Series analysis of commercial banking in Montana emphasizing the period from 1946 through 1959

Donald A. Watne

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A SERIES ANALYSIS OF COMMERCIAL BANKING IN
MONTANA EMPHASIZING THE PERIOD
FROM 1946 THROUGH 1959

by

DONALD A. WATNE
B. A., Montana State University, 1960

Presented in partial fulfillment of the
requirements for the degree of
Master of Arts

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1961

Approved by:

[Signatures]

Chairman, Board of Examiners
Dean, Graduate School

AUG 8 1961
Date
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INTRODUCTION

This thesis is an analysis of the balance sheets and income statements of commercial banks in Montana, concentrated primarily on the post-war years 1946-1959. These statements may reflect economic conditions or may indicate forces exerted by the banks upon the business and economic temper of the state. To decide which came first, the condition or the force, by simply studying the accounts, is almost impossible. One must also consider the monetary and fiscal policies of the federal government and the business conditions prevailing in every segment of the economy affecting Montana directly or indirectly, and then make both national and regional comparisons. An analysis of all the factors involved would be voluminous; this study includes only those which appear to be most important. An attempt will be made to reveal both the conditions and the forces, which usually appear intertwined.

The working hypothesis of this dissertation is that commercial banks in Montana have not stimulated the economy as much as they could have, and that they may in fact have hindered
the economic growth of the state. An attempt will be made to indicate those policies of the banks which tend to retard economic growth, and to show what changes might serve to bolster Montana's economy.

A study of Montana alone, while interesting, does not permit a complete analysis. Some norms must be introduced to serve as a basis for judging Montana's performance. One standard will be the aggregate of the banks in the United States. Although this comparison will collate Montana banks with all banks in the United States, it does not recognize regional peculiarities. A regional comparison will therefore be made with Idaho and Wyoming.

These two states are used for comparison with Montana for the following reasons:

1) Tourist trade is important to all three states.

2) Agriculture is the most important source of income in each state, although the crop economics differ. All have livestock.

3) Manufacturing is less important in these states than in the United States as a whole.

4) None of the states has a metropolitan center.

5) All three states have a stable population. Their growth has been much slower than that of the rest of the country.
6) The income growth of these states has not equalled that of the United States in the aggregate.

7) Idaho and Montana have timber and mining in common.

8) Wyoming and Montana have oil in common.

9) The states are in close proximity to each other.

Neither of the Dakotas was used because with the exception of oil, which North Dakota and northeastern Montana have in common, they resemble Montana only in the growing of wheat and the absence of large metropolitan areas. The Dakotas have an economy comparable to that of the Midwestern or Plains states and not to that of the Rocky Mountain area.

Where appropriate, a more detailed analysis will classify the banks according to:

1) National banks

2) State banks, members of Federal Reserve System

3) State banks, not members of Federal Reserve System

Such a classification appears in the FDIC reports of assets, liabilities, and capital accounts, but not in the reports of earnings, expenses, and dividends.

Table 1, showing the percentage distribution of major asset, liability, and capital accounts by type of bank in Montana
for 1946, 1953, and 1959, reveals very little difference in the composition of liabilities and capital accounts. The only material difference is in interbank and postal savings deposits, where state banks which are members of the Federal Reserve System have maintained a difference of two percent more than national banks, while state banks which are not members of the Federal Reserve System have only a negligible amount represented in this category.

Because of the similarity of composition in the liabilities and capital accounts, the analysis based on a classification of Montana banks will emphasize the asset accounts where differences of a material nature do exist.
TABLE 1.--Percentage distribution of major asset, liability, and capital accounts of insured commercial national and member and non-member state banks in Montana on December 31, 1946, 1953, and 1959

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>1946</th>
<th>1953</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National</td>
<td>State Banks</td>
<td>National</td>
</tr>
<tr>
<td></td>
<td>Banks</td>
<td>Members</td>
<td>Non-Members</td>
</tr>
<tr>
<td>Cash, balance with other banks and cash collection items - total</td>
<td>25.3</td>
<td>27.3</td>
<td>30.7</td>
</tr>
<tr>
<td>Obligations of United States Government - total</td>
<td>62.2</td>
<td>56.9</td>
<td>53.2</td>
</tr>
<tr>
<td>Total securities - total</td>
<td>74.5</td>
<td>2.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Loans and discounts, gross - total</td>
<td>64.8</td>
<td>59.6</td>
<td>56.6</td>
</tr>
<tr>
<td>Total loans and securities</td>
<td>9.2</td>
<td>12.8</td>
<td>12.5</td>
</tr>
<tr>
<td>Bank premises, furniture and fixtures, and other real estate - total</td>
<td>74.0</td>
<td>72.4</td>
<td>69.0</td>
</tr>
<tr>
<td>Miscellaneous assets - total</td>
<td>0.5</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Total assets</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND CAPITAL ACCOUNTS</th>
<th>1946</th>
<th>1953</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and personal deposits - total</td>
<td>81.4</td>
<td>77.3</td>
<td>86.5</td>
</tr>
<tr>
<td>Government deposits - total</td>
<td>8.8</td>
<td>10.4</td>
<td>9.8</td>
</tr>
<tr>
<td>Interbank and postal savings deposits - total</td>
<td>5.5</td>
<td>8.1</td>
<td>2</td>
</tr>
<tr>
<td>Total deposits</td>
<td>95.7</td>
<td>95.9</td>
<td>96.5</td>
</tr>
<tr>
<td>Demand</td>
<td>78.5</td>
<td>78.8</td>
<td>82.5</td>
</tr>
<tr>
<td>Time</td>
<td>17.2</td>
<td>17.1</td>
<td>14.0</td>
</tr>
<tr>
<td>Miscellaneous liabilities - total</td>
<td>0.2</td>
<td>0.1</td>
<td>N</td>
</tr>
<tr>
<td>Total liabilities (excluding capital accounts)</td>
<td>95.9</td>
<td>96.0</td>
<td>96.5</td>
</tr>
<tr>
<td>Capital accounts - total</td>
<td>4.1</td>
<td>4.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Total liabilities and capital accounts</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

A - N = less than .1 of 1%.

