THE COMMERCIAL BANK OF LAFAYETTE AND TRUST CO.

By Phil Dismukes

The causes and cures of business cycles have plagued economists since man became civilized enough to engage in commerce. History could be depicted as a contour of the mountains of economic prosperity and valleys of depression. If such were the case, the decade of American history from October 1929 to 1939 is a jagged valley of economic crises and dislocations including the bank holiday in March 1933 which is of primary interest in this paper. The Great American Depression was a watershed in American politics and state economics. The New Deal initiated change in many areas including the policies of the government and the attitudes of the people.

In the particular case of the bank holiday, the attitude of the people of America was one of fear. By 1933 the American public had been through four years of deep economic depression and as President Herbert Hoover stepped down from office on Friday evening, March 3, 1933, events were taking form which would pile one more crisis on top of those already encountered. In assessing the condition of the country, as well as that of the banks, Hoover said, "We are at the end of our rope. There is nothing more we can do." And for a man who had struggled with the problem of a national economic depression for the four previous years, there was nothing more he could do. The American public had reason to
fear the uncertain future.

Like the Depression, the banking crisis cannot be attributed to any one particular event, action, or policy. However, Raymond Moley, who was close to the sources of power and carefully noted the actions and reactions of the men in control, attempted to give a general explanation for the crisis in his book, *The First New Deal*. He pointed out that the decade prior to the Depression saw a great deal of unwise legislation, bad supervision, and irresponsible risks taken in regard to the American banking system. Furthermore, the general flush economic conditions of that period further inflated the bubble. Speculation of all kinds was the order of the day, and banks were no less prone to take bad risks than anyone else. However, by the time the bubble burst with the crash of the stock market, speculation was replaced by fear and despair. The actions and policies of the 1920's left financial institutions on very shaky ground and the public sensed it. Moley contends that it was this fear, real or imagined, that intensified the problem which culminated with the bank moratorium on March 6, 1933. As people tried to allay their fears by withdrawing their money from the unstable banks, their fear was reinforced by the failure of the banks to meet their demands. Small runs snowballed into large runs until the whole situation became frozen. Liquid funds began to dry up and banks were forced to close their doors in greater and greater numbers.

Moley attempted to explain the bank failures by tying them to the stagnation of American agriculture. Small rural banks
in predominantly agricultural areas such as the Midwest, Northwest, and South, failed as they were not able to satisfactorily foreclose on the large mortgage loans they had made. Many of these small banks owed their existence to Populistic pressure in Congress which had reduced national bank capitalization from $50,000 to $25,000. The result of this action was to encourage small, undercapitalized banks at almost every curve in the country road. Such banks were only solvent as long as the economy was expanding. Economic contraction caused by events occurring halfway around the world pierced their bubble of prosperity and by the time the nation entered the third decade, the newspapers were full of stories of bank failures.

However, though the situation on a nationwide level was bleak, Louisiana managed to escape with only minor economic harm. The state was fortunate to have in the person of J. S. Brock, a competent and conservative state banking commissioner. Furthermore, the state banking examiners were supported by wise banking legislation enacted at the turn of the century. This enabled the state to achieve a remarkable record in comparison to bank failures in other states.

In 1930, of the country's 1,345 bank suspensions, this state [Louisiana] had but three. All were small institutions. The following year, the country had 2,323 failures, and but five were checked against Louisiana, one of which will be reopened next week. Of the billion and a half dollars in deposits tied up by bank closings in 1931, Louisiana added to the total only $1 million.
This year to date, there have been 619 banking casualties, but one, a $70,000 institution, taking place in Louisiana.

When we are reminded that there were states with two and three hundred suspensions each, in 1931, Louisiana's achievement becomes the more vivid.

The Louisiana Bankers Association makes the claim that Louisiana leads the 47 other states in practically every financial test. The strength of Louisiana banks is a reflection of the strength of the underlying condition of the State.  

