THE SHIFTING IN THE SOURCES OF EARNINGS
OF BANKS SINCE 1935

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OF BANKS SINCE 1935

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CHAPTER I

INTRODUCTION

Purpose of the Study

This thesis is proposed and the study is made from a firm conviction that for the United States the system of private enterprise is the one that best suits our national temperament and our great abilities. This system has its faults, but so has every other system conceived and carried out by mortal man. The great problems of reconversion and after should be judged from the standpoint of what can be done to strengthen the private enterprise system so that it will contribute its full share toward vitalizing the economic and social health of this country and, in due course, that of other countries in the world as well.

In the mind of many people, private enterprise is associated primarily with trade and industry with little thought given to agriculture and banking and, in particular, the small country bank which in its individual sphere of activity can be a great force for community good.

The first purpose of the study is to show that the United States Government has become a competitor of
commercial banking in one form or another.

The second purpose of the study is to show that there has been a change, not only in number of loans made by commercial banks during the last ten years, but also in the type of loans.

The third purpose of the study is to show that commercial banks have played a large part in the financing of the war by their purchase of government securities and the creation of government credit.

The fourth purpose of the study is to show that bank service charges do not necessarily mean that the banks have been compelled to seek new sources of revenue but that every business transaction should pay its part of expenses.

The fifth purpose of the study is to show that commercial bankers have already made many postwar plans, and that they have a sincere desire to furnish medium- and long-term credit as an aid in developing and sustaining healthy private enterprise, particularly in the field of trade and industry.

The Source of the Data

In order to realize the purposes set forth, it was necessary to employ several means of obtaining the desired information: bulletins, articles appearing in current periodicals, newspapers, letters, conversations, questionnaires, and personal interviews with Texas bankers and
officials of the Federal Reserve Bank, Dallas, Texas.

The Scope of the Data

The information gathered from the bulletins, articles in current periodicals, and newspapers furnished the background for the discussion of commercial banking in general.

The sixteen Texas banks listed in Appendix B, from which specific data were compiled, range in size from the small bank in a town of 1,000 population, with deposits of $731,025 and capital stock and profits of $50,000, to the large bank in a city of 440,000 population, with deposits of $291,522,270 and capital stock and profits of $6,000,000.

The map in Appendix A shows the spread of these banks over the state.
CHAPTER II

GOVERNMENT LENDING AGENCIES AND
COMMERCIAL BANKING

Today it is true, if dramatic, to say that a vast governmental banking system exists outside of the private banking mechanism -- a system whose activities have come to exert vital influences upon the commercial banking business.¹

Some thirty distinct types of federal corporations or administrative agencies have power either to make loans or to insure the loans of other institutions. Twelve agencies are concerned with agricultural financing or insurance, five with home financing and insurance, two with public construction financing, two with transportation and merchant marine financing, two with financing the development of particular regions, and seven with general financing of business enterprises, financial institutions, and other concerns. In addition, four of the executive departments of the federal government have been authorized to extend credit: the Department of the Interior, the Treasury Department, and

the War and Navy Departments. The Federal Reserve banks might also be added to the list. Although they are privately owned, they come under the aegis of the government in their operating policies and make direct loans to business enterprises. These federal lending corporations are divided and subdivided to the extent that we now have in the neighborhood of fifty-twenty in the agricultural field alone.

The most recent of the government agencies whose operations affect commercial banking are two of the five corporations created during 1940 as a result of the national defense emergency; namely, Defense Plant Corporation and Defense Homes Corporation. Although Defense Plant Corporation does not make loans, it constructs plants and acquires machinery and equipment, leasing these facilities to manufacturing concerns. Defense Homes Corporation provides equity capital for housing projects located in defense production areas wherein private capital is not available. Both agencies perform functions that could, conceivably, be carried out through the medium of public or private loans.3

According to A. L. M. (Lee) Wiggins, president of the American Bankers Association in 1945:

What the public wants, it will get. It wants good banking service and loans at a fair cost. If people can't get these things from the banker, they will demand them from Uncle Sam even if the taxpayer

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2 Ibid., pp. 250-251.  
3 Ibid., p. 251.
gets it in the neck. Witness the 20 government lending agencies in the agricultural field alone. 4

The Farm Security Administration which began activities in 1935, and which has received so much public criticism during the last year and a half, helps mainly the down-and-out unfortunates -- tenants, sharecroppers, laborers. These loans range from about $200 to $800. 5 Farm Security found that people will work only when there is something to work for. It learned that these people were loathe to turn a hand unless they could see some way eventually of getting out of debt. So FSA set up a division of debt adjustment specialists who worked with creditors, debtors, and committees of local citizens for voluntary reductions and extensions that would give hope to creditor and debtor alike. 6

Agriculture has received a larger amount of federal credit than any other major industrial division of the economy, accounting for over forty-eight per cent of loan volume. For agriculture, the federal government has not only operated longest as banker but has also granted credit through the largest number of agencies. Agricultural financing agencies also account for nearly forty-two per


6 "Pillar of Democracy; Meaning of the Fight Against the FSA," Commonweal, XXXIX (December 17, 1943), 225.
cent of the total federal loan agency credit outstanding.\textsuperscript{7}

Ten of the sixteen banks reported that, in their opinion, there had been a decrease in the number of loans made by their banks because of the activity of government lending agencies.

\textbf{TABLE 1}

\textit{Banks reporting decrease in number of loans made due to activity of government lending agencies with recipients of bank loans shown}

<table>
<thead>
<tr>
<th>Banks</th>
<th>Decrease in Number of Loans</th>
<th>Recipients of Bank Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>I</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>1</td>
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</tr>
<tr>
<td>III</td>
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<tr>
<td>IV</td>
<td>1</td>
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<td>V</td>
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<tr>
<td>VI</td>
<td>1</td>
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<td>VII</td>
<td></td>
<td>1</td>
</tr>
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<td>VIII</td>
<td></td>
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<tr>
<td>IX</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XI</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>XII</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XIII</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XIV</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>XV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XVI</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>6</td>
</tr>
</tbody>
</table>

*Loans to cattlemen.

Ten of the banks make most of their loans to farmers and merchants, while banks VII and IX indicated both classes as recipients of their loans, since they are widely distributed.

Four of the six banks reporting no decrease in number of loans made due to the activities of government lending agencies are the largest banks used in this study. It will also be noted that most of their loans are industrial loans.

The conclusion is that banks in the smaller- and medium-sized groups, who make most of their loans to farmers and merchants, have felt the competition of government lending agencies more keenly than the large banks whose loans are largely industrial.

Lee Wiggins says, though, "that in spite of all the easy credit the government is handing out to farmers, the country banks are still doing 80 per cent of the business and can do more if they will go after it."8

The down-and-out farmer is not the only one who has gone to the government's easy-money banks. There are those who have gone to borrow for war plants, houses, electric lines, feed and a score of other things. Usually they get terms that no banker could offer.

