits

Albuquerque National Bank and All National Banks

		Loans to Total Assets		Loans to Deposits	
Year		Albuq. Nat'l Bank	All Nat'l Banks	Albuq. Nat'l Bank	All Nat'l Banks
1924	6-30	52.0		70.6	65
	12-31	53.2	53.4	65.5	61
1925	6-30	55.0		43.0	63
	12-31	32.3	53.2	43.0	63
1926	6-30	33.4		42.0	64
	12-31	34.8	54.2	45.0	64
1927	6-30	35.7		45.0	63
	12-31		54.1		64
1928	6-30	35.2		44.0	65
	12-31	35.1	53.5	43.0	62
1929	6-30	40.8		51.0	68
	12-31	42.0	54.6	52.0	66

Source: Records of Albuquerque National Bank, and _Banking and Monetary Statistics_.

It is clear from the figures in Table 2 that the Albuquerque National Bank was in a much more conservative position, in regard to its loans, than was the average national bank in the country at the time. The bank had embarked upon a stated policy of high liquidity that was to carry through to the present time. Loans, as a percentage of total assets,

averaged about 36% from 1924 through 1929, whereas the average for all national banks was about 53% during the same period. Likewise, loans, as a percentage of deposits, averaged about 47% at this time for the bank as opposed to about 63% for all national banks. Comparing the ratio of loans to deposits of the Albuquerque National Bank with that of the average of all member country banks in the Kansas City Federal Reserve District points up the bank's relative caution even further. At times, when the bank's ratio ranged between 43% and 45%, the ratio for country member banks in the district was at a phenomenal 80% to 90%.

TABLE 3

Percentage of Loans to Deposits

Albuquerque National Bank and all Member Country Banks in the 10th Federal Reserve District

Year	Albuquerque Nat'l Bank	All Member Country Banks
1924	65	80
1925	43	89
1926	45	86
1927	45	87
1928	43	88
1929	52	90

Source: Records of Albuquerque National Bank, Banking and Monetary Statistics

The percentage of loans to deposits of the Albuquerque National Bank seems quite prudent in light of the extremely high loan to deposit relationship present in so many

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Percentage of Loans [illegible]

Albuquerque National [illegible]
Banks in the 10th [illegible]

Year	[illegible]	[illegible]
1924	[illegible]	[illegible]
1925	[illegible]	[illegible]
1926	[illegible]	[illegible]
1927	[illegible]	[illegible]
1928	[illegible]	[illegible]
1929	[illegible]	[illegible]

Sources: Records of Albuquerque [illegible]
Monetary Statistics

The percentage of loans [illegible]
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tremely high loan [illegible]

country banks at the time. Today it seems almost inconceivable that a bank would lend up to 90% of its deposits, as many a small country bank was obviously doing in the 1920's. High loan to deposit ratios, coupled with non-diversified loans, undoubtedly was the reason that these banks made up the bulk of those that failed in this period.

The Albuquerque National Bank was a country bank in the 1920's in ways other than by definition.[3] It was situated in a small community in a state that listed agriculture as its chief industry, and at the time this bank possessed little more than three million dollars in assets. Although it resembled other country banks in size and setting, the Albuquerque National Bank did not follow the practices that caused so many of them to fail. It did not overextend loans in relation to its assets, and it was not tied closely to agriculture. Farm loans made by the bank in the 1920's were only about 1% to 2% of total loans, and its percentage of loans to deposits ranged from 40% to 50% through most of the decade.

The Albuquerque National Bank's local competitors from 1924 to 1933 were the First National Bank, and the First Savings Bank and Trust Company. These two banks were affiliates; that is, the First National Bank, which was the larger, controlled the smaller bank through stock ownership. They had interlocking directorates and some of their officers were

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[3]A country bank by definition is one located in a city or town that does not have a Federal reserve bank or a Federal reserve branch bank.

country banks at the [illegible]

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controlled the smaller [illegible]

had interlocking directorates [illegible]

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[3] A country bank [illegible]

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al reserve branch bank.

the same men.[4] The affiliation of these two banks caused many of their policies to be similar, the most striking of which resulted in an apparent overextension of credit. Because of this overextension, the two banks were not in so strong a position as the Albuquerque National, even though they were larger and had been established longer in the community. For example, in December 1926, the Albuquerque National's percentage of loans to deposits was 45%, while that of its competitors, the First National Bank and the First Savings Bank and Trust Company, were 71% and 81% respectively. The two latter percentages were quite high and tended to be close to the average for country banks in the Kansas City Federal Reserve District. The Albuquerque National Bank's loan to deposit relationship not only compared favorably with that of its local competitors, but also it was lower than the average percentage for all National Banks.

The data in Table 4 indicates that the Albuquerque National Bank was better prepared to meet the difficulties of the coming depression than were the other two banks in the town. The prudent position that the new bank's management established at the very beginning was to see it safely through the debacle of bank failures that began in 1929, and although it was the smallest bank in the community, it was able to survive the depression while its local competitors were swept away by the seemingly inexorable tide of bank suspensions

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[4]Jointly published statements of condition, 1924-1933.

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[a]Jointly [illegible]

TABLE 4

Percentage of Loans to Deposits for
Various Banks and Groups of Banks
as of December 31 each Year

Year	Albuquerque National Bank	1st Nat'l Bank of Albuquerque	1st Svgs Bank & Trust Co.	All Banks 10th Fed. Res. Dst.	All Nat'l Banks
1924	65.5	68.4	98.2	52.2	61
1925	43.0	58.9	81.7	53.5	63
1926	45.3	71.5	81.7	52.0	64
1927	48.9	68.6	80.0	50.7	64
1928	43.7	71.9	66.3	50.9	62
1929	52.7	61.0	70.0	54.8	66

Source: Records of Albuquerque National Bank, Banking and Monetary Statistics, scrap book kept at Albuquerque National Bank containing all published call statements of Albuquerque Banks from 1924 to the present.

that accompanied the decline in business activity.[5] A position of conservatism has not just happened at the Albuquerque National Bank. It has been, from the very start, a definitely stated policy of the management of the bank. In the words of the bank's president, Mr. Fred Luthy:

> We have always tried to maintain high liquidity, especially in good times so that when the economy reverses itself, as it frequently has, we can remain highly solvent even though heavy demands are made upon us.[6]

The ratio of loans to deposits is by no means the only measure of a bank's liquidity; one must also look to the character of its primary reserves, its investment portfolio,

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[5]The First National Bank, and the First Savings Bank and Trust Company were allowed to reopen after the bank holiday on March 21, 1933, but within 30 days of that date both were in the hands of a conservator.

[6]Interview with Mr. Fred Luthy, August 16, 1958.

and to the character and type of loans that it has made. This being an analysis of the loan structure of the Albuquerque National Bank, it is sufficient to mention that the bank's investment policy is as conservative as its loan policy. Its investments are restricted for the most part to rather short maturity U. S. Government securities, and the bank's reserves in terms of cash and exchange are well above the legal and prudent level.

National banks are required to periodically submit statements of condition to the comptroller of the currency. Semiannually, the banks must present, with their statement of condition, a detailed analysis of their loans. These statements are commonly referred to as call statements, and are issued at the "call" of the comptroller of the currency. The Albuquerque National Bank answered its first call on June 30, 1924, and the statement submitted showed the following types of loans it had outstanding at the time:

1. On Demand, secured by personal securities, merchandise warehouse receipts, etc.	$ 2,128.00	.2%
2. On Time, co-signers - no collateral	550,841.00	73.5%
3. On Time, secured by stocks and bonds	37,728.00	5.0%
4. On Time, secured same as #1	76,083.00	10.1%
5. Secured by improved real estate:		
a. Farm land	-0-	
b. Other real estate	81,197.00	10.8%

Approximately three-fourths of the bank's loans were secured by signatures alone at the time of this report. These loans

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1924, and the statement [illegible]

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1. On Demand, secured [illegible] securities, [illegible] receipts, etc.

2. On Time, [illegible] eral

3. On Time, secured by [illegible] and bonds

4. On Time, [illegible]

5. Secured by [illegible]

   a. Farm land
   b. Other real estate

Approximately three-[illegible]

by signatures alone [illegible]

to business men of the community for carrying inventory, expanding facilities, meeting payrolls, etc. The more than one-half million dollars carried in this type of loan comprised about one-half of the bank's total assets. At first this seems to be quite a high figure, but it was a common banking practice at the time to loan large sums merely on a man's signature. This is still widely practiced. It is important to note, however, that, in many instances, these loans were secured by an additional signature, which generally was that of a substantially wealthy member of the community. The short term nature of this type loan is another important consideration; they ran usually from thirty to ninety days, which gave them liquidity.

Finally, the use to which the funds were put is important. They were loans, as has been mentioned, for the purpose of furthering trade, that is, they were employed in such a manner as to compensate the entrepreneur in the form of profit, and to be returned to the bank at interest. This is the universal hope of all those who employ such funds, and the experience of the Albuquerque National Bank has been quite good in this regard. During the first 25 years of its existence, the bank has found it necessary to charge off approximately 2% in dollar volume of all loans that have been made. Slightly over 65% of all loans charged off, again in dollar volume, in this same 25 years have been recovered.[7]

The various loan ratios of the bank remained fairly

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[7]Profit and loss report compiled by Mr. R. S. Poage, the bank's cashier, for the bank's 25th anniversary.

to business [illegible]

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ence, the bank has [illegible]

nately 2% in dollar [illegible]

Slightly over 6% of [illegible]

volume, in this same [illegible]

The various loans [illegible]

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[7] Profit and loss [illegible]

the bank's cashier, [illegible]

constant through much of 1925. Loans, as a percentage of total assets, were 53.2% in December of 1924, 55.0% in June of 1925, but ropped to 32.3% by December of 1925. Loans, as a percentage of deposits, followed much the same pattern, being 65.5% in December 1924, 63.0% in June 1925, and 43.0% in December 1925. The sudden downward shift in late 1925 was a result of the assumption by the Albuquerque National Bank of the deposit liabilities and many of the assets of the recently failed Citizens Bank of Albuquerque. Among the assets thus acquired -- and perhaps the most important -- was one of the former bank's officers, Mr. Fred Luthy. Mr. Luthy later became the second president of the Albuquerque National Bank, and has shaped much of the bank's policy.

June of 1926 found the bank's ratios changed but little from what they had been the previous December. The call of June 30, 1926 reveals that loans as a percentage of assets were 31.3%, and loans to deposits were 42.8%. The proportions of the various loan types also remained fairly constant through 1926 -- signature loans comprising about 75% of total loans. Loans secured by stock market collateral increased slightly, about 4.5%, and loans secured by real estate decreased by almost the same amount.

The first few call reports made by the bank showed that the real estate loans that it carried were not in accordance with Section 24 of the Federal Reserve Act. Section 24 of the Federal Reserve Act pertains to loans on real estate, and specifies the type of property eligible, the length and

constant through much [illegible]

total assets, were [illegible]

of 1925, but [illegible]

as a percentage of deposits [illegible]

being 65.5% in December [illegible]

in December 1925. The [illegible]

a result of the [illegible]

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tions of the various loan [illegible]

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slightly, about 0.3%, and [illegible]

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The first few [illegible]

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ance with Section 24 of [illegible]

of the Federal Reserve Act [illegible]

and specifies the type [illegible]

size of loans, and states that National Bank real estate loans must be first mortgages.[8] The Albuquerque National Bank had about 10% of its loans in this type in 1924, but they had been eliminated by 1927. Although the examination reports for the time do not give the reason why these loans were not in accordance with the act, it appears that many of the real estate loans held by the Albuquerque National, at that time, were ones that had been taken over from the three defunct banks in the community, and it seems plausible that for a time they did not show the Albuquerque National as first mortgage holder. The sudden disappearance of these loans from the "not in accordance" category would indicate that this deficiency of not being a first mortgage, had been eliminated by re-drawing the loans.

Late in 1925 there appeared for the first time in the bank's statements, the indication of small, rather timid, at first, investments in call loans. The collateral loan market, in which call loans originate, is designed to help provide capital for the stock market. Call loans are made up of funds borrowed from banks by stock brokers to carry securities purchased by their customers on margin. The securities themselves are pledged as collateral for the loan, and can be increased at the call of the bank if their value depreciates. The loans may be called for repayment if the bank finds that it needs its funds. The December 1925 statement of the

[8] "The Federal Reserve Act" as amended, Sec. 24, pp.83-86.

size of loans, [illegible]

loans must be first mortgages [illegible]

Bank had about [illegible]

they had been [illegible]

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were not in accordance with [illegible]

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for a time they did not [illegible]

mortgage holder. The [illegible]

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inated by re-drawing the loans.

Late in 1929 there [illegible]

bank's statements, [illegible]

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ket, in which call [illegible]

vide capital for [illegible]

of funds borrowed [illegible]

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themselves are pledged [illegible]

increased at the will [illegible]

The loans may be called [illegible]

it needs its funds. [illegible]

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[8] The [illegible]

Albuquerque National shows call loans in the amount of $150,000.00, or about 6% of total assets. This figure is not included as a part of the bank's loans, but it appears as a separate investment. Call loans are considered as a secondary reserve. By April, 1926 call loans had dropped to $50,000.00 on the bank's statement, and they had disappeared completely by June of that year. They reappeared briefly each year from 1927 through 1930, and then disappeared altogether until after World War II. The disappearance of call loans from the statements of the Albuquerque National Bank was, it seems, because of experiences in the 1929 stock market crash. The call loan market suffered greatly in the crash, and many bankers had some difficulty recovering the funds that their New York correspondents had so placed for them. Though call loans are considered good secondary reserves in times of prosperity and rising stock market prices, the great depression taught many lessons, and perhaps among them was the fact that call loans may be considered a risk asset.

The appearance of call loans in the statements of the Albuquerque National Bank was indicative of what was happening in banks throughout the country in the late 1920's. Banks were accumulating excess reserves that could not be absorbed in their local trade areas. The funds were consequently funneled into the stock market, helping push security prices to unprecedented levels and creating an aura of great prosperity and wealth. The widespread fever for stock market speculation was exerting pressure upon the banks through

Albuquerque National [illegible] $150,000.00 [illegible] not included as a part [illegible] as a separate investment. [illegible] secondary reserve. [illegible] $50,000.00 on the [illegible] completely by June [illegible] each year from 19[illegible] gether until after [illegible] loans from the statement [illegible] was, it seems, [illegible] ket crash. The call [illegible] crash, and many [illegible] funds that their [illegible] them. Though [illegible] serves in times of [illegible] the great depression [illegible] them was the [illegible] asset.

The experience of [illegible] Albuquerque National [illegible] ing in banks [illegible] Banks were accumulating [illegible] sorbed in their local [illegible] quently funneled into [illegible] prices to unprecedented [illegible] prosperity and [illegible] ket speculation [illegible]

the collateral loan market.

