

Corporate Governance, Rent Seeking, Portfolio Choice, and Failure Risk in Unprotected Banks

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Agency Problems at Banks

- Equity holders have an incentive to increase risk to extract value from debt holders
- Managers may have different risk preference than equity holders (direction unclear)
 - Managers may prefer less risk if:
 - Have no equity stake
 - They have significant invested wealth
 - Managers may prefer more risk if:
 - Are faced with declining prospects and want to conceal poor prospects (Gorton and Rose 1995)
- Can impact financial stability
- Analysis difficult in the presence of government protections (deposit insurance, TBTF, protection from LBOs, etc.)

Corporate Governance and Risk Management in a Different World

- The National Banking Era (1863-1913)
 - No deposit insurance, and no central bank
 - Ownership structure is chosen by the organizers of the banks, with no limits (other than natural ones related to transaction and information costs)
 - National banks are unit banks (~similar size)
 - Identical charter governing powers and practices
 - Identical (national law) courts with jurisdiction
- How were ownership, governance, and risk taking related to one another in this system?
 - An advantage of our data is that we are able to look separately at manager ownership, board ownership, and board disciplining tools

Regulation of National Banks

- National banks are examined once-twice a year (semi-random arrival, spatial sequencing).
- Five times a year submit “call reports” detailing their balance sheets.
- No prudential capital requirements, but prudential cash reserve requirements (as a fraction of deposits; frequent ~15% violations revealed in exams, unclear penalties).
- Stock holders face double liability.
- Lots of voluntary corporate governance rules.

Voluntary Governance Decisions

- Ownership structure
- Board size and number of independent directors (minimum of one)
- Frequency of board meetings
- Formal loan approval committee (w/ indep. director)
- Bonding of cashier, bonding of president
- Managerial compensation (salary)
- Dividends
- Equity capital-to-assets ratio
- Contracting (or re-contracting) debt structure
- Cash-to-assets ratio (if above minimum)

Basic Story of This Paper

- Ownership structure is assumed pre-determined by bank organizers' unobserved wealth and risk aversion
 - Capital is not easy to vary, and banks' shares are illiquid.
- Ownership structure is a key influence on corporate governance structure
- Ownership and governance structure jointly determine rents, portfolio choices and level of risk.

Measures of Rent Seeking and Risk Choices

- Rent Seeking:
 - Salaries scale
 - Insider Lending
- Balance sheet indicators of risk
 - Reliance on “hot debt” market
 - Investment in riskier loans
- “External” indicators of risk
 - Troubled loans and estimated losses (based on Examiner estimates)
 - Probability of failure or suspension

Summary of Results

- More concentrated ownership is associated with:
 - More rent extraction by managers.
 - Less risk taking in the choice of assets
 - More leverage
 - On net, somewhat lower default risk
- Stronger governance:
 - Effective in reducing “tunneling” or rent extraction by managers

Data and Period

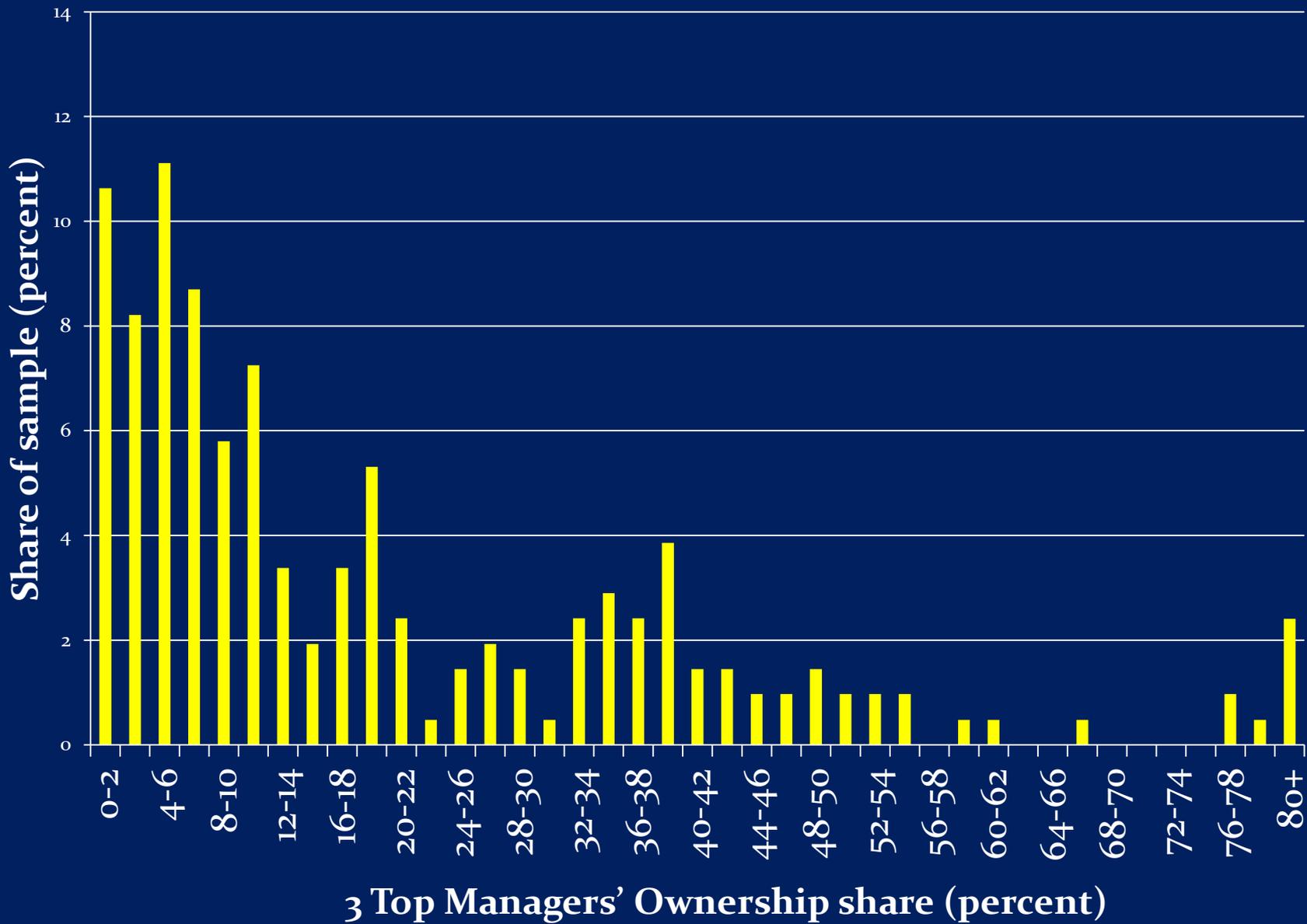
- National bank examination reports (rarely used), supplemented by call reports.
- These contain data on ownership structure, corporate governance practices, contracting arrangements, qualitative judgments of examiners about risk and management, suspension and failure experience of banks, and much more...
- Period is the years surrounding Panic of 1893, which is the most severe event of the period.

