

# **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

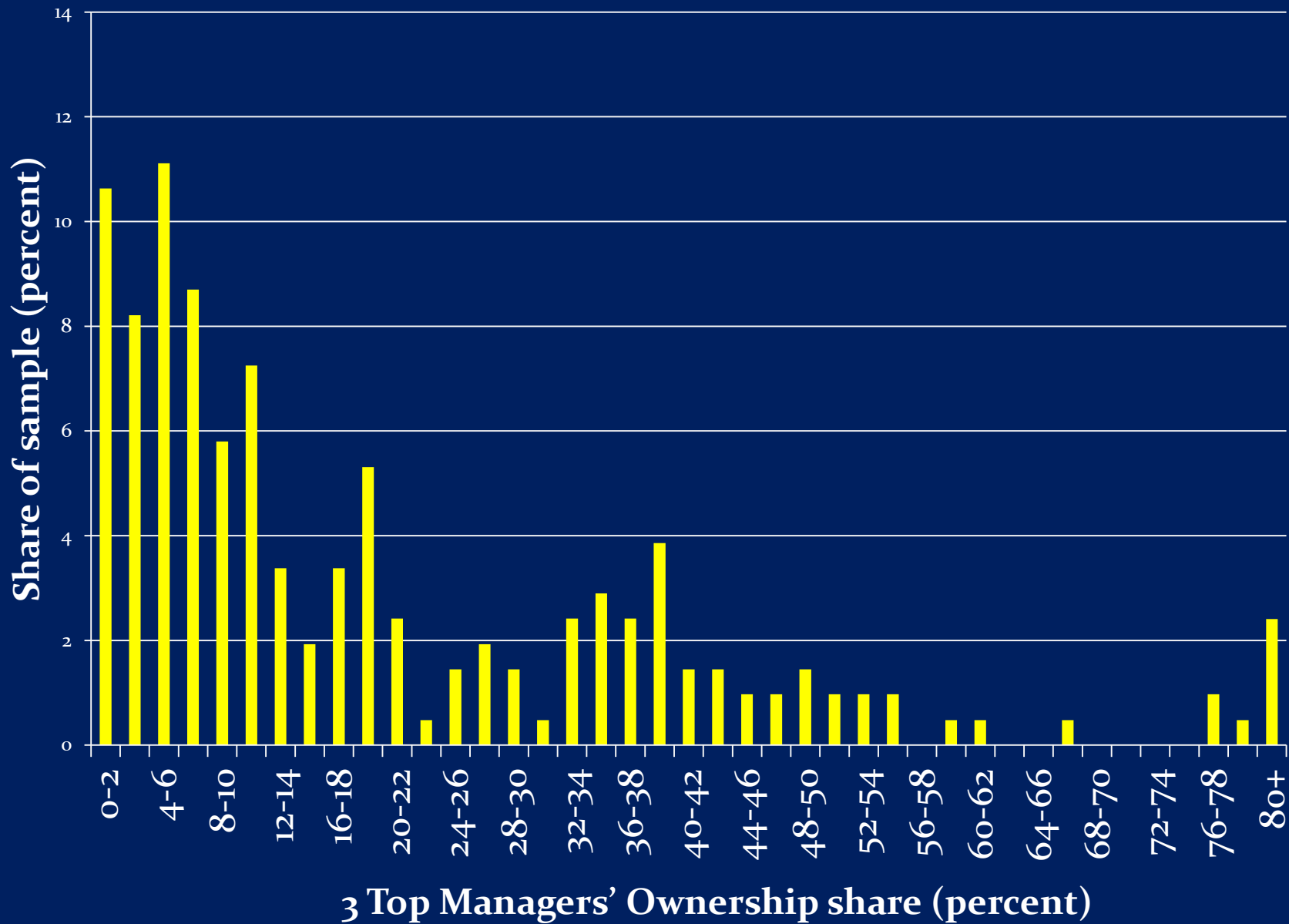
- National bank examination reports (rarely used), supplemented by call reports.
- These contain data on ownership structure, corporate governance practices, contracting arrangements, qualitative judgments of examiners about risk and management, suspension and failure experience of banks, and much more...
- 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.



