THE HISTORY OF KANSAS BANKING

by

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THE HISTORY OF KANSAS BANKING

Part I

THE PIONEER PERIOD 1854-1865

The development of banking in any state is closely connected with the complete history of that state. The economic progress, the characteristics of the people, and the degree to which a state is advanced has a direct effect upon the quality and quantity of bank business. Since the growth of Kansas banking is a direct result of the economic development of the whole state, this history will constantly make reference to events that have influenced the state's economic development.

The history of Kansas banking may be divided into four periods. The first period, or the pioneer, began in 1854 and ended in 1865. Since the economic history of the United States as a whole revealed a broad period of expansion following the Civil War, the years between 1865 and 1891 are known as the second period, or the period of development. The Kansas State Bank Commission was authorized by the legislature in 1891. The intervening years between 1891 and the beginning of the World War in 1914 formed the third period of Kansas bank history. The fourth period began with the World War in 1914 and is in the process of completion at the present writing (1929).

The Organic Act passed by Congress on May 30, 1854 organized Kansas and Nebraska into territories open for settlement.

Among the important provisions were that the slavery question should be decided by the settlers in each territory; that the national treasury would pay the territorial legislative expenses and would erect all necessary public buildings; and that United States property would not be taxed. No provision was made for a banking system. The words "bank" and "banking" were not mentioned in the Act. The inhabitants of Kansas regulated their own banking affairs, and established banks, when the need arose.

The settlement of Kansas was greatly facilitated by eastern capital. The New England Emigrant Society, organized in Massachusetts by Eli Thayer with capital of $1,000,000 rendered assistance to easterners who wanted to settle in Kansas.

No banks were needed, no banking provisions were necessary in early territorial Kansas, due to the economic and political conditions of the region after the passing of the Organic Act. In 1854, political conditions in Kansas were not conducive to the development of banking. The white population was estimated at only 1200,[1] and was composed of soldiers, government agents, traders, and missionaries. The state was inhabited mostly by Indians. Eastern Kansas had been an Indian reservation prior to the passing of the Act. Consequently there were very few white men and they were forbidden to settle on Indian lands. After the Organic Act was passed, all of the territory of Kansas was open for white settlement. As a result there was an inflow of white immigrants. In January and February, 1855, Governor Reeder caused an enumeration of the in-

1. C. J. Holloway - "Conditions in Kansas", published 1855, page 9.

habitants of the territory to be taken which embraced a separate count of the legal resident voters. The census abstract showed a population of 8,601. Immigrants rushed in from northern and southern states. The northern settlers were determined that Kansas should be a free state, while the southern faction were insistent on its becoming a slave state. Banking at that time was a question of very minor importance compared with the slavery struggle.

A study of the census reports showed that population increased from 1854 to 1858, and lessened from 1858 to the end of the Civil War. The decline in population was due to the fact that by 1858 it was almost a certainty that Kansas would become a free-state. With a declining population there was little need for extensive banking facilities.[1.]

The political conditions were not the only hindrances to bank development. The economic standing of the early settler was another influence which affected banking. The early settler's life was very primitive. They came in covered wagons, bringing with them few comforts of civilization. Each family was self-sufficient. Each settler lived on what he could produce for himself, and had little trading relationship with the outside world. Few of the early settlers had money. It is of little wonder that banks did not develop rapidly, or that the Organic Act did not make any reference to banking.

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1. Andreas - "Collections of Kansas History", published 1880, page 149.

In 1855, the General Legislative Assembly met at Lecompton. None of the territorial laws passed by this assembly mentioned banking. This is easily understood when the troubled conditions of the time are considered. Slavery was the pre-eminent question. In fact, a successful banking business could only with difficulty be conducted during such a troubled period.

The slavery struggle together with the border warfare, the hardships of the frontier, and the fear of the Indians influenced the inhabitants to settle in groups. Many of the white population lived along the overland trails and at different points along the trails, trading centers were established.

It is natural that the first banks were located in the trading centers. From the beginning, Leavenworth was the most prominent center in Kansas, and was the first town in which a bank was established. In his history of Leavenworth, H. M. Moore states that "The first banking business in Leavenworth was conducted by C. P. Bailey in the spring of 1855. Mr. Bailey was a timid man and his money more so. As things progressed rapidly in the summer, and the boys began to get a little gay with their guns, he thought the town was getting too rapid for him, and he soon pulled up stakes and returned to Ohio, bank and all."[1]

An advertisement of the bank which appeared in the Leavenworth Herald of July 12, 1856 read as follows: "C. P. Bailey, Jr. and Co., Delaware Street, Leavenworth buy and sell time and sight bills on the principal cities in the United States at the most favorable rates of exchange. Interest allowed on time deposits. Exchange

1. "History of Leavenworth, Kansas", page 150.

for sale on the Royal Bank of London."[1]

The City Bank of Leavenworth was the first Kansas bank to fail. It was opened during 1856-57. It was located on Delaware street between Second and Third. Henry J. Adams, the first free-state mayor of Leavenworth, was president, A. C. Swift was cashier, and F. G. Adams, a brother of the president, was also interested.[2] It failed during the crisis of 1857.

In the assembly of 1856, the territorial legislature was again silent on banking establishments. The slavery struggle continued, and times were still troublesome. After C. P. Bailey abandoned his banking business, another bank was established in Leavenworth in 1856. Isett, Brewster and Company came from Des Moines, Iowa, and transacted a general banking business.

The legislative assembly of 1857 provided for the establishment of the Kansas Valley Bank at Leavenworth.[3] Section 39 of the Act provided for the establishment of five branches; Atchison, Lecompton, Doniphan, Fort Scott, and Shawnee. The capital stock of the Kansas Valley Bank was to be $800,000.00 divided into shares of $100.00 each. The capital stock of each branch was to be 300,000.00. The authority was given to William H. Russel, A. J. Isacks, William H. Rogers, William F. Dyer, F. J. Marshall, and James M. Lyle, to open the books for the subscription of stock and to keep the books open for thirty days. If $50,000 of stock was subscribed for at the end of this time, the bank was to be put into operation

1. The writer was shown the first Kansas Bank advertisement through the courtesy of the Kansas Historical Society, Topeka.
2. Kansas Historical Collections, Volume XII, page 359.
3. Kansas Territorial Statutes - 1857 - Section 39, page 59.

by the election of a president and seven directors, who should hold office for one year. The bank could not issue paper until 50% of the subscribed stock had been paid in gold or silver, and the remainder had been secured by bonds, and the governor of the territory had made an examination of the bank. None of the bills issued were to be of less denomination than three dollars, and the bills and notes outstanding were never to exceed three times the capital stock. The maximum time limit for maturity of discounted paper was one year, and in no case was the interest rate to exceed 10%. Semi-annual dividends were to be declared and statements of condition were to be submitted to the stockholders.

In reference to the branches established under this act, Section 40 states: "The said branches shall each have a capital stock of $300,000, and shall be governed and regulated and put in operation in the same manner as provided by this act, and subject to all the restrictions and provisions; the said banks shall be entirely independent of each other, and independent of the Kansas Valley Bank hereby chartered." Five commissioners elected annually by the legislature but paid by the banks were to examine the banks once a year and report their condition to the legislature.

The Atchison Branch of the Kansas Valley Bank was the only bank established as provided for in the act of February 19, 1857. In 1858 the territorial assembly repealed the act to incorporate the Kansas Valley Bank, since the Atchison Bank had been the only one organized. This was due to the panic of 1857.

Another act was passed in 1858 entitled, "An Act to amend the charter of the Kansas Valley Bank at Atchison." This bill applied to the Atchison bank as previously applied to the bank at Leavenworth by the Act of 1857. The Atchison bank was empowered to establish three branches and provided that the capital should be $500,000. In the Act John H. Stringfellow, Joseph Plean, and Samuel Dickson were named to open subscription books. The organization was effected early in the spring of 1858, and the capital stock was fixed at $52,000.00. The board of directors included S. C. Pomeroy, president, W. H. Russell, L. R. Smoot, W. B. Waddell, F. G. Adams, S. C. Dickson, and W. E. Gaylord.[1.]

The panic of 1857 affected business in all the nation. Many banks in other states were forced to suspend specie payments. The depressed business conditions in the country as a whole accounted for the fact that only one of the territorial banks authorized by the Act of February 19, 1857, was put into operation. The banking system as planned was never organized. The Atchison bank was the only one organized under the act. The sudden loss of confidence in stock, bonds, and bank notes, and other credit instruments served to prevent carrying out of plans to organize this extensive territorial banking system the total capitalization of which would have been $2,300,000.00.

At the session of the assembly in 1858, an act was passed authorizing three banks in Kansas territory. The Lawrence Bank was to be incorporated by Robert Morrow, S. W. Eldridge, S. B. Prentiss, J. Bland, and H. Shanklin. The Bank of Leavenworth was to be incor-

1. Kansas Territorial Statutes - 1858 - Section 14, page 134.

porated by H. J. Adams, John Kerr, Sam Harsh, Henry Foote, and I. W. Morris. The Bank of Wyandotte was to be incorporated by W. Y. Roberts, J. H. Winchell, T. B. Eldridge, J. D. Chestnut, and J. D. Emery.

The capitalization of the banks at Leavenworth, Lawrence, and Wyandotte authorized by the above act was $100,000.00 each. With the consent of the Kansas comptroller the board of directors could increase the capital from time to time, by an amount not greater than $50,000.00 at one time. The board of directors was to consist of eight stockholders elected for a term of two years at the annual election on the second Tuesday of January, four to be chosen each year. This board elected the president, vice-president, and cashier.[1.]

Section 12 states the following in reference to the issue of paper money: "Whenever the directors of either bank shall deposit with the comptroller an amount of the state bonds of any interest-paying state in the Union, or of the United States, equal in value to $25,000.00, at the current rates of the New York Stock Exchange, and shall satisfy said officer that they have on hand $2,500.00 in specie, for the purpose of redeeming the circulating notes of the bank, then the comptroller shall countersign $25,000.00 of said circulating notes, and return them to the president for use; and it shall then be lawful for said bank to use said notes as currency, and commence and conduct the business of banking in all its departments and details; and whenever said bank shall thereafter deposit

1. Kansas Territorial Statutes - 1858 - Section 12, page 151.

additional securities as above stated, and provide ten per cent of their amount in specie, for purposes of redemption, then the comptroller shall countersign and return to said bank their circulating notes to an amount equal to the value of said additional securities."

Under the Act of February 7, 1859 the Lawrence Savings Bank was authorized.[1] It had no capital stock and no authority to discount commercial paper or to receive deposits subject to check. The profits were to be invested in Lawrence real estate. The bank continued in business only a short time. The short length of time during which the bank operated may have been due to section 9 of the act which read: "Any profits accruing to said corporation from the regular pursuance of the business contemplated in this act shall, after deducting all necessary expenses, be invested, from time to time, in real estate and permanent improvements in the city of Lawrence, for the security of the depositors, in said corporation; and all losses of said corporation shall be proportionately amongst and paid by the corporators, in such manner as the corporation shall direct."