Sample

- All National banks in 37 cities
 - 206 total banks
 - Cities are either Western or Southern reserve cities
 - Kansas City, MO; Louisville, KY; Minneapolis, MN; New Orleans, LA; Omaha, NE
 - Larger non-reserve cities
 - Denver, CO; El Paso, TX; Los Angeles, CA; Portland, OR; Spokane, WA; Stillwater, MN
 - 22 failed in the panic and 36 suspended
- Mid-size banks
 - Assets of \$164 thousand to \$8.3 million
 - (Largest banks at the time had ~\$35 million in assets)

The Bank Examiner Reports

- Measure bank characteristics using report most closely preceding May 1893.
- To be in our sample, you must have September 1892 call report (not anticipated date) and examination report prior to May 1893.
- Reports contain a variety of quantitative and qualitative information.



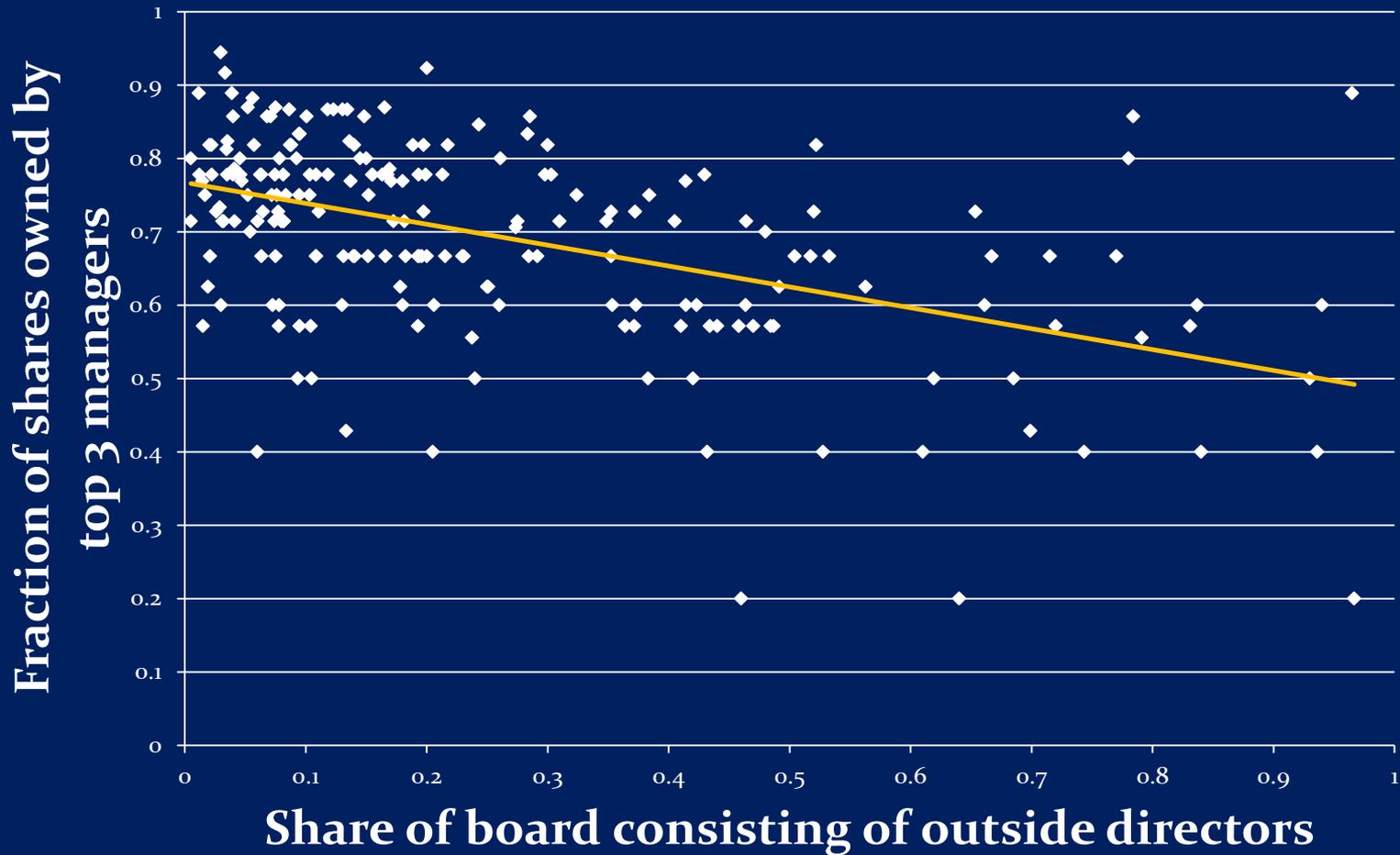
Boards of Directors

- Range in size from 4 to 23 people. Average about 9 individuals.
 - Can look at the share of the board consisting of outside directors
- Most common occupation of a director is “capitalist” followed by wholesale merchant.
- Occasionally have some notable individuals (Messrs. Proctor and Gamble).
- Meeting frequency could be weekly to semi-annually (or irregular).
- Supposed to put forth individuals to sit on various committees.

Surety Bonds

- Main other oversight tool is a surety bond:
 - Circumstances for cashing the bond vary (e.g., mainly fraud, occasionally other outcomes)
 - Posted by 35 percent, 15 percent, and 60 percent of Presidents, Vice-Presidents, and Cashiers respectively.
 - Range in size but commonly \$10,000, \$20,000, or \$50,000.
 - May be posted as individual bond or through a surety company.

Ownership concentration vs. board composition



Correlation Matrix	Board meets at least monthly	High % Outsiders on Board	Active discount comm.	Pres. bonded	Cashier bonded
Management stock share	-0.23	-0.44	-0.25	-0.15	-0.22
Board meets at least monthly		0.20	0.33	0.08	0.15
High % Outsiders on Board			0.25	0.22	0.20