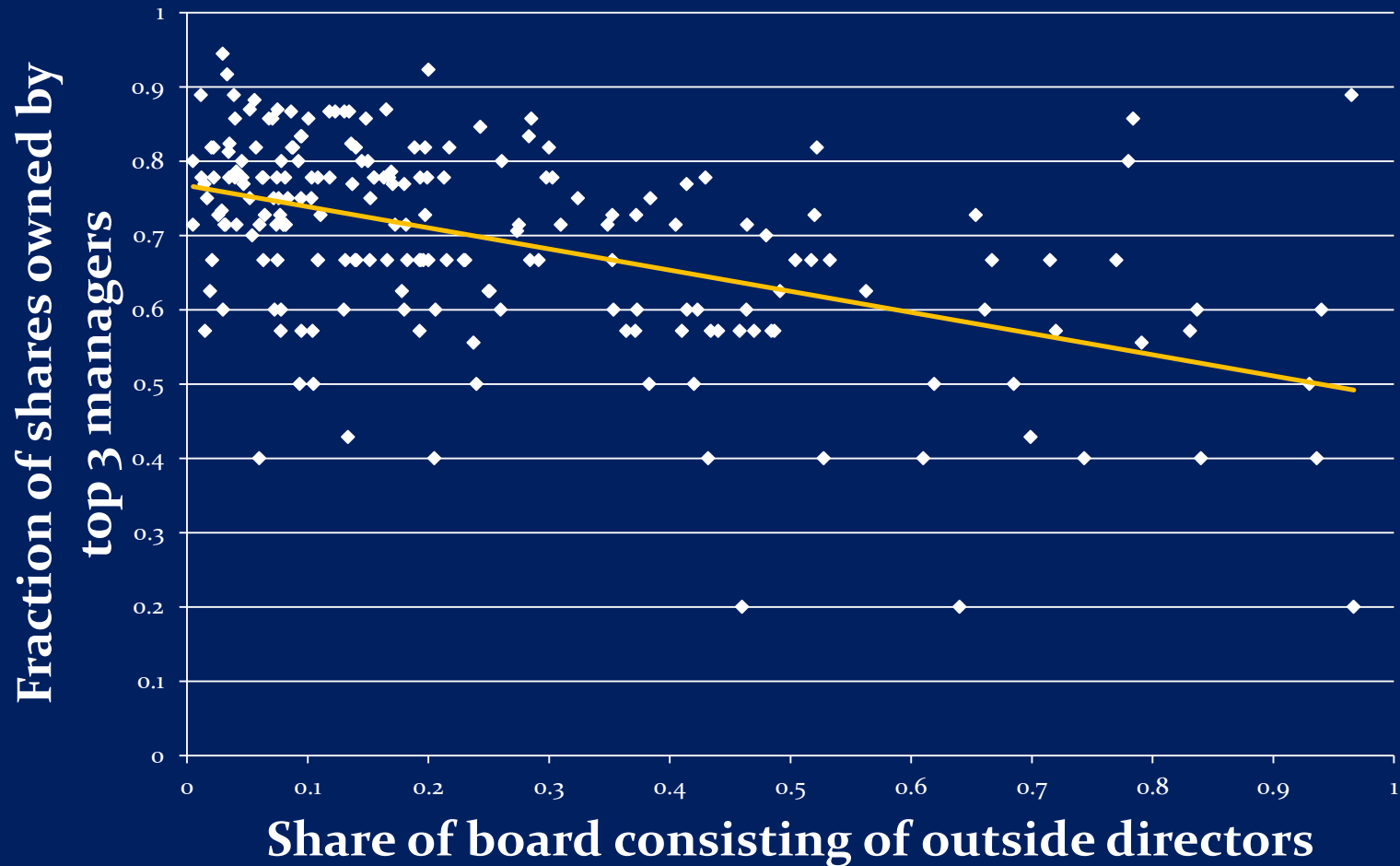
# Boards of Directors

- 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	<b>-0.23</b>	<b>-0.44</b>	<b>-0.25</b>	<b>-0.15</b>	<b>-0.22</b>
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%	-1.80**			
Score		.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		-.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%	<b>-.93*</b>		-.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%	2.30*			
Score		-.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!

