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Sleazy Banking in the '20s and Today

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Irresponsibility, corruption, and regulatory failure are not new to the American financial system. In fact, the S&L debacle of the 1980s ominously parallels the banking failures of the 1920s.

More than 5,500 banks failed during the nine supposedly roaring years before the Crash of 1929. The bankers, however, were not blamed for these insolvencies, least of all by the Hoover administration, which proclaimed that the system had "broken down through causes beyond the control of individual banker[s]."

The breakdown was particularly acute in Florida, where uninsured depositors lost millions. Between 1926 and 1929, 125 Florida banks failed and bank assets declined from \$943 million to \$375 million. Ernest Amos, the elected state comptroller, declared that Florida's bankers were "splendid business men," victimized by the collapse of the land boom. But virtually every bank failure involved insider abuses, a conscious conspiracy to defraud, or both.

Unscrupulous bankers gambled with depositors' money while politicized regulators passively watched the looting. Senior bank regulators often wasted many of the remaining assets on politically active lawyers, whose public positions were compromised by their private interests. Palm Beach National Bank's failure was typical of those that occurred during the great Florida land rush.

Palm Beach National Bank, was chartered in November 1924 by Henry M. Dawes of Illinois, then-U.S. comptroller of the currency and brother of Charles G. Dawes, Calvin Coolidge's running-mate in 1924 and co-winner of the 1925 Nobel Peace Prize.

Federal regulators were intimately aware of the new national bank's insider abuses and bizarre land deals. Bank examiners fully realized that Palm Beach National Bank was affiliated with the state-chartered Palm Beach National Bank &

Trust Co. through common ownership and interlocking directors; and that the national bank purchased loans, amounting to twice its capital, from the state bank. The government also knew that the national bank was affiliated with Mizner Development Corp. and that the bank had concentrated 77% of its capital in loans to Mizner and its president, Addison Mizner.

Mizner, whom historian George Tindall called "one of the great charlatan-geniuses of the Twenties," designed a grandiose plan to transform Boca Raton into the world's premier resort. At its center would be Castle Mizner, his own \$1 million house, complete with medieval drawbridge. Some of the most prominent people in the country were enticed into Mizner's fantasy. U.S. Sen. T. Coleman du Pont (R., Del.) became chairman of the board for the Mizner company. Rep. George S. Graham (R., Pa.), chairman of the House Judiciary Committee and a lawyer for the du Pont family, was also on the board.

Another of Mizner's directors, William Arthur White, president of Palm Beach National Bank, could have taught today's S&L managers a few things about the politics of banking. When his bank needed regulatory approval to issue more stock, White asked his friend, Rep. Graham, to intervene. Graham immediately wrote to U.S. Comptroller of the Currency Joseph W. McIntosh for a "personal favor." In March 1926, after finding the bank "absolutely solvent," the comptroller's office approved the application—three weeks before it was filed. Rep. Graham then became a stockholder and director of the bank.

Palm Beach National Bank was used to influence state regulation of Palm Beach Bank & Trust Co. The national bank made loans to State Comptroller Ernest Amos and his chief bank examiner. Amos's loan went sour and the examiner's "loan" was repaid by an officer of the state bank.

These banking manipulations came to an abrupt end in June 1926, when both

banks failed. Mizner's insolvent company was rescued from bankruptcy by Central Equities Corp. of Chicago, owned by Vice President Dawes and his brothers. This bailout only delayed the inevitable, as the Mizner properties, burdened by \$15 million of debt, were sold at auction the following year.

Palm Beach National Bank's receiver repeatedly urged the comptroller to have the bankers indicted for embezzlement and criminal fraud, but Comptroller McIntosh issued an official statement that the bank failed because of a "local financial depression from unforeseen agricultural or industrial disaster." Privately, McIntosh said he placed Palm Beach National Bank in the hands of a receiver because excessive insider loans and other "foolishness" demonstrated "bad management."

Meanwhile, outraged depositors of the defunct state bank demanded an investigation. In September 1926, a Palm Beach County grand jury indicted Florida Comptroller Amos and five officers of Palm Beach Bank & Trust Co. The bankers were accused of making illegal loans of more than \$500,000. The grand jury charged that Amos "wholly and shamefully failed in his duty to safeguard the interests of depositors by proper examination and proper control of irresponsible banks and bankers." He was acquitted on those and subsequent criminal charges, but he was defeated for re-election in 1932.

Comptroller McIntosh appointed Vice President Dawes's friend of 30 years, former U.S. Senator Lawrence Y. Sherman (R., Ill.), as general counsel to the bank's receiver. Sherman had served as Dawes's lawyer in private matters, and had owned stock in a Dawes company. He had been instrumental in the nomination of Dawes as the vice-presidential candidate at the 1924 Republican convention. When Sherman's excessive fees created problems with the comptroller's staff, McIntosh intervened to make sure the dispute was "fixed up."

Sixty years later little has changed. Now it's the taxpayers, rather than the depositors, who have to pay for the insider abuses that are hidden by bank secrecy laws. Currently, federal bank records are kept confidential for 50 years after an insolvency; in Florida state bank records remain secret indefinitely. Because of federal deposit insurance and taxpayer bailouts, however, banks and thrifts are public institutions whose true condition should be on the public record. Congress should pass a Truth-in-Banking law to mandate real financial disclosure in the banking and savings and loan industries. Public release of bank examination reports as soon as they are compiled should be an essential provision of the new law.

Mr. Vickers, an attorney in Tallahassee and a former bank and thrift regulator for Florida, is working on a book about the banking crisis of the 1920s.