In fact the conditions in the State were such that only 105 banks had failed in the period from 1900 to December 1933.  

However, Louisiana was not without its bank failures, as the reports of the state banking commissioner amply illustrate. The first real signs of a financial panic began in December, 1931, when the Opelousas-St. Landry Bank and Trust Co. was abruptly closed by its president. There followed closings of banks in Crowley, Abbeville, Maurice, Cheneyville, and Loreauville, all small towns in south-central Louisiana. Within a week's time the bank was reorganized in the form of the St. Landry Bank and Trust Co. with a capitalization of $150,000. The old depositors were all paid off in full and the other banks were also reorganized and reopened. Later on, all of these banks were able to qualify for acceptance into the Federal Deposit Insurance Corporation. It appeared that the first skirmish had been successfully negotiated.

In this case and in later cases of frozen banks, it was the policy of the Banking Commission to use all possible tools to avoid the rigors and dangers of liquidation. These included reorganization,
merger, and the dubious practice of pumping the banks with public funds from the state treasury. Brock devised a plan for bank reorganization which involved giving the entire bank over to the control of the depositors. In most cases they would accept half of their deposits in certificates of deposit and the other half in new bank stock. Twenty-four banks were thus reorganized during 1933 in this or a similar manner.

Brock, however, was not the only state official involved in maintaining sound banks. The infamous Huey P. Long, then governor of the state, played an important though unpublicized role in many instances. Old-time banking officials in the state are fond of telling the story of the worried bank president of a small bank who called Huey in the middle of the night to inform him that a large depositor was planning to make a large withdrawal the following morning. The bank, in an already precarious state, could not meet the demand. Long is reported to have jumped in his limousine and raced to the bank. That morning he met the depositor in his famous rumpled pajamas and told the man that he would personally guarantee the safety of his money. However, if the man insisted on making his withdrawal, Huey would withdraw all the state funds first, thereby breaking the bank and inflicting a lost on the depositor. The validity of this story cannot be established, but it is known that Long played an important role in keeping many banks on their feet. Brock reported that Governor Long was most influential in reorganizing the previously mentioned Opelousas-St.
Landry Bank and Trust Co. Long was also destined to play a role in the formation of the Commercial Bank of Lafayette and Trust Co.

The City of Lafayette was a small southwestern Louisiana town of about 30,000 people. In 1931 it served as an economic center for the large surrounding agriculture area. In the role of such a service center, the town had great need for adequate banking facilities. Lafayette was being served in 1931 by two state banks, the Bank of Lafayette with assets of $3 1/4 million and the Commercial National Bank with assets of approximately $1 million, and by one national bank, the First National Bank and Trust Co. with assets of $2 1/2 million. Of the three banks, the Bank of Lafayette was in a frozen condition. The March 27, 1931, issue of the local newspaper, the Daily-Advertiser, noted cryptically that Governor Huey Long was in town and in conference with unknown persons. A spokesman for Long refused to comment on the reason for his presence. The next day below headlines "Two Local Banks Merged" the Advertiser reported that the Bank of Lafayette and the Commercial National Bank had merged to form the Commercial Bank of Lafayette and Trust Co. With perhaps unfounded optimism, the article commented that "...with its capital stock and reserve totaling nearly a million dollars, and deposits of approximately two and three-quarters millions, the new institution will be one of the strongest banks of the South." The editorial that day displayed even more uncharacteristic optimism. It noted, "The much flaunted depression is passing. Business reports from
all over the country indicate that the trend is towards better business. Lafayette is fortunate in this crucial time to have an extra good fortune in strengthening of the local financial situation.\textsuperscript{13}

Mr. Wilfred Begnaud, who at that time was cashier for the Commercial National, was one of the men at the conference with Governor Long. He reported that both Long and commissioner Brock were in attendance and that both men had come to the city specifically to help in the reorganization of the frozen bank. The plan devised for the reorganization involved merging the stock of the two banks and issuing to the new bank a new portfolio of stock at dollar for dollar value of the old stock of the Commercial National Bank. The stock of the Bank of Lafayette was then canceled and an account was established to be charged with the gains and losses from problematical assets of the frozen bank. Mr. Begnaud, who later became Louisiana State Bank Commissioner, was unalterably opposed to the merger and resigned his job in protest.\textsuperscript{14} However, the merger went through and the officials were confident that the bank could withstand the winds of violent financial dislocation.