Active discount committee				0.24	0.43
Pres. bonded					0.50

Note that all correlations in first row are negative. All other correlations positive.

Analysis of Outcome Variables

- Create a governance score
 - Sum of the five indicator variables
- Series of four regressions (each endog. var.)
 - Management ownership directly
 - Score variable directly
 - Score predicted by ownership in a TSLS
 - Residual from that same first-stage of TSLS
 - Controlling for other factors

First Stage: Governance Score

Intercept	11.22	**
Top 3 Managers Ownership%	-1.91	**
Outside Directors Ownership%	0.74	
Log assets	0.16	
Log age	-0.42	**
Reserve city	0.04	
Log distance to NYC	-1.33	**
Percent county income from Ag	00.04	
F-statistic	12.97	
Adj R-Square	0.29	

Insider Rent Seeking

- Variables of interest:
 - Officer salaries
 - Lending to insiders/officers
 - Dividends
- Results:
 - Officer salaries are higher when officers own more
 - Effect of ownership concentration on overall insider lending not strong, but who gets those loans is affected
 - Dividends per share higher when managers own more

Officer Salaries to Net Worth

	OLS	OLS	IV	IV
Intercept	8.31**	8.36*	16.42**	8.09**
Top 3 Managers Ownership%	1.26*			
Score		-.01		
Score - predicted			-.60*	
Score - residual				.04
Outside Directors Ownership%	1.36	1.24	1.75	1.24
Log assets	-0.67**	-0.73**	-0.65**	-0.73**
Log age	.10	.18	-.11	.18
Reserve city	.57*	.51*	.57*	.51*
Log distance to NY	.33	.47	-.51	.49*
Percent county income from Ag	-.46	-.53	-.58	-.52

Loans to Board Members / Loans

	OLS	OLS	IV	IV
Intercept	38.98**	34.35*	19.88	39.87**
Top 3 Managers Ownership%	-3.3			
Score		.47		
Score - predicted			1.73	
Score - residual				.35
Outside Directors Ownership%	-.17	-.27	-1.45	.17
Log assets	-2.72**	-2.67**	-3.88**	-2.55**
Log age	-.76	-.71	-.03	-.96
Reserve city	-2.47*	-2.41	-2.55*	-2.36*
Log distance to NY	1.82	2.05	4.12*	1.28
Percent county income from Ag	-4.86*	-4.67*	-4.79*	-4.63*