Office Comptroller  
JUL 12 1892  
OF CURRENCY

No. of Bank 4382

# 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  
C. W. Woodbury, President. H. H. Frank, Cashier.

RESOURCES.	DOLLARS.	CTS.	LIABILITIES.	DOLLARS.	CTS.
1. Loans and Discounts (see schedule)...	170885	88	1. Capital Stock paid in .....	1000000	00
2. Overdrafts .....	7200	66	2. Surplus Fund .....	35000	00
3. U. S. Bonds to secure Circulat'n (2%)	150000	00	3. Other Undivided Profits, viz:		
4. U. S. Bonds to secure Deposits (1%)	0	0	Discount .....	0	0
5. U. S. Bonds on hand (5%)	0	0	Exchange .....	0	0
6. Premium on U. S. Bonds .....	300	0	Interest .....	15942	65
7. Stocks, Securities, Claims, etc. (see schedule)	0	0	Premiums .....	0	0
8. Banking House .....	0	0	Rents .....	0	0
Furniture and Fixtures, <u>10225</u>	10925	00	Profit and Loss .....	9720	10
9. Other Real Estate and Mortgages (see schedule)	0	0	4. Due to app'd Reserve Agents, viz:	256727	50
10. Due from app'd Reserve Agents, viz:	212095	84			
<u>List on page 8</u>					
<u>Collections in transit</u>	5192	68	<u>Denver Clearing House</u>		
11. Due from other National Banks .....	26047	64	<u>Assets</u>	14839	56
12. Due from State Banks and Bankers .....	46982	94	5. Due to other National Banks .....	166579	34
13. Exchanges for Clearing-House .....	36545	24	6. Due to State Banks and Bankers .....	87894	44
14. Checks on other Banks in same place .....	0	0	7. Dividends unpaid .....	520	00
15. Bills of other National Banks .....	3060	00	8. Individual Deposits, viz:		
16. Uncurrent and Minor Coins .....	203	11	Subject to Check .....	795397	44
17. Cash Items .....	719	25	Demand Certif's .....	56267	36
18. Reserve Fund in Bank, viz:			Time Certificates .....	126270	84
Fractional Silver .....	4296	70	Certified Checks .....	3343	82
Silver Dollars .....	5750	00	Cashier's Checks .....	14286	63
Silver Tr'y Cert's .....	11526	00		995566	09
Gold Coin .....	201	090	9. United States Deposits .....	0	0
Gold Tr'y Cert's .....	450	00	10. Deposits of U. S. Disbursing Officers .....	0	0
Legal Tender Notes .....	14000	00	11. Circulation received .....	135000	00
U. S. Cert's of Dep. .....	0	0	Less on hand and ret'd .....	0	0
C. H. Cert's of Dep. .....	0	0	12. State Bank Circulation outstanding .....	0	0
19. 5 p. c. Red'n Fund with Treas. U. S. ....	237242	70	13. Notes and Bills rediscounted .....	0	0
20. Other Funds with Treas. U. S. ....	6750	00	14. Bills payable .....	0	0
21. Current Expenses .....	6149	45	15. Cash over .....	237	21
Taxes paid .....	0	0			
Interest paid .....	0	0			
22. Cash short .....	0	0			
TOTAL .....	2461298	391	TOTAL .....	2461298	391