The State Banks of New Mexico were in a relatively illiquid position in regard to their loans through much of the 1920's. The percentage of loans to deposits for these banks ranged from ten to fifteen percent above that of the Albuquerque National Bank. This figure was, however, somewhat under the average for all national banks. Examining some representative state banks that were operating at that time, one finds wide variations in their loan to deposit relationship. Some banks in various New Mexico towns have been selected to illustrate this point. They are the First National Bank of Albuquerque, the Citizens Bank of Aztec, the McFarland Brothers Bank at Logan, and the Citizens Bank in Vaughn. These banks were all located in rural communities, and they were all quite small -- possessing assets of less than five million dollars. In addition to the rather high loan to deposit ratios exhibited by these banks, they were also heavily committed to agriculture through chattel mortgages on livestock and mortgages on farm land. All of these banks represented in the table, excepting the First National Bank of Albuquerque, survived the difficult times in New Mexico banking from 1921 to 1933. They are quite representative of banks in New Mexico at the time, and they point up rather graphically the relative position of the Albuquerque National Bank.

Many banks failed in New Mexico in the years from 1920 to 1934, but contrary to what one might expect, very few failed during the great depression and the subsequent

the collateral loan [illegible]

The state banks of [illegible]

liquid position [illegible]

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Albuquerque, the [illegible]

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quite small -- possessing [illegible]

dollars. In addition to [illegible]

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Many banks failed [illegible]

to 1924, but continued [illegible]

failed during the [illegible]

TABLE 5

Loan to deposit ratio various banks
on Dec.31st of the year indicated

Year	Albuq. Nat'l Bnk Alb.,N.M.	1st Nat'l Bank Alb.,N.M.	Citizens Bank Aztec N.M.	McFar Bros.Bk. Logan N.M.	Citizens Bank Vaughn N.M.	All N.M. State Bank
1926	45.3	71.5	81.7	87.3	58.0	61.6
1927	48.9	68.6	80.0	75.0	69.0	49.0
1928	43.7	71.6	76.0	70.2	66.6	51.0
1929	52.7	61.0	59.0	84.1	78.0	59.0

Source: New Mexico State Bank Examiners Annual Reports.

banking crisis. Seventy-two banks suspended during this span, but by the end of 1925 fifty-nine of these had already closed their doors for the last time.[9] The vast majority of these banks that failed were state banks that were dependent almost solely upon the one industry, agriculture. For example, in 1929 state banks in New Mexico carried over one-third of their loans as chattel mortgages on livestock, and another seven to ten percent as mortgages on farm land.[10] Placing these two categories of loans together, one finds that New Mexico state banks had over forty percent of their loans as direct advances to farmers and ranchers. These banks were tied to an industry that was experiencing a severe depression throughout most of the 1920's. The equities that were

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[9]New Mexico State Bank Examiners Annual Reports,1920-1934.

[10]New Mexico State Bank Examiners Annual Report, 1929.

represented by a large portion of their loans were being wiped out by declining farm prices, which spelled disaster for many a rural bank in the state.

The agricultural depression in New Mexico had been the most severe from 1920 through 1925, and as a consequence most of the weaker banks had been eliminated by that latter date. Those banks that remained, for the most part, went on to survive the depression that started in 1929. Although the depression did take its toll of banks in New Mexico,[11] the worst had already been done by 1925. The banks that were still open in 1929 had been strengthened by the ordeal of a crisis that had been almost continuous since 1920.

The Albuquerque National Bank did not open its doors for business until 1924, so it was not tied traditionally to agriculture as were other banks in the state. The management of the bank was able to profit by the mistakes made by other banking houses and as a consequence it was in a much stronger position than they were when the depression and banking crisis arrived in the early 1930's.

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[11] Ten banks failed in New Mexico from 1929 through 1933, according to the annual reports of the State Bank Examiner for those years.

represented by [illegible]

wiped out by [illegible]

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The agricultural [illegible]

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most of the weaker [illegible]

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the depression [illegible]

the worst had already [illegible]

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agriculture [illegible]

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other banking [illegible]

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banking crisis [illegible]

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[11] The [illegible]
1933, according to [illegible]
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CHAPTER II

DEPRESSION

There are many who feel that the depression of 1929-1936 was the offspring of the World War of 1914-1918; that the disruptions of that conflict, both of economic life and of the markets of the world, were carried forward only to culminate in the great depression. The gold standard had been re-established after the war on rather loose calculations, largely with political rather than economic motivation. This caused an imbalance of international rates of exchange, bringing about great changes in the location of monetary gold stocks. Gold flowed out of the sterling countries and into the United States and France. War debts and reparations also played a part in the gold movement, with Germany borrowing heavily in the United States to meet its reparations, and Great Britain and France likewise borrowing heavily in this country to support their currencies.

The effect of the heavy gold flow into the United States was to create large excess reserves in the banking system, thus making possible a vast increase in the amount of loanable funds in the hands of the commercial banks. A large portion of this increase found its way into the stock market through borrowings for the purpose of carrying securities. Foreign countries also were borrowing heavily on Wall

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Street, and this, combined with the added pressure from the banks, helped push the upward movement of security prices to unbelievable levels. The boom in the stock market became so intense, in fact, that the normal net flow of capital out of this country for investment abroad was reversed in 1928.[1] This capital was in turn diverted into the stock market, further inflating prices. The industrial expansion of that time was largely dependent upon finding foreign markets for the marginal output of this country's industries. In order to absorb this surplus, foreign countries depended upon American capital to provide the credits with which to buy the goods. In 1928, when this source of capital began to dry up, industrial expansion slackened in the United States. Excess production began to pile up in American warehouses, output was slashed, and an industrial recession was in order.

Commercial bank credit in this country began to decline early in 1928, and would probably have precipitated a recession then, had not the great momentum of the stock market boom prevailed. Profits made in the stock market tended to create a psychological atmosphere in which domestic consumer demand remained at a relatively high level. Along with purchases for speculative inventory, this sustaining force deferred the collapse. When it backed away, it magnified the intensity of the decline.

The boom of the 1920's was characterized by an unprec-

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[1]Board of Governors of the Federal Reserve System; Banking and Monetary Statistics.

street, and the [illegible]
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Commercial bank [illegible]
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boom prevailed. [illegible]
create a psychological [illegible]
demand remained [illegible]
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Banking and [illegible]

edented diversion of capital into the stock market. Conversely, the decline that started in October of 1929 was characterized by an equally unprecedented flight of capital away from the market, which initiated a protracted decline and readjustment of capital values. The situation was intensified rather than relieved by a banking system that was shockingly weak. Banks had been failing at the alarming rate of 621 per year since 1921. Prior to 1929, bank failures in this country had been almost exclusively confined to rural areas. The collapse of industrial production and the decline of the stock market in that year spread the enigma of bank failures to the more industrialized sections of the country. In an attempt to save themselves from failure, banks in these areas started "dumping" securities from their portfolios and chattel from defaulted loans onto an already declining securities market. Prices sank to unbelievable depths as a result. In addition to the securities being placed upon the market by individuals and by operating banks, bank receivers were heartlessly placing large amounts of equities on the market regardless of price. The supply of securities was greatly increased by these actions just at a time when there were scarce funds with which to purchase them.

In the weeks just after the October 1929 break in the stock market, bankers withdrew hugh amounts of their brokers loans that the New York banks had placed for them. The New York banks then undertook to preserve the stock market from complete collapse by increasing their own brokers loans

elected during [illegible] ly, the decline [illegible] ized by an [illegible] the market, [illegible] ment of capital [illegible] then relieved [illegible] Banks had been [illegible] since 1921. [illegible] been almost exclu[illegible] layers of inducement [illegible] market in that [illegible] more industrial [illegible] to save themselves [illegible] ed "dumping" securities [illegible] from defaulted loans [illegible] market. Prices [illegible] addition to the [illegible] individuals and by [illegible] heedlessly [illegible] regardless of prices. [illegible] increased by [illegible] scarce funds with which [illegible]

In the weeks [illegible] stock market, banks [illegible] loans that [illegible] York banks then [illegible] complete collapse [illegible]

$992,000,000, and their total security loans $1,200,000,000.[2] The Federal reserve banks instituted an easy money policy at this time, in an attempt to stem the tide of decline. The rediscount rate was reduced in New York from approximately 5% in 1929 to 1½% in May of 1931.[3] The rate was only slightly higher in other central reserve cities. The Reserve banks also entered into active open market ventures as a corollary to the lowering of the rediscount rate, and increased their holdings of U. S. Government securities greatly. Despite these measures on the part of the central banking system, commercial bank credit continued to decline precipitously, as did deposits.

The policy followed by the Federal Reserve System of easing credit was ineffective in arresting the depression. Business confidence was shaken to the core, inventories were reduced to bare minimums, production was virtually curtailed, and unemployment of resources, both human and material, abounded. A paramount effect upon banks was a shrinkage of the demand for commercial and industrial credit to minimal amounts. Stagnation is perhaps the best word to describe the situation that then developed in 1930 and which carried through 1932.

If conditions were bad in the United States, they were even worse abroad. Gold flowed into this country at an increasing rate, despite the depression, and Wall Street was

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[2]R. B. Westerfield, _Money Credit and Banking_, 1938.

[3]_Ibid._; also, Federal Reserve Board of Governors, _Banking and Monetary Statistics_.

$992,000,000, and [illegible]

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still the most attractive place to float security issues. The monetary gold stock in this country rose from $4,381,000,000.00 in October 1929 to $4,975,000,000.00 in August 1931.[4] This influx of gold tended to promote the easy money policy of the Federal Reserve, and served to help liquidate member bank indebtedness to the System. Evidently, individuals abroad were more fearful of their own monetary and economic systems than they were of those of the United States, and were transferring their wealth in the form of gold to the relative calm of this country.

The central banks of Germany and Austria suspended almost simultaneously in 1931, freezing large amounts of British assets that were carried there at the time. A run on the pound followed these suspensions, which caused further depletion of Great Britain's already dangerously low gold stock. As a result of its loss of gold, the Bank of England in 1932 declared that it would no longer make payments in specie. Great Britain had abandoned the gold standard.[5] Conversion of New York balances into gold by many foreign central banks followed the British suspension of the gold standard, and the net flow of gold into this country was reversed. In 1932 the net export of gold from the United States was 446.2 million dollars, whereas the previous year

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[4]Federal Reserve Board of Governors, Banking and Monetary Statistics.

[5]R. B. Westerfield, Money Credit and Banking, 1938.

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[4] Federal [illegible]
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net imports had been 145.3 million.[6]

The movement of gold out of this country in 1932 tended to promote tight credit automatically as American bank reserve balances were drawn down. Panic began to sweep the country, initiated by the fear of the loss of gold, and overwhelming runs commenced on banks almost everywhere. Depositors were demanding their balances in gold in amounts that the banks could not supply, and a wave of bank suspensions started in the summer of 1931, rising to 305 in September, and 522 in October. From June 1931 to February 1932, 2,241 banks were closed in the United States.[7] The bank failures were accompanied by vast increases in circulation, and great losses of gold by the banks. Spurred by panic, individuals were withdrawing their funds from the banks, in gold if they could get it. They hoarded their withdrawals, and this, along with the foreign gold removals, placed an almost intolerable burden upon a weakened banking structure.

Bank suspensions continued to be high through 1932. The rate was about 87 per month, and the amount of money being hoarded continued to rise. The early months of 1933 saw an increase in bank suspensions, and a jump in the outward flow of gold from the country. Beginning in February, in Michigan, States began declaring "bank holidays," and by inauguration day most of the country's banks were either closed

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[6] Raymond P. Kent, _Money and Banking_.

[7] Federal Reserve Board of Governors, _Banking and Monetary Statistics_.

or operating on a restricted basis. Such was the situation that faced a new president on March 4, 1933.

The winter of 1932-33 was a winter of crisis. Unemployment was rising, and banks were failing at an extremely high rate. In February there were indications of a severe banking disaster in Michigan. On St. Valentine's Day, February 14, 1933, Governor Comstock of Michigan issued a proclamation that closed the banks of one of the country's most industrialized states. The order closed 550 national and state banks, thereby freezing about 1.5 billion dollars in deposits that belonged to over 900,000 people.[8] The most important factor that effected the closing of the banks in Michigan was the extreme depreciation of real estate values in Detroit, which was caused by a sharp decline in automobile production and an attendant drop in population. The falling real estate values placed the Union Guardian Trust Company[9] of Detroit in a very precarious position. If this bank were allowed to close independently, its failure would have endangered the Detroit Union Group, of which it was a member. The Detroit Union Group was a chain banking system, and dominated the banking business of Michigan. The governor and the banking leaders of the state decided that rather than risk the failure of the Detroit Union Group, they should close all of the

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[8] 28 Days, A History of the Banking Crisis, Colt & Keith, 1933.

[9] Ibid.

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8 23 [illegible] 1933.

9 Ibid.

banks in the state. The holiday declared by Governor Comstock spread first to adjoining states, then like a plague to almost every state in the country.

The word "holiday" was something new in this country. No one had had any experience with the idea, nor could anyone offer any scheme for easing the crisis. The most similar occurrence was the panic of 1907, which was largely a speculative phenomenon that worked itself out in a relatively short time. The situation was much different in 1933, though. The panic of 1929 had ground down into stagnation, and because of prolonged withdrawal pressure, numerous banks throughout the country were dangerously close to failure. Gold was flowing out of the country at an alarming rate, which reduced bank reserve balances that were already drastically depleted. So it was that on March 6, 1933, the newly elected President of the United States clothed himself in the wartime authority of the trading with the enemy act of 1917, closed all of the nation's banks, and placed an embargo upon gold.[10] Immediately upon his inauguration, President Roosevelt began to attack the economic problems that had beset the country since 1929.

The banking crisis of 1933 was not so severe in New Mexico as it was in other parts of the country. The state had already had its banking crisis in the early part of the 1920's. The weaker banks in New Mexico had already been eliminated before 1933, and those that remained had been tested by fire, so to speak, and were better able to meet the

[10] Albuquerque Journal, March 6, 1933.

problems of the moratorium of 1933. Of the seventy-two banks that failed in the state from 1920 to 1934, fifty-nine had closed before 1926. Although New Mexico did lose seven banks in 1933, this was a small number compared with the state's failure rate before 1926.

The governor of New Mexico did declare a bank holiday for the state, however, which was to take effect on March 4, 1933. In declaring the holiday in New Mexico, Governor Seligman stated to the press that "the banks of New Mexico are for the most part solvent and sound, but due to strictures elsewhere a brief holiday will be observed."[11] The holiday was indeed brief, as it coincided with the national holiday ordered by the President of the United States.[12]

Albuquerque had three banks in the winter of 1933: the First Savings Bank and Trust Company and the First National Bank, which were affiliated, and the Albuquerque National Bank. The first two transacted about three-fourths of the banking business in the community, while the remaining one-fourth was handled by the latter. When the national crisis in banking arrived in 1933, all three were solvent and prosperous, or so it seemed. The three banks remained closed through the holiday, and on March 16, the Albuquerque National was given permission by the comptroller of the currency to reopen. The other two banks remained closed for nearly

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[11] Albuquerque Journal, March 3 (Friday), 1933.