The drouth of 1860 was a powerful agent in the depopulation of the territory. Banking was at a stand still. The people could fight border ruffians with bett r courage than they could endure starvation. Throughout all their tribulations until this time they had confidently hoped and believed that with the settlement of their

1. Kansas Territorial Statutes - 1859 - Section 9, page 89.

political trouble, prosperity would come to them. The years of 1855, 1856, and 1857 could have brought bountiful harvests, yet many of the citizens were unable to take advantage of the favorable weather to do more than raise a few summer vegetables for immediate consumption, and those who raised crops for winter use often had them destroyed by marauding bands that infested the territory. During 1858 immigration was large. But the early summer of 1859 found Kansas with barely enough grain to last until the fall harvest. The drouth commenced in June. From the 19th of June, until November 1860 not a shower of rain fell to wet the earth two inches in depth. Before the close of the summer the ground was so parched that it broke open in huge cracks, the winds blew from the south like a blast from a furnace. Vegetation was destroyed, crops were a total failure, wells and springs were dry. Thirty thousand settlers left the territory for the old homes from which they came, abandoning claims, improvements and all hopes of success in the west.[1.]

The deplorable condition in 1860 is further revealed by a letter to the Chicago Press & Tribune, dated August 1, 1860: "What can we do? We have excellent lands, costly improvements, large quantities of stock, but no ready money. Not a village lot, not a quarter section of land can be sold for cash at any price. Many a man who owns a good farm upon which he has lived and worked four or five years would be glad to sell out for less than his buildings and improvements have cost him. Cattle and hogs are of little value.

1. Kansas Historical Society - "Clippings Drouth 1860".

There is no prairie grass to keep the one, nor corn or other feed to fatten the other. The people have property enough but no credit. The land offices and the land warrant speculators have swept almost every dollar out of the country. Merchants are unable to afford assistance or credit for they are generally men of small capital bound to make their payments in Chicago, St. Louis, New York, or Boston every ninety days or go under themselves. A few capitalists in Leavenworth and Atchison stand ready to loan small sums on undoubted collateral at four and five per cent per month. But not one farmer in a thousand has such collateral as are demanded or can furnish other security than a lien upon his land. These land liens are unsatisfactory to capitalists as they run too long.

"Truly the condition of Kansas is deplorable. Scourged and oppressed financially Kansas is truly the child of misfortune. From present indication, the United States Census will show a great falling off. Another season must bring us rain, abundant crops, new immigration, admission, public improvement and a restoration of confidence."

On January 29, 1861, Kansas became a state. The delegates to the constitutional convention at Wyandotte framed the constitution under which Kansas was admitted to the union.

Article thirteen of the constitution referred to banking.[1] No bank could be established otherwise than under a general banking law. United States bonds or interest-paying bonds of any state were

1. General Laws of Kansas - 1861 - page 64, Art. 13, Constitution.

were required as one hundred per cent collateral security for the redemption of the circulating notes of any bank. The bonds were to be deposited with the state auditor. In addition to bond collateral each bank had to keep in its vault a cash deposit of ten per cent of the amount of its circulating notes. If the bonds pledged as collateral depreciated in value, additional bond security was to be required; or a curtailment of the note circulation as would continue the security unimpaired.

Each bank was to redeem on demand its circulating notes in United States money. In case of insolvency, noteholders were entitled to a preference of payment over all other creditors.

According to the constitution, five dollars was to be the smallest denomination of a bank note. All banks were to keep offices and officers for the redemption of their circulation at a convenient place within the state to be named on the notes issued.

The constitution also provided that any banking law must first be submitted at a general election and approved by a majority of votes cast before it could be in force. Any bank law could be amended or repealed.

Following out in part the provisions of the state constitution, the legislature passed "An Act to Authorize the Business of Banking", approved June 4, 1861.[1] By provision of this act, the state auditor, on application of any person or association wishing to organize a bank, engraved and printed the quantity of circulating

1. Laws of Kansas 1861, page 86.

notes needed to meet the various demands. All the necessary expenses in procuring such notes in blank from the auditor were paid by the bank for whom the notes were furnished.

Section two of the act did not conform with Section seven of the constitution, which required that bank notes should not have a smaller denomination than five dollars. Instead, each bank could issue notes in denominations of one, two, three, five, ten, twenty, twenty-five, fifty, and one hundred dollars. The state auditor was to countersign the notes, number, and register them in books kept for the purpose.

In reference to the security of note issue, the Act did not entirely fulfill the intention of the framers of the state constitution, which provided for one hundred per cent bond security. Instead, a bank could give bonds, approved by the auditor, amounting to only one-fourth of the notes issued. At the time of pledging bonds with the auditor, the president and cashier were to submit oath that ten per cent of their capital stock was paid in specie and on deposit. This amount was to remain in the vault as additional security to indemnify the note holders in case the bonds deposited with the auditor were insufficient to redeem the notes.

The interest on the bonds pledged as collateral was to be paid to the bank pledging them as security for note issue. But such power could be revoked by the auditor if any banking association failed to redeem any notes outstanding.

All banks organized under the provision of this act were

subject to state, county and town taxes on the notes and bills discounted or purchased, money loaned, and all other property the same as the property of an individual.

This first bank act passed after statehood, required a minimum capital stock of twenty-five thousand dollars. No bank could be organized in a town containing less than two hundred inhabitants.

One person or an association of persons wishing to organize a bank were to file a certificate with the state auditor. The certificate specified the name of the bank; the town, and county; the capital stock, and number of shares; name and place of residence of the hareholders, and number of shares held by each. Upon the recording of the certificate with the auditor, the person, or association of persons became a corporate body subject to the provisions and restrictions of the act.

Each bank had power to discount bills, notes and other evidences of debt, receive deposits, buy and sell gold and silver bullion, foreign coin and foreign and inland bills of exchange, loan money on real or presonal securities. They could choose any number of officers their business required.

If any bank failed to redeem its notes on demand, complaint on the part of the noteholder could be filed with the state auditor. Then if the bank did not redeem the notes in twenty days after the complaint, the auditor was to sell at the Merchants Exchange in New York City the securities pledged. Out of the proceeds

of this sale prorata payment was to be made to noteholders.

If the state auditor violated the provisions of the act, he was subject to a fine of five thousand dollars and imprisonment for five years in the state prison.

It was unlawful for a bank to hold real estate except as was necessary in the convenient transaction of its business; or as was conveyed to it in the satisfaction of a debt.

The stockholders of a bank were individually liable for an amount equal to double the amount of stock owned, and their liability continued for one year after selling their stock.

The Act definitely carried out the provision of Section 4, Article 13 of the constitution in entitling the holders of bank notes to preference in payment over all other creditors of a bank.

When the owners of a bank desired to relinquish their banking business, the state auditor was to be notified. Then began the process of redeeming their circulating notes and depositing them with the auditor. No less than one thousand dollars could be redeemed at any one time. A pro rata amount of securities pledged could then be withdrawn. No bank could continue to transact any business further than what was required to close up after its capital stock, securities, and circulation was reduced to less than twenty-five thousand dollars. When a retiring banker desired to withdraw all the securities pledged to secure note circulation a certificate of deposit equal to the unredeemed notes was to be filed in a bank approved by the state auditor.

The circulating notes of a bank returned to the state

auditor were to be destroyed by him in the presence of the governor, after making a record of them.

The bills or notes of any bank were to be received by it in payment of all debts due it at all times.

While any debts of a bank remained unsatisfied, no dividends were to be declared.

The Act also stipulated that every bank "shall, on the first Monday of January, April, July, and October, in every year make a report of condition to the auditor of state."[1.]

The progress of Kansas banking depended largely upon agriculture instead of manufacturing. The census of agriculture taken in 1860 indicated the extent of economic development. The improved agricultural land amounted to 405,468 acres. The cash value of farms was estimated at $12,258,239.00. Farm implement valuation was $727,694.00. The number of live stock was 271,088, valued at $3,332,450.00. The total investment in agricultural development was $16,318,383.00.[2.]

The fact that Kansas was an agricultural state at the beginning of the Civil War is evidenced by the census of occupations in 1860. The total number of gainfully employed occupants was 316,646. Over 50% or 190,252 were engaged in farming while the remainder supplied the needs of farmers.[3.]

For comparison, the relative unimportance of manufacturing

1. The above mentioned reports are not available. It is probably the banks were not forced to carry out the provision of the law.
2. United States Census - Agriculture, pages 54-55.
3. United States Census - Population, page 159.

in Kansas is revealed from the census of manufacturing in 1860. The total number of manufacturing establishments composed of saw mills, flour and meal mills, brick plants, blacksmithing, malt and distilled liquor, boots and shoes, was 170. The total investment in manufacturing was $1,947,328.00. Only 2,107 laborers were engaged. There were 9.1 times as many citizens engaged in agriculture as in manufacturing.[1.]

Leavenworth County had improved acreage amounting to 27,320; Atchison County 27,806; and Douglas County 36,905. The first development of Kansas banking occurred in this region. Since agriculture was the predominating industry, the progress of Kansas banking depended largely upon agricultural prosperity.

Very little information can be found about banks operating in Kansas during these years; but due to the slavery struggle, the drouth of 1860, and the insignificance of manufacturing, a rapid growth of banks could not be expected.

Statements of condition are available for three pioneer banks; the Kansas Valley Bank at Atchison, organized in 1858; the First National Bank at Leavenworth, organized in 1863, and the Second National Bank at Leavenworth, organized in 1864. The two latter banks were the first two organized under the provisions of the National Bank Act of 1863. The National Banking Act grew directly out of the desire to provide a market for United States bonds during the Civil War, but other causes are worthy of notice. Because the charter rested on national rather than state authority, it appealed to the national

1. United States Census - Manufactures, page 164.

spirit. To the business communities uniformity of circulation was also highly desirable.

STATEMENT OF CONDITION
of 1.
THE KANSAS VALLEY BANK
Atchison, Kansas
January 1, 1860.

ASSETS

Real Estate	$ 2,295.00	Capital Stock	$ 52,000.00
Loans & Discounts	48,256.42	Notes in Circulation	8,895.00
Protest Accounts	32.50	Deposits	2,695.98
Profit & Loss Acc'ts.	669.87		
Due from Banks	4,078.62		
Specie	8,268.57		
	$ 63,590.98		$ 63,590.98

The Kansas Valley Bank had taken a loss of $669.87. As this was the first statement available the fiscal period in which the loss was taken cannot be calculated. It had been unable to build up an undivided profit and a surplus account. The total deposits were only $2,695.98, which was too small compared with $48,256.42 in loans and discounts. The amount of specie on hand, $8,268.57, was large compared with the total of notes and deposits, $11,590.98. The ratio of cash to deposits was 306%, loans and discounts to deposits was 179%.

1. 36th Congress First Session - Document Number 49 - Ser. No. 1050, page 259.

STATEMENT OF CONDITION
of
FIRST NATIONAL BANK
Leavenworth, Kansas

First Monday, October, 1865 [1.]