PART I. ASSET, LIABILITY, AND CAPITAL ACCOUNTS
CHAPTER I

ASSETS

The total assets of banks in Montana increased 10 percent less than those for the United States as a whole and 30 percent less than those for Wyoming from 1946 through 1959 (Figure 1). Possible reasons for the failure of Montana banks to expand as much as the national average and Wyoming in particular will be given in this and succeeding chapters.

Cash, balances with other banks, and cash collection items

Since 1946, cash, balances with other banks, and cash collection items have increased very little for Montana banks as compared with those of the United States as a whole (Figure 2). Because total assets have increased, the classification as a percentage of total assets has decreased (Figure 3). For all banks in the United States the percentage has decreased since 1939. In Montana (Table 1) the state banks which are not members of the Federal Reserve System dropped from 30.7 percent in 1946, when the figure exceeded that for the other two classes of banks,
to 14.0 percent in 1959, when it was much lower than the other classes.

Cash balances, as a decreasing percentage of assets, probably reflect the increasing use of checking accounts with less reliance upon cash. The extreme change for non-member state banks, which are usually found in rural areas, may indicate a vote of confidence by farmers in banks in general and checking accounts in particular as an efficient and safe method of handling monetary transactions.

Securities

The fall in the percentage of assets represented by cash balances is not compensated for by securities, which have also been decreasing as a percentage of assets since 1946 (Figure 4). But in the case of securities the dollar volume has been sporadically increasing since 1950, with Montana banks keeping one step ahead of all United States banks.

Securities as a percentage of assets (Figure 4) and as a percentage of increase (Figure 5) have increased during each postwar recession, a fact which indicates the investment portfolio shift from loans to businesses and individuals to the relatively safer and more liquid government bonds.
Since 1946 the percentage of assets invested in obligations of the United States government has been falling (Appendix to Part I), whereas the percentage of assets invested in loans to states and political subdivisions has been increasing (Figure 6). The dollar volume of United States government obligations has fallen 20 percent since 1946 (Figure 7), while the dollar volume of obligations of states and political subdivisions has increased 380 percent nationally and over 700 percent for Montana banks (Figure 8)!

Obligations of the United States government have been decreasing as a percentage of assets because of the tremendous increase in loans to individuals and businesses. During World War II the volume of loans to individuals and businesses was very low for several reasons:

1) The war effort greatly increased everyone's income, reducing the demand for loans.

2) Price controls prevented the spending of a great portion of this income, and thus stimulated the repayment of loans.

3) Banks, businesses, and individuals purchased government bonds, increasing the amount of securities held relative to loans.

4) With the economy geared to the war effort, articles such as automobiles which usually require loans were not generally available.
After the return to a peacetime economy, both businesses and individuals vied for goods they could not buy during the war. The unbridled demand for goods created a huge demand for funds and for loans. The large increase in loans relative to securities represents an economy attempting to make up for lost time. The drop in Federal government obligations as a percentage of assets indicates not only the increase in credit extended to businesses and individuals to help satisfy their pent-up demands, but also the decrease in the demand of the Federal government for funds with which to finance a war.

The large increase in the dollar volume of obligations of states and political subdivisions may indicate the failure of these political bodies to finance their expenditures out of current income. They have had to forget the past, when expenses were met with current receipts, and have followed the deficit-financing example of the United States government in order to fill the ever-increasing demands of their constituents. The huge increase reflects the change from being debt-free to being indebted.

The tax-free income from state and political subdivision obligations may have been another stimulus for adding these
securities to bank portfolios. It is hoped that this credit was extended to Montana municipalities, but many Montana banks are probably financing the economies of other parts of the United States.

There has been a shift away from United States government obligations in general and away from long-term obligations in particular (Appendix to Part I). All banks have decreased the percentage of assets in United States government bonds with maturities of five years or more, the only increases since 1946 being a major one during the 1954 recession and a minor one during the 1958 recession (Figure 9). The desire for more security liquidity is reflected in the increased holdings of Treasury notes primarily and of Treasury bills secondarily (Appendix to Part I).

Despite this shift away from United States government obligations, Montana banks still have a larger proportion of assets invested in them than the national average (Appendix to Part I). Does this difference of six or seven percent indicate a greater desire for liquidity on the part of Montana banks, a reluctance to loan money to businesses and individuals in Montana, or an absence of demand for loan funds within the state? A partial
answer to this question may be found in the analysis of loans and
in the analysis of liabilities for demand and time deposits in this
and other chapters.

The desire for greater liquidity seems stronger for
state banks which are not members of the Federal Reserve System
than for the other two classifications (Table 1). Their relative
positions reversed between 1946, when non-member state banks
had a smaller than average percentage of assets represented by
United States government obligations, and 1959, when they had
a much larger percentage. The decrease in cash balances as
a percentage of assets since 1946 is thus compensated for in part
by the relative increase in United States government obligations.
The non-member state banks, which because of their geographi-
cal location lack investment opportunities except for farm loans,
may be forced to place more funds in securities. Because the
small capitalization of rural banks limits the size of loans, the
owners of large farms may be gravitating to larger "city" banks
for their funds, thus decreasing investment opportunities for rural
banks.
Loans, discounts, and overdrafts

Commercial banks have allowed a greater percentage of their assets to be committed to loans each year since the end of World War II. Although Montana banks have been unwilling to make loans as large a proportion of their assets as United States banks in the aggregate (Figure 10), they have increased their dollar volume committed to loans by 50 percent more than the national average (Figure 11). The increase of 600 percent for Montana banks compared to 370 percent nationally since 1946 definitely indicates that Montana banks are bolstering the economy of the state through credit extension; they have done much more than United States banks in the aggregate since 1946.