One of the federal agencies which has had to put up a stiff fight to continue its existence is the Home Owners'

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Loan Corporation. Representative Dirksen waged a hard fight against this agency in 1944. The slogans used were to "reduce non-war expenditures" and "safeguard private enterprise," but the HOLC testified that the purpose was to permit a few lending institutions to grab the profitable mortgages and leave the government holding the bag with the rest. 9

The United States Savings and Loan League was behind Dirksen's bill to force hurried liquidation of the HOLC. The bill bogged down in the Senate after the HOLC showed that such a move would cost the government about $373 million in mortgage losses. John H. Fahey, the Federal Home Loan Bank Commissioner, reported that the HOLC is already fifty-eight per cent liquidated and that liquidation can be completed without loss to the government if it is permitted to continue on the orderly lines laid down in the original Home Owner's Loan Corporation Act in 1933. Quick liquidation would, in effect, hand over the sound HOLC mortgages to private institutions and leave the government with the bad ones. Fahey thinks this is hardly the way to "reduce non-war expenditures." Because HOLC has been able to use earnings on its good mortgages as an offset against losses on the bad, its net realized loss today is little more than

$65 million, as compared with the eventual losses of a half-billion to a billion dollars which was predicted when the HOLC was established.  

Figures were submitted to the Byrd "economy" committee in August, 1943, which showed that a hurried liquidation of HOLC by June, 1944, would entail a net loss of around $440 million. On the other hand, if liquidation was postponed to 1948, the loss could be cut to only $108 million, and a continuance of operations to 1952, according to the agency's figures, would actually permit a final windup with a $500 thousand net profit.  

None of the federal agencies were granted lending powers for the explicit purpose of extending credit for profit. While lending has produced net income to a few of them, all of the authorities were given lending powers as subsidiary means of achieving special ends of national policy -- ends believed to be incapable of accomplishment through the normal workings of competitive private business enterprise.

According to Jacoby, four basic reasons underlay the creation of federal loan agencies:

1. subsidy and support of secularly declining industries;
2. stimulation of investment during periods of under-employment;
3. meeting financial emergencies, presumably temporary in nature; and
4. promotion of national defense.  

10Ibid.
12Jacoby, op. cit., p. 251.
The problem now facing trade and industry is whether their credit needs can be supplied by commercial banks at a fair rate of interest. It is essential to the program of full employment that no business, large or small, with reasonable prospects for success under peacetime conditions will lack credit.

Many of those who are close to the situation believe that the private enterprise system is best served when credit is supplied by banks and other financing institutions which are themselves part of that system of private enterprise. The question then arises as to whether, in any substantial number of cases, private financing institutions will be unable to furnish adequate credit to worthy enterprises because of the relatively high risk involved. There is every reason to believe that there will be many such cases. There have been within the past twelve years, during the depression period and during the war.

These situations have been met in two general ways: first, by the provision of facilities for direct lending to industry by government, and second, by utilization of the partial insurance principle, under which government aid extends only to guaranteeing, in part, credit which is extended in the first instance by private financing institutions.

Direct government lending or financing of industry
is doubtless justified in periods of extreme economic emergency, when private credit institutions become ultra conservative, or under war conditions, when construction of special war facilities is necessary, but there seems to be no evidence that such financing will be necessary during the reconversion period.

While the early postwar credit picture is far from clear, it appears likely that the total need for short- and medium-term borrowings will not be great. There are certain factors tending to lessen the need for credit. For example, business, including small business, has by and large, improved its financial position during the war. Many business enterprises undoubtedly have ample liquid resources to go through the reconversion period without borrowing. Other factors indicate an especially acute need for credit in individual cases or special situations. Instances of this kind are provided by non-war small businesses, enterprises that have not done well during the war, and new businesses or new ventures by established concerns. This mixed and rather incalculable outlook calls for a flexible credit policy, one capable of dealing with off-standard situations and borderline risks.

Where credit is needed by business, it will be needed acutely. The question, therefore, is the extent to which credit, especially private bank credit, will flow into the
area of acute need and relatively high risk.

As far as resources are concerned, it can be stated without hesitation that the credit resources of the banking system are sufficient to meet any and all credit requirements of the reconversion period. These resources are distributed throughout the nation in some 14,000 banking institutions, each in touch with the business and industry of its own locality.¹³ Three billion dollars in war production loans at present outstanding will be retired in large part during the process of contract settlement.¹⁴ A large part of this will have to be replaced with bank credit for civilian purposes. Whatever the credit demands may be, however, our private banks, and the Federal Reserve System, have ample resources to meet them.

There is no question as to the willingness or desire of the private banking system to provide adequate financing for reconversion. But in doing so it may need the protection of a partial guarantee similar to that now provided in the V- and T-loan programs which are strictly limited to the financing of war production and contract termination.

Banks, like other private business enterprises, exist for purposes of profit, and they are also custodians of the


¹⁴Ibid.
funds of their depositors. Responsibilities to stockholders and depositors place natural limits upon the degree of loan risk that should be assumed. However, there is a marginal area of risk between financing which is fundamentally uneconomic and financing which the banker can reasonably be expected to supply. That is the area into which the partial guarantee principle enables the banker to venture by reducing his lending risk.

The changeover, which will be faced by many businesses in the reconversion period, from a one-customer market -- the Government -- to the competitive markets of peacetime will bring to the banker many new and perplexing credit problems. There will be many businesses with balance sheets that do not show credit positions which would justify advancing to them any substantial amount of credit out of the funds of depositors. Small- and medium-size business, which has difficulty in raising equity capital and which often, moreover, resists the idea of increasing its equity owners for fear of forfeiting its independence, will want especially the medium- or long-term loan for purposes of buying new equipment or surplus war inventory and other property. As already indicated, it is in the public interest that credit be made available to many of these marginal risks. The commercial banks are ready and willing to make these loans, but all the bankers interviewed stated that such loans would require government guarantee, particularly the smaller ones.
The federal government was a relatively small banker at the beginning of the 1929-1933 contraction period, loan agency credit outstanding being under 1.5 billion dollars at the end of 1930.\textsuperscript{15} Beginning in 1932 outstanding loans advanced at an accelerating rate. Net increases in loan agency disbursements were especially heavy during 1934 and 1935 on account of activities of the HOLC, Federal Land banks, and the Federal Farm Mortgage Corporation.\textsuperscript{16} During 1934 alone the net increase in total federal credit outstanding was three billions, equivalent to about a third of all federal government expenditures; and by the middle of 1939, government credit agencies had disbursed nearly twenty-five billion dollars in loans, and had outstanding nearly ten billions of credit.\textsuperscript{17} Outstanding credits of the federal government during any peacetime year amounted to about half of all loans and discounts held by American commercial banks.\textsuperscript{18}

The repayment experience on loans of federal agencies, considered as a whole, has not been favorable. Although the land banks and Federal Farm Loan Corporation reported more than ninety per cent of loans with all matured installments paid at the end of 1943,\textsuperscript{19} and the HOLC reported about

\textsuperscript{16}\textit{Ibid.} \hspace{1em} \textsuperscript{17}\textit{Ibid.} \hspace{1em} \textsuperscript{18}\textit{Ibid.} \\
\textsuperscript{19}"Farm Loans Shift," \textit{Business Week}, January 3, 1944, p. 41.
fifteen per cent of borrowers’ liquidated mortgages collected during the same time, it appears that the federal loan agencies have been somewhat more liberal than private credit institutions in using various means available for minimizing loans classified as being in default.

Taken at their face values, the over-all figures on federal credit in default denote a quality of loans that private financial institutions could not have made with profit, at least at the rates of interest charged.

Jacoby states that some of the major effects of federal loan agency operations upon commercial banks are:

1. The great preponderance of federal loan agency credit has not been of a type that commercial banks would have extended under any set of loan rates or terms that they have been able to dictate. It has been definitely "non-competitive" in character.