ASSETS		LIABILITIES	
Loans and Discounts	$ 142,802.25	Capital Stock	100,000.00
Overdrafts	3,226.36	Surplus Fund	4,145.47
Real Estate	4,798.79	Notes in Circulation	76,000.00
Expense	2,843.98	Ind. Deposits	2,335,010.64
Premiums	48.46	U. S. Deposits	111,761.81
Remittance	12,171.59	Due to Nat'l. Banks	14,553.95
Due from Nat'l. Banks	1,591,896.12	Due to Other Banks	3,460.03
Due from Other Banks	8,293.92	Profits	20,119.40
United States Bonds	100,000.00		
Other Securities	376,950.00		
Bills of Other Banks	18,223.00		
Specie	5,090.83		
Other Lawful Money	198,806.00		
	$ 2,665,151.30		$ 2,665,151.30

The First National Bank of Leavenworth had made a profit of $20,119.40, and had built up a small surplus of $4,145.47. Since this is the first statement of condition the period in which the profit was made is not known. The ratio of cash to deposits was 82 2/3%, loans and discounts to deposits was 5 3/4%, and capital and surplus to deposits was 4 5/8%.

1. 39th Congress Executive Doc. 1865-66, 1st Session, page 118.

STATEMENT OF CONDITION
of
SECOND NATIONAL BANK
Leavenworth, Kansas

First Monday, October, 1865[1].

ASSETS		LIABILITIES	
Loans and Discounts	$ 47,469.51	Capital Stock	$ 100,000.00
Overdrafts	9,449.88	Individual Deposits	143,636.37
Real Estate	303.13		
Expense Account	841.69		
Premiums Paid	38.19		
Due from Nat'l. Banks	61,346.21		
Due from Other Banks	9,688.97		
U.S. Bonds	35,000.00		
Other Securities	15,150.00		
Bills of Other Banks	10,919.00		
Specie	4,079.79		
Other Lawful Money	39,751.00		
	$ 243,636.37		$ 243,636.37

The Second National Bank of Leavenworth had taken a loss, but the actual amount is not indicated, nor is the length of time known in which the loss was taken, since this is the first available statement of condition. The ratio of cash to deposits was 23 3/14%, loans and discounts to deposits was 33 3/7%. There was no surplus.

In a comparison of the above statements of the three banks, it is possible to point out essential features that normally indicate sound or unsound conditions. In an analysis, the first thought would

1. 39th Congress Executive Document 1865-66, 1st Session, page 118.

be the protection offered the depositor. By a comparison of profits, cash to deposits, loans and discounts to deposits, capital and surplus to deposits, a conclusion can be reached as to the relative safety of the three early banks.

No definite standards in the analysis of bank statements can be applied too strictly. Conditions may vary greatly from one period to the next, so equations necessarily have to be elastic. Under the modern system of banking a normal ratio between total cash and total deposits is estimated at 22%. A normal ratio of loans and discounts to deposits is 66%. The normal ratio of capital and surplus to deposits is 8%.

The ratio of cash to deposits of the Kansas Valley Bank varied 284% from a normal of 22%. Loans and discounts to deposits varied 113% from the normal of 66%. There was no surplus and it had taken a small loss.

Of the three banks, the Second National of Leavenworth was nearest normal in the ratios of cash to deposits; and loans and discounts to deposits. But it was not a strong bank since it had no surplus and the balance sheet indicated a loss.

The First National of Leavenworth was the strongest of the three pioneer banks. It's profit was $20,119.40. Although the ratios of cash to deposits, and loans and discounts to deposits showed a greater variation from normal than did the Second National, it should be noted that pioneer banks needed a larger amount of cash on hand than our modern banks supervised by the Federal Reserve System. Another

factor in favor of the First National was its surplus. It's ratio of capital and surplus to deposits was 4 5/8%, only 3 3/8% below 8%, which is considered normal under our present system.[1.]

The First National Bank of Leavenworth, chartered and opened for business in 1863, was the first national bank in the state. Its first president, Thomas Carney, was closely connected with the affairs of the state. He was governor in 1863 and 1864. He gave $1,000.00 for the relief of the Quantrill-raid victims, and made the first subscription of $5,000.00 to the University of Kansas.[2.]

The noticeable characteristics of pioneer banking may be summarized. First, prior to 1861, pioneer banks were either private institutions or else chartered by special acts of the legislative assemblies. The Act of January 29, 1857 provided that "all associations of persons formed for banking purposes and without an act of the legislature should be deemed unlawful." After statehood, the state auditor gave permission to organize.

Second, pioneer banks charged excessive interest rates as compared with those of present time. But due to the greater risk involved in the contraction of early day loans, bankers were obligated to charge high rates for their own protection. Various newspaper clippings written during the drouth of 1860 reveal the fact that the interest rates were often as high as 2% per month.[3.] The high rates were due to the early settlers not being able to provide sufficient

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1. "How to Analyze a Bank's Statement" - Bankers Publishing Co.
2. Kansas Historical Collections - Vol. XII-360.
3. Newspaper Clippings, 1860-65, Kansas Historical Society, Topeka.

security, and because they did not have sufficient money to pay for their land. Land values were subject to much fluctuation in value. A loan to a farmer was a decided speculation. Due to the fact that there was great risk involved on loaning capital, and since there is ordinarily a scarcity of capital in a new country, interest rates of pioneer banks were very high.

Third, pioneer bank note issue was regulated by law. Before 1861, the legislature reserved the right to grant any bank the right to issue notes. Bank notes were secured by specie reserves in the vaults of the issuing bank. After 1861, charters were granted by the state auditor, and bank notes were secured by specie and deposits of bonds with the state auditor.

Fourth, on commercial paper discounted the banks required two names. This was because of the unsettled conditions of the times. It was quite easy for a person to escape from a bank's reach. During a cycle of wet years agriculture was extended into the plains region. As long as rainfall continued abundant profits were sufficient. But when a series of dry years came and no crops were made season after season, the farmers quickly abandoned their farms. The bankers attempted to protect their own interests by requirement of more than one name on commercial paper.

Complete statistical records showing the condition of banking in Kansas during this period are not available; but due to the situation pictured above, it is evident that little progress was made.

SUMMARY

The Organic Act made no provision for the organization of banks in Kansas. The economic and political conditions hindered a rapid bank development. The slavery struggle and fear of Indian raids influenced the early white inhabitants to settle in groups along the overland trails. Trading centers were established at different points along the trails. From the beginning Leavenworth was the most prominent center in Kansas and was the first town in which a bank was established by C. P. Bailey in the spring of 1855. The impression of the first period is that banking remained undeveloped, although the legislature of 1857 incorporated a giant bank with an authorized capital of $800,000. Authority was also granted to establish five branch banks each with a capital of $300,000 and with the same powers as the main bank. Each was to issue paper to the limit $3.00 in paper for every $1.00 of specie on hand. This system of course was far in excess of the actual need of the territory and was never carried out as planned.

During the drouth of 1860, population declined and banking was at a standstill. After Kansas was admitted into the union, provision was made by the legislature of 1861 for the organization of banks of issue with a minimum capital of $25,000. This system did not have time to develop to any extent before the National Banking system was introduced by the federal government, driving out of circulation the notes of state banks by the 10% tax. The only three bank statements available between 1854 and 1865 indicated clearly that Kansas banking was undeveloped.

Part II

PERIOD OF DEVELOPMENT 1865-1891

The period from 1865 to 1891 may be discussed under four topics; first, the banking acts; second, the number of state, national, and private banks in operation; third, the combined statements of bank deposits, loans and discounts, cash, capital, and surplus; and fourth, the general character of banking in this period.

The only two bank acts of the period[1] were passed March 12, 1879. One act provided that any officer of a bank receiving deposits or assenting to the creation of debts when such bank shall be in insolvent condition, should be deemed guilty of larceny and punished in the same manner and to the same extent as is provided by law for stealing the same amount of money deposited, or other valuable thing, or if loss occurs by reason of such deposit.

The other act, passed at the same time, made it unlawful for any president, director, manager, cashier, or other officer of any banking institution to assent to the reception of deposits, or the creation of debts by such banking institution, after he shall have knowledge of the fact that it is insolvent or in failing circumstances. This Act made it the "duty of every officer, director, agent, or manager, of any banking institution to examine into the affairs of the same and if possible know its condition."

The reason for the above enactments of the legislature was

1. Laws of Kansas - 1879, Chapter 66,67

that three state and nine private banks had discontinued operations in 1878, after accepting deposits in an apparently insolvent condition.[1] It was hoped this legislation would improve the integrity of bank officials. But since Kansas private and state banking was practically unregulated until 1891, these two acts had no effect on the course of bank development. There was no provision for enforcement of banking laws. While there were no dramatic frauds to mar the banking history of Kansas in comparison with New York, Pennsylvania, or Massachusetts, yet it is true that haphazard methods at times gave rise to well-in-trenched abuses. Flagrant frauds were not perpetrated, only lesser ones, but the growing evil of injustice fastened itself on the whole financial system.

There seemed to be some doubt for a time whether or not state banks could be organized by the legislature without the approval of the people at a general election. In a case tried before the Supreme Court in 1878,[2] the decision was that the approval of the people at a general election was not necessary. Banks could be organized by direct charter from the legislature or by a permit from the state auditor. It is evident there was very little regulation of state banks during the period of development following the Civil War until 1891.

There was a remarkable increase in the number of state, national, and private banks in Kansas, from 1865 to 1891. The following table shows the number of national banks, state banks, and private banks at certain dates:

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1. House Journal - 1879, p. 161-165.
2. Supreme Court Decisions - 20 - Kansas - 440.

	1865	1870	1875	1880	1885	1890	1891
National Banks	3	5	23	12	77	160	145
State Banks		4	13	33	54	224	249
Private Banks		30	63	108	247	327	253
Total		39	99	153	368	711	647

1.

The three national banks operating in 1865, were the First National Bank, Second National Bank both at Leavenworth, and the Lawrence National Bank at Lawrence.

Statistics are not available for the number of state and private banks operating in 1865. Quarterly reports were authorized by the bank act of 1861, but the laws were loosely enforced prior to 1891 and such statements were not demanded.

Of the total number of banks in 1870, 76% were private, 13% were national, and 10% were state banks. But at the end of the period, although the total had increased to six hundred forty-seven, the percentage of private banks had declined to 39% of the total, while state banks had increased to 38%, and national banks had increased to 23% of the total.

Notice that throughout the whole period, there was a greater number of private banks organized yearly than state and national banks. The reason for the larger number of private banks was that

1. National Bank Statistics available in reports of the National Comptroller of the Currency, 1865-1891.
State and Private Bank Statistics available in Homan's Bankers Almanac, 1873-1891, or G. E. Barnett's "State Banks and Trust Cos., 1870-1891, page 248.

the state form of organization required a minimum capital of $25,000.00 for state banks. If the business of a locality would only support a bank with a capital of $10,000 there would be no entrance into the state system, because of the large capital requirements.

The reason for a lesser number of national banks organized than state and private banks was not only the large capital requirements, but also the more stringent provisions of the National Bank Act. The great growth of private banks can be accounted for since state banks were subject to little regulation, and private banks less.