Loans to Top Officers / All Inside Loans

	OLS	OLS	IV	IV
Intercept	-28.97	19.71	166.79	-37.90
Top 3 Managers Ownership%	33.28**			
Score		-4.91**		
Score - predicted			-17.44**	
Score - residual				3.68**
Outside Directors Ownership%	-36.63*	-35.42*	-23.67	-40.01*
Log assets	-3.13	-3.57	-0.33	-4.83
Log age	2.99	2.34	-4.35	4.97*
Reserve city	2.79	2.17	3.57	1.62
Log distance to NY	13.40**	10.70*	-0.986	18.75**
Percent county income from Ag	18.88*	14.99*	16.15	14.54*

Dividends per share (if paid in last 6 months)

	OLS	OLS	IV	IV
Intercept	-.05	1.26	26.3	-2.62
Top 3 Managers Ownership% Score	3.76*	-.27		
Score - predicted			-1.91	
Score - residual				-.12
Outside Directors Ownership%	1.24	.76	1.28	.60
Log assets	-1.77*	-1.82*	-1.59*	-1.87*
Log age	2.22**	2.33**	1.38	2.49**
Reserve city	.91	.64	.76	.60
Log distance to NY	3.20*	3.34*	.30	3.81**
Percent county income from Ag	2.33	2.26	2.04	2.29

Relationship to Risk Taking

- Variables of interest:
 - Real estate loans (ex ante riskier loans)
 - Can't originate, but can take RE as collateral on prior indebtedness
 - Reliance on borrowed funds (high-cost funds)
 - Net worth to assets
 - Cash to assets
 - Troubled loans/estimated losses
- Results:
 - High management ownership associated with:
 - Fewer real estate loans
 - Lower reliance on borrowed funds,
 - Less capital but more cash
 - Fewer troubled loans
 - Formal governance is associated with:
 - Little impact on risk of assets (maybe encourage risk slightly)
 - Lower estimated losses

Real Estate Loans / Loans

	OLS	OLS	IV	IV
Intercept	-15.95	-16.91	-39.08*	-14.90
Top 3 Managers Ownership%	-3.93*			
Score		.17		
Score - predicted			2.06*	
Score - residual				-0.01
Outside Directors Ownership%	-3.71	-3.47	-5.24	-3.31
Log assets	-.84	-.69	-1.17	-.64
Log age	.65	.50	1.51*	.41
Reserve city	-.66	-.54	-.75	-.52
Log distance to NY	4.43**	4.08**	7.18**	3.80**
Percent county income from Ag	1.12	1.38	1.20	1.39

Probit on Use of Borrowed Funds

	Probit	Probit	IV	IV
Intercept	.70	-.60	-9.53*	.37
Top 3 Managers Ownership% Score	-1.80**	.09		
Score - predicted			.95**	
Score - residual				.02
Outside Directors Ownership%	-1.96*	-1.98*	-2.79*	-1.82*
Log assets	-.40*	-.28*	-.56*	-.26*
Log age	.02	-.05	.40	-.09
Reserve city	.09	.14	.06	.16
Log distance to NY	.74**	.62*	1.97**	.47*
Percent county income from Ag	-1.19**	-1.03*	-1.18*	-1.00*

Troubled Loans / Loans

	OLS	OLS	IV	IV
Intercept	-17.46	-21.51	.53.04*	-15.83
Top 3 Managers Ownership%	-6.05*			
Score		.48		
Score - predicted			3.17*	
Score - residual				.22
Outside Directors Ownership%	-6.23	-6.07	-8.58	-5.61
Log assets	-1.99**	-1.80	-2.49*	-1.68*
Log age	.61	.51	1.95	.25
Reserve city	-1.09	-.93	-1.23	-.87
Log distance to NY	7.69**	7.51**	11.91**	6.71**
Percent county income from Ag	6.03*	6.42*	6.17*	6.46*

Losses / Assets

	OLS	OLS	IV	IV
Intercept	7.59	13.04*	-6.71	8.63
Top 3 Managers Ownership%	-2.41*			
Score		-0.37*		
Score - predicted			1.24*	
Score - residual				-0.53**
Outside Directors Ownership%	-4.22*	-3.61	-5.30*	-3.93*
Log assets	-.47	-.27	-.64	-.37
Log age	-.32	-.69	.19	-.48
Reserve city	-.99	-.83	-1.06	-.88
Log distance to NY	.40	-.61	2.06	.01
Percent county income from Ag	-.86	-.68	-.81	-.71

Probit on Closure

	Probit	IV	Probit	IV
Intercept	-2.85	-4.50	-1.83	-1.70
Top 3 Managers Ownership%	-.93*		-.36	
Score – residual		.07		.08
Outside Directors Ownership%	-.31	-.19	.64	.72
Log assets	-.12	-.07	-.03	-.01
Real estate to total loans			.75	.84
Use of hot money			.68**	.72**
Indiv dep. to total dep.			-1.53*	-1.50*
Checking dep to indiv dep			-1.24*	-1.29*
Log age	.03	-.04	.02	-.01
Reserve city	-.49*	-.45*	-.67*	-.65*
Log distance to NY	.61*	.45*	.51	.43
Percent county income from Ag	-.33	-.27	-.13	-.09

Findings Consistent with Exam reports

- High manager ownership/strong governance:
“This is a very conservative bank and loans and discounts only where they believe that they are perfectly safe. I can discern no poor paper in the bank.” -Lumberman’s National, Stillwater, MN.
- Low manager ownership/low governance:
“Its capital is badly impaired...It is shameful and wicked that so much money should be fooled away in so short a time and prove the folly of having real estate speculators as managers of banking institutions.” -Washington National of Tacoma, WA.