2. The total net effect of federal lending has undoubtedly been to expand commercial bank loans. Federal credit has maintained and supported private credit institutions by direct lending and by relieving them of assets believed to be illiquid or undesirable. By injecting credit at various points in the economy, federal agencies have also raised the level of production and the demand for private credit. Yet there are numerous instances of noncompetitive lending operations by public institutions that have indirectly curtailed the market for bank lending, partially offsetting the expansive influences. The Commodity Credit Corporation loans, for example, have led millers, elevator companies, and grain dealers to carry smaller inventories of grain, and thus reduced their demand for bank credit.

3. To the extent that competition with federal agencies has existed, it has been sharpest and most extensive with the "permanent" rather than

the "emergency" and "relief" lending agencies, particularly in the field of farm credit. In fact, government is now more than twice as important as the commercial banking system as a farm mortgage lender.

4. Quantitatively the largest incursions of federal agencies have been in the fields of long-term farm mortgage and, to a lesser extent, home mortgage loans. Bank activity in these fields was predicated on long-term economic stability. When that stability disappeared after 1929, banks were under pressure to withdraw, leaving the field open to federal agencies. Federal agencies have now established long-term relations with borrowers that banks cannot easily crack. In these areas private credit agencies abdicated their positions; they were not deposed.21

While the majority of federal agencies do not make loans of types granted by private institutions, there is competition between federal loan agencies and commercial banks. The forms of competition in extending credit are basically similar to those found in the vending of merchandise. They consist in offering credit at lower prices or upon more favorable terms and conditions, or in rendering ancillary services to the borrower.

The price of credit is the total annual effective interest rate charged. The terms and conditions of "sale" of credit include the term of the loan to maturity, the type of repayment provision, the type and amount of collateral security required and the sort of provision for readjustment in event of default. The ancillary services include bookkeeping and accounting, financial advice, or even production or marketing counsel.22


22 Ibid., p. 254.
Competition is also brought about because borrowers are
dissimilar in regard to moral responsibility, present finan-
cial strength, future earning power, and other elements
that jointly determine the amount of risk assumed by a lender
in extending credit. Consequently, even if effective inter-
est rates, terms and conditions of loans, and ancillary serv-
ices offered by public and private lending institutions were
identical, they could still compete with each other in assum-
ing risks of different magnitudes. Carl Browne says that
in this respect government lending agencies seem to have the
edge on commercial banks because no private banker may draw
upon the resources of the United States Treasury to cover
his mistakes, his overhead, losses, or service costs. 23

Public supervision of commercial banking in the United
States has also tended to prevent banks from making rela-
tively risky loans. Bank examiners tend to look askance
at loans not highly certain to be repaid, irrespective of
the interest incomes that they yield.

Many federal loan agencies operate under certain statu-
tory restrictions apparently designed to limit competition
with private agencies, but the broad and sweeping statements
made in the statutory restrictions are not effective in pre-
cluding competition. For example, the RFC may make loans to
railroad companies "when, in the opinion of the Corporation,

23 Carl Browne, "Who Shall Risk Your Savings," Nation's
funds are not available on reasonable terms through private channels."24 This agency may lend to business enterprises "when capital or credit, at prevailing rates for the character of loan applied for, is not otherwise available."25 Somewhat similar is the restriction upon industrial advances of Federal Reserve banks, that the borrower must be "unable to obtain requisite financial assistance on a reasonable basis from the usual sources."26 The statute providing for emergency crop and feed loans to farmers is more effective in precluding competition since it permits the federal agency to make loans only "to farmers who cannot obtain loans from any other source,"27 but it is significant to note that none of the permanent agencies of farm credit are precluded by law from making loans to farmers able to get private credit.

The administrative procedures of a number of federal credit agencies are intended to prevent encroachment of federal agencies upon private loan markets. One such procedure is for the federal agency to make commitments to purchase participation in the loans of private agencies on request, a fee being charged for these "take-out" or "stand-by" agreements. Another device is for the federal agency to offer participations in its loans to private lending institutions. The RFC and the Federal Reserve banks have been


conspicuous in their efforts to expand private lending by use of both these methods. Extension of the use of these risk-sharing devices to all federal credit agencies would certainly go far to reduce open encroachment of federal lending, actual or potential. But it would not eliminate encroachment of a less obvious form resulting from the making of relatively high risk loans by federal agencies at rates lower than private institutions can afford to meet. For illustration, the RFC might make a loan to a business concern which, because of small amount, high risk, or large costs of loan administration, a commercial bank could not afford to make at less than seven per cent interest. The RFC has adopted a more or less standard loan rate of five per cent. By lending this money at five per cent the RFC may, in effect, underprice the credit, and encroach upon the private loan market. It does not necessarily eliminate such competition for the RFC to offer a participation in the loan to a bank, since a part of the loan still might not be profitable to the bank at the interest rate fixed by the RFC. 28

It seems if the loan market of commercial banks is to be enlarged, there must be a decrease in the restrictions placed upon the banks by public examining and supervising authorities so that the banks can assume larger risks in the

28Ibid., pp. 254-255.
loan fields.

Perhaps the first test will come when the bankers decide what risks they will assume in the financing of post-war industry -- and what risks, if any, should be spread over the nation by the government. 29

CHAPTER III

CHANGE IN TYPE OF LOANS

During the past ten years the sources of revenue of banks have materially shifted and the trend has been toward a larger percentage of income from United States Government securities and services rendered and a smaller percentage from loans.

The following table shows the percentage of gross earnings received from interest and discount on loans by Texas banks from 1935 through 1944.¹

TABLE 2

PERCENTAGE OF GROSS EARNINGS RECEIVED FROM INTEREST AND DISCOUNT ON LOANS

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Texas Banks Reporting</th>
<th>Percentage</th>
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<tr>
<td>1935</td>
<td>459</td>
<td>55.6</td>
</tr>
<tr>
<td>1936</td>
<td>456</td>
<td>54.8</td>
</tr>
<tr>
<td>1937</td>
<td>457</td>
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<td>1941</td>
<td>445</td>
<td>60.8</td>
</tr>
<tr>
<td>1942</td>
<td>442</td>
<td>59.5</td>
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<tr>
<td>1943</td>
<td>439</td>
<td>42.4</td>
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<td>1944</td>
<td>436</td>
<td>38.3</td>
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¹Statistical tables, American Bankers' Association.
The Federal Reserve reported a whirlwind advance in banks' loans to business from June, 1940, to November, 1941. This advance amounted to more than two billion dollars, which gives some idea of the effect the defense boom had on demand for bank accommodations. A survey made at this time by the American Bankers' Association showed there was a rise in loans identifiably for defense of $460 million. Most of these loans were large, $200 thousand or more, and classified as to purpose, they were for production, working capital, construction and plant facilities. ²

Nearly four-fifths of the fifteen thousand United States banks are in the country-bank classification, about whose future more than one financial authority is doleful. Virtually all country banks are up against the wartime problem of inflated deposits and declining or lagging loans. ³

The basic function of all commercial banks is simply to invest the depositors' money safely enough to get it all back and gainfully enough to pay costs and show a profit for itself on what is left.

In prewar years country banks derived around eighty-five per cent of their earnings from loans. ⁴ For this


⁴Ibid., p. 149.
reason the smaller banks have felt the effects of the decrease in loans more keenly because they have not had the opportunity of lending to war industries.

Table 3 shows that all sixteen banks reported their gross earnings for 1944 were larger than in 1935.