[12] Ibid, March 6 (Monday), 1933.

problems of the operation of [illegible] that failed in the state from 19[illegible] closed before 1926. Although [illegible] in 1933, this was a small number [illegible] failure rate before 1926.

The governor of New Mexico [illegible] for the state, however, which [illegible] 1933. In declaring the holiday [illegible] Seligman stated to the press that [illegible] are for the most part solvent and [illegible] tures elsewhere a brief holiday [illegible] holiday was indeed brief, as it [illegible] holiday ordered by the President [illegible]

Albuquerque had three banks [illegible] the First Savings Bank and Trust [illegible] al Bank, which were affiliated, [illegible] Bank. The first two transacted [illegible] banking business in the community [illegible] fourth was handled by the latter. [illegible] in banking arrived in 1933, all [illegible] perous, or so it seemed. The three [illegible] through the holiday, and on March [illegible] al was given permission by the [illegible] to reopen. The other two banks [illegible]

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11 Albuquerque Journal, [illegible]

12 Ibid, March 6, (Monday) 1933.

another week, until on March 21, they, too, were allowed to resume operations. They were to remain open only for a short while, however.

The New Mexico State bank examiner arrived in Albuquerque on April 6, 1933 to conduct a routine examination of the First Savings Bank and Trust Company. The following day Mr. J. Ed Cox, that bank's Secretary Treasurer, was found dead in his home.[13] Because of rumors that there were shortages in Mr. Cox's accounts at the bank, a run commenced the day after his death, and the little bank was immediately placed on a restricted withdrawal basis.[14] The bank's customers were allowed to withdraw only up to 5% of what they had on deposit. This procedure was followed by many distressed banks at the time. The bank examiner called upon the firm of Linder, Burk and Stephens, Public Accountants, to make a comprehensive appraisal of the assets of the First Savings Bank and Trust Company. In the appraisal, the accountants found that the assets of this bank were deficient in the amount of approximately $189,000.00, caused by depreciation of investments and the default of many of its loans. The announcement of these facts precipitated a run on the First Savings Bank's affiliate, the First National Bank, and it was shortly forced to close. Both the First National and the First Savings banks

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[13] Albuquerque Journal, April 7, 1933.

[14] Ibid., April 8, 1933.

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[13] [illegible]

[14] Ibid., April [illegible]

were placed in the hands of a conservator,[15] Mr. William A. Keleher, an Albuquerque attorney. A National Bank examiner was dispatched from Kansas City to attempt a reorganization of the closed banks.[16] Many reorganization schemes were proposed, but the one that for a time looked most promising was a merger of the closed banks with the Albuquerque National. This plan turned upon the valuation of the First National's building, a point that could not be agreed upon, and the plan was eventually dropped.[17]

Albuquerque was once again without much of its banking facilities. The only bank left open was the Albuquerque National, which, only a few days before, had served but one-fourth of the community; now it was called upon to serve it all. This little bank had withstood the panic of the bank holiday and the failure of the other banks in town, even though it too had experienced a short run after the closing of the First National Bank.

The problems faced by the management of the Albuquerque National Bank were many fold during the period of the depression.

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[15]The term "conservator" was an innovation of the Roosevelt administration; it was felt that the word was perhaps better than receiver, or referee, in bankruptcy, and had a better effect upon the depositors of closed banks. It was an attempt to help eliminate the panic that was so rife during this time.

[16]The account of the failures of the Albuquerque banks was drawn from published statements in the local press from April through June 1933.

[17]Interview with Fred Luthy, President of the Albuquerque National Bank, January 11, 1959.

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[15] The [illegible] Roosevelt administration [illegible] haps better than [illegible] a better effect [illegible] an attempt to help [illegible] ing this time.

[16] The [illegible] was drawn from [illegible] April through June [illegible].

[17] Interview [illegible] querque National [illegible].

How could solvency be maintained with business failure so prevalent? Where was income to be derived, or was it really an important consideration at such a time? Perhaps solvency should be the only consideration. The statements of condition of the bank for the period reveal some interesting things in this regard. The most startling fact is that assets and deposits increased at a steady rate throughout the worst of the depression. Deposits in December 1929 were a little over two and one-half million dollars, and by December 1933 they had risen to almost four million. Loans during this period declined slightly, moving from about one million three hundred thousand dollars in 1929, to slightly over nine hundred thousand by the end of 1933. At this time, as deposits rose and loans declined, the Albuquerque National was merely warehousing a large portion of its increasing assets. The asset that showed the greatest increase at this time was cash and exchange, which rose from $335,479 in 1928 to $1,521,080 in 1933. Funds were being hoarded, and solvency seems to have been the prime moving force for the management at the time.

The Albuquerque National Bank incurred a net operating loss in 1933, largely caused by heavy write-offs of loans that year. The Bank had outstanding loans of slightly over one million dollars at the end of 1928. This was 35% of total assets, and 43% of total deposits. By the end of 1932 total loans had dropped to just over $900,000, which was 31% of total assets and 40% of deposits. In 1928 the bank earned

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$90,979 on its loans, and after charge-offs and recoveries were applied to that figure, the bank showed a net operating profit on loans of $91,423 for the year. By the end of 1932, the picture had changed considerably. Recoveries were no longer greater than charge-offs, as they had been in 1928. In fact, charge-offs were cutting heavily into operating profit by 1932. In 1933, the situation became even worse, with the bank earning on loans only $74,061 and incurring a net operating loss of $12,906. This was a net loss on gross earnings of 1.3%, which compares with a net profit of 8.4% for 1928.

During the period of crisis, from 1929 through 1932, bank examiners throughout the country forced banks to charge off vast numbers of slow loans, using the same rules of determination that were in effect in the 1920's. However, many of the loans written off at this time by the bank were subsequently recovered. The bank has, in fact, recovered 63.6% of all the loans that it has charged off during its existence. The loss in 1933, then, does not reflect a loss on operations for that year so much as it does a loss from heavy charge-offs of loans previously extended. Perhaps this loss would have been less or even nonexistent if the vast funds held in the form of exchange would have been put to use. On the other hand, and much more likely, the loss might have been greater because of the depressed conditions of business. It appears that the management of the bank felt that there were all too few outlets for bank credit involving too great a risk. The

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TABLE 6

Earnings from loans, Albuquerque National Bank*
1928 through 1935 (in millions of dollars)*

	1928	1929	1930	1931	1932	1933	1934	1935
Loans Outstanding*	1,117	1,334	1,397	1,129	953	932	1,035	1,925
Percent of Deposits	43.7	52.7	51.6	46.6	40.1	23.6	19.2	27.1
Earnings Gross	90,979	103,847	111,064	104,349	77,631	74,061	77,814	113,211
Earnings Net	91,423	97,027	92,964	80,143	47,210	(12,906) Loss	49,662	71,927
Average Interest Rate	8.36	8.48	8.57	8.35	8.06	7.46	7.62	7.13
Net Return Percent	8.41	7.92	7.04	6.42	4.90	(1.30) Loss	4.87	4.53

Source: Records of Albuquerque National Bank.

figures confirm that during this time safety was the motivating factor in management's decisions, and that income was no longer a primary consideration. Loans were being written off at an alarming rate in 1933, and it seems reasonable that a prudent banker would be especially reluctant about making new loans until it appeared that prospects for repayment were better.

An interesting aside appeared in the bank's board minutes at this time which illustrates the attitude of the bank's management. The minutes of the directors' meeting of 1932 carried the following statement by Mr. Fred Luthy.

> On June 30, 1932 when closing the books for the first half year, the market value of our bonds was considerably less than book value. Although the Comptroller of the Currency was not requiring the banks to charge bonds down to market value and although he had not requested that we make any additional charge off on our bonds, we felt that in as much as bonds are secondary reserves, that there should be some adjustment in our bond account. Our undivided profits were not enough to make what we thought a proper charge off so it was arranged that Mr. Kaseman give his note for $28,762.50 to take out at book value the following list of bonds:

$5,000.00	Par Value	Buenos Aires	6½ - 1961
7,000.00	" "	Chicago & N.W.	4 - 1949
7,000.00	" "	German P. & C.	6½ - 1958
7,000.00	" "	Missouri Pacific	5½ - 1949
3,000.00	" "	Susquehanna Silk Mills	5 - 1938

> which covered a large per cent of our loss. To protect Mr. Kaseman against loss, the following was agreed upon. In addition to the bonds taken out, it was agreed that all recoveries on charged off assets be applied toward the retirement of his note. Mr. Kaseman's note is unquestionably good and an asset which the bank can properly carry, and by retiring it under this plan, it would be taken care of from assets not reflected in the bank's statement and not from regular earnings.

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$5,000.00 Par Value	Famous Players	5½ - 1951
7,000.00 " "	Chicago & E.I.	4 - 1997
7,000.00 " "	German P. & O.	6½ - 1958
7,000.00 " "	Missouri Pacific	5½ - 1949
3,000.00 " "	Susquehanna Silk Mills	5 - 1958

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It is interesting to note, also, that Mr. Kaseman received no salary for his position as president, although it was voted him by the directors. He received no salary, in fact, until just shortly before his death in 1938.

When the Albuquerque National Bank opened its doors after the moratorium, the recent widespread experience of bank failures was very real in the minds of its depositors, and the threat of runs was constantly before the bank's managers. How could the men in charge of the bank's affairs hope to cope with this problem? One answer, and the one followed by the management of the Albuquerque National Bank, was super liquidity. Loans were held to a minimum and large cash reserves were accumulated. The bond portfolio was restricted mainly to U. S. Government securities, the majority of which were of short maturity. Loans were being made during the depression years, of course, but conservatism was the byword.

Loans on securities were maintained on a relatively low level throughout most of the 1930's. This type of loan constituted roughly 12% of the bank's total loans during this time. This figure compared with 35% for the average of all National Member Banks, 25% for the average of all banks in the 10th Federal Reserve District, and 8% for state banks in New Mexico during the same period.

The figures cited in Table 7 indicate a definite reluctance to invest in loans for the purpose of carrying securities. It is somewhat surprising to note that during this period of stock market depression, other banks were so heavily

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TABLE 7

Security Loans as Percent of Total Loans

Year		Albuquerque Nat'l Bank	Banks 10th Fed. Res. Dist.	All Member Banks
1928	Dec. 31	8.5	22.9	39.3
1929	Jun. 30	10.8	22.1	38.0
	Dec. 31	10.8	23.1	38.8
1930	Jun. 30	9.9	22.6	40.1
	Dec. 31	11.3	24.2	39.5
1931	Jun. 30	13.6	24.3	38.2
	Dec. 31	15.1	25.4	35.6
1932	Jun. 30	19.4	26.6	33.5
	Dec. 31	9.7	29.3	34.2
1933	Jun. 30	9.9	26.6	36.5
	Dec. 31	11.6	23.5	35.9
1934	Jun. 30	11.0	23.7	36.7
	Dec. 31	11.4	22.6	34.4
1935	Jun. 29	10.4	23.1	34.3
	Dec. 31	8.7	22.6	33.9

Source: Records of Albuquerque National Bank, and Banking and Monetary Statistics

Prior to the 1929 stock market crash, the Albuquerque National Bank was carrying a relatively heavy burden of real estate loans, most of which were on commercial and residential buildings. Loans on farm and ranch real estate comprised only a minute portion of the bank's total real estate loans then, and as a matter of fact, have never been very large throughout the bank's existence. In December, 1929, the bank was carrying 26.6% of its loans in real estate paper as compared with 12.4% for all national member banks, and 15.3% for New Mexico state banks. The picture changed, however, as the depression deepened. Real estate loans were substantially reduced, both as an aggregate and as a percentage

of total loans, until in 1935, they were only 9.1% of total loans.

TABLE 8

Real estate loans, aggregate and percent of total loans

		Albuquerque National Bank		All National Member Banks	
Year		Aggregate	Percent	*Aggregate	Percent
1929	12-31	357,900	26.6	3,191	12.4
1930	6-30	334,170	22.8	3,155	12.3
	12-31	400,840	28.6	3,234	12.2
1931	6-30	357,039	25.8	3,218	12.6
	12-31	269,845	23.8	3,038	13.5
1932	6-30	255,240	26.2	2,894	14.7
	12-31	259,600	27.0	2,862	15.7
1933	6-30	263,509	27.0	2,372	17.4
	12-30	214,376	22.8	2,359	18.8
1934	6-30	164,764	16.4	2,357	18.4
	12-31	170,019	16.2	2,273	18.3
1935	6-29	160,610	10.5	2,277	18.7
	12-31	178,255	9.1	2,284	18.8

*Millions of dollars.

Source: Banking and Monetary Statistics, and records of the Albuquerque National Bank.

The decline of real estate loans at the Albuquerque National Bank was caused in part by charge offs, but was also because as old loans matured the funds were not reinvested in large amounts in this type of loan.[18] Liquidity again was the prime factor behind the decisions of the bank's management.

By far, the largest proportion of the bank's loans are what could be called commercial and industrial loans.

[18]Until the inception of the F.H.A. in 1936, real estate loans were not generally handled on an installment basis, but were payable in a lump sum within three to five years.

This is true today, and was no less true at the time of the great depression. Commercial and industrial loans are, as was pointed out in Chapter I, loans for the purpose of furthering trade. They are of a short term nature and are generally considered to be quite liquid. They are usually made to carry inventory and accounts receivable. As an aggregate figure, this type of loan first declined in the early thirties, then stabilized, and then began to rise by 1935. This movement followed the general pattern of total loans for the period.

TABLE 9

Commercial loans, aggregate and percent of total loans

		Albuquerque National Bank		All Member Banks	
Year		Aggregate	Percent	*Aggregate	Percent
1929	12-31	831,017	62.2	11,515	44.0
1930	6-30	875,720	60.1	10,349	41.0
	12-31	837,970	59.9	9,831	41.2
1931	6-30	784,216	56.9	8,922	40.9
	12-31	688,035	60.9	8,126	42.1
1932	6-30	527,277	54.2	6,892	41.5
	12-31	600,528	62.9	5,970	39.2
1933	6-30	605,362	62.6	4,857	37.7
	12-30	608,343	65.2	4,972	38.7
1934	6-30	722,161	72.4	4,721	37.5
	12-31	710,838	68.5	4,708	39.1
1935	6-29	1,038,846	68.4	4,834	40.5
	12-31	1,418,752	73.6	5,006	41.1

*Millions of dollars

Source: Banking and Monetary Statistics, and records of Albuquerque National Bank.

The Albuquerque National Bank began placing a small portion of its assets in open market paper in 1934. This was

the first time that such an investment appeared on the books of the bank. Open market paper is made up of promissory notes issued in round figures by large corporations of sound financial reputation. The notes are transferred on a discount basis. They are of short maturity, and are considered quite liquid. By 1935 the Albuquerque National Bank had slightly over 10% of its outstanding loans in this type of paper. The prime motivation being liquidity, the bank placed its excess reserves in this highly impersonal short term paper.