Since private and state banks were not forced to report their financial condition prior to 1891, the only available reports during this period are those of the national banks. The following table shows the amount of cash, loans, deposits, capital, and surplus of the national banks in Kansas at certain dates:

1.

Year	Cash	Loans	Deposits	Capital	Surplus
1865	286,468	190,371	259,408	200,000	4,145
1870	378,370	318,069	416,503	350,000	29,055
1875	528,925	2,117,173	2,383,841	1,730,000	43,200
1880	579,293	1,724,593	1,934,378	1,840,000	80,125
1885	710,559	7,155,903	8,548,316	3,995,000	390,550
1890	3,457,650	17,539,512	24,445,766	13,223,430	2,640,000
1891	3,570,400	18,585,678	25,259,024	13,434,100	3,350,500

1. National Comptroller's Reports - 1865-1891.

In comparing successive statements of condition, the surplus account is examined to note the progress. A steady increase or decrease of surplus is the best external gauge of conservatism of the management and its ability to make a profit. The surplus of a bank unless it is newly organized should be at least 20% of the capital.[1] If a bank has been in existence a substantial period of time, a reasonable surplus is 75% of the capital or equal to it. But it is not necessary to set a definite figure, since the main point to note is a continual growth of surplus.

The reason for the slow growth of surplus of Kansas national banks between 1870 and 1880 was the panic of 1873 and the period of recovery following. The decade from 1870 to 1880 was one of expansion in Kansas. Expansion grew into speculation. Railroad building was pushed with unheard-of rapidity; over six thousand miles of new line being constructed in ten years. Eastern capital was lavishly loaned, not only to further the railroad enterprises but also on mortgage security. The business of banking was practically unregulated by the state, and remained so until the passage of a banking law a few years later. This gave rise to an irregular system of banking, for many institutions that had originally been organized as real estate loan companies, and many individuals and firms were engaged in receiving deposits, while their principal business was entirely foreign to legitimate banking.

This was a period of speculation as has been said. Irrigation was being pushed in the arid regions of the state. This

1. "How to Analyze a Bank's Statement" - Bankers Publishing Co.

was the period of eastern speculation in real estate mortgages. It was at this time that Kansas had the unenviable record of leading the whole United States in the per cent of her mortgaged farms. Much over half of her farm land was mortgaged.

About the year 1880, the country as a whole had recovered from the panic of 1873. A period of large scale production affected favorably the business everywhere. Increased prosperity accounted for the surplus growth during the latter part of the period.

At the beginning of the period, the percentage of cash to deposits for all Kansas national banks was 110%. The percentage of loans and discounts to deposits was 45%, and capital and surplus was 14% of deposits. At the present time, the average national bank's total cash constitutes 22%; loans and discounts 66%; and capital and surplus 8% of total deposits. Comparison of the above percentages does not indicate a desirable bank condition in 1865. But the reason for such condition was that national banks by 1865 had been recently organized, and had not sufficient time for growth.

At the end of the period, national bank conditions after the period of growth were more normal in contrast to conditions in 1865. The percentage of cash to deposits was 19% in 1891. Loans and discounts were 73% of deposits. Capital and surplus was 7 1/2% of deposits.

The Civil War ended a dark period in Kansas history. After 1865, the growth of banks depended not only upon agricultural conditions but also upon transportation facilities. Before the opening

of the first railroad line within the state, the farmers were practically confined to local markets for their products. The lack of an adequate market caused the price of farm products to be low, while the cost of transporting merchandise of all kinds into Kansas from the east caused high prices to be charged for everything the Kansas settlers wished to buy. Without railroads Kansas was like an isolated community.

The first railroad line within the state was the Union Pacific. By January 1, 1866, there was regular train service between Kansas City and Topeka. In May 1866, a railroad was completed between Leavenworth and Lawrence and by 1870, regular train service was established with Denver.[1.]

During this period, there was no radical change in bank methods and bank business. The period is characterized more by the spread of banks over a larger region, and very little state regulation.

During the latter part of the period under consideration, the bankers became better organized. The Kansas Banker's Association of national, state, and private banks was effected in 1887.[2.] Fifty-six national, state and private banks were represented at the first meeting, which was held at the Board of Trade rooms at Topeka, February 22, 1887. J. F. Mulvane, of the State Bank of Topeka, was elected President, C. H. Beal of the Kansas Mortgage Company of Topeka was elected Vice President, D. A. Moulton of the First National Bank

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1. Kansas State Historical Collections - Vol. XII, page 51.
2. Minutes Kansas Banker's Association, 1887, Kansas Historical Society, Topeka.

of Topeka was elected Treasurer. The fact that such an organization was formed showed that Kansas banking had emerged from the scattered pioneer stage and that effort was being made towards improvement.

SUMMARY

The second period in Kansas bank history is characterized more through a spread of banks over a larger area, and not by a change in bank methods.

The only two bank acts of the period were passed March 12, 1879. Their purpose was to help improve the integrity of bank officials and to prevent acceptance of deposits when a bank was in an insolvent condition. But these acts were not enforced.

At the beginning of the period only three national banks were operating in Kansas. In 1891, the number of national banks had increased to 145. The number of state and private banks were 249, and 253 respectively. Private banks were more numerous than state banks throughout the whole period, because of inadequate regulation. National banks were smallest in number of the three classes because of the large capital requirements, and the strict provisions of the National Bank Act. Between 1865 and 1891 national banks capital increased from two hundred thousand dollars to thirteen and a half million dollars; and surplus increased from approximately four thousand to three and one-quarter million dollars. During the latter part of the period the bankers became better organized with the effecting of the Kansas Bankers Association in 1887.

Part III

BEGINNING OF REGULATION 1891-1914

The year 1891 marked the beginning of more efficient regulation of banks and regular bank reports. Consequently, a new period of Kansas Banking began.

According to the law as passed by the state legislature[1] in 1891, five or more persons were necessary to organize a bank. They were allowed to lend money on real estate and personal security, receive money on deposit, buy and sell gold, silver, bullion, United States bonds, city, county, or school bonds at a rate of interest not to exceed 10%; and also to discount negotiable notes.

The minimum capital stock allowed was $5,000.00 divided into shares of not less than $100.00 each. Charters were to contain the names and places of residence of the shareholders, and amount of stock subscribed. The full amount of the stock had to be fully subscribed by five or more stockholders before filing of the charter.

Each bank was to exist as a corporation from date of filing of the charter. But no business could be transacted other than the election of officers, approving of the officials' bonds, receipt of payments to capital stock, until authorized by the bank commissioner.

When 50% of the capital stock was paid in, the president or cashier transmitted a verified statement to the bank commissioner. Within thirty days, an examination by the bank commissioner was required, and after the issuance of a certificate, a bank was authorized

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1. Laws of Kansas - 1891 - Chap. 39, Sec. 1-38.

to transact business.

After any bank was authorized to commence business 10% of the residue capital stock must be paid in each month. Capital stock could not be increased until the original capital was fully paid in. If a shareholder should fail to pay installments when required, the directors had power to sell the stock at public auction, after three weeks notice. If no bidder could be found who would pay the amount, the amount previously paid was to be forfeited to the bank. Six months after forfeiture, the stock could be sold as the directors ordered.

Any bank organized under this Act could be dissolved by the district court, after the filing of a dissolution petition by two-thirds of the stockholders.

The business of each bank was to be managed by a board of not less than five nor more than thirteen in number. From this group, a president, cashier, and secretary was to be designated to hold office for one year or until successors were elected.

The shareholders of any bank under the Act were to be held additionally liable for the amount of stock owned.

The Act provided that each bank have a reserve requirement equal to 20% of its deposits, one-half of the reserve could consist of balances due from solvent banks, and the remainder in cash on hand. If at any time the reserve was below the requirements, and failed to make for a period of thirty days after notice from the bank commissioner, a receiver was to be appointed.

The total liability of an individual or company for money borrowed from any bank could not exceed 15% of the paid-up capital stock and surplus. But the discount of bills of exchange against existing values or loans upon produce in transit, or in store as collateral security was not to be considered as money borrowed.

Any bank officer was subject to a one thousand dollar fine and one year imprisonment for false entries in books or for any action with the intent to deceive any person as to the condition of the bank.

If any bank accepted deposits while in an insolvent condition, bank officers knowingly violating the provision were subject to five thousand dollar fine and imprisonment not to exceed five years.

After passage of the Act, it was unlawful for a bank other than national, to continue business for a longer period than six months without making a verified statement of condition to the bank commissioner. After receipt of statement, the commissioner was to make an examination within thirty days. Then if the bank had complied with all the provisions a certificate was issued authorizing it to transact a general banking business. Bank officers violating this provision were subject to a $300.00 fine or 30 days imprisonment or both.

After 1891 at least four bank reports of standard form were required each year, or oftener if the bank commissioner desired. For

the failure of any bank to make a report ninety days after required, the attorney general, upon request of the bank commissioner, was to commence action for dissolution.

The bank commissioner was to be appointed by the governor with the advice and consent of the senate. His term of office was to be four years, or until a successor was appointed. Deputies were to be appointed by the commissioner. No bank officer, employee, or stockholder was eligible for the office of bank commissioner or deputy. The bank commissioner's bond executed to the state wad placed at $20,000.00 and the deputy's bond at $10,000.00.

A yearly inspection of each bank was authorized or oftener if necessary. The inspection fee for private banks was placed at $10.00. Other banks, except National, having not more than $5,000.00 paid-up capital stock were to pay an inspection fee of $10.00. Between $5,000.00 and $50,000.00 paid-up capital stock, the fee was $15.00; in excess of $50,000.00 paid-up capital, the fee was $25.00. Fees were to be collected by examiners, and then paid to the state treasurer.

If after examination or report, any bank appeared insolvent, the commissioner was to take charge, and notify the attorney-general to institute court proceedings for the appointment of a receiver.

Before a bank should declare a semi-annual divident, 10% of the net profit for the fiscal period was to be carried to surplus until it amounted to 50% of capital stock.

On or before September first of every even-numbered year, the bank commissioner was required to make a report to the governor. All banks others than national operating in Kansas were subject to the provisions of this Act, which was approved March 10,1891.

The first bank commissioner was Charles F. Johnson, of Oskaloosa, 1891-1893; then followed John W. Briedenthal of Chetopa, 1893-1900; Morton Albaugh, of Kingman, 1901-1904; William S. Albright, Leavenworth, 1904-1905; John Q. Royce, Phillipsburg, 1905-1908; William S. Albright, 1908-1909; Joseph N. Dalley, Maplehill, 1909-1913; Charles M. Sawyer, Leavenworth 1913-1914.

The bank law of 1891 was undoubtedly an excellent one, and a step in the right direction towards more rigid supervision of banks. When the law took effect, following closely upon the wake of an exploded boom, and immediately after a succession of years of partial failure of crops, it found many of the banks badly burdened with large amounts of real estate, and loans and discounts based for security upon property at the previous boom prices.