**TABLE 3**

INCREASED GROSS EARNINGS IN PROPORTION TO DEPOSITS AND CAPITAL STOCK

<table>
<thead>
<tr>
<th>Banks</th>
<th>Larger Gross Earnings in 1944 than 1935</th>
<th>Larger Earnings in Proportion to Deposits</th>
<th>Larger Earnings in Proportion to Capital Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Yes</td>
<td>Yes</td>
<td>Same</td>
</tr>
<tr>
<td>II</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>III</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>IV</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>V</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>VI</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>VII</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>VIII</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>IX</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>X</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>XI</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>XII</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>XIII</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>XIV</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>XV</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>XVI</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

But ten banks reported their 1944 gross earnings were not larger in proportion to deposits, and five of these ten also stated that 1944 gross earnings were not larger in proportion to capital stock. The conclusion is that although
all banks have had an increase in gross earnings, these earnings have not kept pace with the increase in deposits. Bank IX reported an increase in gross earnings of sixty-six per cent while the deposits had increased 140 per cent.

The five banks which reported 1944 gross earnings were not larger in proportion to capital stock stated that in addition to the transfer of unused reserves and portions of undivided profits accounts to surplus, capital had been increased by the sale of an increasing amount of new stock, most of which had been absorbed by the present stockholders.

Most of the banks reported a gradual increase in net earnings during the last ten years, as Table 4 indicates.

All sixteen banks, from which data were collected, reported fewer loans had been made during the war period than in the five-year prewar period, but ten of the banks stated that although their loans had been fewer in number, they were for much larger amounts.

Only two banks reported an increase in percentage of earnings from loans in 1944 over 1935.

These two increases (Bank II, 3.8 per cent, and Bank III, eight per cent) are so small that they can have little effect upon the statement that the sixteen reporting banks have had a decrease in the percentage of gross earnings in 1944 as compared to the earnings in 1935.

A comparison of the average percentages in Table 5 with the percentages shown in Table 2 for 1935 and 1944


<table>
<thead>
<tr>
<th>Banks</th>
<th>Gradual Increase in Net Earnings from 1935 to 1945</th>
<th>Gradual Increase in Proportion to Deposits</th>
<th>Gradual Increase in Proportion to Capital Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Yes</td>
<td>Yes</td>
<td>Same</td>
</tr>
<tr>
<td>II</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>III</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>IV</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>V</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>VI</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>VII</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>VIII</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>IX</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>X</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>XI</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>XII</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>XIII</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>XIV</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>XV</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>XVI</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

shows that the sixteen banks used in this study have had a decrease in percentage of gross earnings received from interest and discount on loans comparable to all Texas banks.

Retarded production in civilian industries during the war period has resulted in fewer loans being made. Not only has there been less need for the manufacturers to borrow, but also there have been less goods available on instalment loans for consumers as well. The Treasury and Federal Reserve rules governing instalments have curtailed the volume of consumer credit, and have insisted that banks become
increasingly careful about extending loans to any but war industries.\(^5\)

Any producer of essential war materials who finds commercial banks reluctant to finance him can ask the government to endorse his loan.

**TABLE 5**

PERCENTAGE OF GROSS EARNINGS FROM INTEREST AND DISCOUNT ON LOANS FOR SIXTEEN TEXAS BANKS

<table>
<thead>
<tr>
<th>Banks</th>
<th>Year 1935</th>
<th>Year 1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>95.3</td>
<td>95.1</td>
</tr>
<tr>
<td>II</td>
<td>61</td>
<td>64.8*</td>
</tr>
<tr>
<td>III</td>
<td>46</td>
<td>54*</td>
</tr>
<tr>
<td>IV</td>
<td>65</td>
<td>57</td>
</tr>
<tr>
<td>V</td>
<td>90</td>
<td>50</td>
</tr>
<tr>
<td>VI</td>
<td>81</td>
<td>34</td>
</tr>
<tr>
<td>VII</td>
<td>65</td>
<td>38</td>
</tr>
<tr>
<td>VIII</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>IX</td>
<td>59</td>
<td>23</td>
</tr>
<tr>
<td>X</td>
<td>85</td>
<td>25</td>
</tr>
<tr>
<td>XI</td>
<td>61</td>
<td>37</td>
</tr>
<tr>
<td>XII</td>
<td>70</td>
<td>50</td>
</tr>
<tr>
<td>XIII</td>
<td>68</td>
<td>51</td>
</tr>
<tr>
<td>XIV</td>
<td>41</td>
<td>25</td>
</tr>
<tr>
<td>XV</td>
<td>36</td>
<td>18</td>
</tr>
<tr>
<td>XVI</td>
<td>49</td>
<td>44</td>
</tr>
</tbody>
</table>

Average | 64.5 | 42.8 |

*Banks reporting increases.

Ample justification can be found for the use of government guaranties in connection with these so-called V and VT loans. They were designed to persuade war manufacturers to

---

go all out for war production without worrying about the pains of sudden victory. They finance war contracts and contract terminations and involve risks and costs that are peculiar to war which is strictly a governmental function.6

The government-guaranteed V loans to contractors provide that the war contractor can arrange in advance for a line of credit to tide him over the first part of his reconversion period. In practice, the new system will work out like this. The contractor will ask his commercial bank for a line of credit to become available when and if his contracts are cancelled. As soon as the contractor gets a termination notice, he may start drawing on this credit line. The Federal Reserve Bank of the district acting as fiscal agent of the government, will guarantee all advances up to ninety per cent if the commercial bank wishes. While he keeps his line open, the contractor will have to pay a commitment fee, which may run up to one-half per cent a year, on the unused balance. He may, of course, wait until cancellation of a contract or contracts before opening a line, but it is permissible to buy peace of mind by doing so immediately. When he does draw on it, the government pays the interest on all advances. The theory behind this is that the government owes the contractor his settlement payments and therefore should cover the expenses of providing working

capital until the termination payments have cleared.\footnote{7}

All the banks reported that tentative plans have been made to handle "G. I." loans, but the presidents of the larger banks believe that the volume of such loans that are credit worthy is less than the general publicity suggests. They each feel that the veteran should be frankly told that he is getting absolutely nothing free except a part of the first year's interest, and that if he borrows money it must be paid back.

In the "G. I." loan, the government will guarantee fifty per cent of the loan up to $2,000. That is, if the amount borrowed is $4,000, the government will guarantee $2,000; if the amount is $6,000, the government still guarantees only $2,000, and if the amount is $3,000, the guaranteed part will be fifty per cent or $1,500. The interest rate is four per cent, and the loan is payable in full in twenty years. The government only pays the interest on the guaranteed portion of the loan for the first year.\footnote{8}

Statistics show that eleven to twenty per cent (one to three million) of the men in the armed forces hope to take up their option on a government-guaranteed loan and invest it in a business of their own. From experience with men already discharged, banking authorities are now saying that

\footnote{7}"Postwar Cushion," \textit{Business Week}, September 11, 1943, p. 103.

\footnote{8S. Margolius, "Big Money, It Isn't There," \textit{Collier's}, April 28, 1945, p. 22.}
the benefits of the "G. I. Bill of Rights" have been over-
advertised, and veterans are expecting to receive more than
they actually are going to get.\textsuperscript{9}

Another type of loan which is growing in importance
is that one made by a banking pool. The details of this
type of loan are given in Chapter VI as one of the postwar
trends in commercial banking. Banking groups in Dallas
have organized a \$25 million pool to provide such loans to
small businessmen in their localities, and Fort Worth banks
have agreed to make \$20 million available for similar loans.