The increase in loans since 1946 as shown by a percentage of assets distribution has been mainly in loans secured by real estate and loans for personal expenditures, in which Montana has exceeded United States banks in the aggregate (Table 2). Montana banks have also been committing more and more of their loan portfolios to commercial and industrial loans.

The percentage of assets in real estate doubled in eight years (1951 to 1959) in Montana as compared to thirteen
TABLE 2. --Percentage distribution of total assets by loan classification

<table>
<thead>
<tr>
<th>Year</th>
<th>Real estate (Mont.)</th>
<th>Real estate (U.S.)</th>
<th>Securities (Mont.)</th>
<th>Securities (U.S.)</th>
<th>Farmers (Mont.)</th>
<th>Farmers (U.S.)</th>
<th>Commercial and industrial (Mont.)</th>
<th>Commercial and industrial (U.S.)</th>
<th>Personal expenditures (Mont.)</th>
<th>Personal expenditures (U.S.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1934</td>
<td>1.71</td>
<td>7.19</td>
<td>3.08</td>
<td>2.30</td>
<td>---</td>
<td>---</td>
<td>1.97</td>
<td>20.47</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>1944</td>
<td>1.23</td>
<td>3.22</td>
<td>.29</td>
<td>3.37</td>
<td>6.01</td>
<td>1.28</td>
<td>1.67</td>
<td>5.88</td>
<td>.66</td>
<td>1.41</td>
</tr>
<tr>
<td>1948</td>
<td>4.24</td>
<td>7.02</td>
<td>.13</td>
<td>1.50</td>
<td>10.99</td>
<td>1.82</td>
<td>4.03</td>
<td>12.33</td>
<td>2.92</td>
<td>4.47</td>
</tr>
<tr>
<td>1952</td>
<td>6.01</td>
<td>8.36</td>
<td>.13</td>
<td>1.68</td>
<td>9.32</td>
<td>2.05</td>
<td>4.28</td>
<td>14.90</td>
<td>6.10</td>
<td>6.76</td>
</tr>
<tr>
<td>1956</td>
<td>9.51</td>
<td>10.40</td>
<td>.38</td>
<td>1.96</td>
<td>8.52</td>
<td>1.90</td>
<td>7.22</td>
<td>17.91</td>
<td>10.25</td>
<td>8.71</td>
</tr>
<tr>
<td>1959</td>
<td>11.60</td>
<td>11.52</td>
<td>.28</td>
<td>1.97</td>
<td>8.73</td>
<td>2.05</td>
<td>8.06</td>
<td>16.51</td>
<td>11.54</td>
<td>9.91</td>
</tr>
</tbody>
</table>

years (1946 to 1959) for the United States as a whole; however, in 1959 Montana's 11.60 percent of total assets invested in real estate just about equaled the 11.52 percent average for all banks in the United States.

Loans to individuals for personal expenditures as a percentage of assets also doubled from 1951 to 1959 for Montana banks; for the United States in the aggregate the percentage has doubled since 1948. The difference as a percentage of 9.91 percent for all United States banks is 16.4 percent higher for Montana banks.

Within the category of real estate loans, under the heading "secured by farm land," is what may be a surprising statistic. Despite Montana's dependence upon agriculture, its banks, since 1937, have had a smaller percentage of their assets invested in loans secured by farm land than the national average (Figure 12). This implies either that Montana farmers rely less on commercial banks for real estate financing than farmers in other states, or that they have larger equities in their farm real estate than the national average. If the demand for real estate financing by farmers in Montana equals that of farmers in other states, Montana farmers are evidently relying more on other lend-
ing agencies than are farmers in other areas. An analysis of farm loans is complicated by the number of agencies or firms other than commercial banks extending credit to farmers. These include savings and loan associations, the Commodity Credit Corporation, and the units of the Farm Credit Administration System such as the Banks for Cooperatives, the Federal Intermediate Credit Banks, the Production Credit Association, and the Federal Land Banks. An analysis of the activities of all of these agencies and firms is beyond the scope of this study, which is limited to commercial banking.

The small percentage of assets invested in loans secured by farm real estate is compensated for by the much larger percentage classified under "other loans to farmers," which includes capital equipment such as machinery. The percentage of assets in this category is much larger than the average for all United States banks (Figure 13).

The percentage of assets invested in loans to farmers guaranteed by the Commodity Credit Corporation, as shown by Figure 14, fluctuates widely.
The dollar volume increase since 1946 in farm loans in total and by type, compared nationally and regionally, gives some indication of how Montana's farm economy has been faring.

If the assumption that bankers "call" loans and are reluctant to lend during a recession and that they expand their loans during prosperity is valid, then Montana farmers compared nationally and regionally appear to be pretty prosperous (Figure 15). Since 1946 loans to farmers in Montana have expanded half again as much as in the United States generally and in Wyoming and Idaho specifically.

During the recession years 1948-49, 1953-54, and 1957-58, however, farm loans for all four classifications expanded (Figure 15). If the implication that farm loans increase during a recession is correct, then perhaps Montana farmers, having borrowed more, should be recognized as being worse off.

Breaking down the total loans to farmers into the components used in computing it—real estate loans secured by farm land, loans to farmers guaranteed by the Commodity Credit Corporation, other loans to farmers—reveals the major areas of growth (Figures 16, 17, and 18). In 1959 Montana was on top in all three categories,
but not until 1958 did it exceed Idaho's growth in "other loans to farmers." Commodity Credit Corporation guaranteed loans fluctuate widely but have been decreasing in dollar volume since 1953-54.