There were some defects in this law. Section 26 required the commissioner or deputy, under certain circumstances, to take charge of an insolvent bank and notify the Attorney General, who should apply for a receiver. This occasioned unnecessary expense, indefinite delay, and a waste of time. The bank commissioner should have been given power to appoint the receivers of insolvent banks.

As to the rights and duties of private banks, they should have been made more definite. While Sections 17 and 35 recognized

the rights of individuals or partners to do a banking business without incorporating, yet the other sections of the law seemed to have been framed for application to incorporated banks only; hence, in the construction of the law as to its application to private banks, it required not only a constant recollection of Section 35, but a vivid and analytical imagination as well.

The amount in value of real estate a state bank could hold and list as part of its paid-up capital was not provided in the law. This was a very serious omission, and one, that but for the general powers vested in the commissioner, would have defeated the results desired by state supervision. Section 13 referred to the cash reserve of twenty per cent, and applied to both savings and commercial banks. The required cash reserve was so large it necessarily forced savings banks into doing a commercial business. Saving banks were unquestionably prejudiced by this section.

Probably it would have been better that the legal reserve of savings banks to have been reduced to 10% of their deposits, to be held in cash and money subject to immediate call, and not less than 10% more in good, first-class municipal, state, county, city, or school bonds.

The latter part of Section 31 seemed to recognize the right of a bank to reduce its capital stock, yet there was no provision in the law providing for the manner of reduction.

Section 2 provided that a bank could be organized with a

minimum capital of $5,000.00. The liability of the stockholder was an additional amount equal to the amount of stock owned, and no more. When considered that banks in the state with a minimum capital of but $5,000.00 had deposits in amounts varying from $40,000.00 to $75,000.00 it can be concluded that the liability was entirely too small, and did not offer the proper protection to depositors.

Section 10 provided that the directors should select from among their number a president, cashier, and secretary. This made the cashier necessarily a director of the bank, so his duties became both executive and administrative. It would probably have been better not to have required the cashier to necessarily be an administrative officer of the bank in which he performed executive duties.

A criticism of the early management of the Kansas State Banking Department stated: "The Kansas State Banking Department was established many years ago and for some reason hard to understand it has been from the start, until recently, the office in the State House around which machine politics particularly revolved.[1.]

"With several notable exceptions, for very short periods, the Bank Commissioners have not been experienced bankers, and usually not bankers at all. The appointment has been used to pay a political debt to the country lawyer, the newspaper man, the man prominent in the party machine, without the slightest regard to the service,

1. "The Kansas State Banking Department" - William Docking of the National Bank of Topeka, and interview with William Docking.

and the cost to the state, and the people have paid heavily. And not only has the department been 'rotten' with politics, but very badly supported in the past with insufficient revenue.

"Charters to establish banks were issued without consideration of the needs of the communities, and local political influence often entered here, and many banks were organized where there was no business to support them, at a later loss to the creditors and stockholders. The mania for starting banks which prevailed some years ago and the ease with which charters could be obtained was responsible for a great deal of trouble and loss later, and the banking department of the time was very largely responsible for permitting the organization of a great many weak banks."

The next legislation affecting banking was passed in 1897. The main purpose was to compell all banks to eliminate all questionable assets, and to make good any impairment of capital. It gave the commissioner power to enforce its provisions, which the law of 1891 did not.

As a result of this law banks began to undergo a house cleaning. Many of them had invested in speculative securities, real estate, and other questionable assets of doubtful value. After the passing of the law of 1897 they began to charge off worthless assets.[1]

In 1903, the legislature strengthened the banking situation

1. Laws of Kansas, 1897 - Chap. 51, page 90.

by providing that the minimum capitalization for a new bank should be $10,000.00, and required that within two years from the taking effect of the Act all banks having a capitalization of less than that amount should increase their capital stock to comply with the provisions. At the time this law went into effect on March 14, 1903, there were 161 banks with a capital of less than $10,000.00.[1.]

In 1908, the bank law was amended so that the capital stock of a bank should not be less than ten thousand dollars in towns and cities with population less than 500, in towns or cities with a population of 500 but not exceeding 1000, the capital should not be less than fifteen thousand dollars. In all cities of the third class with a population of 1000 and over, the capital should not be less than twenty thousand dollars.[2.] In all cities of the second class, the capital should not be less than twenty-five thousand dollars. In addition to these requirements, record should be kept of the names and places of residence of stockholders, and the amount of stock subscribed by each.

The Bank Depositors Guaranty Law was passed May 6, 1909 and put in effect July 1, 1909. It is not the purpose of this paper to discuss in detail the provisions and the final result of deposit insurance. Briefly the Act provided for the security of depositors in the incorporated banks of Kansas by creating a guaranty fund for depositors' protection. The real test of the effectiveness of bank

1. Laws of Kansas, 1903 - Chap. 74, page 120.
2. Laws of Kansas, 1908 - Chap. 95, page 146.

deposit insurance in Kansas occurred following the World War. The Kansas experience with this law will be surveyed in Part IV.[1.]

In 1890 there were 711 banks operating in Kansas while in 1891 the number had fallen to 654. The reason for the decline was due to the beginning of state regulation administered by a bank commissioner.

In reference to the uncontrolled increase in the number of banks Governor Humphrey in his message to the legislature in 1890 said:[2.] "We have no laws regulating the important subject of banks and banking. Banks of discount and deposit are referred to as banks of issue and are forbidden by the constitution except by note of the people. Even the general corporation law does not include banking as one of the many purposes for which corporations are formed. Hundreds of banks over the state have been organized and incorporated not as savings banks but to carry on a general business. In justice to those who desire to form bank corporations, there should be some adequate provisions of law for that purpose; and in justice to them, as well as to the business public, there should be an act regulating the subject of banks and banking generally with some power of examination, inspection and supervision, which might be lodged with a bank commissioner, or with the present superintendent of insurance."

The following table shows the operating number of national banks, state banks, private banks, and number of failures of certain dates:

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1. Laws of Kansas, 1909 - Chap. 115, page 162.
2. House Journal, 1890, page 225.

	1891	1893	1895	1900	1905	1910	1914
National Banks	162	136	126	110	166	208	203
National Failures	5	4	1	0	1	0	0
State Banks	249	286	274	383	535	836	917
State & Private Failures	0	31	7	1	0	1	1
Private Banks	253	159	131	64	22	4	4
Total	654	581	531	497	723	1048	1124

Of the total number of banks in 1891, 23% were national, 38% were state, and 38% were private. But in 1910, although the total number of national banks increased to 203, the national bank percentage of the total had decreased to 19%. The state bank percentage of the total had increased to 79% by 1910. The private bank percentage of the total operating number in 1910 had declined to .003.

The rate of increase for the period in the number of national banks was 33%, and of state banks 268%. The rate of decrease in private banks for the period was 98%. In contract to the previous period, there was a remarkable increase in the number of state banks, and a decline in the number of private banks.

The reason for the continuous decline in private banks, and an increase in state banks was the state regulation. After 1891, it was the policy of the bank commissioners to reduce the number of private banks.

The reason for the decline in all classes of banks in Kansas

1. National Comptroller's Reports, 1891-1914.
Kansas State Bank Commission's Biennial Reports, 1891-1914.

from 1893 to 1895 was the panic of 1893, which affected banking in every state. It was one of the worst panics the country has ever known. Excessive silver coinage crowded gold out of circulation, and the redemption of greenbacks kept gold reserves low. Also the balance of payments turned against the United States. Faith was lost in the government's ability to maintain specie payments. There was also over-speculation, inflated credit, and over-investment of capital in risky enterprises. Cash reserves were rapidly withdrawn from city banks.

The reason for the growth of national banks in Kansas from 110 in 1900 to 203 in 1914 was a change in capital requirements. Until 1900, a national bank might not be incorporated with a smaller capital than $50,000.00. By the Act of March 14, 1900, national banks could be incorporated with a capital of $25,000.00 in towns of less than 3,000 population.

The following tables show the amount of cash, loans deposits, capital, and surplus of national, state, and private banks in Kansas at certain dates during this period:

Kansas National Banks

1.

Year	Cash	Loans	Deposits	Capital	Surplus
1891	3,570,400	18,585,678	25,259,024	13,434,100	3,350,500
1893	3,480,563	19,672,715	16,683,300	11,647,100	1,542,206
1895	3,950,655	19,878,169	17,831,072	10,427,100	1,740,855
1900	4,829,172	24,781,977	29,195,081	10,417,360	2,282,374
1905	10,812,754	45,923,044	50,406,327	10,682,500	4,081,762
1910	10,700,750	64,389,000	67,846,000	12,212,000	4,908,000
1914	11,776,768	56,385,046	59,388,434	10,867,500	10,322,988

Kansas State Banks

2.

Year	Cash	Loans	Deposits	Capital	Surplus
1891	2,450,770	7,246,572	12,850,880	7,612,236	754,744
1893	1,774,460	12,477,047	7,771,681	7,449,456	609,520
1895	1,530,912	9,299,207	13,509,112	7,217,512	600,550
1900	2,873,254	18,704,414	19,337,177	5,906,500	970,212
1905	7,258,026	35,154,706	36,254,113	9,129,250	2,302,626
1910	14,892,158	68,140,944	73,992,529	11,616,035	2,263,730
1914	15,370,485	66,862,342	81,940,973	10,200,300	2,932,866

1. Reports of National Comptroller of the Currency, 1891-1914.
2. Kansas State Bank Commission's Biennial Reports, 1891-1914.

Kansas Private Banks

Year	Cash	Loans	Deposits	Capital	Surplus
1891	480,300	3,431,197	4,800,330	2,838,981	618,786
1893	635,950	4,430,424	5,335,941	2,681,050	298,662
1895	480,785	3,413,084	3,848,808	1,936,805	224,948
1900	448,375	2,111,778	3,246,347	965,428	105,050
1905	410,715	1,694,758	2,104,613	271,500	45,784
1910	36,860	375,177	389,764	50,000	

The national, state, and private banks of this period may be compared as to surplus, the percentage of cash to deposits, loans and discounts to deposits, and capital and surplus to deposits. Separate statistics of the three classes of banks are available until after 1910. Beginning with the year 1911, state and private bank reports are combined.

The total surplus of the 152 Kansas national banks in 1891 amounted to $3,350,000.00 which was 25% of the total paid-up capital stock. The total surplus of the state banks in 1891 was $754,744.00 which amounted to only 9% of the total paid-up capital stock. In the same year, the 253 private banks had a surplus of $618,786 which was 21% of the paid-up capital stock.

Since the surplus of a bank should be at least 20% of its capital, the national banks had the most desirable relationship between capital and surplus. The state banks had the smallest per-

1. Kansas State Bank Commission's Biennial Reports 1891-1900.

centage of capital to surplus, the weakest of the three classes of banks.

At the end of the period, 1914, the surplus of the 203 national banks amounted to $10,322,988 or 94% of their paid-up capital stock. The four private banks operating in 1910 had no surplus. The surplus of the 917 state and private banks in 1914 was $2,932,866.00 or 15% of paid-up capital stock.

From the preceding statistics, it is evident that throughout the whole period, the Kansas national banks presented the most desirable relationship of capital to surplus.

