

Kansas Banking dept.

ELEVENTH BIENNIAL REPORT

OF THE

BANK COMMISSIONER

OF THE

STATE OF KANSAS.

SEPTEMBER 1, 1912.



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KANSAS BANKING DEPARTMENT.

1911-'12.

Bank Commissioner, J. N. DOLLEY.
Assistant Bank Commissioner, S. A. WARDELL.
Special Assistant Bank Commissioner, F. J. PARTRIDGE.

Deputy Bank Commissioners,
W. E. BENNETT.
A. D. FARLEY.
C. A. HART.
MERRITT JEFFRIES.
A. S. KING.
GEO. T. MCCANDLESS.
J. M. REYNOLDS.
GEORGE YOUNG.

Deputy and Bookkeeper, ANNA E. SPECK.
Clerk, E. E. PAGE.
Stenographers, C. A. PARTRIDGE.
ANNA B. RUDER.
L. H. MORSE.

Special Secret Service Agent, J. S. SEARLS.

BUILDING AND LOAN SECTION.

Deputy Bank Commissioner, W. T. NEWMAN.
Office Deputy Building and Loan, P. S. TOMSON.

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JAN 27 1913

LETTER OF TRANSMITTAL.

Hon. W. R. Stubbs, Governor.
TOPEKA, September 1, 1912.

DEAR SIR—In compliance with section 515 of the General Statutes of Kansas of 1909, I herewith transmit this report, which is the eleventh biennial report of the state banking department.

At the date of this letter of transmittal there are in operation under the supervision of this department 892 state banks, 4 private banks and 5 trust companies.

I point with pride to the fact that not a single dollar has been lost during the past two years by depositors in the state banks of Kansas. Instead of the method prevailing in the past, this department has adopted the policy of rejuvenation in all cases. In several instances, banks, which it would be unwise to name, have been found in straitened financial circumstances, but by prompt work on the part of this department these banks in every case have been reestablished upon a firm and solvent financial basis. Numerous incompetent and dishonest officers have been summarily removed from office, and the vacancies thus created filled with practical and experienced bank managers, with the result, as above stated, of absolutely no losses to depositors from insolvency of banks during the past two years.

The suits which were brought against the bank depositors' guaranty law were carried to the United States supreme court, and that court held that the guaranty law was constitutional in every respect. This ended the legal fight against this law, and has firmly established the principle of guarantying bank deposits in the banking and business world to stay.

At the present time there are 456 banks operating under the guaranty law. We have in that fund in bonds and cash in lieu thereof, to guarantee the payment of assessments, \$341,349.10, and in the assessment account \$83,231.03. To date not a single cent has been withdrawn from this fund, although in the case of the Abilene State Bank guaranty certificates to the amount of \$46,809.75 have been issued against it, this being the amount that that bank owed its depositors at the time its doors were closed. It is confidently believed, however, that this bank when finally closed out will pay its depositors in full out of its own assets, so that these certificates can be surrendered and canceled.

The guaranty Law in Kansas has done more to put the

Handwritten: March 12, 1913 S. L.

proper amount of confidence in the state banks, than any other one thing since its enactment. It has also done much toward assisting us to regulate and supervise the banks in the manner that they should be and raising them to their present high standard. I am pleased to inform you that the guaranty law has been a success in every sense of the word.

Two of the worst gangs of bank robbers which have ever infested the Middle West were operating in the state of Kansas at the time I took active charge of the banking department, one on the north line of the state, with headquarters at Wynore, Neb., and one on the south line with headquarters in Oklahoma. In the years of 1908, 1909, 1910 and the first three months of 1911, there were one hundred twenty-five banks robbed in the states of Oklahoma, Nebraska, Arkansas, Missouri, Texas and Kansas, thirty-eight of which were in this state. Kansas was apparently helpless to prevent these outrages against its citizens and their properties. In March, 1911, this department secured a special appropriation from the legislature and employed one of the best detectives in the United States, Mr. J. S. Searls. (We secured the active support and cooperation of the National Surety Company of New York, through their state agent, Mr. R. A. Algire, of Kansas City, Kan., and a great deal of the credit for the results accomplished is due to the efforts of Mr. Algire.) We began to make a campaign against the bank robber in Kansas. We worked in conjunction with the Anti-Horse Thief Association, the United States government, and various other officers and organizations. No less than fifty-five of the most desperate bank burglars in America, who were all more or less connected with the organizations of robbers operating in Kansas, have been captured and placed in the penitentiary for terms ranging from ten to fifty years. Both of the gangs mentioned above have been completely wiped out. As a result of this work, not a single bank has been robbed in Kansas since that time, and only one attempt, while the other states mentioned have had as many or more than ever before.