Unfortunately the new bank found itself in trouble before the end of the year. On December 31, 1931, it closed its branch in the small neighboring town of Duson.\textsuperscript{15} Meanwhile many of the nation's banks were rapidly deteriorating as heavy depositor demands forced them into non-liquid positions. Despite the fact that only one small bank failed in Louisiana in 1932 (its credi-
tors were paid 50% on the dollar on the closing day), Brock felt that the worsening situation warranted either a state-wide bank operation moratorium or limited asset withdrawal rules. Late in December, 1931, Brock reported a meeting between Federal Reserve officials, Governor Long, and the Louisiana Bankers Association at which time credit support for all Louisiana banks was arranged, until the establishment of the Reconstruction Finance Corporation in January, 1932.16

Early in 1933 the system began to come apart at the seams. Commissioner Brock in the Banking Commission's report for 1932-33 reported the situation:

The failure of the Canal Bank and Trust Co., the Hibernia Bank and Trust Co., and the Interstate Trust and Banking Co., to remove the restrictions placed upon them by the national government, caused probably 90% of our bank troubles--both national bank and state bank--in Louisiana outside of New Orleans.

The trouble started in February, 1933, when large western and eastern corporations began to withdraw funds. Their fear was based on Representative Fish's criticisms in the House [of Representatives]. Long interceded to keep Hibernia on its feet with help from the RFC Reconstruction Finance Corporation.17

Brock goes on to praise Huey Long for his diligent efforts to help Louisiana banks: "Had it not been for Senator Long's splendid work in early February, 1933, Louisiana and adjoining states would have been in desperate straits a month before the national holiday."18 It is interesting to note that though Long had resigned the governorship and gone to Washington by this time, he still maintained almost absolute control of the state government through his hand picked successor, Governor O. K. Allen, and his
political cronies in the State Legislature.

Even the power of Huey Long was not enough to stave off the financial crisis which confronted Louisiana and the nation. Solutions to the immense problem were being sought everywhere. In the year prior a number of states, including Michigan and Wisconsin, had enacted statewide moratoriums on bank transactions in attempts to weed out the shaky institutions who were close to collapse. On March 2, 1933, Governor Allen closed Louisiana banks for a three day holiday. In doing so, he remarked that, "...the best interest and welfare of the people of the State of Louisiana demanded that the three day holiday be declared." 19 Brock further explained that the action was forced by neighboring state holidays which would bleed Louisiana white with withdrawals. The next day, Friday, March 3, a number of banks were reopened with a 5% withdrawal limit on individual deposits. Among these was the Commercial Bank of Lafayette and Trust Co. On Saturday, March 4, Franklin D. Roosevelt was inaugurated as the 32nd President of the United States.

The situation looked bleak to FDR as he occupied 1600 Pennsylvania Avenue that Saturday evening. The new President had campaigned on a platform of change, and the banking crisis gave him his first opportunity to initiate a new policy. He was not long in taking advantage of that opportunity. Monday, March 6, he declared a national bank holiday which was to last for four days. During that period bank examiners would examine banks and
allow only those which were financially sound to reopen. The next day, Tuesday, Louisiana banks were allowed to reopen, but were restricted to making change, opening safe deposit boxes, and delivering properly identified documents and securities. The Louisiana holiday on state banks was also extended to Thursday.