Next, the percentage of cash to deposits of the three classes of banks may be considered.

The private banks in 1891 had a small cash to deposit percentage of 9%. This percentage remained the same in 1910. The state banks in 1891 had cash amounting to 18% of deposits. This percentage remained the same for state and private banks combined in 1914.[1] The percentage of cash to deposits of the national banks had grown from 14% in 1891 to 20% in 1914.

If total cash amounts to 22% of total deposits, such a relationship is considered normal. Therefore, in considering the per cent of cash to deposits of the three classes of banks in Kansas the national banks were strongest and the private banks were the weakest in this particular item of analysis.

Also in the relationship of loans and discounts to deposits, the national banks were more normal than state and private banks.

1. After 1910, private bank statements were combined with state banks.

Loans and discounts for national, state, and private banks normally should not exceed 66% of total deposits. During this period the state banks percentage of loans and discounts to deposits increased from 55% to 87%, private banks from 88% to 97%, and national banks from 63% to 84%.

The relation of capital and surplus to deposits is placed at 18%, as a general standard used in analysis. It is necessary to compare these two items to determine the relation between a bank's two main creditors, the depositors, and the shareholders. As deposits of a bank increase, earnings increase and consequently returns to stockholders are greater and the stock becomes more valuable. On the other hand, the larger the percentage of capital to deposits, the smaller is the protection to stockholders.

During this period national, state, and private banks showed startling extremes in the percentage of capital and surplus to deposits. Private bank's capital and surplus to deposits was 72% in the year 1891, and 120% in 1910. The differences may be accounted for on the basis of regulation. The number of private banks declined between 1891 and 1910. The national banks were under federal supervision. A more strict regulation of state banks began after 1891. For state banks the percentage was 68% in 1891 and 26% in 1914. For national banks the percentage was 66% in 1891. In 1914 national banks were nearest normal with capital and surplus amounting to 21% of deposits.

All the preceding percentages of comparison of the national, state, and private banks operating in Kansas from the beginning of

regulation in 1891 to the World War period, indicate that the national banks were stronger than the other two classes.

SUMMARY

In 1891 a more strict regulation of state banking began with the enactment of a banking law. The minimum capital stock was placed at $5,000.00. When 50% of the capital stock was paid in a bank could commence business. Thereafter 10% of the residue must be paid in each month. Four bank reports were required each year. The bank commissioner was to be appointed by the governor with the advice and consent of the senate. In 1903, the law increased the minimum capitalization for any new bank to $10,000.00. In 1909, the Bank Depositors Guaranty Law was passed. During the period there was an uncontrolled increase in the number of state banks, but the number of private banks continuously declined. The reason for the decline in private banks, and an increase in state banks was the state regulation. After 1891, it was the policy of the bank commissioners to reduce the number of private banks. National bank growth was facilitated in 1900 after a reduction in minimum capital requirements from $50,000.00 to $25,000.00.

Part IV

WORLD WAR AND POST-WAR BANKING 1914-1928

The nation's business experienced a crisis of short duration in 1914. The cause was the outbreak of the European War. High grade securities declined. Foreign owners sold American securities in large amounts. This selling continued even after unrestricted trading in bonds began again. Hoarding commenced since there was fear of the failure of banking conditions. But confidence was speedily restored. Bargain hunters appeared and bought high-grade securities at low prices. Europe on the whole demanded large amounts of supplies, minitions of war, and foodstuffs.

The foreign demand for foodstuffs, increasing prosperity in the middle-west accounted for the tremendous increase of Kansas state bank loans from $89,940,973 in 1914 to $238,723,873 in 1919; and an increase of Kansas national bank loans from $68,447,000 in 1914 to $93,516,000 in 1919.[1.]

The six years following the beginning of the World War were years of high pressure. The world was in the midst of the greatest war in all history. Our armies were on foreign battlefields. The industrial and financial world was being regulated by the great banking system of America. Kansas bankers were doing everything within their power to assist in the promotion of the war. The farmer was urged to plant a larger acreage, and to produce a maximum crop. The merchant was expected to operate at a minimum cost and to aid in governing the limited supply. And the source and power of all these

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1. Kansas State Bank Commission's Reports 1914-1920.
Reports of the National Comptroller of the Currency 1914-1920.

activities lay within the banking institutions. As a result of this high pressure, Kansas banks were ushered into a new era at high speed. Prices arose at a meteoric rate, and the bankers were face to face with the great problem of inflation of currency and credit. The small borrower asked for hundreds, the hundred-dollar borrower demanded thousands, and in their patriotic efforts to meet these conditions, Kansas banks and others strained their loaning capacity far beyond the limit ever before reached in the experience of the most venturesome banker.

Then came the close of the great conflict and later the depression of 1920. Amid all the rejoicing over the downfall of the enemy, Kansas bankers as well as all other bankers were forced to begin the solution of problems greater than those of war, the problem of economic reconstruction.

During 1920, Kansas had favorable weather and good crops, but the car shortage in almost every community and the inability to market the crops in 1919 only served to complicate the difficult situation. Every banker, who expected his bills receivable to be reduced or his rediscounts to be paid, was doomed to disappointment.

The following table shows the operating number of national banks, state banks, and number of failures at certain dates since the year 1914:

	1914		1920		1924		1928	
National Banks	203		249		258		260	
National Failures		0		5		1		0
State Banks	917		1098		1042		864	
State Failures		1		5		10		21
Total	1120	1	1347	10	1300	11	1124	21

*For complete data of operating number and failures of national and state banks, turn to appendix.

Of the 1120 banks operating in Kansas at the beginning of the World War, 203 were national, and 917 were state banks, (private banks included). In 1928, the total number had increased to 1124. There were 260 national banks, and 864 state banks.

Of the total number of banks in 1914, 18% were national, and 81% were state banks. In 1928 the national bank percentage of the total had increased to 23%, while the state bank percentage of the total had decreased to 76%.

The year 1920 showed a 23% increase over the year 1914 in the number of national banks, or 46 additional national banks in operation. There were 181 additional state banks in operation

1. Reports of National Comptroller of Currency, 1914-1928
Kansas State Bank Commission's Reports, 1914-1928.
Note: The State bank failures were not always listed in each biennial report to the governor. These were obtained by correspondence with bank commissioner, Roy L. Bone.

in 1920 than in 1914, an increase of 19%. From 1920 to 1924 there were 9 additional national banks in operation, an increase of 3%. From 1924 to the end of 1928 there were 2 additional national banks, an increase of .007. The number of state banks in 1924 were 56 less in number than 1920, and by the end of 1928, the number of state banks were 234 less in number than in 1920. This represented a 5% decline in state banks from 1920 to 1924, and a 17% decline from 1924 to the end of 1928.

Since 1914 there have been 186 state bank failures, and 11 national bank failures in Kansas. In the neighboring state of Missouri during the same period there have been 89 state bank failures, and 7 national bank failures.[1] In the neighboring state to the south, Oklahoma,[2] there have been 111 state bank failures and 5 national bank failures. In Nebraska there have been 105 state bank failures and 8 national bank failures.[3]

The reason for such a tremendous number of state bank failures in the middle-west was due to the depression of 1920. Also the depressed condition of agriculture since 1920 has accounted for the majority of failures. But the large number of state bank failures in Kansas is explained by a prominent Kansas banker as follows:[4] "If the people of the state realized what it means to them no party would dare to put machine politics into the Banking Department again.

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1. Reports of National Comptroller of Currency, 1914-1928. Correspondence with State Banking Dept., Mo.
2. Correspondence with State Banking Dept., Okla.
3. Correspondence with State Banking Dept., Nebraska.
4. "The Kansas State Banking Department"-Series of Articles appearing in August, 1928, Kansas City Star, by William Docking of National Bank of Topeka.

"Until recent times failures of banks were not large. The banks were fewer in number and more carefully managed, and values from year to year showed a fairly steady increase. The banks got along pretty well in spite of much that was lacking in supervision. But with the great and unnecessary increase in the number, and a lowering of standards, when the economic unsettlement during and after the war arose, and a lot of speculators had become bankers, a very bad condition developed.

"The liquidation of insolvent banks was a new problem and required special qualifications, and under the system followed, instead of an effort being made to get the best and quickest results for the depositors and other creditors, these estates became prerequisites for the party worker and the party lawyer.

"Receiverships and attorneyships were part of the spoils of the victors, and given sometimes singly and sometimes in batches. Many receivers had not the slightest knowledge of credits or accounts, and many lawyers were only interested in the liquidations to the extent of the size of the salaries and fees and the length of time they could secure them.

"The present administration (Roy Bone, Bank Commissioner, 1924-28) was faced with the problem of bringing order to a hundred liquidations, many of them in such a tangled condition the task seemed hopeless. It was thought best to centralize the work under a General Receiver for all with offices in the State House and handle the local work by assistants at the points where the banks were situated, and this plan was adopted.

"A pamphlet of instructions was prepared for assistants covering in detail their duties, and all the more important matters were referred to the head office, such as contemplated suits, compromises, and sales of property.

"All salaries to lawyers were immediately stopped, and all lawyers employed were required to sign a statement that their charges were to be for actual work required that these charges were to be subject to the approval of the Bank Commissioner, whose decision on the amount was final. Assistants were required to report monthly on the legal work done, as the itemized bills of the lawyers proved to be very vague on the work, while quite clear on the charges. This disposed of the legal problem and resulted in a saving to the estates of full 50% from this source.

"The selection of right men for assistant receivers was difficult, and it took some time to make the many required changes, as most of the men in charge of the estates it was necessary to remove, but a good force was finally gotten together of experienced men, and it was found that the smaller estates in the same neighborhood could be handled by one man, and the most experienced men, after finishing at one point, were moved to another.

"Monthly reports are made by the assistants to the head office, and the estates regularly examined.

"It took a long time to bring order into many estates, and some an audit by a public accountant. Books, records, and papers were missing in some cases entirely, and in others a long search was necessary to find them. Assets were missing and had to be traced

and in some cases the proceeds of assets. There had been no accountability apparently to any source on the part of receivers, and just a sufficient showing made to avoid inquiry by the courts.

"As to the trust funds arising from liquidations, there was about a million dollars on hand and unpaid in dividends, scattered over the state without security, much of it in other weak banks, some of which later went into the hands of receivers. These deposits were chiefly political, and in some cases were transferred from bank to bank without a record by the receiver and had to be traced. 3% was supposed to be paid on the balances. The new administration called all these funds into the office and sent them back on the deposit of an approved surety bond to cover, reducing the rate to 2%, on account of the cost of the bond. All these trusts were finally accounted for excepting in several cases where the depository had become insolvent."

The following tables show the amount of cash, loans, deposits, capital, and surplus of national and state banks in Kansas at certain dates since 1914:

Kansas National Banks

1.

Year	Cash	Loans	Deposits	Capital	Surplus
1914	11,776,768	56,385,046	59,388,434	10,867,500	10,322,988
1920	41,430,000	159,104,000	148,950,000	16,169,000	6,491,000
1924	60,560,000	118,642,000	201,075,000	17,657,000	7,765,000
1928	60,753,000	135,878,000	220,530,000	18,632,000	10,360,000

Kansas State Banks

2.