The banks throughout the country have become aware of
the fact that they must let the public know about their
wares as the advertisement of the Wachovia Bank and Trust
Company operating in six North Carolina cities so plainly
demonstrates:

\begin{quote}
Some Types of Loans Wachovia Offers the
Small Business Man:
\begin{itemize}
  \item Seasonal (60-90 day) Loans
  \item Long Term Loans
  \item Personal Loans (Pay-monthly)
  \item FHA Property Improvement Loans
  \item Mortgage Loans
  \item Reconversion Loans
  \item Loans on Life Insurance Policies
  \item Collateral Loans
  \item Field Warehouse Loans
\end{itemize}
And if this list doesn't include the
loan you want -- tell us and we'll find a
way to work it out for you.\textsuperscript{10}
\end{quote}

\textsuperscript{9}Ibid.

\textsuperscript{10}H. Bratter, "Bankers Serve Small Business," \textit{Nation's
Business}, XXXII (December, 1944), 56.
And in a similar advertisement, twenty St. Paul banks tell local businessmen:

Every effort will be made to meet the credit needs in this community. We particularly invite small business to consult us on its present and future financial needs.

In addition to providing the usual types of short-term bank credit, we are prepared to make loans for the buying of merchandise, the installation of fixtures and equipment, improvements to business property, or any other sound business purpose. Where conditions warrant, such loans may be made for extended periods and may be payable in instalments out of future earnings.

You will find that no application is too small to receive our painstaking and sympathetic consideration.\textsuperscript{11}

According to Bill Bailey, country banker at Clarksville, Tennessee, "The old days of waiting at a desk are gone. A country banker can't sit back and assume the attitude of allowing the public to approach him on hallowed ground. He must lean forward and reach out sometimes pretty far."\textsuperscript{12}

\textsuperscript{11}\textit{Ibid.}

\textsuperscript{12}J. P. McEvoy, "Bill Bailey and the Four Pillars," \textit{Reader's Digest}, April, 1944, p. 46.
CHAPTER IV

GOVERNMENT SECURITIES AND COMMERCIAL BANKING

The tremendous issue of government securities during the last three years has created a correspondingly large increase in the circulating medium which has rapidly increased bank deposits.

Expansion of bank deposits continued in 1944 as in previous war years. Deposits of all commercial and mutual savings banks, excluding interbank balances, have more than doubled in the five years since the end of 1939, increasing by about $70 billion. Most of this growth has occurred in the three years of this country's active participation in the war.¹

As available funds of commercial banks increased, they have been invested in United States securities for three reasons: the government needs the money; any investment under such conditions must be extremely liquid; and no other outlet is available.

The fact that the government needs the money is very evident since commercial banks have been excluded from purchasing securities in only two war loan drives -- the third

and seventh. Actually they were not excluded from these, since, shortly after the close of each drive, the Treasury sold several billion dollars of securities to commercial banks.

The banks have taken an active part in each of the war loan drives. At the close of the Seventh War Loan Drive, virtually every one of the nation's thirty-four million bank depositors with checking accounts had been solicited to buy bonds with current incomes and to use part of current checking account balances to buy extra bonds. Some of the large savings banks recommended to depositors that part of their savings accounts be withdrawn and used to buy some of the war loan issues. ²

The growth in resources of the banking system, without a corresponding increase in the capital of the banks, has diluted the margin of protection to depositors. In recent years radical changes in the composition of bank deposits and investments have caused marked revision of the unwritten safety codes which long served as guideposts for the banking business. Particularly forgotten has been the time-honored precept that each $100 deposit must be protected by, at least, $1 capital and surplus. ³

³Ibid.
Most bankers though show little inclination to sell additional bank stock. They see no reason why they should, since most of their "risk assets" (commercial loans and corporate securities) have shrunk so considerably, and their resources have become so largely represented by United States Government obligations, including many short-term issues, as well as cash items.

Table 6 shows the percentage of gross earnings received from interest and dividends on securities for Texas banks during the last ten years.4

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Texas Banks Reporting</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935</td>
<td>459</td>
<td>26.3</td>
</tr>
<tr>
<td>1936</td>
<td>456</td>
<td>27.5</td>
</tr>
<tr>
<td>1937</td>
<td>457</td>
<td>28.0</td>
</tr>
<tr>
<td>1938</td>
<td>449</td>
<td>24.2</td>
</tr>
<tr>
<td>1939</td>
<td>451</td>
<td>21.6</td>
</tr>
<tr>
<td>1940</td>
<td>446</td>
<td>21.9</td>
</tr>
<tr>
<td>1941</td>
<td>445</td>
<td>20.4</td>
</tr>
<tr>
<td>1942</td>
<td>442</td>
<td>21.2</td>
</tr>
<tr>
<td>1943</td>
<td>439</td>
<td>36.9</td>
</tr>
<tr>
<td>1944</td>
<td>436</td>
<td>41.9</td>
</tr>
</tbody>
</table>

4Statistical tables, American Bankers' Association.
At the close of 1944, sixty per cent of total bank deposits were secured by holdings of government obligations and an additional twenty-four per cent were covered by cash assets.  This has resulted in the 1944 liquidity of banks being much higher than in 1935.

Table 7 shows that all sixteen banks used in this study reported higher liquidity in 1944 than in 1935.

TABLE 7

REPORT OF SIXTEEN TEXAS BANKS ON THEIR 1944 LIQUIDITY IN COMPARISON TO THEIR 1935 LIQUIDITY

<table>
<thead>
<tr>
<th>Banks</th>
<th>More Liquid in 1944 by</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>10 per cent</td>
</tr>
<tr>
<td>II</td>
<td>30 per cent</td>
</tr>
<tr>
<td>III</td>
<td>13 per cent</td>
</tr>
<tr>
<td>IV</td>
<td>7 per cent</td>
</tr>
<tr>
<td>V</td>
<td>25 per cent</td>
</tr>
<tr>
<td>VI</td>
<td>50 per cent</td>
</tr>
<tr>
<td>VII</td>
<td>13 per cent</td>
</tr>
<tr>
<td>VIII</td>
<td>23 per cent</td>
</tr>
<tr>
<td>IX</td>
<td>11 per cent</td>
</tr>
<tr>
<td>X</td>
<td>60 per cent</td>
</tr>
<tr>
<td>XI</td>
<td>50 per cent</td>
</tr>
<tr>
<td>XII</td>
<td>8 per cent</td>
</tr>
<tr>
<td>XIII</td>
<td>10 per cent</td>
</tr>
<tr>
<td>XIV</td>
<td>5 per cent</td>
</tr>
<tr>
<td>XV</td>
<td>20 per cent</td>
</tr>
<tr>
<td>XVI</td>
<td>5 per cent</td>
</tr>
</tbody>
</table>

The banking system is well equipped to meet any deposit shifts that might occur. On June 30, 1944, over seventy per cent of the total loans and investments of all

---

insured commercial banks was in government securities and over one-half of these securities had maturities of less than five years. Even in country banks where liquidity demands are relatively less than for the banking system in general, government securities with maturities of one year or less constituted as much as twenty-five per cent of all loans and investments.\(^6\)

Swollen deposits are indeed the banks' biggest worry, not because another banking panic is expected but simply because the chief medium for the investment of bank funds today is the two per cent government bond.\(^7\)

The percentage of gross earnings received from interest and dividends on government securities for the sixteen Texas banks used in this study are shown in Table 8.