Throughout the depression years, the management of the bank was faced with the problem of maintaining its solvency. Income had taken a back seat to safety, a situation that has persisted to a certain extent even to the present. Many of the policies, born of the depression, have remained as guideposts for the operation of the bank. In addition to the policy mentioned above, there remains a definite tendency to maintain a high degree of liquidity in the bank's assets.

The persistence of conservatism as a characteristic of the bank's policies is caused largely by the nature of the economy of the community. Albuquerque is basically a one industry community, and as long as the city is dependent upon government payroll for so large a proportion of its income, I suspect that the bank's management will continue to be highly conservative in its decisions.

To say that income was not a prime force behind policy formation during the depression does not mean that the bank

the first time that [illegible] of the bank. [illegible] notes issued in [illegible] financial reputation. [illegible] count banks. They [illegible] quite liquid. By 19[illegible] slightly over 10% of [illegible] paper. The [illegible] its excess reserves in [illegible] per.

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did not make profits on its loans. Every year, except 1924 and 1933, the bank has earned a positive net return on its loans. The two years mentioned were: one, the year the bank opened, and two, the year of the bank holiday, a year in which only the rare bank made any money.

As the depression progressed, the Albuquerque National's loans as a percentage of total assets declined sharply, dropping from 42% in 1929 to 16% in 1933.[19] This change does not represent as great an aggregate decline as it might at first appear. Actually, the bank's deposits and cash reserves were growing steadily while its loans were virtually unchanged over the entire period. The bank was actively limiting the number of loans that it was making at this time, and, also, there were fewer requests for new loans,[20] hence the apparent decline.

The national bank examiner, during the course of a routine examination of the Albuquerque National in 1932, asked the management of the bank what they would do if a disaster befell Albuquerque. The management was not clear as to the meaning of this query, but decided to prepare for a disaster. The bank's assets were carefully examined, doubtful bonds and loans were written off, and the remaining loans

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[19] Statements of condition, December 31, 1929 and 1933.

[20] In an interview on January 11, 1959, Mr. Fred Luthy, the bank's president stated that although interest rates were generally low during the depression, few business men were induced to request credit. He felt that this was the most important reason for the relative decline in the bank's loans.

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were checked to see whether they could be discounted with the Federal Reserve Bank. It was determined that if the bank were forced into liquidation, it could meet all depositors' demands by selling its bonds at the current market, rediscounting its eligible paper, and drawing on its heavy cash reserves. In about six months the disaster arrived in the form of the failure of the other banks in the community. The failure of these banks precipitated a run on the Albuquerque National, but it was short lived and the bank was not forced to follow the outline of liquidation mentioned above.[21]

A rather widely accepted measure of a bank's liquidity is its ratio of loans to deposits. As a mark of the Albuquerque National's liquidity, it might be worthwhile to look at the bank's loan to deposit ratio, compared with that of other banking groups for the depression years.

TABLE 10

Loan to Deposit Ratios

Year	Albuquerque Nat'l Bank	New Mexico State Bnks	Res.City Bnks 10th Dist.	All Nat'l Banks
1929	.52	.59	.55	.66
1930	.51	.60	.49	.62
1931	.46	.60	.47	.62
1932	.40	.60	.36	.53
1933	.28	.43	.30	.45
1934	.19	.33	.23	.34
1935	.27	.33	.23	.29

Source: Records of Albuquerque Nat'l Bank, Banking and Monetary Statistics, New Mexico State Bank Examiners Annual Reports.

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[21] Mr. Fred Luthy, January 11, 1959.

The Albuquerque National's ratio of loans to deposits was being reduced at this time much faster than that of most other banks in the country. The bank was increasing its liquidity not, as it might seem, by drastically slashing its outstanding loans, but by experiencing a rapid growth in deposits while holding loans fairly constant. This was not the case elsewhere, however. Deposits, in general, throughout the country were falling precipitously, and loans were falling even faster. The wave of bank failures that struck the country at this time was an important factor in the decline of deposits and loans. As banks failed, their totals were removed from the national totals, and as panic spread from town to town, depositors withdrew huge amounts of cash from banks, thereby further reducing the totals. As banks watched their deposits fall, they found that in order to meet the heavy demands placed upon them, they were forced to rediscount vast amounts of their loans with the Federal Reserve System. This was, of course, reflected in sharp declines in commercial bank loans.

If one includes aggregates with the figures cited in Table 10, a clearer picture is obtained than is at first apparent. Table 11 contains these aggregates for only the Albuquerque National Bank, and for all national banks. The figures for all national banks follow quite closely those for the groups left out from Table 10.

From December 31, 1929 to December 31, 1933, deposits of the Albuquerque National Bank grew 34.3%, largely as a

TABLE 11

Loans and Deposits of Albuquerque National Bank
and All National Banks

		Albuquerque National Bank			*All National Banks		
Year		Loans	Deposits	% Loans of Dep.	Loans	Deposits	% Loans of Dep.
1929	6-29	1,275,110	2,494,734	51	14,805	21,586	68
	12-31	1,334,779	2,529,920	52	15,136	22,738	66
1930	6-30	1,355,298	2,992,998	45	14,874	23,235	64
	12-31	1,397,405	2,705,494	51	14,347	22,836	62
1931	6-30	1,376,040	2,720,451	50	13,162	22,164	59
	12-31	1,129,206	2,442,365	46	11,905	19,210	62
1932	6-30	972,457	2,227,222	43	10,265	17,428	58
	12-31	953,281	2,372,085	40	9,828	18,486	53
1933	6-30	965,496	3,350,869	28	8,102	16,741	48
	12-30	932,507	3,937,790	23	8,086	17,555	45
1934	6-30	997,771	4,470,269	22	7,681	19,896	38
	12-31	1,035,611	5,389,615	19	7,475	21,637	34
1935	6-29	1,517,376	7,581,338	20	7,353	22,477	32
	12-31	1,654,791	6,914,398	27	7,494	24,802	29

*In millions of dollars.

Source: Records of Albuquerque National Bank, Banking and Monetary Statistics

result of the closing of the other banks in the town. Deposits of all national banks fell 26.4% in the same period of time. It is a rather singular phenomenon that banks all across the country were losing deposits at an alarming rate, while the Albuquerque National Bank was gaining deposits prodigiously. One might comment that this was the case because the Albuquerque National, after 1933, was the only bank left in town. However, it should be pointed out that the two banks that had failed were reorganized into one new bank that reopened in about six months. Using 1929 as a base year equal to 100%, the Albuquerque National's deposits were 277% by the end of 1935, while those for all national banks were only 115% of what they had been in 1929. In addition, deposits for all national banks did not climb above their 1929 level until late in 1934, whereas the growth of deposits at the Albuquerque National was virtually continuous throughout the depression.

Using 1929 as a base year equal to 100, the figures cited in Table 11 have been converted to indices, which show the relative changes for the period. The figures are as of December 31 of each year.

State banks in New Mexico were experiencing declines in their loans and deposits similar to those found in national banks on the average throughout the country. For example, deposits of New Mexico state banks fell from just over twelve million dollars in 1929 to slightly over four million in 1933, and loans dropped from about seven million in 1929 to

result of the old [illegible] of [illegible] in the [illegible] its of all national [illegible] [illegible] time. It is [illegible] across the country [illegible] while the Albuquerque [illegible] diagonally. The [illegible] the Albuquerque National [illegible] in turn. However, it [illegible] that had failed [illegible] opened in about [illegible] to 100%, the Albuquerque [illegible] end of 1935, while [illegible] of what they had [illegible] national banks [illegible] late in 1933, [illegible] que National had [illegible] sion.

Using [illegible] cited in Table [illegible] the relative [illegible] December 31 of each year.

State [illegible] in their loans and [illegible] al banks on the [illegible] deposits of New Mexico [illegible] million dollars in 1929 [illegible] 1935, and loans [illegible]

TABLE 12

Loans and Deposits
Albuquerque National Bank and All National Banks
1929-1935 (1929=100%)

	Albuquerque National Bank		All National Banks	
Year	Loans	Deposits	Loans	Deposits
1929	100	100	100	100
1930	109.5	108.4	96.9	105.7
1931	88.5	97.8	80.4	88.9
1932	74.7	95.0	66.3	85.6
1933	73.0	157.8	54.6	81.3
1934	81.1	216.0	50.4	100.2
1935	129.7	277.1	50.6	114.8

just above two million in 1933. The downward trend was reversed late in 1934, as with all national banks, and rose to over nine and three million dollars respectively in 1935.[22] Although the New Mexico banks as a group experienced similar declines, in relation to those of all national banks, in the two areas considered the declines were much more severe in the New Mexico banks on a percentage basis. At a time when deposits declined 26% in all national banks, they declined nearly 70% in New Mexico state banks. This was caused, it seems, by the close alliance between New Mexico state banks and the agricultural industry. In 1929, as well as in 1933 and 1934, about 40% of the total loans of these banks were direct advances on agricultural production and land.[23] The depositors of these

[22] New Mexico State Bank Examiner's annual reports for 1929, 1933, 1934, and 1935.

[23] New Mexico State Bank Examiner's annual reports.

banks were, as one might expect, also ranchers and farmers.

The depression had dealt a severe blow to banks in the United States, and equally so to banks in New Mexico. Commercial bank deposits had fallen far below the pre-depression levels, as had other banking totals. Loans were only a fraction of what they had been prior to 1929. Assets, other than loans, also declined sharply, as investment portfolios were stripped to meet heavy withdrawal demands; in fact, about the only figures that increased during the depression were withdrawals. Many banks failed during the depression, and many more were seriously impaired by it. They would require thorough reorganization before they became healthy again. The banks that survived the ordeal were for the most part gravely weakened and would require heavy transfusions in the form of rediscounts from the Federal Reserve, and capital funds from the Reconstruction Finance Corporation to see them through the difficult times ahead.

The most startling aspect of the depression was the fact that the banks, rather than serving to soften the blow, only intensified it. As bankruptcies increased alarmingly in the early thirties, failing banks led the parade, until in 1933 four thousand national, state, and unincorporated banks closed their doors for the last time. The phenomenon was not confined to agricultural areas alone, as it had been in the nineteen-twenties. It was actually felt through every strata of banking, including the mecca of modern finance, New York City.

banks were, as one might [illegible]

The depression had [illegible] United States, and equalled [illegible] cial bank deposits had [illegible] levels, as had other banking [illegible] tion of what they had been; [illegible] loans, also declined sharply. [illegible] equipped to meet heavy withdrawals [illegible] only figures that [illegible] drawals. Many banks failed during [illegible] more were seriously impaired [illegible] ough reorganization before [illegible] banks that survived the ordeal [illegible] weakened and would require [illegible] rediscounts from the Federal Reserve [illegible] the Reconstruction Finance Corporation [illegible] difficult times ahead.

The most startling aspect [illegible] fact that the banks, rather than [illegible] only intensified it. As [illegible] the early thirties, failing banks [illegible] 1933 four thousand national [illegible] closed their doors for the last [illegible] confined to agricultural [illegible] nineteen-twenties. It was [illegible] of banking, including the [illegible] City.

The depression story of the Albuquerque National Bank is an altogether different one from that of most other banks in the United States. Rather than damaging the bank, the depression had actually strengthened it. The bank was established as the leading bank in the community at this time, and it has not relinquished that distinction to this day. Prior to the depression, the bank carried many weak bonds, and these, along with many doubtful loans, had been purged from its books. The removal of these substandard assets had been accomplished without recourse to rediscounts or help from the Federal Government.

The bank was strong before the great depression and it remained so after the ordeal, because the management had constantly worked to keep it as liquid and solvent as possible. Policy was motivated by a desire for safety, rather than great profits and high dividends. The bank's loans were kept liquid, both as to type and as to proportion of total assets. They were not made to further wild speculative ventures, as was the case in all too many banks at the time. Neither were loans tied heavily to the stock market. Though real estate loans comprised a somewhat large proportion of the bank's total loans at the time, it was able to reduce them rapidly without seriously impairing its position.

As has been pointed out previously, the bulk of the loans of the Albuquerque National Bank were commercial and industrial loans. Albuquerque did not feel the effects of the depression as greatly as did most other areas of the country,

and its commercial activity was not as severely curtailed. Albuquerque was not heavily involved in industry at the time, and its trade was not too severely affected by the extreme curtailment of industrial production that took place during the depression.

A bank faced with the circumstances present in the depression need not have failed, yet many did. Unlike the Albuquerque National Bank, they were not prepared to meet the difficulties that arose. Their loans were illiquid and their investment portfolios contained all too many securities that reacted violently to the stock market crash. Their cash reserves were inadequate, and as withdrawal pressure mounted, they were rapidly used up. Finally seized by panic, depositors across the land started runs that overwhelmed over four thousand banks in one year, and nearly inundated the entire banking system.

TABLE 13

Number and Deposits of
Suspended Commercial Banks
in 1933

	Number	Deposits
Suspended Commercial Banks, U.S.	4,000	$32,637,000,000
Suspended Commercial Banks, New Mexico	7	7,067,000

Source: Board of Governors of Federal Reserve System, Banking and Monetary Statistics

and the commercial [illegible]

Albuquerque was not [illegible]

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curtailment of [illegible]

the depression.

A bank [illegible]

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buquerque National [illegible]

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banking system.

Suspended Commercial [illegible]

Suspended Commercial [illegible]
New Mexico

Source: Board of Governors of the Federal Reserve System, [illegible]
Banking and Monetary [illegible]

CHAPTER III

RECOVERY

The national administration took office on March 4, 1933 with Franklin Roosevelt at its head, and it was immediately faced with the problem of healing a sick economy and a crippled banking system. Some of the legislative physicians of the day were crying for remedies that surely would have killed the two patients, while on the other hand others seemed content to let them die or recover of their own volition. There were a few,however, who supplied the leadership and calm thinking that the country needed so desperately.

The first problem was to get the nation's banks open again. This was swiftly accomplished through the "Emergency Banking Act" that was passed on March 9, 1933. Although the banks did not reopen until the next week, the government, with them open, could set about strengthening them in general.

On June 16, 1933 Congress passed the "Glass, Stagall Act," which was a reform bill designed to stabilize the country's banks. It provided for the insurance of bank deposits, raised bank capital requirements, took the banks out of the stock market by limiting their ability to make stock market loans, granted the national banks limited branch banking privileges, and raised the ethical standards of banking. The

RECOVERY

The national [illegible] 1933 with Franklin [illegible] diately faced with [illegible] a crippled banking system. [illegible] cians of the day were [illegible] have killed the two [illegible] seemed content to let [illegible] tion. There were [illegible] and calm thinking [illegible].

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On June 16, [illegible] Act," which was [illegible] try's banks. It [illegible] raised bank capital [illegible] stock market by [illegible] loans, granted [illegible] lleges, and raised [illegible].

Federal Reserve System was also strengthened by the Act by extending its authority over the commercial banks, and by removing its functions to a certain extent from the control of the Treasury Department.