Year	Cash	Loans	Deposits	Capital	Surplus
1914	15,370,485	66,863,342	81,940,973	19,200,300	2,932,866
1920	25,340,000	357,180,411	303,086,453	27,249,000	5,790,000
1924	30,725,000	200,979,723	228,720,775	26,917,500	7,675,000
1928	45,425,000	160,734,194	221,014,012	23,993,400	7,890,000

As in the previous period, the national and state banks operating in Kansas since 1914 may be compared as to surplus, the percentage of cash to deposits, loans and discounts to deposits, and capital and surplus to deposits.

1. Reports of Comptroller of Currency, 1914-1928.
2. Kansas State Bank Commission's Biennial Reports, 1914-1928.

At the beginning of the present period, national bank surplus amounted to $10,322,988 or 94% of paid-up capital. State bank (private banks included) surplus amounted to $2,932,866 or 15% of paid-up capital stock. In 1928, national bank surplus in Kansas was $10,360,000 or 55% of paid-up capital, and state bank surplus amounted to $7,890,000 or 32% of capital.

The national banks of Kansas were nearer normal in surplus than state banks, since banks surplus should average around 75% of capital after a period of growth.

The state bank percentage of cash to deposits was 18% in 1914 and 25% in 1928. The national bank percentage of cash to deposits was 20% in 1914, and 25% in 1928. Neither one of the percentage of cash to deposits for either class of bank was undesirable, but the national banks were nearer the standard of 22%.

Loans and discounts of Kansas national banks in 1914 were 84% of deposits, and only 61% of deposits in 1928. Loans and discounts of the state banks were 87% of deposits in 1914, and 72% of deposits in 1928.

Again, the Kansas national banks were nearer the normal percentage of loans and discounts which is 66% of deposits.

The deposits in 1920 of both Kansas national and state banks were smaller than loans and discounts. The deposits of the national banks in this year amounted to $148,950,000, loans and discounts amounted to $159,104,000 or a difference of $154,000.

The deposits of state banks amounted to $303,086,453, loans and discounts were $537,180,411 or a difference of $54,093,958.

A condition where deposits are smaller than loans and discounts is not unusual during a depression period. During such times bankers curtail extensive loans and discount operations, and cash deposits decrease.

The normal percentage of capital and surplus to deposits is 18%. The capital and surplus of Kansas national banks in 1914 was 21% of deposits, and 14% in 1928. While the percentage for the state banks was 26% in 1914, and 13% in 1928. In this item also, the Kansas national banks had the advantage of the state banks.

I n reference to the bank laws, and law-enforcement, it is contended by some Kansas bankers that prior to the present administration of the bank commission, that the laws were constantly violated, and often entirely disregarded. It is also contended that many of the examiners were political appointees and unfitted by training and experience. But it is not the purpose of this discussion to arrive at a definite conclusion on law enforcement. The reports of the bank commission to the governor are regarded as authoritative.

On February 14, 1919,[1] the legislature passed a law relating to bonds of bank officials. The law provided that the amount of the surety bond was to be determined by the bank directors.

1. Laws of Kansas, 1919, Chap.125, p.226.

There was no distinct benefit from the above legislation. The fact that the amount of the bond was determined by the directors did not create uniformity. It was a deplorable fact that some of the cashiers gave bonds as low as $1000.

Since 1914, various reports of the bank commissioners stressed the need of more legislation. The contention of the bank commissioners has been that almost every bank which became distressed could trace its trouble directly to the loans made to officers and directors. Walter B. Wilson, Bank Commissioner in 1920 recommended that[1] "no loan should be made to any officer or director without the approval in writing of at least two-thirds of the board of directors." But his recommendation did not become a part of the banking law.

In 1921 the legislature passed a law pertaining to embezzlement and fraud, as follows:[2] "Every president, director, cashier, asst-cashier, teller, or clerk, officer or agent of any bank who embezzles"----"shall be imprisoned in the state penitentiary not less than three years nor more than fifteen years".

In the same year another law was passed referring to the holding of real estate by banks as follows: "Any bank may purchase, hold and convey real estate for the following purposes and no other: First, such as shall be necessary for the convenient

1. Kansas Bank Commission's Fifteenth Biennial Report, page 3.
2. Kansas Statutes - 1921, Chap. 71, page 216.

transaction of its business; Second, such as shall be conveyed to it in satisfaction of debts previously contracted; Third, such as it shall purchase at sale under judgment, decrees or mortgage foreclosure or securities."

In 1922[1] Section 60 of the General Statutes of 1915, limiting the amount of deposits which a bank may lawfully receive to ten times its unimpaired capital and surplus, was repealed. At present, the deposits are not limited to any certain percentage of capital and surplus.

In 1923[2] the legislature passed regulation regarding examination of banks. The law is stated as follows: "It shall be the duty of the State Bank Commissioner or his deputies to visit each and every bank doing business in the state, except National banks, at least once in each year, and oftener if necessary, for the purpose of making a full and careful investigation and inquiry into the condition of affairs of such bank; and for that purpose the Commissioner of deputies are hereby authorized and empowered to administer oaths and to examine under oath the owners and directors and all officers and employees or agents of such bank. The officer making such investigation shall deduce the result thereof to writing which shall contain a full, true and careful statement of the condition of such banks."

In 1923[3] a law was passed which limited the loans of

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1. Kansas Statutes - 1922, Chap. 81, p. 205.
2. Kansas Statutes - 1923, Chap. 85, p. 232.
3. Kansas State Bank Commission's Sixteenth Biennial Report, p.7.

state banks to any one person to fifteen per cent of their capital and surplus. Up to date there has been no change in this limit. But this provision of the banking law has often been violated as commented on by Bank Commissioner F. H. Foster, in his Sixteenth Biennial Report: "In the past very little attention has been paid to the prohibition contained in Section 13 of the banking limiting loans to fifteen per cent of the capital and surplus to any one individual. There is no penalty for a violation of this section and its violation has proven disastrous to many banks. Punishment should be provided for the managing officer who violates the law in this respect and directors made personally liable for the payment of all excess loans."

In 1925 [1] legislation was passed which gave a bank, "The option to refuse the payment of a check or other demand instrument presented one year after date."

During the same legislative session in 1925 further bank legislation was passed which provided for an examination and audit of the receiverships of failed state banks and made an appropriation of twenty-five thousand dollars for the work.

Also in 1925 further legislation was passed regarding the capital stock of state banks as follows: "The capital stock shall not be less than fifteen thousand dollars in unincorporated and cities of the third class; in cities of the second class capital stock shall not be less than twenty-five thousand dollars; and in

1. Kansas Statutes - 1925, Chap. 89, p. 245.

all cities of the first class, the capital stock shall not be less than fifty thousand dollars."

In the same legislative session of 1925, a banking board was created. This board is composed of five members who are experienced bankers and have the authority to remove incompetent bank officers and officers who are indulging in practices which may cause large losses to the banks. This board was also granted the power to act in an advisory capacity to the bank commissioner.

In the bank report of 1922 Mr. F. H. Foster, Bank Commissioner commented on the necessity of creating a banking board:[1] "My experience has made clear to me the great necessity for a banking board to act with the commissioner. In my opinion it should be composed of five members (three of whom should be from guaranteed banks) selected from bankers of age and ripe experience, and this board and the commissioner, when of unanimous mind, should be given very extensive discretionary powers, not only with regard to the supervision of banks, but the management of receiverships of insolvent banks. With the requirement that the action of the commissioner and the board must be unanimous, I am of the opinion that they could safely be given very extensive powers. If the commissioner and the board were given the necessary authority to negotiate with other banks at the time a guaranteed bank becomes insolvent, they could often arrange with some bank in

1. Kansas State Bank Commission's Sixteenth Biennial Report, p.6-7.

the community where the insolvent bank is situated to take over the assets of the failed bank and assume its liabilities for a sum paid out of the guaranty fund which would be only a small percentage of the loss to the guaranty fund if a liquidation through a receivership is carried out. I am sure large amounts could have been saved to the guaranty fund during the last eighteen months if there had been in existence such a board having the authority mentioned. In one of the Dakotas the commissioner may deposit from the guaranty fund, in a distressed bank, a certain amount of money to tide it over any pressing period, such deposit becoming a prior demand on all the assets of the bank, and the bank remain under the control of the commissioner until such deposit is repaid. The commissioner of the state referred to, in a conversation had with him, says that plan has worked admirably, without any loss to the guaranty fund.

"This banking board should have authority to remove incompetent bank officers and officers who are indulging in practices which in the opinion of the board and commissioner may cause large losses to the bank.

"Many banks are practically without a board of directors, as in one instance where it was composed of the cashier, his wife, his sister, his mother, and a brother living at a distance and giving the bank no attention. The banking board should have authority to correct such situations, and in fact require the election of a board who will give the bank's affairs active and intelligent management."

1.

Recent changes in the banking laws in 1927 have helped the administration of the banking department. It is now considered a felony when an officer of a bank collects a commission or personally profits from an investment made for the bank. Also during the same year, the law limited the amount that could be borrowed by an active officer or an employee to 5% of the capital and surplus and all officers and employees in the aggregate, to 10%.

It would probably be better if officers and employees were entirely prohibited from borrowing from the bank with which they are connected. Some of the strongest banks of today have this embodied in the by-laws.

Also in 1927 legislation required state banks to have a legal reserve amounting to 15% of the demand deposits and 5% of the time deposits. One-half of this reserve may be invested in liquid securities.

During the same session a law was enacted requiring each bank to be examined at least twice a year. However, the Bank Commissioner has authority to make special examinations as often as the conditions seem to require or as he deems necessary. A bank whose condition is not entirely satisfactory is put on a special list for special work and frequent examinations.

A history of Kansas banking would not be complete without a brief survey of the state's experience with the Bank Depositor's

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1. Recent changes in the state banking law obtained by correspondence with bank commissioners, Roy L. Bone, and H. W. Koeneke.

Guaranty Law passed March 6, 1909 and repealed March 14, 1928.

The law as in effect July 1, 1909[1] provided for voluntary participation, and was limited to incorporated banks with unimpaired surplus equal to 10% of capital and in business at least one year. In any town where all the existing banks failed to participate for six months after July, 1909, a new bank could participate at once. No bank paying more than 3% interest or any interest on savings deposits withdrawn before January 1, or July 1 could participate. National and private banks and trust companies could reorganize as state banks and participate at once. Each bank had to be examined before participation.

The first assessment of all participating banks was placed at 1 per cent of deposits eligible to guaranty, less capital and surplus; $500.00 in bonds or cash for every $100,000 of deposits were to be deposited to guarantee payment of assessments.

The subsequent annual assessments were set at one-twentieth of 1 per cent until the guaranty fund reached $500,000. If at any time the fund was depleted, additional assessments could be made amounting to one-twentieth of 1 per cent, but there was to be no more than five such assessments in any one year.

Any participating bank could withdraw on six months notice to the bank commissioner, but it must pay all assessments on account of banks that fail before expiration of the notice. If the bank commissioner deemed necessary, he could cancel the guaranty of any bank's deposits.