Mr. Searls has also been of inestimable value to this department in running down embezzling bank officers. A notable example of our work along this line is the capture of John A. Flack, the embezzling bank cashier who caused the failure of the Abilene State Bank. Mr. Flack escaped at the time of his embezzlement and the officers were unable to locate him. However, Mr. Searls, finally tracked him to New York city and effected his capture after he had been at large about two years, and he is now under arrest and awaiting trial at Abilene with eleven charges filed against him.

This detective has not only been of inestimable value to us in capturing bank robbers and embezzling cashiers, but he has also secured convicting information and evidence for us in a

very large number of cases when we otherwise would have been helpless.

The banking department has been put on as nearly a civil service basis as it is possible to put it under the present law. Not a single employee now holds a position under this department for political reasons. Each man is required to take an examination and show himself competent to hold the position sought before he is appointed. Each employee is very closely checked up, and if at any time he shows a weakness or does not do his duty his place is immediately filled by a more competent person. I strongly recommend that the banking department, both as to Bank Commissioner and all his employees, be entirely removed from politics.

The system of bank examination has been steadily improved until it has reached a very high state of efficiency, and I believe compares favorably with that of any other state in the Union or with that of the government.

This department has just recently issued an order providing that any person desiring to become a cashier or managing officer of a Kansas state bank must have had at least two years' actual, continuous experience in banking, and the record of this two years' experience must show that they were persistently faithful to their work; and further than this, unless they have had at least five years' actual experience and their record first-class for that period, they must report to the banking department and take a written examination on the Kansas banking laws in general, the corporation law as it applies to banks, the negotiable instruments law, and the practical and technical points of everyday business and banking. If they pass this examination with a grade of at least seventy per cent they are issued a certificate entitling them to become the cashier or managing officer of a Kansas state bank.

This department has found, upon investigation and research, that much of the trouble in Kansas banks is caused by incompetency and lack of education in banking, without any preparation by the would-be-banker to fill the responsible position of managing officer of a bank. Many men are allowed to go into the banking business who have no talents, experience or education for this great, important work, and disastrous results too often follow. The department is very anxious to elevate Kansas banking to the highest state of perfection and efficiency, and has decided that no steps can be taken to accomplish these ends with more certainty than our present position as to the preparation and education of men for the Kansas banking service.

The department succeeded in getting the last legislature to pass House bill 906, commonly known as the Kansas "Blue Sky" law, providing for the regulation and supervision of the sale of stocks, bonds and other securities. This law, as you

know, was something entirely new in the business world, but I am pleased to inform you that we have worked the same out in very nice shape and accomplished some wonderful results. I estimate that it has saved the people of this state at least six million dollars since its enactment. Between fourteen and fifteen hundred companies have been investigated by this department since the enactment of this law, and of this number less than one hundred have been granted permits to sell their securities in Kansas. The law is rapidly gaining fame all over the civilized world, and I believe that a large number of the states will adopt a similar law at the coming sessions of their legislatures. I believe that a movement has been started that will eventually result in the regulation and supervision of all kinds of companies in the same manner as banks are now regulated and supervised. There are a few minor amendments that should be made to this law, which I will be pleased to recommend to the legislature at the proper time.

Through the enactment of the charter limitation law, being section 2, chapter 125, of the Laws of 1911, there has been granted to the Charter Board the absolute right to prohibit the organization of banks in any territory except where a strict investigation shows the need of a new bank to be a matter of public necessity.

Prior to the enactment of this law a number of charters were refused, which convinced me of the necessity of the enactment of this feature of limitation, and since the enactment of this law charters have been refused in a great number of cases. Kansas, in my opinion, is now recovering from the effects of a wave of bank organization for speculative purposes, and later developments have proven that in a majority of the smaller towns of the state having two banks, the second bank, instead of being a credit and help to the community, has resulted in the weakening of the older institution, and has demonstrated conclusively that a new bank is, in most cases, the result of inability to properly judge the need of banking facilities. This law has done and is doing a great deal toward helping to properly regulate and supervise the banks in the best interests of the people.