## First page Balance sheet

- Similar to items found on the call report



### Directors.

No. of shares owned.	Name.	Post Office address.	Liability as payee, (individual or firm) including overdraft.	Liability as indorser, or guarantors.	Occupation.
572	Woodbury R.W.	Denver Colo	0	0	Text
714	Emery & Co.	" "	400.00	0	Vice Pres
100	Castle Wm H.	" "	0	500	Capitalist
140	Kush W.H.	" "	0	0	Cheese
70	Gutter clipped	" "	0	0	Capitalist
10	Good Wm D.	" "	566.179	0	R.S. Agent & Co
50	Wesson James	" "	25,000.00	0	Agent Russell & Co
25	Corcoran W.F.	Super	0	3000	Wm. Hadden (agent)
230	Humboldt Frank	Denver	4,800.	16,000	Text. Co. pers. Cost 60
50	Gallup John J.	"	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 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 Hayer Jr	Gold Op's	"	7000	0	Cash First 1st Colofp
100 Ladd Williams	Damers	"	7400	74000	Contractor
misc Casswell Joseph	"	"	135	30000	Op - Davis & Mfg Co
1991 Pattee 110			\$77,893.14	126,500-	

Board, & Director meet semi-monthly as required by the By Laws, and the report of same made by the Discharge Committee in the interim is duly submitted. - However, the minutes of the Board meeting are not signed regularly by the presiding officers as called for by By Law 19 - Annual Election regularly held 1/12/22  
6255 2000 representatives

	Names.	No. of shares owned.	Liability as payers, (inherited or trust) including overdrafts.	Liability as indorsers, or guarantors.	Salary.	Bond (if any).	Other occupation (if any).
President .....	Edw. Woodbury	512	0	0	10,000	none	none
Vice-President .....	W. H. Thayer	719	11000	0	5,000	none	none
Cashier .....	W. H. Thayer	140	0	0	4,250	10,000	none
Assistant Cashier .....	None	0	0	0	0	0	0
Teller .....	2 Lockwood & Ellis	0	10,440.68	0	4,300	10,000	none
Bookkeeper .....	J. C. C. - (9)	0	0	0	8,110	18,000	none
					55,660		

[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 Cookies, are all regarded as Capable, and attend closely to their official duties, as such. Are all good characters, hearty 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, are in the Custodian's hands.

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

Daily business, 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 this 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

[The loans and discounts and other securities must be carefully verified and every discrepancy noted.]

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.

(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 them, including all loans reaching limit prescribed by Section 3030. 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.)

Suspended or Overdue Paper, including "bad debts" as defined by Section 5304.

[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.]

Due Due  
 \$465.00 C  
 9255.50 D  
 9621.00 E  
 550.00 F  
 \$26,991.50

All matured within past 30 days  
 and in process of  
 removal, except \$4500 a protected  
 acceptance of \$20000 - 14, drawn by  
 Taylor & Rithgen - due 1/7/23. 92  
 on which there possibly may  
 be a loss - 8 - 2

- 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, net of 1130 of overdrafts, the largest overdraft of \$4,929.06 of the Western Dry 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 such items.]

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 39<sup>58</sup> which appears about the usual average the bank indicates to carry.  
Excess over legal requirements 788,264.63

- 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.
None				

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.
None					

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.
J. E. Bates Dunwoody, Ga. Trust Deed	550	500	2000	8/8/91	All taken for debts previously contracted.
R. C. Johnson Hampden, S. C. 7 1/2 Acs - Oakley, N. C. Trust Deed	5700 4570.68	—	4000	1/17/91	
Hodge & Huntington Lat. 10/22 & 13/1	4000	1500	8000	1/17/91	
	14,960.68				

# Page 5: securities and real estate

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

## LIABILITIES.

### 1. Capital Stock.

No. of Bank, 4382

[State whether stock certificate book and stock ledger are properly kept or not, whether surrendered certificates are properly canceled, and whether stock certificates are signed in blank or not. Verify stock ledger in manner prescribed by Special Instructions No. 2, (October, 1901). State also whether or not the bank owns or holds as collateral for loans any shares of its own stock, and, if so, for what purpose taken, and how long held. In the case of a new bank ascertain and state whether its capital has been properly paid in, or whether any shareholders' notes have been taken in payment of capital stock.]