“The general condition of the bank is good excepting that the officers are using too much of the bank’s money without security, loaning too much to the Bank of Everett and using too many devices to make a good showing.” -Columbia National, Tacoma, WA.

Net worth to Asset Ratio

	OLS	OLS	IV	IV
Intercept	123.38**	115.45**	37.31	129.74**
Top 3 Managers Ownership%	-17.13**			
Score		1.30**		
Score - predicted			0.10**	
Score - residual				0.00
Outside Directors Ownership%	-18.74**	-17.93**	-23.94**	-16.82**
Log assets	-6.14**	-5.58**	-7.47**	-5.25**
Deposits/Total Debts	-19.54**	-19.46**	-10.78**	-19.42**
Checking/Deposits	10.21**	8.49*	2.03	9.10*
Log age	-3.16**	-3.57**	.18	-4.24**
Reserve city	-5.03**	-4.56*	-5.42*	-4.41*
Log distance to NY	2.71	1.86	13.45**	-2
Percent county income from Ag	-1.97	-1.02	-2.24	-.85

Cash to Asset Ratio

	OLS	OLS	IV	IV
Intercept	-34.50**	-22.34**	-12.93	-25.53**
Top 3 Managers Ownership% Score	2.30*	-.28*		
Score - predicted			-1.19*	
Score - residual				-.19
Outside Directors Ownership%	-.33	-.36	.36	-.61
Log assets	1.13**	1.09**	1.31**	1.01**
Indiv Deposits/Total Deposits	4.85**	4.84**	4.88*	4.83**
Checking/Total Deposits	2.56*	2.88*	3.66**	2.81*
Log age	.71*	.72*	.27	.82*
Reserve city	1.13*	1.08*	1.19*	1.05*
Log distance to NY	1.28*	1.23*	-.16	1.69**
Percent county income from Ag	-2.18*	-2.29*	-2.14*	-2.32*

Robustness

- Estimated impact of governance components separately.
 - Effects generally similar
- Non-linear ownership terms
 - Square of ownership not significant
- Alternative measures of outside director influence
 - If the largest shareholder is an outside director, that tends to increase the riskiness of the assets
- Include nearby bank governance scores
 - Not much impact

Why might increased ownership by managers decrease risk?

- Managers may be more risk averse if a significant portion of their wealth is invested in the bank
 - At banks with large ownership by management, median President had a stake of \$76,000.
 - Double liability increases that stake
 - Value of stock was 22.5 times salary
 - At banks with low ownership by management, median President had a stake of \$9,300.
 - Value of stock was 4.0 times salary
- Per capital income at the time was about \$227

Summary

- Concentrated managerial ownership reduces use of formal governance mechanisms.
- Concentrated managerial ownership tends to reduce the risk on the asset side of the balance sheet. (Less risky loans, more cash)
 - Lower risk taking may reflect the greater investment in the bank
 - More leverage but also more cash
 - Speculation: one way this could be interpreted is that liability holders insist on more of an equity cushion when manager is not an ownership and takes on more risk.
- More formal governance reduces managerial rent extracting (salaries, loans to self).

The End

Thanks!

EXAMINER'S REPORT

Condition of "The Minor National Bank"
 Located at Denver, in the County of Cherokee St
 State of Colorado, at 3 o'clock P. M., June 21, 1892.
 Examination commenced at 9 o'clock A. M. Examination closed June 24
E. W. Woodbury, President. N. H. Frank, Cashier.