LEGISLATION.

The banking law at the time of its first enactment, in 1891, has proven itself to be in need of substantial amendment, and practically every legislature since that time has added to or taken from this law some important feature. The last session of the legislature was very liberal in the enactment of legislation recommended by myself, as bank commissioner, and at this time, aside from a few minor and unimportant changes, I consider the Kansas banking laws to be in very good shape.

BONDS OF OFFICERS.

An investigation conducted by this department during the past two years has shown that in at least 70 per cent of the banks the bonds of the officers are insufficient in amount, and in numerous instances these bonds are merely personal bonds, signed by sureties who are unable financially to meet the obligation created by the signing of the bond, should they be called upon to do so. The experience of this department has been that personal bonds are not satisfactory in a majority of cases when we are forced to realize upon them if possible.

A ruling was promulgated by this department in January, 1912, requiring a minimum bond of \$10,000, which has been rigidly enforced. In this connection I would recommend that section 9 of the banking law be so amended as to require a graduated bond according to the total assets of the bank, with a minimum of \$10,000, and further require surety bonds in all cases. I would further recommend that the law provide that all bonds shall be deposited with the bank commissioner as custodian, and thus permit better supervision and scrutiny of same.

CLOSED BANKS.

The Citizens and Farmers State Bank, Arkansas City, Kansas.

As stated in the report of this department, under date of September 1, 1910, the winding up of the affairs of this bank has extended into the period covered by this report. The same receiver, Merritt Jeffries, is still in charge of the affairs of this bank. Although its assets, with the exception of 180 shares of the capital stock of the Arkansas City Ice and Cold Storage Company, have been disposed of, there yet remains at this time a liability to the depositors of approximately \$18,300, being equal to an eight per cent dividend on the receiver's certificates. The receiver has at this time a bid of \$80 per share on this stock, which on account of its being insufficient to pay the depositors in full and settle the attorneys' fees and court costs, has been refused.

There is pending in the United States circuit court at Kansas City, Mo., an action on the directors' liability of Wm. A. Wilson, former president and controlling officer of this bank, and I am informed by the receiver and his attorneys that this suit promises success.

Considerable agitation has developed owing to the dilatory court proceedings, and in August of the present year Attorney-general Dawson was requested to make special investigation of the management of the affairs of this bank. To date the report of his investigation has not reached this department. It is confidently believed that in the near future the final settlement with the depositors of this bank will be made, paying them in full.

The affairs of the Bank of Arcadia, Arcadia, Kan., the Garland State Bank, Garland, Kan., and the Bank of Ellinwood, Ellinwood, Kan., have all been finally wound up and closed out. These banks were closed previous to my term as bank commissioner.

THE ABILENE STATE BANK, ABILENE, KAN.

This bank was forced, through the defalcations of John A. Flack, its cashier, to suspend business in September, 1910, and Ed Makins, of Abilene, Kan., was appointed its receiver.

According to the report rendered by the receiver on July 22, 1912, there was due and unpaid to depositors a balance of \$40,408.48, with total assets in the possession of Receiver Makins amounting to \$97,526.96, which with the liability of certain of the directors of that bank, if judiciously handled, should pay all claims in full and dispense with the necessity of making payment through the guaranty fund. Payment from the guaranty fund can be made only at the exhaustion of all other resources; hence, these certificates are at this time remaining in the hands of the depositors of that bank.

IN CONCLUSION.

I take pleasure in saying to you that, as a whole, the banks of this state are in a sound and solvent condition, and are, moreover, prosperous and flourishing. From the fact that crop conditions have been eminently satisfactory, I feel that at this time Kansas state banks are enjoying the most sound and prosperous years of their existence. I know of no state banks in operation in this state in which I would hesitate to deposit personal funds.

In my former report I assured you that as bank commissioner I would put forth every possible effort toward the maintenance of a higher standard and the improvement of banking conditions in every material way. I am indeed proud to submit the work of this department to you and to the people of this state, and allow you and them to judge as to what results we have accomplished.

Respectfully submitted,

J. N. DOLLEY, *Bank Commissioner.*