When Thursday arrived, President Roosevelt announced that he wanted to open all sound banks in the country, but was waiting on Congressional action. Congress was scheduled to meet that afternoon. In Louisiana, banking officials held off state action until the Federal government made some move. By Saturday Louisiana banks were being checked for solvency and gradually being re-opened. However, on the next Tuesday Governor Allen extended the state holiday through Saturday, March 18, to allow state banks not in the Federal Reserve System to benefit from examination by Federal bank examiners.\footnote{20} After being examined, the First National Bank of Lafayette opened on Thursday for full, unrestricted business. On Saturday Allen allowed some 84 of the approximately 150 Louisiana state banks to begin operations. The Commercial Bank of Lafayette was one of these 84. Brock sent the following message to the president of the bank, T. L. Evans: "Our very close examination of the Commercial Bank of Lafayette and Trust Co. shows your bank to be solvent and in the opinion of this department, any and all difficulties of your institution are due to the frozen condition of the country generally prevalent."\footnote{21}

Unfortunately there were extenuating circumstances. A num-
ber of the Commercial Bank's assets were held by a New Orleans bank which was operating on a self-imposed restrictive basis. Thus, the Lafayette bank was forced to maintain its 5% withdrawal limit. This operation continued until the final closure in January, 1934.

What transpired between the bank holiday and the final closure is not clear. On April 11, 1933, the Commercial Bank closed its branch offices in Broussard, Carencro, Scott, and Youngsville—all area towns. Later, on December 17, 1933, the local newspaper reported that T. L. Evans was in Washington negotiating with the RFC for operating funds. Again it is not clear whether Evans obtained the loan. Regardless, the bank was ordered closed on Thursday, January 4, 1934. F. L. Gauthier, bank vice president, stated, "The action taken in ordering the Commercial Bank of Lafayette and Trust Co. here today to close, by the State Banking Department, does not mean that the bank is to be liquidated."

Gauthier went on to point out, "The action taken today is due to certain technicalities not yet adjusted in connection with the Federal banking proclamation, and to a ruling by the State Supreme Court."

But despite Gauthier's optimistic press releases, the Commercial Bank was closed for good. Interviews with bank officials indicate that in addition to its frozen assets in New Orleans, the Commercial Bank had vastly overextended itself in making mortgage loans on area farm land. Estimates credit the bank with mortgages on some sixty per cent of the surrounding farms. This,
coupled with problems in New Orleans, froze the bank and left it unable to obtain liquid operating capital. Shortly thereafter the bank was placed in liquidation. It remained in this state until the process was completed in 1942 under the direction of the banking commissioner, Wilfred Begnaud. Begnaud reported that all depositors were paid in full, all stockholders were paid dollar for dollar par value for their investment, and after legal fees, there were enough funds left to issue a dividend to the stockholders.25

In assessing the impact of the policies of the State Banking Commissioner on the Louisiana banking system and specifically on the Commercial Bank, one fact stands out—Louisiana was generally quite successful in maintaining a sound banking climate during the trying days of the Depression. The record is unalterable. And it is generally felt that the system of state banking laws were quite progressive and successful in helping to maintain the safe climate. However, it is the man or men who enforce the laws that make them successful. In this case there can be no doubt that Commissioner J. S. Brock was largely responsible for the successful record. Further, the influence of Huey Long, though unpublishesized even in local histories, was very important in many of the situations. Long managed to bring his considerable influence to bear on depositors and bank officials alike and, ethically or not, kept may banks on their shaky feet. In fact Long carried his fight all the way to the United States Senate where he spent
much of the summer of 1933 fighting passage of the Glass-Stegagall bill which, among other things, would have placed restrictions on admission of non-Federal Reserve member banks into the Federal Deposit Insurance Corporation. Brock made an interesting comment about Long's Senate battle in the 1932-33 Banking Report: "...I telegraphed Senator Long and urged him to use his influence to insure uniformity of treatment of the banks. It is unnecessary to review the work he did. Standing alone, he started the winning fight for state banks that at first seemed absolutely hopeless. No better work was ever done on the floor of the United States Senate, and no further reaching benefits assured from the success of this work." It became rather obvious that these two men were extremely important in heading off the bank crisis.