The Reconstruction Finance Corporation that had been established, but largely neglected, by the Hoover Administration, was revived and given more extensive powers in 1933. The R.F.C. was allowed to make loans to banks, and also to make direct loans to firms that the banks could or would not handle. State and non-member banks were allowed to borrow from the corporation on what were called capital notes, and national banks could issue preferred stock for sale to the R.F.C. Both provisions were utilized by many banks with varying degrees of success. The Federal Government was able, through its agent the R.F.C., to supply needy banks with much needed new capital in the hope of strengthening them and restoring confidence in the banking system.

The Federal Government quickly bolstered the banking system after the "holiday" of 1933, and the speed and decisiveness with which the new administration acted was commendable. On the other hand, a great opportunity to reorganize the banking system had been largely overlooked. Rather than organize the weak closed banks into branches of strong metropolitan banks, the Federal Government chose to patch up the weak system of small independent banks.

The Canadian banking system, which withstood the depression without widespread failure, could have served as a

model for the reorganization of the American banks at that time, and even the bankers would have accepted it then. There are eight banks in Canada, other than the central bank, and each has a multitude of branches throughout the country. There is no diminution of competition because there are only eight banks. They vie mightily with one another for the available banking business. Each of the eight banks is very strong, having vast resources and automatic loan diversification through their widespread branches. Each Canadian bank can offer its huge resource pool to the development of new areas or new and expanding industries. The resources of the entire bank are available at any of its branches. The Canadian banks are in a much better position to further the growth of their country than are a majority of the American banks. A nation-wide branch banking system in the United States would provide banking stability and strength without diminishing competition or without relying upon government help in times of stress.[1]

The year 1933 saw the measures of the new administration take almost immediate effect upon the banking system. Suspensions fell from 4,000 in 1933 to 57 in 1934, an encouraging change, and deposits began to return to the banks from which they had so rapidly fled in the months just past. Commercial bank deposits had reached a low of just over thirty-

[1]On a trip through the five western provinces of Canada in June 1957, I had occasion to speak to a number of Canadian bankers about their banking system, and the discussion above is largely a result of those conversations.

model for the reorganization of [illegible] time, and even the [illegible] are eight banks in Canada, [illegible] each has a multitude of [illegible] is no diminution of [illegible] banks. They [illegible] banking [illegible] having vast resources [illegible] through their widespread [illegible] offer its huge resources [illegible] or new and expanding [illegible] bank are available [illegible] are in a much better position [illegible] country than are a [illegible] wide branch banking [illegible] banking stability [illegible] tion or without relying [illegible] stress.[1]

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[1] [illegible] in June 1933, [illegible] bankers about their [illegible] is largely a result [illegible]

five billion dollars in 1932, but by 1936 they had risen to over fifty billion. This increase in deposits was accompanied by a rise in liquidity that placed the banks in a position of strength that was entirely new to the banking system. Member bank reserves began to rise rapidly by the end of 1933, and the appearance of rather large excess reserves was something entirely new.[2] Excess reserves rose from approximately five hundred million dollars in 1933 to over six billion dollars by the end of 1940. These excess reserves in 1940 were, in fact, greater than total bank reserves had been in 1933. Total reserves in 1940 were 34% of deposits, whereas they had been a disastrously low 10% in 1933.

This vast increase in liquidity was caused in large measure by the fiscal policy of the Federal Government. The practice of deficit financing taken up by the Roosevelt Administration had given rise to great increases in liquidity throughout the economy that found its way into the banks. This is borne out by the change in United States Government gross debt that took place between 1932 and 1940. In 1932 U. S. Government gross debt was nineteen billion dollars and by 1940 it was a little over forty-five billion dollars, an increase of about 225%.[3]

Bank credit experienced a marked upturn after 1933, which is an indication of the improved condition of the

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[2]Banking and Monetary Statistics, Federal Reserve Board of Governors.

[3]Ibid.

economy. Evidently deciding that the worst had passed, bankers were again extending loans at an increasing rate.

New Mexico was undergoing similar economic changes to other parts of the country after 1933, although at a greater rate. The state's population was on the increase, as was general business activity. The influx of population brought with it a large amount of new capital that was reflected in vastly increased bank deposits. Bank credit in the state was also on the rise after 1933; however, the ratio of bank loans to deposits remained fairly constant at about 33:1 until 1941. The increase in bank credit did not cause a decline in bank liquidity because of the rapid increase in deposits. In fact, as is evidenced by the constant ratio, the two aggregate figures grew at a similar rate. Many New Mexico banks found themselves in possession of excess reserves for the first time. Deposits were returning to the banks at an encouraging rate, and the recent banking disaster had taught most bankers an important lesson in caution. As a consequence of these things, the banks in the state were in a more liquid position than they had been for a long time.

High liquidity was nothing new to the Albuquerque National Bank. The bank was very liquid before the 1929 crash, and the crash served only to increase this high liquidity. Loans as a percentage of deposits at the bank were about 43%, prior to 1929. This percentage dropped to a low of 19% in 1934, and rose again to 33% by the end of 1940. The ratio of loans to deposits at the Albuquerque National Bank rose above

economy. Evidently [illegible] ers were again [illegible]

New Mexico [illegible] other parts of [illegible] rate. The [illegible] ual business [illegible] it a large amount [illegible] increased bank [illegible] the rise after 1933 [illegible] posits remained [illegible] increase in bank [illegible] uidity because [illegible] as is evidenced [illegible] urce grew at a [illegible] themselves in [illegible] time. Deposits were [illegible] rate, and the [illegible] ers an important [illegible] these things, the [illegible] position than they [illegible]

High liquidity [illegible] tional Bank. The [illegible] and the crash [illegible] Loans as a percentage [illegible] prior to 1929. This [illegible] 1934, and rose [illegible] Loans to deposits [illegible]

the average for all national banks for the first time during this period of recovery. The differential was slight, however, and the figures for all national banks were down further than they had ever been before.

Banks in general throughout the country reversed their traditional policy of investing the majority of their assets in loans. This was undoubtedly influenced by the recent depression, but the Federal Government also had a hand in the change. Through deficit financing liquidity had been greatly increased throughout the economy. This found its way into the banks. Through the Federal Land Bank System and the R.F.C., the government entered the loan field and drained off some of the demand for commercial bank credit. These things worked together to greatly increase the general liquidity of the banking system.

Interest rates on commercial bank credit underwent a marked decline from 1929 through 1940. First, the depression to 1933 served to push the interest rate down because of a scarcity of demand for bank credit, and then after 1933 the fiscal and banking policies of the Federal Government further reduced the rate. In 1929 the average interest rate on commercial bank loans was 5.83%, but by 1938 it had dropped to a low of 2.53%.[4] The law of supply and demand was at work on the interest rate. Loanable funds were in superabundance as

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[4]Board of Governors Federal Reserve System, Banking and Monetary Statistics.

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Interest rates [illegible] [illegible]
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[4] Board of [illegible] [illegible]
and Monetary [illegible]

indicated by the large excess reserves present. The supply far exceeded the demand and this situation made itself apparent in a declining interest rate.

TABLE 14

Loans and Deposits, Albuquerque National Bank
and all National Banks
1934-1941

Year	Albuquerque Nat'l Bank Loans	Deposits	Ratio	*All National Banks Loans	Deposits	Ratio
1934	1,305,611	5,389,615	19.2%	7,475	21,637	34%
1935	1,925,929	7,089,246	27.1	7,494	24,802	29
1936	2,058,568	8,778,797	23.4	7,748	26,153	29
1937	2,664,705	8,657,776	30.7	8,796	26,487	32
1938	3,149,014	10,498,218	29.9	8,469	27,996	30
1939	3,770,448	11,040,001	34.1	9,022	31,559	28
1940	4,014,843	12,120,215	33.1	10,004	35,787	28
1941	5,521,408	14,978,248	36.8	11,725	39,458	29

*In millions of dollars.

Source: Banking and Monetary Statistics, Albuquerque National Bank statements of condition.

The Albuquerque National Bank experienced a decline in the interest rate on its loans at this time. The rate did not fall as much at the Albuquerque National as it did elsewhere, however. In 1929 the banks average interest rate was 8.46%. By the end of 1938 it had dropped to 6.3%. Although the bank was increasing outstanding loans, the demand did not keep pace with the supply of loanable funds and the interest rate declined.

In the face of a declining interest rate, the Albuquerque National Bank earned a greater net return on its loans

than it had before the decline. This was a result simply of a greater volume of loans outstanding, and reduced charge offs of defaulted loans. By increasing the amount of outstanding loans after 1934, the bank diminished somewhat its liquidity, but it should be pointed out that perhaps this was a good time for such an action since the worst of the depression had already passed. Also, it can hardly be said that a bank with a 1 to 3 loan to deposit ratio is in a very dangerous position.

After 1934, the Albuquerque National's loans were divided amongst the three categories: commercial, real estate, and stock market, much as they had been in the past. Commercial loans comprised from about sixty to seventy percent of total loans, and the other two types divided the remainder between them. The amount of commercial loans held by the Albuquerque National Bank was proportionately higher than that which was found generally in other banks.

The aggregate volume of commercial loans increased a great deal at the Albuquerque National Bank during the period of recovery. The December 31, 1932 statement of condition of the bank showed slightly over $500,000.00 in this type of loan,but by the same date in 1940 the figure had grown to nearly two million dollars. This was an increase of almost 400%, which compared with an average of a 50% increase for all member banks.

The population of Albuquerque was increasing steadily after 1933, and the new members of the community seemed to be

TABLE 15

Commercial Loans as a Percentage of Total Loans

Year	Albuquerque National Bank	All Member Banks
1933	65.2	38.7
1934	68.5	39.1
1935	68.4	41.1
1936	64.7	45.2
1937	64.6	50.1
1938 [5]	40.0	35.8
1939	31.6	38.5
1940	45.4	40.4
1941	28.0	44.7

Source: Banking and Monetary Statistics, Albuquerque National Bank statements of condition.

amply supplied with liquid capital, as is evidenced by the rapid increase in deposits and a lesser increase in loans shown in Table 14. There did not seem to be any great

[5]The Comptroller of the Currency changed the classification of loans in 1938. Commercial loans were divided into commercial loans and other loans. This division occasioned the sudden drop in commercial loans that year. This separation was the first recognition of consumer installment loans which were included in the "other" category. In 1942 these loans were further categorized into types such as automobile, home improvement, etc., but prior to 1938 they had been included with commercial loans. Prior to 1938 consumer installment credit had not been a very important part of commercial bank credit; however, with the leadership of the Bank of America and a few others, commercial banks began entering this field that had previously been the sole province of finance companies, until today, consumer installment loans are a most important part of bank operations.

scarcity of capital for business purposes, even though the local banks were quite conservative with their loan funds.[6]

The Albuquerque National Bank was quite heavily involved with real estate loans prior to 1933. For example, in 1932, the bank had about 27% of its loans in real estate paper. In 1933 the bank's management began intensively to reduce the bank's real estate loans until by December of 1935 they comprised only 9.1% of the bank's loans. In 1936 a rather amazing thing happened that illustrates the effect of government action on at least one bank. In the last six months of that year, real estate loans rose from 11.1% of total loans to 22.8% of total loans. It was in 1936 that the Federal Housing Administration commenced guaranteeing the real estate loans of qualified borrowers, and the Albuquerque National Bank started making F.H.A. Title II loans. By December 31, 1941 real estate loans comprised 39.4% of the bank's total. The demand for mortgage loans must have been very great to occasion such an explosive increase in real estate loans, the great majority of which[7] were on residential property.

Why did the Albuquerque National Bank so drastically reduce its real estate loans, and then do a complete about face and increase them to an all time high? The inherent conservatism of the management was again apparent. Real estate

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[6] Interview, Mr. Fred Luthy, January 9, 1959.

[7] 79% in 1942.

TABLE 16

Real Estate Loans as a percentage
of Total Loans

Year	Albuquerque National Bank	All Member Banks
1933	22.8	18.3
1934	16.2	18.8
1935	9.1	18.7
1936	22.8	18.0
1937	26.3	18.2
1938	29.9	20.0
1939	31.0	21.1
1940	33.6	21.1
1941	39.4	19.3

Source: Banking and Monetary Statistics, Albuquerque National Bank statements of condition.

loans are by nature long term obligations, and consequently not liquid. Without a guarantee, they would not be too attractive to a management whose first consideration was minimum risk. With the guarantee, the management felt that real estate loans were then an acceptable investment. With the excess funds at their disposal, the bank's management was able to quickly increase its holdings of real estate loans to meet the demand that prevailed. The F.H.A. had provided the needed inducement to bring the bank back into the mortgage loan field.[8]

[8]The Federal Housing Administration was established

Although the stock market improved steadily after 1933, stock market loans at the Albuquerque National Bank just as steadily declined. During the early and mid-1930's this type of loan comprised from ten to eleven percent of the bank's total loans, but by 1931 stock market loans had dropped to only three percent.

Stock market loans[9] never have been a very important segment of the Albuquerque National's total loans, and the experience of the stock market crash of 1929 served only to solidify this policy. The management evidently considers this type of loan too speculative and has chosen to invest the bank's funds elsewhere.

In 1934 the bank made a rather tentative investment of $34,000.00 in open market paper. This was about 3% of

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by the "National Housing Act" of 1934. The Administration was brought into being to promote the financing of residential dwellings by establishing what was called mutual mortgage insurance. The purpose of the insurance was to protect grantors of mortgages against default. Under Title II of the Act, houses that cost less than $6,000.00 would be insured up to 90% of the assessed valuation of the property. This meant that a lender stood to lose very little in case of default. Another feature of the Act provided for the guarantee of loans made for the purpose of making home improvements.

The Act had many ramifications. First, it was hoped that it would create a market for mortgage loans by establishing a statutory minimum risk for lenders. Second, it was hoped the Act would encourage home improvements postponed during the depression. By encouraging building it was also hoped that a third problem would be partly alleviated, namely, unemployment.

The response to the Act by commercial banks was at first not too encouraging. However, other financial institutions, such as insurance companies, did take great advantage of the Act.

[9]Loans to brokers and loans to individuals for the purpose of purchasing and carrying stock market securities, not loans with stock market securities as collateral.

TABLE 17

Security Loans
Albuquerque National Bank

Year	Amount	% of Total
1933	$109,788.00	11.6
1934	119,975.00	11.4
1935	169,878.00	8.7
1936	96,228.00	4.6
1937	159,000.00	5.9
1938	104,891.00	3.3
1939	128,527.00	3.3
1940	135,737.00	3.3
1941	170,819.00	3.0

(As of December 31 of each year.)

Source: Statements of condition.

total loans. The figure grew to a high of $238,000.00, or 9.3% of total loans. This investment then rapidly declined to less than one percent in 1938, and then completely disappeared from the bank's statement. As the bank's investment in open market paper increased, its investment in real estate loans declined. Conversely, as the bank's real estate loans increased, its open market paper declined. This suggests that the funds invested in open market paper were, in effect, excess loanable funds that the bank chose to shift to real estate loans when those loans were made more attractive by the government guarantee.