Loans to farmers for machinery ("other loans to farmers") have increased 50 to 100 percent more than real estate loans since 1946 for the United States, Idaho, and Wyoming. Farmers apparently rely more on bank financing for capital equipment than for land and buildings. This could indicate several things:

1) Farmers have shied away from mortgages on their land and buildings.

2) Larger down-payments for real estate purchases have decreased dollar volume of loans.

3) Farmers have increased their equities in farms purchased in the '20s, '30s, and '40s, and there has been a low turnover of farms.

4) Farmers are able to finance land and buildings themselves but need help on equipment financing.

5) Farmers are going to other financial institutions to obtain real estate financing.

Even though they have borrowed half-again to twice as much for equipment as for land and buildings, Montana farmers have needed much more help since 1946 in financing real estate
than have Idaho or Wyoming farmers. Montana farm loans secured by real estate have increased twice as much as Idaho's and Wyoming's.

A breakdown of loans to farmers by type of bank within Montana reveals that member state banks have given the farmers much more help than either the national banks or non-member state banks, and that national banks have extended more credit since 1946 than have the non-member state banks (Figures 19, 20, 21, and 22). Because 1946 represents a base of 100, all three classes of banks started on an equal footing; but the larger capitalizations of the member state banks and the national banks may explain why they were able to expand their loans more rapidly than non-member state banks.

Regionally, Montana, Idaho, and Wyoming have expanded real estate loans secured by residential properties much more rapidly than the United States in the aggregate since 1946 (Figure 23). Montana and Idaho increased their residential real estate loans about twice as much as the United States as a whole. This is another indication that Montana banks as compared with those of the nation have provided considerable help for the economy of the state through credit extension.
Since 1950, when real estate loans secured by residential properties were classified into three new categories (Figures 24, 25, and 26), Montana banks have exceeded both Idaho and Wyoming and the national average in the increase in real estate loans. It is interesting to note that loans "not insured or guaranteed by the Federal Housing Administration or the Veteran's Administration" have increased as much since 1946 as those "insured by the Federal Housing Administration"; loans "insured or guaranteed by the Veteran's Administration" have been declining since 1956.

In real estate credit extension in Montana since 1946, the national banks rank first, followed by member and then non-member state banks (Figure 27). The national banks probably lead because most of them are located in cities and thus have more opportunities for real estate investment.

In view of the fact that the economy of Montana is primarily agricultural, Figure 28, which shows the increase in commercial and industrial loans since 1946, may be surprising; Montana banks increased commercial and industrial loans in their portfolios 80 percent more than the national average over the last thirteen years. It should be noted, however, that the entire 80 percent
spread has taken place since 1954, when the percentage increase lines for Montana and the United States crossed. The purchasing of open market paper and participation with correspondent banks in large loans has caused some investment funds to leave the state, but the record in view of the agricultural economy is still remarkable.

As could be expected, non-member state banks have fallen behind in the extension of credit for commercial and industrial loans, while the national banks and member state banks have increased at almost the same rate (Figure 29).

The total of "other loans to individuals for personal expenditures" has, since 1946, increased more than any other classification of loans or securities, to 1,500 percent for Montana in 1959. The increase in Montana and Idaho has been approximately the same, and with Wyoming they have all exceeded the national growth (Figure 30). It appears that since 1946 Montana banks have done more to promote the economy of Montana than all United States banks have done to promote the national economy through credit extension. And the difference in the rate of increase as of 1959 was almost three times more for Montana than the national average, 50 percent more than Wyoming.
By this rapid increase in loans to individuals, Montana banks have in effect increased the purchasing power of Montanans faster than banks in general have increased the national purchasing power through credit extension. The increase in purchasing power means an increase in sales. But there are other ramifications to this line of analysis:

1) Perhaps Montana bankers have just started personal installment loans and are simply giving the individual consumers services that bankers have been extending nationally for years. The huge increase may simply represent "catching up" to the rest of the United States.

2) Individuals in other states may be able to finance more of their purchases out of current income than Montanans, who perhaps have had to increase their borrowing to compensate for a depressed state economy.

Loans to individuals for automobiles have represented almost half of the percentage of assets invested in all loans to individuals for personal expenditures since 1948 (Appendix to Part I). Passenger automobile installment loans do not represent such a large proportion of loans for personal expenditures nationally. Since 1946 passenger auto installment loans by Montana banks have increased almost 3,000 percent (Figure 31).
The implication of the increase in loans is that Montana automobile dealers have done extremely well. Compared nationally on the basis of the percentage increase in credit extension by banks, Montana dealers have done about twice as much business as the national average. This analysis is not complete, however, unless we recognize the role played by other lending agencies. Automobile financing is also furnished by lending agencies which are subsidiaries of the sellers, such as General Motors Acceptance Corporation, and by private consumer finance companies. A complete analysis would require determining the volume of business done by all these other agencies and then comparing their Montana activities with their operations in other states.

In "other retail consumer installment loans," Montana banks have fallen behind those of Wyoming and Idaho but have still exceeded the national average (Figure 32).

Figure 33 reveals that Montanans have done very little "residential repair and modernization" since 1955, whereas Idaho, Wyoming, and the United States in the aggregate, though they have not increased as much as Montana since 1946 in loans for residential repair and modernization, have kept on increasing since 1955.
A "chicken or egg" analysis suggests that Montana bankers may have decreased loans for repair and modernization even though the demand remained high. Many residential repair and modernization loans are guaranteed by the Federal Housing Administration and have a rate of interest of from 5 to 6 percent. A much better return can be realized with automobile loans, which have interest rates varying from 10 to over 20 percent after the inclusion of all investigation and miscellaneous fees. Because of the much better returns from automobile and other types of installment loans, bankers would prefer to de-emphasize residential repair and modernization loans.

Montana, Idaho, and Wyoming have expanded together since 1946 with "other installment loans for personal expenditures" and at a rate approximately twice that for the United States in the aggregate (Figure 34).