On the other hand, when considering the crisis in Lafayette and the resulting failure of the Commercial Bank, the policies and actions of Brock and Long are put in a different light. It is questionable whether the reorganization of the Commercial Bank was a wise financial move in the first instance. In this case, both Long and Brock seemed overcommitted to preventing bank failures. Their zeal appears to have precluded rational fiscal thinking. Additionally, Long's practice of floating unsound banks in public funds has been criticized. One of the more outspoken critics is Wilfred Begnaud, who was State Banking Commissioner for eight years. In an address to the Louisiana Bankers Conference on January 22, 1941, Begnaud said, "It is my opinion that one
that one of the greatest weaknesses in bank suspension in the past has been the reluctance of supervisors to close insolvent banks. Altogether too often, banks in which the public has lost confidence have been kept alive by artificial means. 27 In an interview Begnaud further pointed out, "Many losses of the 1930's could have been minimized except for [Huey] Long's attitude, [which was] to attempt to salvage banks by pumping artificial new capital into them, but in insufficient amounts. Long could do this only because of his powerful governing hand at that time. Fresh capital to organize such banks as the Commercial National Bank was obtained from banks having in their liabilities large sums of public funds, [which were] sometimes found to be inadequately indemnified. 28 Considering Begnaud's statements, it could be argued that liquidation of the frozen Bank of Lafayette in 1931 would have at the very least saved the Commercial National Bank from a similar fate.

Thus, in attempting to place the Commercial Bank failure in the context of the banking problem on a national level, one is hindered by the uniqueness of the local situation. The Commercial Bank was a bank which should have closed its doors on March 6, 1933; instead it remained open for another ten months. Those months were shaky, even with the help of the good intentioned, but misinformed officials. Like many of the other banks in Louisiana it was more affected by the actions of state officials than national officials. In effect, the actions of men like Brock
and Long made Louisiana banking an anomaly. By attempting to achieve a pristine record of successes, they prolonged the failures of obviously unstable institutions. The Commercial Bank of Lafayette and Trust Co. is one example.
NOTES


2 Raymond Moley, *The First New Deal*, New York: Harcourt, Brace and World, Inc., 1936, p. 120.

3 Ibid., p. 127.

4 Ibid., p. 128.


6 Ibid., p. xlvi.

7 Ibid., p. xii.

8 Ibid., pp. xxi-xxii.

9 Harvey G. Fields, *The Life of Huey P. Long*, Baton Rouge: 1944, p. 29. This is a pamphlet written by Fields who was Long's former law partner, a former United States attorney, and a state senator.

10 Interview with Mr. Wilfred Begnaud, March 29, 1968. Mr. Begnaud was intimately acquainted with Louisiana banking and the Commercial Bank of Lafayette, as he served as cashier of the latter and commissioner of the former.

11 Begnaud interview.


13 Ibid, editorial page.

14 Begnaud interview.


16 Ibid., 1932-33, p. xii-xiv.

17 Ibid., p. xix.


24. Interview with Mr. George Arceneaux, former bookkeeper at the Commercial Bank of Lafayette. Interview held on March 27, 1968.

25. Begnaud interview.


28. Begnaud interview.
N.B. Source material on local banking history is naturally scarce, particularly in a small city like Lafayette. The researcher was further hindered by the fact that many people who have intimate knowledge of this period of time in Lafayette have either died or cannot recall enough facts to be of use. Newspapers were used extensively, but by nature of their biased (optimistic) reporting, they were often unsuitable for behind-the-scenes information.


Reports of the Commissioner of Banking of State of Louisiana. Published biennially at Baton Rouge. May be found in Dupre Library, University of Southwestern Louisiana, Lafayette, Louisiana.