Banks I and IV are the only banks which reported a smaller percentage of gross earnings from interest and dividends on government securities in 1944 than in 1935. Seven banks had increases in 1944 over 100 per cent above such gross earnings in 1935, and two banks showed gains of over 200 per cent. Three banks reported increases of between twenty-five and forty per cent. Banks V and X had no gross earnings from government securities in 1935, but they


\(^7\)H. Bratter, "Bankers Serve Small Business," Nation's Business, XXXII (December, 1944), 56.
showed that fifteen per cent and fifty per cent of their gross earnings, respectively, came from government securities in 1944.

TABLE 8

PERCENTAGE OF GROSS EARNINGS RECEIVED FROM INTEREST AND DIVIDENDS ON GOVERNMENT SECURITIES FOR SIXTEEN TEXAS BANKS

<table>
<thead>
<tr>
<th>Banks</th>
<th>Percentages for the Year 1935</th>
<th>Percentages for the Year 1944</th>
<th>Per Cent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>3</td>
<td>1.4%</td>
<td>..</td>
</tr>
<tr>
<td>II</td>
<td>19.99</td>
<td>28</td>
<td>40</td>
</tr>
<tr>
<td>III</td>
<td>9</td>
<td>28</td>
<td>211</td>
</tr>
<tr>
<td>IV</td>
<td>25</td>
<td>17.5%</td>
<td>..</td>
</tr>
<tr>
<td>V</td>
<td>0</td>
<td>15</td>
<td>..</td>
</tr>
<tr>
<td>VI</td>
<td>18</td>
<td>46</td>
<td>155</td>
</tr>
<tr>
<td>VII</td>
<td>14</td>
<td>45</td>
<td>221</td>
</tr>
<tr>
<td>VIII</td>
<td>20</td>
<td>46</td>
<td>130</td>
</tr>
<tr>
<td>IX</td>
<td>23</td>
<td>47</td>
<td>104</td>
</tr>
<tr>
<td>X</td>
<td>0</td>
<td>50</td>
<td>..</td>
</tr>
<tr>
<td>XI</td>
<td>17</td>
<td>45</td>
<td>164</td>
</tr>
<tr>
<td>XII</td>
<td>15</td>
<td>42</td>
<td>180</td>
</tr>
<tr>
<td>XIII</td>
<td>17</td>
<td>44</td>
<td>158</td>
</tr>
<tr>
<td>XIV</td>
<td>45</td>
<td>60</td>
<td>33</td>
</tr>
<tr>
<td>XV</td>
<td>24</td>
<td>48</td>
<td>100</td>
</tr>
<tr>
<td>XVI</td>
<td>31.5</td>
<td>39</td>
<td>25</td>
</tr>
</tbody>
</table>

Average 17.59 37.6 108

The conclusion is that most Texas banks have had, at least, a 100 per cent increase in percentage of gross earnings received from interest and dividends on government securities since 1935.

Federal Reserve banks now hold about seventy billion
dollars of government securities, nearly four times the 1941 average level of around eighteen billion dollars; such securities now comprise nearly three-fourths of all earning assets, compared with less than half the total in 1941. The average rate earned on securities, which has been declining for about twenty years, was about 1.5 per cent in 1943 and 1944.8

The banks today in wartime have found it necessary to lend heavily to the government at low and controlled interest rates, rather than to employ their resources more profitably in making loans to business. In the postwar period, however, the businessman, big or little, who has sound plans is going to find his bank positively eager to make him a loan at something better than the interest on government securities.

CHAPTER V

BANK SERVICE CHARGES

Most banks, long before the war, began to bolster their income with service charges on checking accounts and other transactions.

Table 9 shows the time of institution of check service charge in the sixteen Texas banks used in this study.

TABLE 9
INSTITUTION OF CHECK SERVICE CHARGE IN SIXTEEN TEXAS BANKS

<table>
<thead>
<tr>
<th>Banks</th>
<th>When Started</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1941</td>
</tr>
<tr>
<td>II</td>
<td>1934</td>
</tr>
<tr>
<td>III</td>
<td>1926</td>
</tr>
<tr>
<td>IV</td>
<td>1942</td>
</tr>
<tr>
<td>V</td>
<td>1934</td>
</tr>
<tr>
<td>VI</td>
<td>After 1935</td>
</tr>
<tr>
<td>VII</td>
<td>1927</td>
</tr>
<tr>
<td>VIII</td>
<td>Before 1935*</td>
</tr>
<tr>
<td>IX</td>
<td>Before 1935</td>
</tr>
<tr>
<td>X</td>
<td>1936</td>
</tr>
<tr>
<td>XI</td>
<td>About 1920</td>
</tr>
<tr>
<td>XII</td>
<td>...</td>
</tr>
<tr>
<td>XIII</td>
<td>Before 1935</td>
</tr>
<tr>
<td>XIV</td>
<td>1932</td>
</tr>
<tr>
<td>XV</td>
<td>Before 1935</td>
</tr>
<tr>
<td>XVI</td>
<td>Before 1935*</td>
</tr>
</tbody>
</table>

*Revised in 1943

Eleven of the banks reported having a check service...
charge before 1935, and only one bank, XII, stated no check service charge is collected.

The low interest rates and reduced volume of business, during recent years, has led to the widespread imposition of service charges on customers' checks. The modesty of the amounts of additional income which these charges netted, and the marked public opposition to this innovation, suggest that the amount of service charges which would be required to compensate the banks for the loss of income from their best assets would radically modify our present system of using checks as the principal medium of payments. Such a change might all but destroy the institutional basis of commercial banking, for the process of bank credit creation depends on the widespread use of checking accounts as the chief payment media. In this event, the very basis of the scheme in question would be undermined. Moreover, the banks' heavy service charges would constitute a new item of business cost. Furthermore, impairment of the basis of bank credit creation would probably lead to an increase in interest rates on private business loans.¹

On the other hand, something can be said for the argument that borrowers, private and governmental, should not be required to bear the cost of maintaining checking

facilities whose benefits non-borrowers enjoy without paying for them.\textsuperscript{2}

Table 10 shows the percentage of gross earnings received from service charges on deposit accounts for Texas banks since 1935.\textsuperscript{3}

\begin{center}
\textbf{TABLE 10}
\end{center}

\textbf{PERCENTAGE OF GROSS EARNINGS RECEIVED FROM SERVICE CHARGES ON DEPOSIT ACCOUNTS FOR TEXAS BANKS}

\begin{center}
\begin{tabular}{|c|c|c|}
\hline
Year & Number of Texas Banks Reporting & Percentage \\
\hline
1935 & 459 & 3.9 \\
1936 & 456 & 4.3 \\
1937 & 457 & 4.4 \\
1938 & 449 & 4.9 \\
1939 & 451 & 5.1 \\
1940 & 446 & 5.3 \\
1941 & 445 & 5.6 \\
1942 & 442 & 5.7 \\
1943 & 439 & 6.2 \\
1944 & 436 & 6.3 \\
\hline
\end{tabular}
\end{center}

It is the opinion of the bank presidents interviewed that the increases in charges for service do not mean that the banks have been compelled to seek new sources of revenue, as the modesty of the per cent of gross earnings coming from this source indicates, but that banks have at last applied

\textsuperscript{2}Ibid.

\textsuperscript{3}Statistical tables, American Bankers' Association.
the basic principle of good business, which requires every business transaction to pay its part of expenses.