In single-payment loans for personal expenditures, which may include any type of loan, Montana and Wyoming have increased 50 percent more since 1946 than the United States and Idaho (Figure 35), with Wyoming having a slight edge on Montana.

A breakdown of "total other loans for personal expenditures" by type of bank within Montana (Figure 36) again shows that
state banks which are not members of the Federal Reserve System have had a smaller percentage increase in loans since 1946 than have national banks and state banks which are members of the System. National banks, with an increase of over 2,200 percent, have expanded their loans twice as much as member state banks and about three times as much as non-member state banks since 1946.

As with participation in the extension of credit for real estate loans, the reason may be that the national banks tend to be in more populous areas and thus have more opportunities for making loans.

Loans to banks, loans to other financial institutions, loans to brokers and dealers in securities, and other loans for purchasing or carrying securities have always been relatively unimportant for Montana banks because of their distance from the financial centers of the United States.

Since 1955 Montana banks have maintained a larger percentage of their assets in the valuation reserve account than have banks nationally (Appendix to Part I). This means that Montana bankers expect to have larger losses on uncollectable loans than do bankers in the aggregate in the United States. Either Montanans
are poorer credit risks or the bankers realize that the business climate of the state is worse than average and therefore require a larger allocation for loan losses.

Only Idaho, regionally, has exceeded Montana in construction of or additions to bank premises (Figure 37). The rate of increase in bank premises in Montana since 1946 is almost double that of the national average. In the case of furniture and fixtures Montana's growth since 1946 has been double that of the United States, Idaho, and Wyoming (Figure 38). This expansion of banking quarters has certainly helped the economy of the state through the purchase of materials and the employment of labor. The Appendix to Part I reveals, however, that Montana bankers may perhaps be just trying to catch up with the nation. Montana banks had a smaller proportion of their assets invested in bank premises, furniture, and fixtures every year from 1934 through 1957 than did United States banks as a whole. By 1958 the difference was only .01 percent, and in 1959 Montana's percentage was larger by 1.2 percent. Thus Montana banks now compare favorably with the national average in this respect.

The evidence indicates that although Montana banks have increased the dollar amounts of several classifications of loans
faster than have banks nationally, these loans still represent a
smaller percentage of total assets than they do for the United
States banks in the aggregate. Even though Montana bankers have
become more progressive, they are still much more conservative
than are bankers in general.

A related problem concerns the recipients of the funds
loaned by the banks. Is the money being invested in Montana, or
are the banks exporting it for investment in other areas of the
country? Complete analysis of this problem is virtually impossible,
because a study of the financial statements does not reveal who
receives the loans.
FIGURE 1. --Percentage increase in total assets, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

FIGURE 2. -- Percentage increase in cash, balances with other banks, and cash collection items, 1946-1959, of insured commercial banks in the United States and Montana

(1946 = 100)

FIGURE 3. — Cash, balances with other banks, and cash collection items as a percentage of total assets, 1934-1959, of insured commercial banks in the United States and Montana.

FIGURE 4. -- Total securities as a percentage of assets, 1934-1959, of insured commercial banks in the United States and Montana.

FIGURE 5. --Percentage increase in total securities, 1946-1959, of insured commercial banks in the United States and Montana

(1946 = 100)

FIGURE 6. --Percentage of assets invested in loans to states and political subdivisions, 1934-1959, of insured commercial banks in the United States and Montana.

FIGURE 7. --Percentage decrease in United States government obligations, 1946-1959, of insured commercial banks in the United States and Montana

(1946 = 100)

FIGURE 8.--Percentage increase in obligations of states and political subdivisions, 1946-1959, of insured commercial banks in the United States and Montana

(1946 = 100)

Source: Ibid.
FIGURE 9.--Percentage distribution of assets in bonds five years or over, 1942-1959, of insured commercial banks in the United States and Montana

FIGURE 10. -- Loans, discounts, and overdrafts as a percentage of assets, 1934-1959, of insured commercial banks in the United States and Montana.

FIGURE 11. -- Percentage increase in loans, discounts, and overdrafts, 1946-1959, of insured commercial banks in the United States and Montana

(1946 = 100)

FIGURE 12. --Real estate loans secured by farm land as a percent of assets, 1934-1959, of insured commercial banks in the United States and Montana

FIGURE 13. -- Other loans to farmers (excluding real estate loans and loans secured by Commodity Credit Corporation) as a percentage of total assets, 1936-1959, of insured commercial banks in the United States and Montana.

FIGURE 14. --Percentage of assets invested in loans to farmers guaranteed by the Commodity Credit Corporation, 1942-1959, of insured commercial banks in the United States and Montana.

FIGURE 15. --Percentage increase in total loans to farmers (real estate, Commodity Credit Corporation, and other loans to farmers), banks in the United States, Montana, Idaho, and Wyoming (1946 = 100)

FIGURE 16.--Percentage increase in real estate loans secured by farm land, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 17.--Percentage increase in loans to farmers other than loans secured by real estate or loans guaranteed by the Commodity Credit Corporation, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 18. --Percentage increase in loans to farmers guaranteed by the Commodity Credit Corporation, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 19. --Percentage increase in total loans to commercial national banks and member and non-member state banks in Montana (1946 = 100)

Source: Ibid.
FIGURE 20. -- Percentage increase in real estate loans secured by farm land, 1946-1959, of insured commercial national banks and member and non-member state banks in Montana

(1946 = 100)

Source: Ibid.
FIGURE 21.--Percentage increase in loans to farmers, directly guaranteed by Commodity Credit Corporation, 1946-1959, of insured commercial national banks and member and non-member state banks in Montana

(1946 = 100)

Source: Ibid.
FIGURE 22. --Percentage increase in other loans to farmers (excluding loans on real estate), 1946-1959, of insured commercial national banks and member and non-member state banks in Montana.