Although the funds invested in open market paper by the Albuquerque National Bank were never very great in amount, they were significant in illustrating the fact that the bank

TABLE 18
Albuquerque National Bank
Real Estate Loans and Open Market Paper
as % of Total Loans

Year	Open Market Paper	Real Estate Loans
12-31-34	3.2	16.2
6-29-35	10.4	10.5
12-31-35	8.2	9.1
6-30-36	8.0	11.1
12-31-36	7.7	22.7
6-30-37	5.9	22.3
12-31-37	2.9	26.3
6-30-38	5.1	28.8
12-31-38	.7	29.9
6-30-39	.0	30.3

Source: Statements of condition.

was in possession of funds that it was able to shift at will. The bank also had excess cash reserves at the time it was investing in open market paper, so the open market paper, in effect, represented excess, or above excess reserves.

The years between the bank holiday in 1933 and the World War in 1941, were profitable ones for the Albuquerque National Bank. In the face of a steadily declining average interest rate, the bank was able to just as steadily increase its net return on loans. This was partly caused by greater loan volume, and was partly the result of a declining charge off rate, coupled with an increase in the number of recoveries of previously charged off loans. The bank was in fact recovering many of the loans that had been written off prior to 1933.

TABLE 19

Albuquerque National Bank
Loan and Discount Earnings

Year	1934	1935	1936	1937	1938	1939	1940	1941
Gross Income Loan & Disc.	77,814	113,211	130,836	157,696	198,956	221,549	265,861	297,564
Net Income Loan & Disc.	49,662	71,927	108,700	109,690	138,827	161,806	221,868	280,733
Average Int. Rate	7.62%	7.13%	6.47%	6.11%	6.57%	6.30%	6.42%	5.40%
Net Loan & Disc. Income %	4.87	4.53	5.38	4.33	4.59	4.60	5.36	5.19
Loan & Disc. % of Assets	16.9	25.5	22.3	29.1	28.6	32.6	31.6	35.3

(Net Income Loan & Disc. is obtained by subtracting loan charge offs and adding loan recoveries to the gross income figure; there are no operating expenses charged against it.)

Source: 25 year earnings report prepared in 1949 by Mr. R. S. Poage, the Bank's Cashier.

When operating expenses were deducted from total earnings in the years covered in Table 19, the bank was always left with a positive net income figure. The bank has not, in fact, ended a year with a net loss since 1933.

The Comptroller of the Currency has always required banks to report the types of loans that they carry. This is always done at the time banks make their "call"[10] reports. Until 1938 the breakdown of loan types required by the Comptroller was quite broad, and each category contained many different classes of loans. In 1938 the Comptroller changed the reporting requirements so that banks were asked to divide their loans into thirteen different classes and subclasses. The following Table is an example of the report banks make to the Comptroller, using figures of the Albuquerque National Bank expressed as a percentage of total loans. The figures are not submitted to the Comptroller in this manner of course, but expressed this way they do give a rather accurate picture of the character of the bank's loans at the time.

The Albuquerque National Bank always has been faced with the difficulty of increasing its capital funds as the bank has grown. The management has chosen to increase its capital funds through earnings rather than through the sale of additional capital stock. Consequently, because of an almost explosive growth of assets and an almost steady increase

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[10]See Chapter I for an explanation of the term "call report."

in taxation on income, the bank's capital funds have lagged behind.

The ratio of total capital funds to total loans shows the relationship between the stockholders' equity in the loans,

TABLE 20

Typical Loan Classification
Figures Expressed as a Percentage
of Total Loans

Loan Type	6-30-39	6-30-40	6-30-41
1. Commercial and Industrial	38.5	42.7	30.8
2. Agricultural (not land)	3.8	6.0	4.7
3. Open Market Paper			
a. Commercial Paper			
b. Notes, bills, etc.			
c. Acceptances, this bank			
d. Acceptances, other banks			
4. Loans to Brokers			
5. Other Security Loans	3.1	4.0	3.0
6. Real Estate			
a. On Farm Land	1.0	.6	1.2
b. Residential	19.3	20.9	29.3
c. Other	10.0	12.2	9.0
7. Loans to Banks			
8. All Other Loans	23.8	12.9	20.6
9. Overdrafts			
10. Total Loan & Disc.	$3,149,949.00		$5,521,408.00

and the equity of the depositors. A low ratio would indicate that the depositors had a greater equity in the loans than did the stockholders. Prior to the depression, this ratio was fairly healthy at the bank, averaging about .35:1, but it was gradually declining. The bank holiday in 1933 and the growth that came to the bank after that time served to accentuate this decline until the ratio was at a very low level by 1941. There have been times since 1933 when the trend has reversed briefly, but the general tendency has been downward.

TABLE 21

Ratio of Capital Funds to Loans

Albuquerque National Bank

Year	Ratio	Year	Ratio
1934	.41:1	1939	.14:1
1935	.23:1	1940	.14:1
1936	.21:1	1941	.9:1
1937	.17:1	1942	.13:1
1938	.15:1	1943	.15:1

(as of December 31 of each year.)

The ratio of capital funds to loans is also an important indicator of the relative liability for the loans carried by the depositors and the stockholders.

Just as the Albuquerque National Bank was not affected adversely by the depression, neither had it been changed to any great extent by the banking legislation of the "New Deal." Its liquidity was enhanced, to be sure, by the growing deposits that flowed into the banks as a result of government fiscal policy, but the Albuquerque National Bank was highly liquid before the government undertook a program of deficit spending. Likewise, the guaranteeing of mortgages by the Federal Housing Administration was beneficial to the bank, but the funds that it was encouraged to invest in real estate loans were largely unemployed excess reserves. The restrictions placed upon stock market loans did not greatly affect the bank because only a small portion of its loans had ever been employed in this manner. The restrictions placed upon loans to bank officials caused little

stir at the bank simply because it had never loaned significant amounts to its officers. Finally, the added responsibility placed upon bank directors and officers made no noticeable difference in the operations of the Albuquerque National Bank because its officers and directors had already shouldered these responsibilities on their own accord.

The Federal Legislation of the first Roosevelt Administration did result in one important change at the Albuquerque National Bank. By increasing the stability of both banking and the general economy, this legislation made it possible for the bank to greatly increase its loans while not materially adding to its over all loan risk. The bank's policy of conservatism toward its loans had not changed, but the general risk involved in extending credit was lowered, resulting in an increase in the bank's total loans.

The depression history of The Albuquerque National Bank was not typical of banks in general. Its resources grew while it weathered a disastrous depression. Other banks on a grand scale withered and died. It prospered handsomely at a time when many banks were going through a painful and rigorous period of reconstruction. These things were true because the bank's management had always held as paramount the solvency and strength of the bank. It had never been motivated by a desire for quick and easy profits. Conservatism marked all the bank's dealings, and, as a consequence, in spite of the worst deflation in United States history, the Albuquerque National Bank remained sound.

CHAPTER IV

WAR

While the rest of the world was occupied with the problems of a staggering depression, a colossus was gestating in Europe. Out of defeat and the effects of an almost unworkable treaty a new German nationalism was formed, a nationalism that envisioned Germany as the rightful ruler of mankind. This movement was given impetus by a ruthless fascist government. Violating or circumventing most of the provisions of the treaty of Versailles, Germany developed a war machine that was soon to pour forth from the Fatherland and engulf most of Europe.

Germany's two most hated enemies, Britain and France, vainly tried to appease this reborn power, but to no avail. When it became painfully apparent that appeasement was fruitless, and that they would again have to engage Germany in a war, Britain and France turned to the United States for the goods and capital they so desperately needed to prosecute the conflict. They came to the United States just as they had done in 1914. With the commencement of hostilities in 1939, Britain, and to a lesser degree, France, were unprepared for war. Neither had adequate materials of war nor men under arms. As a consequence of their unpreparedness, both European Allies placed huge orders with American firms

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for war supplies. They also bought vast amounts of farm produce in this country.

When Western Europe fell to Hitler in 1940, the United States began in earnest to prepare for war. Conscription was started, and huge contracts were let to equip an army. Work was started, designed to increase naval strength to a two ocean capacity. This activity had little effect upon the country's banks, except to increase their liquidity through increased deposits. The banks had little to do with war preparation financing, as the Federal Government handled the bulk of it directly.

The story of banking during the three and one-half years of war from December, 1941 to August, 1945 is told in terms of regulations. Regulation from the Federal Reserve System, the Comptroller of the Currency, and in some cases directly from the United States Congress.

The Federal Government in 1941 was faced with, among other things, the task of financing the war as cheaply as possible, and at the same time avoiding a ruinous inflation. The banks were involved in both of these problems. A great deal of liquidity had built up slowly in the banking system since 1933, largely as a result of Government fiscal policy. If this reservoir of funds was turned loose indiscriminately, it might cause an inflationary price situation and might rob the government of a vital source for its borrowings. On the other hand, there were many businesses of all sizes, engaged in the production of war material, that were in dire need of

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short term credits. The resulting legislation and executive orders were designed to prohibit most types of lending, but to encourage lending to businesses engaged in war production.

The Federal Reserve Board also felt the weight of regulation, mainly through its open market committee. The Treasury anticipated the need to borrow vast sums on its notes and bonds, and in order to do so, as cheaply as possible, it needed a ready market that would help keep the interest costs to a minimum. If Government security issues were to be sold at, or near, par at a time when other security yields were high and rising, someone had to stand by, ready and able, to take the Government issues at a set price. This task fell to the Federal Reserve System, as it was perhaps the largest holder of free capital outside of the U. S. Government printing office. The much discussed "peg" was placed on the Government bond market. The Federal Reserve stood by ready to buy any issues of Government bonds at a stated price. The price, theoretically, could not fall below this pegged price, and it did not. As a secondary effect of this policy, it was felt that a stable price would tend to keep yields low and act as an anti-inflationary measure. On the other hand, the bonds could later be converted into cash and form a tremendous lending base that would be highly inflationary, but that was something for the future and the immediate problem was winning the war.

In March of 1942, the President, in an executive order, authorized the armed services to guarantee private credit

loaned for war production purposes. The Federal Reserve Board, in response, issued its regulation "V" which established procedures for carrying out the executive order.

Private financing institutions made "V" loans during the war to the extent of over twelve billion dollars. Credit of this nature was made available to 4,864 businesses throughout the country. Although some of these businesses did not use all of the credit of this type made available to them, most made frequent and recurring use of regulation "V." Over 90% of the borrowers were small businesses that in most cases were capital poor and greatly in need of funds made available by the regulation. About 1,400 banks participated in the program. They were, for the most part, large metropolitan banks located near centers of production. A part of the regulation afforded the borrower some protection in the event of contract cancellation for the convenience of the Government, and after an amendment in 1943 provided for the guarantee of credit for working capital purposes after the war.[1]

An act was passed by Congress in 1917 that placed restrictions on bank lending during war time. This act was amended by executive order in 1941. To facilitate the desires of the Federal Government set out in this order, the Reserve Board issued what it called regulation "W." This regulation

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[1] Susan S. Burk, and Elizabeth B. Sette, Division of Research and Statistics, Board of Governors of the Federal Reserve System, <u>A Statistical Study of Regulation V Loans</u>, September 1950.

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amended by [illegible]
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Board issued [illegible]

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[1] [illegible] Research and Statistics, [illegible] Reserve System. [illegible] September 1950.

placed restrictions upon the extension of credit for the purpose of purchasing consumer durable and semi-durable goods. It provided for a down payment of one-third on all purchases, and described the types of businesses that fell under the jurisdiction of the regulation. They generally affected any businesses that extended credit, either in the form of charge sales or cash loans. More specifically the regulation covered concerns that made installment or charge sales, installment loans of $1,500.00 or less, or single payment loans of $1,500.00 or less. The regulation also included persons or businesses that discounted paper that arose out of any of the above transactions. The types of businesses that fell under the regulation were banks, finance companies, small loan companies, and businesses that extended credit in connection with sales of merchandise for personal, family, or household use. The regulation did not restrict agricultural loans, loans for educational or health purposes, or loans made through the Commodity Credit Corporation.[2]

Through regulations "V" and "W" the Federal Government was able to effectively limit lending in general, and channel funds to those companies engaged in war production. The net effect upon the banking system was to reduce the relative amount of outstanding loans. Although total loans in the banking system did increase somewhat during the war,

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[2]Charles S. Cook and C. L. Coe, Regulation "W," How to Use It, 1942.

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in the banking system [illegible]

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[2] Charles [illegible] to Dec 11, 1942.

their relationship to total deposits fell sharply. The percentage of loans to deposits was 51.3% in December 1941, but by December 1943 this percentage had fallen to a low of 14.7%.[3] This change came about even though loans increased slightly during the period. Deposits were growing prodigiously during the war because of heavy government and private spending. This, combined with restricted bank lending, served to make the banks extremely liquid.

TABLE 22

All Member Banks
Loans, Deposits, and Percentage
of Loans to Deposits

Year*	Total Loans	Total Deposits	Percentage
1941	16,729	32,610	51.3
1942	16,088	78,478	20.5
1943	16,288	110,803	14.7
1944	20,588	118,318	17.4
1945	22,775	130,116	17.5
1946	26,696	118,097	22.6

(Loans and Deposits expressed in millions of dollars.)

*Figures for December 31, each year.

Source: "Federal Reserve Bulletins," various issues.

The changes in the various types of member bank loans, although slight, did reflect the government regulations under which the banks operated. Commercial and industrial loans remained virtually unchanged during the war, and

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[3] Board of Governors of the Federal Reserve System, Banking and Monetary Statistics, and "Federal Reserve Bulletin."

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Loans, [illegible]
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Year*	Total Loans	[illegible]	[illegible]
1941	18,[illegible]	[illegible]	[illegible]
1942	16,[illegible]	[illegible]	[illegible]
1943	16,288	[illegible]	[illegible]
1944	20,[illegible]	[illegible]	[illegible]
1945	2[illegible]	[illegible]	[illegible]
1946	26,[illegible]	[illegible]	[illegible]

(Loans and Deposits [illegible]

*Figures for December [illegible]

Source: Federal [illegible]

The changes [illegible]

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[1] [illegible]
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Bulletin.

consumer loans declined somewhat. Agricultural loans, surprisingly enough, remained almost constant throughout the war. The most important factor in this situation was that in many cases individual businesses were able to arrange direct financing with the Federal Government, bypassing the banks altogether. The banking system's contribution to the war effort was rather slight in regard to its loan activities, even with the presence of regulation "V" loans. The banks did make their contribution, however, by holding large amounts of government securities, but this was hardly voluntary.

Banks in New Mexico and Albuquerque found themselves in much the same situation during the war as did banks throughout the country. Their ability to lend was severely curtailed at a time when their deposits were growing rapidly. They also found that almost their only outlet for investment was U. S. Government bonds. The ratio of loans to deposits in New Mexico banks fell in exactly the same manner as it did in banks throughout the country, dropping from 33.8% in December of 1941 to 14.5% by December of 1943. This ratio in New Mexico banks did not rise as rapidly late in the war as it did in other banks in the country; but by the end of 1946, it was almost exactly equal to that of other banks. Thus, there was a very steep upward movement in the ratio after the war.