The stock certificate book is properly kept, showing receipts on the State of all outstanding certificates. Surrendered certificates are properly cancelled. However the ledger is not explicit in the matter of noting transfers, and the Bank has never provided the book for the formal assignment of the stock by the owner in person or by attorney, as called for by Bylaws 15. Bank does not treat any of its stock as collateral or otherwise.

### 2 and 3. Dividends and Surplus (Sections 5199 and 5204 U. S. Revised Statutes).

Date of last dividend, Apr 30, 91 Amount, \$ 40.000 Carried to Surplus, \$ 5000  
Charged off since last examination: Losses, \$ 12,756.95 Premium, \$ 32.50 Decrease of values, \$ 00

[If any reason is known why the bank should not declare a dividend at the end of the current dividend period, state this.]

### 4, 5, and 6. Due to 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. State whether amounts are due on open account, or on demand or time certificates of deposit, whether secured by collaterals or not, and what rate of interest, if any, is paid. If money is borrowed from other National banks give full information regarding same.]

No 5 = 166,129.34 Due to 19 National Banks  
6 87,829.44 " 13 State Banks & Bankers

### 8. Individual Deposits.

[State whether interest is paid on these or not, and if so, at what rates and to what extent. Also whether certificates of deposit are issued for the purpose of borrowing money or not, and if so, give list of such, showing amount of each certificate, to whom issued, whether payable on demand or on time, and at what rate of interest, and whether secured by collaterals of the bank or not. State whether a proper record of all certificates of deposit issued is regularly kept in a book for that purpose or not. The amount of these certificates outstanding at date of examination, as well as deposits subject to check, should be verified by the examiner, in manner prescribed by Special Instructions No. 2, (October, 1901), and any discrepancy discovered should be noted in the report. If certificates of deposit are issued to other National banks give full information regarding same. If bank conducts a "savings" department, state the amount of deposits in same, with rate of interest paid, and inclose with report a specimen of pass-book issued by bank to depositors of this class.]

Bank pays interest on deposits subject to check, only to Pres of State of Colorado - 4% - (for days balance 43,445.76)  
" Spec Dist. No 2 2 1/2 ( " " 45,718.88)  
" St. Joseph C 2 1/2 ( " " 27,827.04)

Bank pays rate 4% on certificates of deposit, if amount is left one year.  
All certificates (by custom) are payable on demand of free value.  
A book for the regular registration of certificates is kept and made use of.

## Page 6: Capital stock and liabilities

- Condition of stock certificate book
- How profits allocated at last dividend date
- Due to agents
- Some information on deposits



# LIABILITIES—Continued.

13 and 14. Rediscunts and Borrowed Money.

No. of Bank, 4382

[Where money is borrowed by rediscunts or otherwise, give below list showing where and when accommodation was procured, the form of obligation, 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 wise

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

## 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>W. West Jr. - due 8-11-91</p> <p>The bank was organized July 24, '90, and has since paid dividends amounting to \$120,000 leaving apparently an unimpaired surplus and undivided profits of \$57,000</p> <p>The Managing Officers and Directors appear to give thoughtful attention to the duties required of them, and the bank has the confidence of depositors and shareholders, and indications point to a healthy increase of the business of the institution</p>
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	200	
Surplus fund.....	\$ 25,000		
Undivided profits.....	25,072.75		
TOTAL.....	60,672.75		
Less current expenses, taxes, etc.....	6,149.45	58,523.30	
TOTAL SURPLUS AND PROFITS.....	\$ 57,323.30		

a healthy increase of the business of the institution

Respectfully,  
W. West Jr.

TO THE COMPTROLLER OF THE CURRENCY,  
Washington, D. C.

Examiner.

## Page 7: borrowed money and recap

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

# Bank Closures

## National