RESOURCES.	DOLLARS.	CTS.	LIABILITIES.	DOLLARS.	CTS.
1. Loans and Discounts (see schedule)...	1708	85388	1. Capital Stock paid in	1000	00000
2. Overdrafts	7	20066	2. Surplus Fund	35	000
3. U. S. Bonds to secure Circulat'n (7%)	150	000	3. Other Undivided Profits, viz:		
4. U. S. Bonds to secure Deposits (%)		0	Discount		
5. U. S. Bonds on hand (%)		0	Exchange		
6. Premium on U. S. Bonds	3	00	Interest	15	94265
7. Stocks, Securities, Claims, etc. (see schedule)		0	Premiums		
8. Banking House		0	Rents		
Furniture and Fixtures. <u>10</u> <u>925</u>	10	92500	Profit and Loss	9	73010
9. Other Real Estate and Mortgages (see schedule)		0	4. Due to app'd Reserve Agents, viz.	256	72750
10. Due from app'd Reserve Agents, viz:	212	09584	<u>List on page 8</u>		
<u>Collections in transit</u>	5	19268	<u>Denver Clearing House</u>		
11. Due from other National Banks	26	04764	<u>City</u>	14	83956
12. Due from State Banks and Bankers	46	98294	5. Due to other National Banks	166	57934
13. Exchanges for Clearing-House	36	54524	6. Due to State Banks and Bankers	87	54444
14. Checks on other Banks in same place		0	7. Dividends unpaid		520
15. Bills of other National Banks	3	060	8. Individual Deposits, viz:		
16. Uncurrent and Minor Coins	2	0311	Subject to Check	795	39744
17. Cash Items	7	1925	Demand Certif's	56	26736
18. Reserve Fund in Bank, viz:			Time Certificates	78	27084
Fractional Silver	4	29670	Certified Checks	3	34382
Silver Dollars	5	750	Cashier's Checks	14	28663
Silver Tr'y Cert's	11	526			
Gold Coin	2	01090	9. United States Deposits		0
Gold Tr'y Cert's		450	10. Deposits of U. S. Disbursing Officers		0
Legal Tender Notes	14	000	11. Circulation received \$ <u>35</u> <u>000</u>		
U. S. Cert's of Dep		0	Less on hand and ret'd		135
C. H. Cert's of Dep		0			
19. 5 p. c. Red'n Fund with Treas. U. S.	23	724270	12. State Bank Circulation outstanding		0
20. Other Funds with Treas. U. S.	6	750	13. Notes and Bills rediscounted		0
21. Current Expenses	6	14945	14. Bills payable		0
Taxes paid		0	15. Cash over		23721
Interest paid		0			
22. Cash short			TOTAL	246	1248391
TOTAL	246	1248391	TOTAL	246	1248391

First page Balance sheet

- Similar to items found on the call report

Directors.

No. of shares owned.	Names.	Post Office address.	Liability as payors, (individual or firm) including overdrafts.	Liability as indorsers, or guarantors.	Occupation.
572	Woodbury, C. W.	Denver, Colo.	0	0	Bank
719	Spangley, W. L.	" "	400.00	0	Vice Bank
100	Washburn, W. L.	" "	0	500	Capitalist
140	Washburn, W. L.	" "	0	0	Cashier
70	Washburn, W. L.	" "	0	0	Capitalist
10	Washburn, W. L.	" "	5661.79	0	R. E. Agent to
50	Washburn, W. L.	" "	25,000.00	0	Agent, Newberry, Colo. 11/16
25	Washburn, W. L.	Denver	0	3,000	Washburn, W. L.
230	Washburn, W. L.	Denver	4,800.00	16,000	Bank, Colo. and Colo. 6
50	Washburn, W. L.	Denver	29,030	76,000	R. E. Agent

[State also whether records show that directors meet regularly as a board, and how often, and if they examine and approve loans and discounts at such times or not; whether they have active discount and examining committees, or leave management entirely to the officers; whether annual meeting of shareholders was held, and if election of directors was regular; give number of shares represented at such meeting; any vacancy in board should also be noted.]

25	Hager, J. A.	Colo. Spgs	7000	0	Cash First Nat Bank
100	Washburn, W. L.	Denver	7400	74000	Contractor
10	Creswell, Joseph	"	135	30000	Rep. - Davis & Co. 11/7/6
1941	Talbot, J. D.	"	877,893.14	126,500	

Board, & Director meet semi-monthly as required by the By Laws, and the report of loans made by the Discount Committee in the interim is duly submitted - However the members of the Board meetings are not signed regularly by the presiding officers as called Officers for by By Laws 19 - Annual Election regularly held 11/2/92 6352 shares represented

Names.	No. of shares owned.	Liability as payors, (individual or firm) including overdrafts.	Liability as indorsers, or guarantors.	Salary per	Bond (if any).	Other occupation (if any).
President.....	W. L. Woodbury 572	0	0	10,000	None	None
Vice-President.....	W. L. Spangley 719	400.00	0	5,000	None	None
Cashier.....	W. L. Washburn 140	0	0	4,250	10,000	None
Assistant Cashier.....	None	0	0	0	0	0
Teller.....	2 Washburn, W. L.	10,440.68	0	4,300	10,000	None
Bookkeeper.....	Cooks - (9)	0	0	8,110	18,000	None
				857,600		

[State, so far as you are able, whether the officers are capable, prudent, and of good reputation or not, and whether, in your opinion, their management is efficient and successful, or otherwise. Inquire as to official bonds, whether required or not; form of bond required or held, and in whose custody lodged.]

The President, Vice President and Cashier, are all regarded as capable, and attend closely to their official duties as such. Are all of good character, habits and reputation - and the management appears to be satisfactory to all transacting business with the bank. President, Vice President, were in the Savings and private banking business for some 15 years prior to the organization of this bank. Books and Accounts State Cooks who is one of the best officers

[State whether necessary books are used, and if these are correctly kept and promptly posted, and how often accounts are balanced and verified. Follow Special Instructions No. 2, (October, 1891), as to verification of accounts.]