In New Mexico, bank loans did not fall perceptibly as a total figure during the war. On the other hand, deposits

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In [illegible]
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in these banks were growing rapidly and causing a disproportion between loans and deposits. This was not a unique situation, however, as it was being repeated all over the country to a greater or lesser degree.[4]

The Albuquerque National Bank was in about the same condition as were banks throughout the country. Loans were not changing appreciably as a total, yet they were declining in importance as an asset. The percentage of loans to deposits was declining here about as much as elsewhere, and any differences were purely academic. The bank's loans were restricted just as elsewhere, but in Albuquerque the possible outlet for war production loans was also missing because of the almost complete lack of war industry in the city.

The Albuquerque National Bank was able to increase its loans in one area, both as an aggregate and as a percentage of total loans. This area, as one might expect, was in agriculture. The increase was not great, however, nor was its relation to total loans. The high water mark for agricultural loans was reached in 1944 at just over $400,000.00, which was 8.8% of total loans. Agricultural loans were virtually the only type to increase their relative importance during the war. It has been pointed out that most forms of bank lending were restricted during the war by government regulations, and further, that agriculture

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[4]New Mexico State Bank Examiner's annual reports.

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TABLE 23

Loans as a Percentage of Deposits
Albuquerque National Bank
All Member Banks and
All New Mexico Banks

Year*	Albuquerque National Bank	All N. M. Banks	All Member Banks
1941	36.8	33.8	51.3
1942	17.5	19.4	20.5
1943	15.4	14.5	14.7
1944	14.3	15.5	17.4
1945	15.8	14.9	17.5
1946	33.9	25.1	22.6

*Figures as of December 31 of each year.

Source: Albuquerque National Bank records, New Mexico State Bank Examiner's annual reports and various issues of the Federal Reserve Bulletin.

was about the only area not covered by those regulations. Judging by the meager increase in the Albuquerque National's agriculture loans, one concludes that either the farmers were getting financing from the government, or the bank was imposing its own restrictive regulations on this type of lending. Perhaps, it would be more accurate to say that both of these things were at work.

Contrary to what might be expected, the Albuquerque National Bank's income from loans increased during the war years, although the rise was in no way commensurate with the bank's growth. Net income from loans in 1941 was $297,564.00 at the bank, and by 1945 it had risen to only $300,090.00. Throughout the war years, 1942 through 1945, the bank recovered more charged off loans than it found

necessary to write off. When this is taken into consideration, the net current income from loans actually fell during the war years. A further complication is that the average interest rate was declining at the bank throughout the war.

The loan accounts of the Albuquerque National Bank did not change significantly during the war, simply because they were not allowed to do so. Policy making had been taken out of the hands of the bankers and vested in various agencies of the Federal Government. All that the bankers could do was to follow instructions, and wait for the war to end.

With the surrender of Japan in 1945, there was a lifting of regulations, not only on banking but on all aspects of economic life. The conversion from wartime to peace time activities, and the movement into a period of uneasy truce were to have far reaching effects upon the banks. This is the theme of the next Chapter, entitled "Peace?"

CHAPTER V

PEACE?

The ten years that followed World War II were years of tremendous growth for the economy of the United States in general, and for the banks in particular. Bank assets nearly doubled in this time, growing from 177 to 242 billion dollars. Deposits,also, were growing prodigiously from 165 to 220 billion dollars during this ten year span.

The war had placed the banks of the United States in a highly liquid condition by increasing their deposits at a time when their lending ability was severely curtailed. As a consequence, the banks accumulated huge cash reserves and a vast amount of U. S. Government securities. This unused lending ability was released at the end of the conflict, and helped stimulate an unprecedented boom in the general economy of the nation. From 1945 to 1955 bank credit more than trebled in the United States, rising from thirty billion dollars in 1945 to slightly over one hundred billion in 1955. The banking system became less liquid at this time as one might expect. The ratio of loans to deposits rose from an extreme low of 17% in 1945 to a little over 45% in 1955.

The nation's banks were being called upon to a greater and greater extent after the war to finance the conversion

The [illegible] [illegible] [illegible] of tremendous growth [illegible] in general, [illegible] banks [illegible] nearly doubled [illegible] dollars. Deposit [illegible] to 220 billion [illegible] years.

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The [illegible] of [illegible].

and expansion of the country's economy. Commercial and industrial loans extended by the banks rose about twenty-two billion dollars from 1945 to 1955. This was a growth of about 400%. In 1946, the Federal Government undertook the insurance of real estate loans to veterans. Veterans Administration and Federal Housing Administration guaranteed loans were an inducement to the banks to wholeheartedly enter the mortgage lending field. The increase in real estate loans held by the banks was about seventeen billion dollars in the ten years that followed World War II. This was a rather phenomenal growth of about 550%. Stock market loans also increased rapidly at this time, but not nearly so spectacularly as did the other two types of loans just mentioned.

A new facet of bank lending came into its own after the war with the growth of consumer installment credit. This type of credit had largely been handled by small loan companies before the war. During the war, consumer loans were severely restricted, but when the war ended the banks found that here was a profitable outlet for their funds that had been given little consideration in the past. The amount of consumer loans held by the banks in 1945 had been a little over four billion dollars, but by 1955 they had over twenty billion dollars worth. The expanded participation of the banks in this field of lending undoubtedly had a great influence upon the post war boom by increasing consumer spending and thereby creating greater employment in the consumer goods industries.

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The economic picture painted after World War II is a bright one. By hindsight, there can be no doubt of this. The future, however, did not look nearly so bright in 1945. The war had laid waste too much of the world. Europe was largely in shambles, and the economies of the countries of that region were in a desperate state. Soon after the war, when the designs of the Soviet Union became apparent, it became obvious that the economies of the European nations would have to be reconstructed and strengthened if the specter of communism were not to fall over all of Europe. To save these countries from economic chaos and ruin was a task that fell to the United States. The first move was to provide immediate, on the spot, relief in the form of food and clothing. This was handled through the United Nations Relief and Rehabilitation Administration. Efforts were then made to strengthen the economies of these countries through loans from the Export Import Bank. These measures proved insufficient, and Russia promptly annexed five nations of Eastern Europe.[1]

In 1948, the United States established the "Marshall Plan."[2] The plan provided for the granting and loaning of capital by the United States to the countries of Europe.[3]

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[1]Marquis and Bessie S. James, Biography of a Bank, "The Story of the Bank of America, N. T. & S. A."

[2]Popular name attached to the "Economic Assistance Act" of April 1948, after George C. Marshall, then Sec'y of State.

[3]See A Survey of Contemporary Economics, Vol.II, Norman S. Buchanan, "International Investment," pp. 307-354.

Over five billion dollars was allocated for the plan in its first five years of operation, but by the end of 1951, when the Economic Cooperation Administration took over the plan, over twelve billion dollars had been used. A corollary to the Marshall Plan was the encouragement by the Federal Government of private bank participation in the loans of the Export Import Bank and the International Bank for Reconstruction.[4] Unlike Marshall Plan aid, the funds advanced by these institutions had to be repaid, and they were earmarked for the borrowers' economic development. This country's banks did participate in this program and also contributed to the Marshall Plan. One-fifth of all the money extended under the Marshall plan was provided by the banks. This was to be repaid by the recipient country with the United States Government guaranteeing repayment. The remaining four-fifths of the capital extended by the plan was an outright gift by the U. S. Government.[5]

In 1945 there were many who feared that a depression would surely follow the war as it had after other conflicts. It was feared that, first, inflation would take hold and weaken the economy, and then, as demand was satisfied, industrial expansion would stop and a depression would set in. Two things were overlooked, however, that changed the whole picture. One was the tremendous part this country would play

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[4]More commonly called the World Bank.

[5]Marquis and Bessie S. James, Biography of a Bank, "The Story of The Bank of America, N. T. & S. A."

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in world reconstruction calling forth vast industrial production; and second, the tremendous and continued expansion of domestic consumer spending. The Korean War in 1950 and the necessity of maintaining a large military establishment also played a part in supporting industrial production at a high level.

New Mexico, the state that saw the first atomic explosion, was the natural place in which to further the research and development of atomic energy, so the Federal Government poured vast amounts of capital into the state for that purpose. Large numbers of scientifically and technically trained people moved into the state to take jobs in government laboratories at such places as Albuquerque, Alamogordo, and Los Alamos. Behind them, in even greater numbers, came people seeking employment in New Mexico's ever expanding service industries. Vast oil and gas reserves were found in the state after the war, and their discovery further spurred the population growth of New Mexico. Many a sleepy little town was turned into a growing city -- seemingly overnight -- by the oil and gas boom.

At the center of the post war population growth in New Mexico is Albuquerque. Two large military installations are located within the city. Many local citizens are employed at these bases, and many more are employed in supporting industries. The population of the city has more than doubled since the end of World War II, largely as a result of the impact of these bases.

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The growth of Albuquerque after the war had some far reaching effects upon the community's banks, and upon the Albuquerque National Bank in particular. In 1945, the Albuquerque National Bank had slightly over thirty-eight million dollars in deposits, but by the end of 1955 this total had grown to over ninety million. By 1955, total assets were nearing the one hundred million mark. During this ten year period of terrific deposit growth, the bank was expanding its loans at an increasing rate. This brought about a considerable change in the bank's liquidity policy. Before and during the war, the bank's loan to deposit ratio had been generally below the national average. This was changed now, and from 1946 on the ratio has usually run higher than the average. This somewhat drastic change in policy is rather significant in the light of the bank's past record of super-liquidity.

What was it that caused such a sudden about face? Primarily, it was simply a matter of supply and demand. The economy of the area was experiencing a rapid and profound growth, and there developed a great need for bank credit to help fuel that growth. Businesses were established to meet the needs of the expanding population, and the bank was called upon increasingly to help finance these ventures. Finally, housing was in short supply after the war and the Albuquerque National Bank was called upon to help meet this problem, as well as finance the purchase of household appliances and automobiles.

TABLE 24

Percentage of Loans to Deposits

Year	Albuquerque National Bank	All New Mexico Banks	All U. S. Banks
1945	15.8	14.9	18.0
1946	33.9	25.1	22.4
1947	39.4	28.3	26.8
1948	37.1	31.1	30.5
1949	38.5	33.7	29.9
1950	37.6	33.2	34.3
1951	31.4	29.2	36.9
1952	32.4	30.3	38.4
1953	31.9	33.1	39.8
1954	34.4	31.7	40.2
1955	47.2	30.1	45.4

Source: Statements of condition, Albuquerque National Bank, New Mexico State Bank Examiner's annual reports, various Federal Reserve Bulletins.

Under such conditions, bank credit would naturally increase. Although the management of the bank had by no means relaxed its traditional conservatism, it was forced to decrease its liquidity to meet the tremendous demands of its customers. Likewise, the bank had not relaxed its standards in regard to what was considered good or bad loans (if anything, it raised them during this period). It simply found it necessary to meet the credit demands of its customers in order to further the growth of the community.

The average interest rate on loans at the Albuquerque National Bank fell somewhat during the war. This was to be expected, and was fairly widespread throughout the banking system. After the war, the rate rose at the bank, but not in any way in proportion to the increased demand for loans. The bank's average interest rate in 1945 was 4.75%, and by

the end of 1955 it had risen to only 5.25%, an increase of but one-half of one percent. It is obvious that the bank did not use the interest rate as a rationing device for loans, but depended upon close examination of loan applications to determine who would get the funds that were in short supply. It appears, however, that the bank could have attracted a higher interest rate since the war, had it chosen to do so. The demand for loans was obviously great -- so great that it seems justifiable to assume that a certain amount of restraint was used in raising interest charges.

Earnings on loans at the Albuquerque National Bank have been quite good since the end of World War II, and, in fact, in three years -- 1945, 1950, and 1951 -- net returns on loans exceeded the average interest rate. This means that in those years more loans, previously written off, were

TABLE 25

Albuquerque National Bank
Total Loan Earnings, Average Interest
Rate, and Net Return on Loans

Year	Net Earnings (Loans)	Average Interest Rate	% Net Earnings
1945	$ 316,207	4.74	5.01
1946	508,284	4.07	3.55
1947	769,559	4.69	4.57
1948	774,816	4.83	4.29
1949	899,293	4.92	4.52
1950	1,562,455	5.12	6.34
1951	1,166,552	5.46	5.58
1952	1,028,735	4.98	4.51
1953	941,149	5.19	3.80
1954	1,203,768	5.20	4.42

Source: Earnings record kept by R. S. Poage, the Bank's cashier.

recovered than were being charged off. Earnings were so good during this period that the bank was able to add four million dollars to its capital, entirely from retained income.

Even though the bank increased its capital considerably after the war, its ratio of capital funds to loans only rose from 11.7% in 1945 to 12.4% by the end of 1955. This is a clear indication of the difficulty faced by the bank in maintaining a satisfactory relationship between these two totals. Defining what is a satisfactory relationship between these figures is a rather difficult undertaking. It is quite like explaining what competition is. You say that with competition there must be many small firms in a given industry. The inevitable question arises -- how many? The only answer is, of course, many.

About the only way to approach the problem of defining an appropriate relationship between a bank's capital funds and its loans is to look to other industries and draw some conclusions from what we see. If a manufacturing company had a capitalization of only 10% to 12% of its assets, we would say that its creditors were taking almost all of the risk in the business. On the other hand, if the percentage were about 50%, we might be quite pleased. In a bank, of course, the relationship between it and its depositors is considerably different from the relationship between creditor and stockholder in a manufacturing business. Even though a bank's depositors are its creditors, it is never anticipated that this indebtedness will ever be

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completely liquidated. However, you would expect a manufacturing concern, from time to time, to pay off its indebtedness.

On the other hand, the depositor stockholder relationship is somewhat of a debtor creditor arrangement and a definite conclusion can be drawn from that. If a bank's deposits are highly volatile, the bank should maintain a high capital funds to loan ratio so that the earning assets need not be disturbed by occasional declines in deposits. Conversely, if the bank's deposits are quite stable, a lower ratio is sufficient.

Applying this line of reasoning to the Albuquerque National Bank,it would seem that it should have a higher than average capital funds to loan ratio. Although the bank's deposits have never been very volatile, the community in which it is located is highly dependent upon government payroll for its livelihood, and this payroll could be considerably reduced in a very short time. The point is that the bank's deposits are not now volatile, but if the government cut back its spending in the area, those deposits would be subject to rapid decline. The national average capital funds to loan ratio runs from about 19% to 21%,[6] so an appropriate figure for the Albuquerque National Bank would be from, perhaps, 20% to 25%. It appears that the bank has, in effect, attempted

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[6]Letter from Wells Fargo Bank, San Francisco, California to Mr. Fred Luthy concerning an analysis of the Albuquerque National Bank's bond account, June 4, 1953. The letter contained a number of national ratios to be used comparatively.