Table 11 shows the report of the sixteen Texas banks on the percentage of gross earnings received from service charges on deposit accounts in 1935 and 1944.

TABLE 11

PERCENTAGE OF GROSS EARNINGS RECEIVED FROM SERVICE CHARGES ON DEPOSIT ACCOUNTS FOR SIXTEEN TEXAS BANKS

<table>
<thead>
<tr>
<th>Banks</th>
<th>Percentage for the Year 1935</th>
<th>Percentage for the Year 1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>II</td>
<td>10.9</td>
<td>3.4</td>
</tr>
<tr>
<td>III</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>IV</td>
<td>1</td>
<td>5.3</td>
</tr>
<tr>
<td>V</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>VI</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>VII</td>
<td>3.5</td>
<td>8</td>
</tr>
<tr>
<td>VIII</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>IX</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>X</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>XI</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>XII</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>XIII</td>
<td>3</td>
<td>4.2</td>
</tr>
<tr>
<td>XIV</td>
<td>2.9</td>
<td>4.4</td>
</tr>
<tr>
<td>XV</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>XVI</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>Average</td>
<td>4.6</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Nine banks reported that an administration charge is made if the monthly balance of the depositor falls below a specified amount. These charges varied as did the monthly
balances required in the different banks. In addition to the administration charge, a check fee is charged for each check in excess of a certain number, which are handled free. The check charges reported by these nine banks are three and four cents, and some banks allow one free check for each $10 of the average monthly balance, while others allow only one for each $20.

Four banks have a set administration charge plus three cents for each Ledger Item, but a credit of ten cents per $100 minimum balance is allowed.

Bank VII has an administration charge of $1 for handling a maximum of ten items, and for all additional items, a charge of three cents each is made, but a credit of ten cents per $100 minimum balance is allowed.

Bank III allows one free check for each $10 of the average monthly balance, but the depositor is charged three cents for each check in excess of the number allowed.

Bank XII reports no check charge is made.

A comparison of the average percentage of gross earnings received from service charges on deposit accounts for sixteen Texas banks in 1935 and 1944 in Table 11 with the percentages for these two years for over four hundred Texas banks in Table 10, shows a difference of only seven-tenths per cent for 1935 and two-tenths per cent for 1944.

All banks used in this study, with the exception of
Bank XII, reported that a fee is charged to cash out-of-town checks for non-depositors; and all the banks stated that a fee, smaller than the post office money order rates, is collected for a commercial money order.

The move of many of the nation's banks to capitalize on the increase in post office money order rates recently ordered under the new tax law by intensive exploitation of their own cheaper rates for transferring funds appears thus far to have been successful. There has been a rapid growth in the use of the uniform money order service. The old charge of ten cents for orders involving up to $100 has been retained, compared with the new post office rates of fourteen cents to thirty-seven cents for sums ranging from $2.51 to $100. Some banks have been obtaining additional income, but without arousing any unfavorable public reaction, by increasing to fifteen cents their rate on other orders up to $250.4

The installation of money order departments has been found to have good advertising value. Just how deeply this competition has been cutting into the Post Office Department's former monopoly in the money order business has not been disclosed, but there are signs that the loss has been substantial. The House recently passed unanimously a bill under which post offices would be permitted to issue

new postal orders up to $10 for a flat fee of five cents each. Since about seventy per cent of the Post Office Department's money order business involves sums of less than $10, these new orders may be the means by which the government can reverse the present situation and undersell the banks.\(^5\)

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\(^5\) Ibid.
CHAPTER VI

POSTWAR TRENDS IN COMMERCIAL BANKING

Postwar plans which banking organizations are laying concern the individual American business man directly, from the standpoint of his individual borrowing, and indirectly because of his interest in seeing free enterprise preserved.

The American Bankers' Association's position is that government insurance and guaranteeing of commercial, industrial, and agricultural loans in wartime is one thing, but in peacetime is quite another. ABA takes the view that at the war's end the government should cease such activities as not only unnecessary, but "contrary to sound financial policy and the best interest of American economy."¹

ABA is planning to do everything possible to make certain that bank credit is available to every competent person, firm, or corporation needing it for a constructive purpose serving private enterprise.

The Small Business Credit Commission of the American Bankers' Association has wasted no time since the Association's convention in October, 1944, in pushing its plans to

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make the nation's banks a potent factor in the reconversion and reconstruction program ahead. ² Robert M. Hanes, chairman of this commission, puts it like this:

If an individual bank cannot grant credit to the businessman, we as bankers pledge ourselves to stay with him and see that he gets the money from some other bank or group of banks. American banking will make sure that small business lives and is given the opportunity to grow and prosper.³

In line with this determination, the banking system as a whole is going to make longer-term business loans: is going to apply -- without government help -- the coinsurance principle so that individual banks will be encouraged to take bigger risks and to handle new and perhaps unfamiliar types of business. The principle of sharing the risk is embodied in the newly devised "bank credit groups" set up on regional bases. Unlike the special wartime methods of financing government contracts, the "bank credit group" for reconversion and postwar financing of business in no way involves government credit. The bank group, as its name signifies, is a group of banks that jointly participate in a business loan too large or too risky for a single bank to undertake. Its purpose is to implement, augment, and undertake the financing (through loans or other credit accommodations) of small and medium-sized business concerns in the United

²"Loan Pool Grows," Business Week, November 18, 1944, p. 79.

States during the present reconversion period -- which is expected to continue after the cessation of present hostilities -- by participating with local originating banks in financing risks so undertaken which may be in amounts for periods, or upon terms or under conditions which may make usual banking accommodations unavailable.\textsuperscript{4}

Hanes is a member of the growing inside group of bankers who think the country's banks cannot afford to sit back and accept only gilt-edged loans while insisting on government guarantees for all others. Instead, this group believes the banks must be willing to assume some legitimate risks in the postwar period if they are going to play their proper part in building up the national economy and promoting new employment, and thus prevent a drastic change in the status of the banking system.\textsuperscript{5}

The commission does not think there is any better place to begin to show banking enterprise than in meeting the legitimate loan demands of small business. This does not mean that the commission advocates unsound loans, but it is convinced that many good loans based on character and ability have been overlooked by bankers in the small business field.\textsuperscript{6}

\textsuperscript{4}Ibid.

\textsuperscript{5}“Loan Pool Grows,” \textit{Business Week}, November 18, 1944, p. 79.

\textsuperscript{6}Ibid.
ABA is also carrying on a campaign for closer cooperation between correspondent banks. This is spreading the availability to business in smaller communities of such specialized services as loans involving warehouse receipts, chattel mortgages, accounts receivable, and other forms of bank credit with which some of the smaller institutions may not have been fully familiar. As a part of this campaign, many city banks have been bringing their country bank correspondents into their own large establishments and explaining to them the range of their services and emphasizing their willingness to provide technical help on credit problems and to cooperate with the correspondents in taking part or all of loans which the country banks cannot handle alone.7

According to N. H. Jacoby, if past experience is a trustworthy guide, bankers need not fear for the disappearance of their loan markets in the future as a result of direct and increasing competition of federal agencies. Such competition as has occurred has been insignificant in comparison with the supporting and loan-expanding effects of these agencies. Beyond doubt, federal credit institutions as a group have created a larger volume of commercial bank loans than they have destroyed. The real threat to bank lending is a diminished vitality of the private risk-taking

system, and the inability or unwillingness of banks to assume risks in extending credit to entrepreneurs.\(^8\)

Jacoby thinks there is almost complete unanimity of opinion that relatively full employment must be maintained in the postwar period, and that if this condition is not achieved through the normal operations of free business enterprise, an effort will certainly be made to bring it about by governmental action. For commercial banks, the ultimate end of ever expanding governmental investing and lending would be conversion into mere safety deposit boxes for government securities.\(^9\)

In an economy in which full employment is maintained during peacetime, many comparatively large risks must be taken, both by equity holders and by creditors of business concerns. It is axiomatic that risks will not be carried unless the prospect of compensation is held out to the risk-taker, but E. A. Goldenweiser believes that in the management of the banking system emphasis should be on seeing that banks render services commensurate with their cost to the community; that banks' earnings should be adequate to secure sufficient capital, to pay expenses, to yield a reasonable return, and no more.\(^10\)

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\(^9\)Ibid.