Daily balances are made and proven by all General and Individual accounts and the books generally kept neatly, and posted regularly under the general direction of the Cashier who is practical in the line

Second page: Management and governance

- The Board, shares owned, insider lending, meeting frequency, and notes on Board quality
- The management, salaries, performance bonds, notes on quality

RESOURCES.

No. of Bank, 4382

I. Loans and Discounts.

(The loans and discounts and other securities must be carefully verified and every discrepancy noted.)

69	A—On demand, paper with one or more individual or firm names.....	\$ 442	397	24
17	B—On demand, secured by stocks, bonds, and other personal securities.....	347	722	12
279	C—On time, paper with two or more individual or firm names.....	268	922	47
18	D—On time, single-name paper (one person or firm) without other security.....	187	991	66
37	E—On time, secured by stocks, bonds, and other personal securities.....	166	537	71
5	F—On time, on mortgages or other real-estate security (see schedule).....	14	860	68
871	TOTAL.....	\$ 1708	5558	85
	Included in the above are—			
	G—Bad debts, as defined in section 5204, Revised Statutes (see remarks below).....	\$	200	
	H—Other suspended or overdue paper (see remarks below).....	76	991	50
	I—Liabilities of directors (individual and firm) as payers (see schedule).....	77	893	18

Loans exceeding the limit prescribed by Section 5200 of the Revised Statutes, including amounts which exceed this limit due from State and private banks and bankers. Overdrafts, if any, to be regarded as loans.

Name of Borrower (State value of security and financial standing of maker and indorser.)	Exact Full Amount of Loan	Name of Suretyman (State value of security and financial standing of maker and indorser.)	Exact Full Amount of Loan
<i>None</i>			

(Describe general character of loans and discounts as to their quality and the value of collaterals securing same, especially excessive loans and others subject to criticism; state whether accommodations are well distributed or not; and if large loans or discounts are made to individuals, firms or corporations, give list of these, including all loans reaching limit prescribed by Section 5200. Loans which exceed this limit should be entered in schedule above, and loans secured by real estate should be fully described in schedule furnished for this purpose. If loans are made to other National banks give full information regarding same.)

The interest on loans in the list is collected monthly, and the larger amounts are made by Small, Botley & Co., Bankers, 131 E. 4th St. - indorsed by Small, Botley & Co. (bank)

16,000 Citizens Loan Company " " " " (bank)

78,200 The Chamberlain Trust Co. " " " " (bank)

26,200 Cross & Lammey (W. H. Furniture) " " " " (bank)

24,000 The Denver Trust & Safe Co. " " " " (bank)

19,000 The Denver Trust & Safe Co. (Saddlery) " " " " (bank)

30,000 The Denver Trust & Safe Co. (Pharmaceuticals) " " " " (bank)

25,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

23,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

20,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

15,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

35,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

33,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

20,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

15,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

30,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

25,000 The Denver Trust & Safe Co. (Real Estate) " " " " (bank)

Suspended or Overdue Paper, including "bad debts" as defined by Section 5204.

(Describe general condition of such paper, and state whether well secured or not. Except in special cases, an itemized list of such paper is not necessary, but an expression of opinion as to estimated probable loss on same is desired in every report.)

Overdue

76,941.50

4,665.00

4,555.50

4,621.00

550.00

76,941.50

All matured within past 30 days and in process of renewal, except \$4500 a protested acceptance of W. H. Baker - 14, drawn by Taylor & Keith - due 12/23/92 on which there possibly may be a loss - 2

Page 3: the loan book

- Distribution of types of loans (by term, security)
- "Excessive loans"
- Comments on the quality of the loan book

Miscellaneous assets

2. Overdrafts.

[State whether well secured or not, giving total of each class, and whether habitually granted or not. Overdrafts exceeding limit named in Section 5200 should be classed with *Excessive Loans*, and *unsecured* overdrafts which have remained unchanged for six months or longer, with "bad debts" as defined by Section 5204. The amount of overdrafts outstanding at date of examination should be verified by the examiner, who should also compare the amount of these as stated in the bank's last report of condition with the amount shown by its books at same date, and report any discrepancy discovered.]

The present list consists of 13, out of 1130 open accounts, the largest overdraft of \$4,929.06 of the *Whitman* Dr. Goods Company, was made and during the course of this examination by a note of the Company. The balance are temporary, and regarded as good. The bank does not encourage loans of this character.

8. Banking-house.

[State whether suitable and convenient; for what other purposes used (if any); and if owned by bank, whether carried at fair value on books or not; and whether building is insured or not; also whether vault and safe are good and secure, and used by the bank only or not; and whether furniture and fixtures are worth book-value or not.]

Building is centrally located on a corner lot. Bank pays a monthly rental of \$7500, and has a lease till 1897. Bank vault a Corlies Safe, and by the bank only.

10, 11, and 12. Due from Reserve Agents, Banks, and Bankers.