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1. "State Banks and Trust Co's" - G.E. Barnett, p. 264.

The insured deposits consisted of those not bearing interest; certificates payable not less than six months from date; bearing not more than 5% interest and savings deposits not exceeding $100, drawing not more than 3% interest. Deposits that were otherwise secured were not insured.

Whenever a bank failed the law provided that on closing the bank, depositors should be given 6% certificates, to be paid by dividends from assets, including the double liability of stockholders. After realization on the assets, the balance due on the certificates should be paid out of the guaranty fund. If the fund was insufficient, the depositors should be paid pro rata. Then the remainder due was to be paid when the next assessment was available.

The deposit limitation of guaranteed banks was ten times capital and surplus; and the interest payment was limited to 3%.

The guaranty fund was to be deposited in banks on collateral of either state or municipal bonds.

In all the bank commissioners' reports between 1914 and 1920, the opinion is expressed that the Guaranty Law was successful. The fifteenth biennial report of the bank commissioner issued September 1, 1920 stated that the "Guaranty Law has successfully gone through the experimental stage of existence, and today stands as a cornerstone in the great financial structure of modern business. Many states have some form of guarantee of deposits, and the opponents of the law have vanished. It has grown in popularity

among the people, and banks operating under it seem to grow and prosper."

One remarkable example of the efficiency of the Guaranty law between 1914 and 1920 was the working of the law in the failure of the Salina State Bank closed by the banking department in May, 1919. The bank commissioner "closed the bank and opened another in the same room at the same time." According to law, the sign, "in the hands of the Bank Commissioner," was placed on the door of the closed; and the sign of the new bank was put in the windows, the depositors of the new bank and the customers of the old bank passing through the same door. Even though the news, that the Kansas State Bank of Salina had closed its doors spread quickly over the city, only thirty-two out of more than six hundred depositors of the closed bank called for their certificates on the guaranty fund on that day. Six weeks later there were still two hundred depositors who had not called for their money. This was a demonstration of confidence in the banking system." The fifteenth biennial report of the commission stated further that "when you deposit your money in a guaranteed bank in Kansas, you are sure of getting out as many dollars as you deposited."

The high point[1] in membership occurred in February, 1922, when out of 1108 banks there were 714 banks which were members of the guaranty fund.

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1. Correspondence with H. W. Koeneke, Bank Commissioner.

The low point in membership was in January 1928, when out of 854 banks there were 34 banks which were members of the guaranty fund.

Since 1922 there has been a continuous withdrawal from membership. Shortly before January, 1926, sixteen guaranteed banks withdrew from the fund and brought suit in the Supreme Court to determine the amount of their liability to the fund, there having been up to this time 78 failures among guaranteed banks. At this time there were outstanding guaranty fund certificates of approximately five and one-half millions of dollars.

The Supreme Court handed down a decision to the effect that a guaranteed bank upon withdrawing from the fund, was liable only to the extent of its bonds on deposit with the state treasurer to guarantee the payment of assessments. Immediately following this decision the member banks began to withdraw from the fund, either voluntarily or by default in the payment of their assessments, and at the repeal of the law there were only thirty-four banks in good standing in the fund.

During the past four years there has been also a continuous decline in the amounts received from assessments as follows:

1924--$343,728.42	1925--$342,890.51	1926--$129,405.50
1927-- 24,896.28	1928-- 8,994.88	

The Guaranty Fund statements of the bank commission for the years 1926 and 1928 follow:

Guaranty Certificates Outstanding-Jan. 1, 1926		$5,556,681.60
Bonds in Guaranty Fund	$979,660.00	
Cash in lieu of bonds	7,064.56	986,724.56
Cash on hand		75,677.40
Guaranty Certificates Outstanding-March 14, 1928		$7,123,324.75
Bonds in Guaranty Fund	$42,650.00	
Cash in lieu of bonds	6,000.00	48,650.00
Cash on hand	$16,805.38	
Bonds	13,150.00	29,955.38

Since 1910, there have been 185 failures of guaranteed banks in Kansas.

The guaranty of bank deposits was an economic experiment and failed not only in Kansas but where tried in other middle western states. Neither compulsory nor voluntary insurance proved practicable. Besides creating a tendency towards uncareful management, there was the expense and unfairness to sound banks. In Kansas the guaranty fund was too small compared with the deposits insured. Also too many banks were permitted to organize and take advantage of the guaranty provisions.

The future trend of Kansas banking appears more favorable at present than it did immediately following the World War. The Kansas bank failures since 1920 were due not only to mismanagement but also to the financial distress of the farmers.[1] Most of the bank failures in the nation have occurred in agricultural sections. The industrial states suffered few bank failures. From 1920-1925, the New England states had only 13 failures. There were 32 in the

1. "America Challenged"-Lewis F. Carr, p. 32.

five Middle Atlantic states and District of Columbia. But there were 1576 in the agricultural states in the Central West. This was due to the influence of "frozen" assets.

As in earlier periods Kansas is still considered an agricultural state. But with improvement in agricultural conditions, and a continuance of the present rigid supervision of the state banking department, the future progress of Kansas banking appears favorable.

SUMMARY

The outbreak of the European War caused a short crisis in business, but confidence was speedily restored. Foreign demand for foodstuffs and prosperity in the middle-west caused a tremendous increase in Kansas state and national bank loans. The six years following the beginning of the World War were years of high pressure for Kansas bankers and others, since the problem of high prices and inflation of currency and credit had to be contended with. Then came the general business depression of 1920. Kansas bankers were forced to cope with the problem of economic reconstruction. At the beginning of the World War there were 1120 banks operating in Kansas. 18% were national, and 81% were state banks. In 1928, there were 1124 banks, 23% of which were national and 76% were state banks. Since 1914 there have been 186 state bank failures, and 11 national bank failures in Kansas. The depressed condition of agriculture since 1920 has accounted for the majority of failures.

Among the important legal restrictions was the law enacted in 1923 which limited loans of state banks to any one person to 15% of capital and surplus. In 1925, the minimum capital of state banks was placed at $15,000. In the same legislative session a banking board composed of five experienced bankers was created. In 1927, legislation required state banks to have a legal reserve amounting to 15% of the demand deposits and 5% of the time deposits. During this period the guaranty of bank deposits was an economic experiment and failed.

APPENDIX I

KANSAS STATE BANK COMMISSIONERS

First	Johnson, Charles F.	1891-1893
Second	Briedenthal, John W.	1893-1900
Third	Albaugh, Morton	1901-1904
Fourth	Albright, William	1904-1905
Fifth	Roger, John G.	1905-1908
Sixth	Dolley, Joseph N.	1909-1913
Seventh	Sawyer, Charles M.	1913-1914
Eighth	Benson, William F.	1914-1917
Ninth	Wilson, W. I.	1917-1922
Tenth	Foster, F. H.	1922-1924
Eleventh	Bone, Roy L.	1924-1928

APPENDIX II

OPERATING NUMBER AND FAILURES OF KANSAS NATIONAL BANKS 1865-1928

Year	Operating Number	Failures
1865	3	
1866	3	
1867	5	
1868	5	
1869	5	
1870	5	
1871	8	
1872	20	
1873	26	1
1874	25	
1875	23	
1876	18	1
1877	15	
1878	12	1
1879	11	
1880	12	
1881	12	
1882	17	
1883	27	
1884	50	
1885	78	
1886	69	
1887	116	
1888	156	
1889	162	
1890	160	6
1891	145	5
1892	149	3
1893	136	4
1894	131	2
1895	126	1
1896	116	4
1897	215	
1898	101	2
1899	98	3
1900	110	
1901	112	
1902	124	

APPENDIX II (Continued)

Year	Operating Number	Failures
1903	153	
1904	129	
1905	166	1
1906	175	
1907	186	
1908	181	1
1909	201	
1910	208	
1911	200	
1912	204	
1913	204	4
1914	203	
1915	217	
1916	221	
1917	230	
1918	236	
1919	229	
1920	249	5
1921	257	
1922	256	
1923	254	
1924	258	1
1925	258	
1926	258	
1927	260	
1928	260	

APPENDIX III

OPERATING NUMBER AND FAILURES OF KANSAS STATE BANKS 1891-1928
(Private Banks Failures Included)

Year	Operating Number	Failures
1891	249	
1892	268	2
1893	286	31
1894	272	77
1895	274	7
1896	283	8
1897	273	4
1898	275	6
1899	292	2
1900	323	1
1901	344	3
1902	395	1
1903	463	1
1904	460	1
1905	535	
1906	607	
1907	687	3
1908	680	3
1909	767	
1910	836	1
1911	830	
1912	894	
1913	899	
1914	917	1
1915	920	2
1916	967	1
1917	989	
1918	1016	2
1919	1084	2
1920	1098	5
1921	1112	11
1922	1084	17
1923	1080	22
1924	1042	10
1925	1019	18
1926	1003	36
1927	895	33
1928	864	21

APPENDIX IV

OPERATING NUMBER OF KANSAS PRIVATE BANKS 1891-1910
(Failures included with State Banks)

Year	Operating Number
1891	253
1892	171
1893	159
1894	142
1895	131
1896	113
1897	108
1898	90
1899	72
1900	64
1901	51
1902	42
1903	32
1904	26
1905	22
1906	18
1907	14
1908	9
1909	6 767
1910	4

APPENDIX V

The statements of condition of the two early national banks in Kansas appeared first in 1865. They were the First National, and Second National Banks of Leavenworth.

1.

FIRST NATIONAL BANK
Leavenworth, Kansas
First Monday, October 1865

ASSETS

Loans & Discounts	$ 142,802.25	Capital Stock	$ 100,000.00
Overdrafts	3,226.36	Surplus Fund	4,145.47
United States Bonds		Notes in Circulation	76,000.00
Circulation	100,000.00	Individual Deposits	2,335,010.00
Securities	376,950.00	U. S. Deposits	111,761.81
Due from Nat'l Banks	1,791,896.12	Due to National Banks	14,653.95
Due from Other Banks	8,293.92	Due to Other Banks	3,460.03
Real Estate	4,798.79	Profits	20,119.40
Remittance	12,171.59		
Current Expenses	2,843.98		
Premiums	48.46		
Bills	18,223.00		
Specie	5,090.83		
Other Lawful Money	198,806.00		
	$2,665,151.30		$2,665,151.30

SECOND NATIONAL BANK
Leavenworth, Kansas
First Monday, October 1865

ASSETS

Loans & Discounts	$47,469.51	Capital Stock	$ 100,000.00
Overdrafts	9,449.88	Individual Dep.	143,636.37
Real Estate	303.13		
Expense Account	841.69		
Premiums Pd.	38.19		
Due from Nat'l Banks	61,346.21		
Due from Other Banks	9,688.97		
U.S. Bonds	35,000.00		
Other Securities	15,150.00		
Bills of Other Banks	10,918.00		
Specie	4,079.79		
Other Lawful Money	49,351.00		
	$243,636.37		$243,636.37

1. Ex. Doc. 1865, page 120.