With the very large growth in the government portfolio, there is danger that bank earnings will be unnecessarily large. The banking function, like every other economic function, is justified only insofar as it gives service for the returns it receives and the policy of the banking authorities should be guided by that principle.\textsuperscript{11}

All sixteen banks used in this study reported that tentative plans had been made to handle "G. I." loans after the war, and that all assistance, within the bounds of good business procedure, would be given the returning veteran.

There was a 100 per cent affirmative answer from the banks to the question, "Do you think that the commercial bank will have a position of increasing importance after the war?" Several of the affirmative answers carried an explanation to the effect that this increased importance would be due to the fact that banks have learned they must be the useful personal friend of every citizen of the community.

All banks reported there would be no decrease or discontinuation of service charges after the war. They feel the charges are just, and that they are in proportion to the services rendered.

Commercial banks have played and are playing an important part in war financing. Bankers are facing a challenging task in the postwar world. If they meet this task

\footnotetext{\textsuperscript{11}Tbid.}
within an environment favorable to private credit expansion and prove themselves capable of flexible, aggressive action, then commercial banks need have no fear of the future.
I. First Nat'l. Bank, Kemp
II. First Nat'l. Bank, Panhandle
III. Denton County Nat'l. Bank, Denton
IV. Farmers' and Merchants' Bank, Kaufman
V. First State Bank, Archer City
VI. First Nat'l. Bank, Edinburg
VII. First Nat'l. Bank, Wich. Falls
VIII. Citizens Nat'l. Bank, Abilene
IX. First Nat'l, Beaumont
X. Laredo Nat'l, Laredo
XI. First Nat'l, Amarillo
XII. First Nat'l, Dallas
XIII. First Nat'l, Ft. Worth
XIV. First Nat'l, Houston
XV. Alamo Nat'l, San Antonio
XVI. El Paso Nat'l, El Paso
<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
<th>Location</th>
<th>Population</th>
<th>Deposits $</th>
<th>Capital Stock and Profits $</th>
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<tbody>
<tr>
<td>I</td>
<td>First Nat'l</td>
<td>Kemp</td>
<td>1,000</td>
<td>731,025</td>
<td>50,000</td>
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<tr>
<td>II</td>
<td>First Nat'l</td>
<td>Panhandle</td>
<td>1,200</td>
<td>3,728,643</td>
<td>50,000</td>
</tr>
<tr>
<td>III</td>
<td>Denton Co. Nat'l</td>
<td>Denton</td>
<td>12,000</td>
<td>5,342,351</td>
<td>100,000</td>
</tr>
<tr>
<td>IV</td>
<td>Farmers' and Merchants'</td>
<td>Kaufman</td>
<td>2,500</td>
<td>1,977,653</td>
<td>75,000</td>
</tr>
<tr>
<td>V</td>
<td>First State</td>
<td>Archer City</td>
<td>2,000</td>
<td>711,499</td>
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<tr>
<td>VI</td>
<td>First Nat'l</td>
<td>Edinburg</td>
<td>10,000</td>
<td>5,012,422</td>
<td>75,000</td>
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<tr>
<td>VII</td>
<td>First Nat'l</td>
<td>Wichita Falls</td>
<td>55,000</td>
<td>29,340,111</td>
<td>1,000,000</td>
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<td>VIII</td>
<td>Citizens' Nat'l</td>
<td>Abilene</td>
<td>35,000</td>
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<td>200,000</td>
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<td>IX</td>
<td>First Nat'l</td>
<td>Beaumont</td>
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<td>X</td>
<td>Laredo Nat'l</td>
<td>Laredo</td>
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<td>XI</td>
<td>First Nat'l</td>
<td>Amarillo</td>
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<td>500,000</td>
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<td>XII</td>
<td>First Nat'l</td>
<td>Dallas</td>
<td>440,000</td>
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<td>6,000,000</td>
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<tr>
<td>XIII</td>
<td>First Nat'l</td>
<td>Fort Worth</td>
<td>270,000</td>
<td>110,449,433</td>
<td>2,000,000</td>
</tr>
<tr>
<td>XIV</td>
<td>First Nat'l</td>
<td>Houston</td>
<td>525,000</td>
<td>138,536,797</td>
<td>3,500,000</td>
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<tr>
<td>XV</td>
<td>Alamo Nat'l</td>
<td>San Antonio</td>
<td>400,000</td>
<td>54,612,616</td>
<td>1,340,800</td>
</tr>
<tr>
<td>XVI</td>
<td>El Paso Nat'l</td>
<td>El Paso</td>
<td>110,000</td>
<td>42,131,623</td>
<td>300,000</td>
</tr>
</tbody>
</table>
APPENDIX C
QUESTIONNAIRE

I. General questions.

1. What were the sources of the gross earnings for your bank in 1935?
   a.                                           d.
   b.                                           e.
   c.

2. What were the sources of the gross earnings for your bank in 1944?
   a.                                           d.
   b.                                           e.
   c.

3. Were the gross earnings for your bank in 1944 larger than in 1935?
   a. in proportion to deposits?              
   b. in proportion to capital stock?

4. Has your bank had a gradual increase in gross earnings during the last ten years?

5. How does the liquidity of your bank for 1944 compare with that of 1935?

II. Government agencies and commercial banking.

1. In your opinion, have government lending agencies caused a decrease in your loans during the last ten years?

2. Are more of your loans made to farmers and merchants or to industrial concerns?

3. Does your bank make any loans with government guarantees? What rate of interest is charged?
III. Change in type of loans.

1. Have your loans during the war period been for larger amounts than those during the five-year prewar period? 

2. Has there been a change of interest rate on loans in your bank during the last ten years? Is the change an increase or decrease? 

3. Have you made fewer loans during the war period than in the five-year prewar period? 

4. Are most of your loans made to individuals or business concerns? 

5. Are most of your loans for amounts of less than $500? 

6. What per cent of your gross earnings came from loans in 1935? In 1944? 

IV. Government securities and commercial banking.

1. What per cent of your gross earnings came from government securities in 1935? 

2. What per cent of your gross earnings came from government securities in 1944? 

V. Bank service charges.

1. Does your bank have a check service charge? How much? When started? 

2. Does your bank charge a fee to cash out-of-town checks? 

3. Does your bank charge a fee for a commercial money order? How much? 

4. What per cent of your gross earnings came from bank services on deposit accounts in 1935? In 1944? 

VI. Postwar trends in commercial banking.

1. Has your bank made any plans to handle GI loans after the war?
2. Do you think the commercial bank will have a position of increasing importance after the war?

3. Do you think there will be a decrease in the lending of government agencies after the war?

4. Will your bank decrease or discontinue service charges after the war?
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