[Verify all balances by correspondence on blanks furnished for this purpose, but forward report promptly without awaiting verification. Any discrepancies which may be disclosed should be reported by letter afterward. If any amounts are represented by certificates of deposit issued by other National banks mention these and state whether they are secured by collaterals or not. Balances with State and private banks and bankers which exceed the limit fixed by Section 5200 should be classed with *Excessive Loans*. Verify bills in transit, foreign bills, and other items not in custody of bank, in manner prescribed by Special Instructions No. 2, (October, 1891.)

1011 - 26,087.64 — Due from 4 National Banks
46,962.94 " " 5 State Banks & Bankers

17. Cash Items.

[State whether regular or not; and if overdue or dishonored paper, expense items or the like, are carried here, briefly describe each item.]

Regular

18. Reserve.

[State whether reserve (in bank and with agents) is sufficient at date of examination or not; give average for thirty days preceding that date where practicable, and describe its general condition since last examination.]

Reserve at this date \$3,550,000 which appears about the usual average the banks indicate to carry. Excess over legal requirements \$283,269.63

- Overdraft policy
- Banking house
- Due from banks
- Cash
- Adequacy of the reserve

7. Stocks, Securities, Claims, etc.

Enter number of shares of stock or face value of bonds, and state whether bonds or stocks.	Name of corporation issuing stock, bonds, etc.	Amount at which carried on books.	Estimated actual market value.	State whether taken for "debts previously contracted," or otherwise, and if interest or dividends are regularly paid, etc.
<i>None</i>				

9. Other Real Estate and Mortgages Owned.

Describe property, state form of conveyance, and from whom obtained.	Amount at which carried on books.	Amount of prior lien on property, if any.	Estimated actual value of property.	Date when acquired.	State whether taken for "debts previously contracted," or otherwise.
<i>None</i>					

Loans and Discounts secured by Real Estate—Mortgages or other liens on realty.

Give name of borrower, describe property, and state form of conveyance.	Amount at which carried on books.	Amount of prior lien on property, if any.	Estimated actual value of property.	Date when acquired.	State whether taken for "debts previously contracted," or otherwise.
<i>J. E. Bates Dunwoody Lane Trust Deed</i>	<i>550</i>	<i>500</i>	<i>20000</i>	<i>8/18/91</i>	<i>all taken for debts previously contracted</i>
<i>R. C. Johnson Hawthorn & Oakwood 7 1/2 Acs - Darkley Heights Trust Deed</i>	<i>5700 4570.68</i>	<i>0</i>	<i>40000</i>	<i>1/17/91</i>	
<i>Hodge & Huntington Lat. 10/22 & 13/1 D.D.</i>	<i>4000</i>	<i>1500</i>	<i>5000</i>	<i>1/17/91</i>	
<i>\$ 14,960.68</i>					

Page 5: securities and real estate

- Are securities and real estate overvalued?
- Size of real estate book

LIABILITIES—Continued.

13 and 14. Rediscounts and Borrowed Money.

No. of Bank, 4382

[Where money is borrowed by rediscounts or otherwise, give below list showing where and when accommodation was procured, the form of obligation, and amount of same, rate of interest paid, date of maturity, and whether or not secured by collateral of the bank. State also whether or not bank borrows money habitually, and whether or not such liabilities have been authorized by board of directors. If money is borrowed from other national banks, give full information concerning same.]

Bank does not borrow, either on Bills Payable, Certificates of Deposit or other notes

The Minutes of Board meetings, the records show that less than a quorum, (i.e. five) under date of Feb 6-92. March 1-92, transacted business of Directors which should be confirmed by a full quorum of Directors

Recapitulation.

[State, in all cases, briefly, your opinion as to general condition of the bank, and whether its business is prosperous or not. Wherever it appears that any loss has been sustained or is probable on any item of resources, or that value of same has depreciated, enter the book value of such item or items in schedule below, together with estimated probable loss on same. If no loss is probable, indicate it by the word "none". In every report, state below surplus and profits on hand at date of examination.]

RESOURCES.	Book value.	Probable loss.	GENERAL REMARKS AS TO CONDITION OF BANK.
"Bad debts"	\$ 200	\$ 200	P. H. West Jr. - due 8-11-91 The bank was organized July 24, '90, and has since paid dividends amounting to \$ 120.00 Looking apparently an unimpaired surplus and undivided profits of \$ 57,000 The Managing Officers and Directors appear to give faithful attention to the duties required of them, and the bank has the confidence of depositors and shareholders, and indications point to a healthy course of the business of the institution
Other overdue paper	None	None	
Other loans and discounts	None	None	
Overdrafts	None	None	
Premiums on U. S. bonds	None	None	
Stocks, securities, claims, etc.	None	None	
Banking-house	None	None	
Furniture and fixtures	None	None	
Other real estate and mortgages	None	None	
Cash items	None	None	
TOTAL		200	
Surplus fund	\$ 25,000		
Undivided profits	32,023 75		
TOTAL	60,623 75		
Less current expenses, taxes, etc	6,149 45		
TOTAL SURPLUS AND PROFITS	\$ 54,474 30		

Respectfully,
 [Signature]
 Examiner.

Page 7: borrowed money and recap

- Information about "hot money"
- Recap about bank quality and information about prospective losses

Bank Closures

National