Source: Ibid.
FIGURE 23. --Percentage increase in real estate loans secured by residential properties, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 24. --Percentage increase in real estate loans secured by residential properties insured by the Federal Housing Administration, 1951-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1951 = 100)

FIGURE 25. --Percentage increase in real estate loans secured by residential properties not insured or guaranteed by the Federal Housing Administration or the Veterans Administration, 1951-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1951 = 100)

Source: Ibid.
FIGURE 26.—Percentage increase in real estate loans secured by residential properties insured or guaranteed by Veterans Administration, 1951-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1951 = 100)

Source: Ibid.
FIGURE 27. --Percentage increase in total real estate loans, 1946-1959, of insured commercial national banks and member and non-member state banks in Montana

FIGURE 28. -- Percentage increase in commercial and industrial loans (including open market paper), 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

(1946 = 100)

Source: Ibid.
FIGURE 29. --Percentage increase in commercial and industrial loans (including open market paper), 1946-1959, of insured commercial national banks and member state banks in Montana.

(1946 = 100)

Source: Ibid.
FIGURE 30. --Percentage increase in total "other loans" to individuals for personal expenditures, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 31. --Percentage increase in passenger automobile installment loans, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 32. --Percentage increase in other retail consumer installment loans, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 33. -- Percentage increase in residential repair and modernization loans, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 34. --Percentage increase in other-installment loans for personal expenditures, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 35.--Percentage increase in single-payment loans for personal expenditures, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 36. -- Percentage increase in total "other loans" to individuals for personal expenditures, 1946-1959, of insured commercial national banks and member and non-member state banks in Montana.

(1946 = 100)

Source: Ibid.
FIGURE 37.--Percentage increase in investment in bank premises, insured commercial banks in the United States, Montana, Idaho, and Wyoming, 1946-1959, of (1946 = 100)

Source: Ibid.
FIGURE 38. --Percentage increase in investment in furniture and fixtures, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
CHAPTER 2

LIABILITIES AND CAPITAL ACCOUNTS

Liabilities

Even though banks can "create money," they are still limited in their growth by the willingness of depositors to leave funds with the bank, or build up their deposit accounts. Montana banks have not been as successful as banks nationally in receiving funds from depositors (Figure 39). Since 1946 Montana has fallen behind Wyoming and the United States in the aggregate in the growth of deposits. The lagging increase in deposits has indicated a slower rate of growth for the state than for the nation since 1950. This slower rate of growth in deposits does not, as we have seen, imply a slower rate of growth in security and loan investments. Montana banks have made a real effort to improve the economy of the state through credit extension at the expense of bringing down cash balances.

An examination of Figures 40 and 41 reveals the reason for lack of expansion in total deposits: there has been practically no growth in demand deposits. Time deposits, on the other hand,
have increased much more in Montana than nationally since 1946. Because time deposits represent less than half the percentage of assets represented by demand deposits (Appendix to Part I), time deposit growth has not been enough to offset the stagnation in demand deposits.

Depositors in Montana banks until the year 1959 generally tended to have a higher percentage of their deposits in demand accounts than the national average. In 1959 the composition of deposit accounts as between demand and time was approximately the same for the United States in the aggregate and Montana banks. Perhaps because they have learned by experience that Montanans have a greater preference for demand over time deposits than depositors nationally, Montana banks have maintained a more liquid position (Appendix to Part I) than banks in the aggregate. In the past depositors have forced the banks in Montana to remain more liquid than most banks, thus decreasing the percentage of assets available for loans. If the depositors could be persuaded to shift their funds from demand to time accounts, then perhaps the banks might decrease the percentage of assets invested in short-term securities and increase the percentage invested in longer-term loans.
Business and personal deposits, representing over 80 percent of the total deposits (Appendix to Part I), plotted as a percentage of increase since 1946 (Figures 42, 43, and 44), duplicate what is shown by Figures 39, 40, and 41, indicating that banks place primary reliance for deposit growth upon businesses and individuals.

One major class of depositors is government agencies, whose deposits in the last ten years have averaged around 10 percent of total assets for Montana and slightly less for the nation (Appendix to Part I). Figure 45 indicates that government agencies have not been helping the economy of Montana as much as they might. The increase in total government deposits since 1946 for Montana has fallen behind Wyoming, Idaho, and the national average. Funds originating within the state do not alter the total picture much because as tax payments are made funds are simply transferred from business and individual accounts to government accounts; but if the federal government could be persuaded to increase its deposits in Montana banks, the entire Montana economy might benefit. An increase in deposits by the federal government would expand the loan base because only a fraction of the increase would be required
by law to be held as reserves. The difference could be used as a base for deposit liabilities created by making loans to customers and giving them credit in checking accounts. The federal government, by shifting funds from other parts of the United States to Montana, could improve the economy of Montana.

The deposits of state and political subdivisions, as a percentage of assets, have always been much more important for banks in Montana than elsewhere in the nation (Appendix to Part I). This may reflect the large amount of grants from the federal government to the state government, indicating that the federal government has been shifting funds to Montana directly and not simply depositing them for eventual transfer to another state.

Capital accounts

Capital accounts have always been a smaller percentage of assets for Montana banks than for banks in the United States as a whole, although the gap appears to be slowly narrowing (Appendix to Part I). The smaller percentages for Montana banks mean that stockholders have been able to control a larger amount of assets per dollar invested than stockholders nationally; i.e., Montana depositors do not have as large a safety margin in the stockholders' equity as do depositors nationally. It is also argued
that a high ratio of capital to deposits attracts additional depositors, especially large depositors engaged in commercial and industrial enterprises who desire a safe and sound depository for funds.