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[6] Letter from [illegible] nis to Mr. [illegible] que National Bank's [illegible] confirmed a [illegible] ly.

TABLE 26

Albuquerque National Bank
Capital Funds, Total Loans and their
Relationship Expressed as a Percent
of Capital Funds to Loans

Year	Total Loans	Total Capital Funds	Percent
1945	$ 7,636,243	$ 902,485	11.7
1946	15,370,428	1,145,915	7.3
1947	16,812,521	1,353,207	7.9
1948	17,671,887	2,328,099	13.0
1949	19,962,434	2,736,989	13.6
1950	21,121,799	4,094,255	19.3
1951	19,959,131	4,401,284	22.0
1952	23,404,935	4,500,141	19.2
1953	24,717,794	4,501,455	18.0
1954	28,208,087	4,500,486	15.9
1955	42,690,700	5,310,318	12.4

Source: Statements of Condition, December 31 of each year.

to maintain such a ratio, but every time such a relationship is attained, the bank has experienced further growth and the ratio has fallen.

The most outstanding development in commercial banking since the end of World War II has been the rapid growth of consumer installment lending. The Albuquerque National Bank has also developed this type of credit since the war to such an extent that it now comprises about one-fourth of the bank's total loans. The bank's entry into this field was rather slow at first, but as time went on, and these ventures turned out well, the bank vastly increased its installment loans.

For reporting purposes, installment loans are divided into four types: automobile loans, installment cash loans,

home repair and modernization, and other installment loans. Automobile loans are, as the name implies, loans on automobile purchases. The bank, in most cases, holds a chattel mortgage on the vehicle. Installment cash loans are generally open loans, that is, there is no collateral pledged to secure the loan. The funds are used for a multitude of purposes, but usually for the purchase of household appliances. Home improvement loans are made under Title I of the Federal Housing Administration Act. The money is used to make home additions or repairs. The bank holds a second mortgage on the house (if a first mortgage is in effect, and, if not, the bank stands first) and the F.H.A. guarantees the loan. "Other installment loans" is a sort of catch-all category, and includes installment loans to businesses, chattel mortgages on heavy equipment, and other installment loans that do not fit any of the other classifications.

The most important installment loan in dollar terms at the Albuquerque National Bank is the automobile loan. For example, automobile loans in 1957 were nearly 10% of total loans outstanding, and about three-fourths of all installment loans. In dollar terms, this was nearly five million dollars, and did not include automobile dealer paper that amounted to almost one million dollars more. Automobile installment loans are attractive to a bank in that they return a substantial interest rate, they are fairly well secured, and are of a relatively short term nature, running from 18 to 30 months.

Some local automobile dealers have made arrangements

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TABLE 27

Albuquerque National Bank
Installment loans as a percentage
of total loans outstanding
1945-57 (as of Dec.31)

Year	Auto	Installment Cash Loans	Other	Repair and Modernization
1945	1.67	1.07	1.03	
1946	1.10	1.48	4.06	
1947	1.59	1.82	.53	
1948	2.47	1.96	3.68	
1949	4.60	2.50	7.30	
1950	5.67	2.45	6.36	
1951	4.45	2.03	3.73	1.90
1952	6.63	2.43	5.17	2.58
1953	7.80	3.23	6.13	3.83
1954	6.49	2.63	5.32	2.99
1955	7.9	3.1	1.5	1.5
1956	8.6	3.1	.98	1.3
1957	9.4	3.4	1.4	1.2

with the Albuquerque National Bank whereby the bank discounts automobile paper that the dealers receive as a result of their sales. The chattel mortgage involved in this type of an arrangement is assigned to the bank, and the note is endorsed to the bank by the dealer with recourse. This means that the bank can collect the loan from the dealer if the borrower fails to meet the obligation. The dealer is responsible for collecting payments and transferring them to the bank, as well as filing mortgages and performing other servicing functions. This practice is contrary to that of most banks which accept this type of paper without recourse to

the dealer, and service it themselves. They realize a greater return as a result, but also assume more of a risk and greater expenses.

Home modernization loans under Title I of the F.H.A. first came into being in 1936. Many such loans were made during the intervening years from 1936 to 1945, but they were used a great deal more after the war with the tremendous growth of other types of installment loans. Title I loans are, as has been mentioned, guaranteed by the Federal Housing Administration. The maximum amount that can be loaned under Title I is $3,500.00, and the maximum interest rate is 5% discounted. An attractive aspect of Title I loans is the fact that they need not be included with other real estate loans for figuring the maximum amount that a bank can place in the real estate category.[7] As might be expected, Title I loans are very attractive to lenders. They return a good rate of interest, coupled with slight risk, and they are not classified as real estate loans. This last consideration is an important one in a city like Albuquerque where the demand for real estate loans is quite high, and the banks almost always have their maximum amount of real estate loans allowable outstanding.

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[7]Federal Reserve Act, Sec. 24: "No such association shall make such loans (real estate) in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus the amount of its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater."

The "other installment loans" classification is comprised of installment loans to businesses and finance companies, to private schools, churches and other non-profit institutions, and chattel mortgages on heavy equipment. Although the number of loans in this category is never very large, the dollar total is at times quite sizeable. This explains the rather wide fluctuations that appear from time to time in this class of loan. The addition of a few of them could increase the total a great deal, and on the other hand, if none were made for a time the total would diminish rapidly.

Installment cash loans are largely loans to individuals on an unsecured basis. In some instances, however, cosigners or endorsers are added to the notes as added protection for the bank. These loans are what has been described as character loans; that is, they are based solely upon the borrowers' repayment records and abilities. Consequently, quick, accurate antecedent information about prospective borrowers is necessary. The Albuquerque National Bank depends a great deal upon the Albuquerque Credit Bureau to supply this information.

The uses for these loan funds are many and varied, but generally they are used to purchase household appliances. A recent development in this area is the financing of vacations with installment loans. An individual, rather than dipping into savings, can pay for his vacation with this type of loan, and pay the loan back in a year's time.

The rapid growth of installment loans at the Albuquerque

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National Bank has been largely the result of the fact that at the end of the war the bank found itself in possession of huge amounts of idle funds. At the same time there appeared a great demand for consumer goods that could not be financed by accumulated savings. These two factors worked together to foster a tremendous growth of installment lending. There was no development program on the part of the bank. The growth just happened. The rise of installment loans has been constant in the last ten or twelve years, and there are indications that it will continue to grow. It does not appear, however, that these loans will form an appreciably greater proportion of total loans in the future unless the bank undertakes an active development program.

The Albuquerque National Bank's real estate loans as an aggregate have grown steadily since the war, but as a percentage of total loans, they have dropped sharply. For example, in 1945 the bank had $3,270,528.00 in real estate loans, which was 42.8% of total loans, but by the end of 1956 the total was $9,655,694.00 and the percentage figure was only 20.1%. This change was undoubtedly caused by the abundant appearance of mortgage loan funds furnished by insurance companies and metropolitan banks at lower interest rates than that charged by the Albuquerque National. This is borne out by the activity of the bank's mortgage servicing department which handles mortgage loans of other financial institutions. The loans handled by this department are made by the Albuquerque National Bank, but are quickly sold to insur-

ance companies and other banks. The bank then merely acts as an agent of these institutions in the collection of payments on the paper. This department presently handles about twenty-five million dollars worth of mortgage loans that belong to other institutions. The only financial interest that the Albuquerque National Bank has in this total is in the servicing fees that it receives. Adding the twenty-five million dollars handled here to the bank's own real estate loans of about ten million dollars, one gets a more accurate picture of the real estate lending activities of the bank.

The largest proportion of the loans of the Albuquerque National Bank after World War II were of the commercial and industrial type. This is a pattern that has run through the bank's history from the very beginning, and has changed only slightly in recent years. In 1945 approximately 40% of the bank's loans were of this type, and by 1955 this figure had only changed to 39%. On the other hand, the dollar volume of commercial and industrial loans has increased some five times during this span. In 1945 they were a little over three million dollars, but by the end of 1955 they were above sixteen million. Although it is obvious that the demand for this type of credit has been quite high, the growth of the bank has kept pace with it.

One might ask at this point what is the character of commercial and industrial loans. What kind of loans are they, and how are they used? They are, first of all, loans to businessmen for the furtherance of trade, and they can be

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TABLE 28

Commercial and Industrial Loans
1945-1955

(as of Dec. 31, each year)

Year	Aggregate	Percent of total loans
1945	$ 3,027,374	39.70
1946	7,251,541	47.57
1947	7,731,106	46.00
1948	8,053,054	45.58
1949	7,670,674	38.40
1950	8,361,636	39.63
1951	9,289,766	46.54
1952	9,515,323	40.72
1953	9,645,485	38.48
1954	11,498,062	40.12
1955	16,336,967	39.20

Source: Statements of condition.

divided into four classifications as to use. One, there is the seasonal loan, a loan that is used to finance an increase in the current assets (usually inventories) of a business at one point in the course of a fiscal year. Payment of the loan is usually anticipated out of the subsequent sale of those assets. As a general thing the increased need will occur during one season of the year, such as Christmas, when business activity is stimulated by the season.

The second classification into which commercial and industrial loans fall is the working capital loan. This type of loan is also used to purchase current assets, but repayment does not generally come from the sale of those assets.

There is, in fact, no definite pay-out plan involved here as the loans are usually renewed time and again. In some instances businesses establish lines of credit with a number of banks and periodically shift their working capital loans from bank to bank, thereby liquidating at individual banks, but never completely getting out of debt. Because of the long term nature of this type of loan, some sort of collateral is usually pledged. Generally, the collateral is the asset that is acquired with the loan.

A third category of commercial loans is one comprised of loans to finance intermediaries. These are loans to small loan and finance companies, and are generally of a rather short term nature. There is in many cases a great deal of paying out and reborrowing involved with this type of loan, so usually the borrower establishes a maximum line of credit with the bank and draws against this from time to time.

Finally, there is the type of loan called the term loan. A term loan is generally used to purchase current assets, but in some cases it is used to finance fixed assets as well. The loan has a definite repayment date and in most cases has a prescribed repayment schedule. The distinguishing feature of this type of loan is that it has an original maturity of over one year from the date the loan is made. Although these four sub-classifications of commercial loans appear to a greater or lesser degree amongst the loans of most banks, it is difficult to segregate them accurately in any particular bank. There is a great deal of overlapping,

and each individual line of credit would have to be examined to determine where it belonged. It is useful, however, to understand the over all makeup of a bank's commercial loans, and for what reasons the loans are made.

The growth of commercial loans at the Albuquerque National Bank is an indication of the quickened pace of commercial activity in Albuquerque. As the community has grown so has the bank, and likewise this type of loan. The growth of Albuquerque has, in fact, been at almost the same rate as the growth of the Albuquerque National Bank. There are indications that this growth will continue in the future at, perhaps, even a greater rate then in the past. We shall see.

EPILOGUE

The Albuquerque National Bank that was founded in 1924[1] has grown to prominence in a period of years that has contained every possible phase of the business cycle. It has watched the economy pass through a metamorphosis from intoxicating boom to agonizing depression. It has witnessed two wars and increased intervention of government in banking. Through all this it has grown to become the largest bank in New Mexico.

All of this turmoil, change, and growth has taken place during the tenure of but one management generation. The bank has had only one top management group from almost the very day of its founding. Mr. Fred Luthy, the bank's president, has been a member of the bank's senior management since 1925, and the other senior officers have been at the top for nearly as long. This group has been responsible, in great measure, for the success that the bank has enjoyed. They have guided it through every crisis that could possibly come to a bank, and the experience they have gained thereby is invaluable. The continued success of the bank in years to come undoubtedly will be based upon the experience that these men pass on to their successors.

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[1]There was another Albuquerque National Bank that failed in 1898. There is no connection between the two.

The Albuquerque National Bank has grown to a position of leadership in New Mexico largely because its management has always held paramount the bank's first responsibility to itself. Its assets have always been invested with this obligation in mind, and never has anything but conservatism guided its policy. The bank was founded to relieve the pressures of bank failure that had come to the community, and to lend stability to this shaken area of the local economy.[2] This it has accomplished in a very real sense.

Hardly before the bank had started, it was faced with the effects of a gigantic depression that brought about a crisis in banking that was no less than fatal to many banks. The Albuquerque National Bank was able to ride out this storm, however, and to emerge stronger and more stable than before.

During the post-depression recovery, and World War II, the bank increased greatly in size, and enhanced its already stable condition. The recovery produced legislation that stabilized banking in general, and the war created a liquidity previously unknown to the banking community. This stability and liquidity did much to further a post-war boom that has been virtually uninterrupted for fourteen years. The Albuquerque National Bank played a part in this economic change and growth and has benefited by it.

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[2]In an article in the Albuquerque Journal on January 21, 1924, Mr. George A. Kaseman, the bank's founder, stated that the Albuquerque National Bank was founded for these reasons.

So much for the past. What now lies ahead for the Albuquerque National Bank?

The first consideration for the bank's future is the fact that its present first generation of top management is nearing retirement age. The manner in which this group turns over its authority to others can have far reaching influence upon the bank. The bank has always in the past followed a policy of promotion from within. If this policy is carried to the top management, then it will be reasonable to suspect that there will be little change in the bank's overall policy in the future. If, on the other hand, the bank goes outside to obtain its future top management, then one could expect definite changes to take place. It appears that the first alternative will be followed because there are a number of very capable men now in the bank who could fill the senior posts very satisfactorily.

In the area of bank loans, one can foresee a greater development of installment lending, spearheaded by some sort of a revolving check credit plan. This kind of a plan would allow the bank's small loan customers to draw against a pre-established credit line limit without going through formal renewal procedures.[3] It is not likely, however, that any great change in the bank's traditional policy of liquidity will occur even though the trend has been in that direction recently. In all likelihood the bank will maintain a loan

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[3] "Borrow by Check," American Banker, March 4, 1959.

percentage to deposits of from forty to fifty percent.

Another circumstance that will affect the future of the Albuquerque National Bank probably will be the growth of branch banking in New Mexico. The Firstamerica Corporation now owns five[4] banks in the state and it would be advantageous to it if these banks were turned into a statewide branch banking system. If this were done today, in fact, these five banks would form the second largest bank in New Mexico. There is little doubt that this corporation will work hard and long for this end. If its efforts are successful, then other banks in the state will set about establishing their own statewide systems.

What then will be the composite picture of the Albuquerque National Bank some ten to twenty years hence? One can visualize that the bank will be much larger than it is today, perhaps with branches in many of the cities of New Mexico. It will probably be managed by a group drawn from its present younger vice presidents. It will be using new and progressive operational methods. It will still be the largest and most influential bank in New Mexico.

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[4]The Lea County State Bank, Hobbs; The Roswell State Bank, Roswell; the First State Bank, Gallup; the Santa Fe National Bank, Santa Fe; and the Bank of New Mexico, Albuquerque.

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