The capital accounts and growth in capital accounts, especially capital stock and surplus, have several other ramifications:

1) A loan to any one individual or business firm may not exceed 10 percent of the combined capital and surplus of a national bank (U.S.R.S., sec. 5200; 12 U.S.C. 84), and 20 percent of the amount of unimpaired capital and surplus of a state chartered bank (Section 5-523, Revised Codes of Montana, 1947). Thus the greater the amount of these two accounts, the larger the loan a bank may make.

2) The amount that may be invested in real estate loans is limited to 100 percent of the capital stock and surplus or to 60 percent of the bank's time and savings deposits at the time of making the loan, whichever is greater. To most banks the 60 percent limitation is the only one ever used because the time deposits are usually much larger than the total of the capital stock and surplus accounts, but if the 100 percent limitation were ever applied, then the greater the combined total of the two accounts the larger the amount the bank could invest. (National banks, Fed. Res. Act., sec. 24, par. 1; 12 U.S.C. 371, as amended 9/9/59 and Controller's Opinion No. 2730 (b); state banks, Section 5-506, Revised Codes of Montana, 1947).
3) A national bank is limited in the amount it may invest in its banking house and facilities to 100 percent of the capital stock (Fed. Res. Act., sec. 24A, par. 1; 12 U.S.C. 371d), and state banks are limited to 50 percent (Section 5-504, Revised Codes of Montana, 1947). Thus the larger the capital stock account, the more expansion the bank is able to undertake.

Even though the regional growth in capital accounts since 1946 has exceeded that of the United States, Montana has lagged behind Idaho and Wyoming (Figure 46). In capital stock growth Montana is exceeded only by Idaho (Figure 47). This means one of two things: Either Idaho has had a faster rate of growth in new banks, or its old banks have been increasing their capitalization faster. According to Figures 37 and 38 on percentage increase since 1946 in bank facilities, the growth appears to have been from new banks. However, since banks frequently increase their capitalization when they expand their quarters, the evidence is not conclusive.

Figure 48, showing percentage increase in capital surplus, is almost the same as Figure 47, except that Wyoming has moved from bottom to second position in rate of growth. The figure suggests that Wyoming bankers, perhaps because of tax structure, prefer to increase their capitalization through
increasing surplus rather than capital stock, or that stockholders of Wyoming banks pay a larger premium for stock than stockholders of Montana banks. Surplus could also increase because of new banks or additions to older banks. Bankers perhaps prefer increasing capital surplus through transfers from undivided profits to increasing capital stock. If so, the surplus account might be a better indication of growth, and in that case Montana trails regionally (Figure 48). But because capital surplus may reflect premiums on stock which may differ from state to state and year by year, the account is not a reliable indication of growth.

"Undivided profits," as a residual of income less expenses and dividends, shows that Montana banks since 1946 have been more profitable than the national average and than Idaho, regionally, but have fallen behind the more profitable Wyoming banks (Figure 49). Because dividend policies vary, however, "undivided profits" is not really a good indicator of profitability, since all profits may be paid out in dividends. For example, profits in Wyoming may be lower than in Montana, but Montana banks may pay out more in dividends. The question of profitability is answered under the subject of earnings and expenses. Undivided profits showing
retained earnings indicates that Montana is second only to Wyoming regionally and above average nationally in reinvesting earnings in the business.

The capital reserve accounts include a provision for estimated losses on securities, such as bonds. The estimated losses on loans are included in the "valuation reserves" account and are shown as a deduction from gross loans and discounts.

Montana bankers are either extremely conservative or very skillful investors, thus avoiding losses, for capital reserves for Montana banks have fallen below all others based on 1946 reserves (Figure 50). As a percentage of assets, they are only one-third of the national average (Appendix to Part I). Considering that Montana banks have a larger proportion of their assets in securities, this is remarkable. The account reflects only estimated losses on securities held at the end of the year, however, and does not indicate losses incurred during the year, which may be an entirely different matter.

Some of the reasons for changes in growth in the capital accounts of Montana banks will be examined in the section on earnings and expenses. Two of the major factors are the change in the tax law for national banks in 1957 and taxation in general, which are included in a special section on taxation.
FIGURE 39. --Percentage increase in total deposits, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

FIGURE 40. -- Percentage increase in total demand deposits, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 41. --Percentage increase in total time deposits, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 42. -- Percentage increase in total business and personal deposits, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 43. --Percentage increase in demand deposits of individuals, partnerships, and corporations, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 44. -- Percentage increase in time deposits of individuals, corporations, 1946-1959, of insured commercial banks in the Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 45. -- Percentage increase in total government deposits, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming 

(1946 = 100)

Source: Ibid.
FIGURE 46. --Percentage increase in total capital accounts, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

(1946 = 100)

Source: Ibid.
FIGURE 47. -- Percentage increase in capital stock, notes, and debentures, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 48. -- Percentage increase in surplus, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming (1946 = 100)

Source: Ibid.

(1946 = 100)

Source: Ibid.
FIGURE 50. --Percentage increase in reserves, 1946-1959, of banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
CHAPTER 3

GEOGRAPHICAL PICTURE OF BANKING IN MONTANA

Four out of 56 counties in the state of Montana contain one-third of all bank deposits in the state (Table 3). The major cities in these counties lie within 100 miles of the capital; Helena. There is thus a heavy concentration of bank deposits within a circle encompassing five percent of the total area of the state.

With the addition of Yellowstone county 10 percent of the counties contain 50 percent of the total deposits of the state. These five counties hold 36 percent of the total population.

The nine counties which have major cities with populations of 10,000 or more contain 54 percent of the total population and 61 percent of total bank deposits, although they are only 16 percent of the total number of counties in the state.

It is evident that there is a very poor distribution of deposits within the state. Because deposits serve as a base for loans, these nine counties have the greatest potential for growth through credit extension. It must also be recognized, of course,
that the more populous cities and counties probably draw funds from the surrounding counties and in turn extend credit to the surrounding areas. It would be expected, however, that since the major portion of the deposits are held by residents of the immediate area, most of the loan activity, and thus most of the growth, would take place in this area. A corollary would be the lack of investment opportunities in the outlying areas and therefore a lack of demand for funds.
TABLE 3. --Distribution of deposits in the state of Montana

<table>
<thead>
<tr>
<th>County</th>
<th>County Population</th>
<th>Major City</th>
<th>Total Percent of Population</th>
<th>Total Deposits in County Dollars ($000)</th>
<th>Total Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cascade</td>
<td>73,418</td>
<td>Great Falls</td>
<td></td>
<td>$100,312.2</td>
<td></td>
</tr>
<tr>
<td>Lewis and Clark</td>
<td>28,006</td>
<td>Helena</td>
<td></td>
<td>59,174.3</td>
<td></td>
</tr>
<tr>
<td>Missoula</td>
<td>44,663</td>
<td>Missoula</td>
<td></td>
<td>40,565.6</td>
<td></td>
</tr>
<tr>
<td>Silver Bow</td>
<td>46,454</td>
<td>Butte</td>
<td></td>
<td>58,714.7</td>
<td></td>
</tr>
<tr>
<td>Total (4 counties)</td>
<td>192,541</td>
<td></td>
<td>28.5</td>
<td>$258,766.8</td>
<td>33.8</td>
</tr>
<tr>
<td>Yellowstone</td>
<td>79,016</td>
<td>Billings</td>
<td></td>
<td>$109,641.7</td>
<td></td>
</tr>
<tr>
<td>Total (5 counties)</td>
<td>271,557</td>
<td></td>
<td>36.1</td>
<td>$368,408.5</td>
<td>48.2</td>
</tr>
<tr>
<td>Deer Lodge</td>
<td>18,640</td>
<td>Anaconda</td>
<td></td>
<td>$10,541.4</td>
<td></td>
</tr>
<tr>
<td>Flathead</td>
<td>32,965</td>
<td>Kalispell</td>
<td></td>
<td>35,047.0</td>
<td></td>
</tr>
<tr>
<td>Gallatin</td>
<td>26,045</td>
<td>Bozeman</td>
<td></td>
<td>29,830.4</td>
<td></td>
</tr>
<tr>
<td>Hill</td>
<td>18,653</td>
<td>Havre</td>
<td></td>
<td>22,869.8</td>
<td></td>
</tr>
<tr>
<td>Total (9 counties)</td>
<td>367,860</td>
<td></td>
<td>54.5</td>
<td>$466,697.1</td>
<td>61.0</td>
</tr>
<tr>
<td>Total for state</td>
<td>674,767</td>
<td></td>
<td>100.0</td>
<td>$764,939.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>


PART II. BANK OPERATIONS--EARNINGS AND EXPENSES
CHAPTER 4

EARNINGS AND EXPENSES

Montana, Idaho, and Wyoming banks have had a larger increase in current operating earnings since 1946 than have banks nationally, and since 1955 Montana banks have had a larger increase based on 1946 than have Idaho and Wyoming, regionally (Figure 51).

Interest on United States Government obligations, interest and dividends on other securities, interest and discount on loans, and service charges on deposit accounts are the four most important sources of current operating earnings for commercial banks. Each of the other four classifications was less than 5 percent of current operating earnings in 1959 except for trust department income, which was slightly more than 5 percent nationally but negligible regionally.

As we have seen, Montana bankers have shifted their security portfolios from obligations of the United States Government to "other securities," mainly obligations of state and political subdivisions. This shift has resulted in an increase in interest
and dividends received on "other securites" of almost 800 percent since 1946 for Montana banks compared to an increase of about 170 percent for the same period on "interest on United States Government obligations" (Figures 52 and 53). The comparatively large amount of credit extended by Montana banks for "other securites," especially for obligations of state and political subdivisions, is indicated by the lead Montana banks have over other regional banks in the increase in revenues since 1946 (Figure 53).

The reason that Montana banks took the lead in 1955 regarding the increase in current operating earnings since 1946 is revealed in Figure 54. The break-through can be attributed to the increase in interest and discount on loans, which in 1959 was almost 800 percent more than in 1946.

Montana banks have not benefited as much as banks nationally from the increase in service charges on deposit accounts, although Montana banks held the lead in increase until 1957 (Figure 55). Except for the spurt by Idaho banks in 1957 and 1958, Montana's increase in revenues since 1946 exceeds those of Idaho and Wyoming. Because the increase in demand deposits since 1946 for Montana banks has trailed the increase nationally (Figure 40), Montana
depositors have evidently been paying more in service charges for a given dollar volume of deposits than have depositors in the United States as a whole. This does not necessarily mean that service charge rates are higher on the average in Montana. Most banks give their depositors some type of credit for the amount on deposit—the larger the balance, the smaller the charge. Therefore, Montanans may simply maintain smaller balances in their accounts than most depositors.

Of the other four classifications of current operating earnings which individually contribute less than 5 percent to current operating earnings, Montana banks compare favorably with the national average, except for income from trust departments. Nationally, trust department activities contributed slightly more than 5 percent of current operating earnings, whereas regionally they contribute about one-half of one percent. One of the reasons for the small amount of trust business is the lack of population and the corresponding lack of individual wealth. Another reason is that Montana's largest banks are very small compared to banks nationally, and they do not have the facilities or specialists to manage large trusts. There are some banks in the state with trust
departments, but they cannot compete with the huge trust departments of some of the Eastern banks.

Total current operating expenses have increased faster since 1946 than total operating earnings, but not by much (Figures 51 and 56). For Montana, as of December 31, 1959, expenses had increased 434 percent since 1946 compared with revenue increases of 394 percent, a difference of 40 percent. Nationally, expenses increased 17 percent more than revenues.

The greater increase in expenses relative to revenues for Montana banks is mainly due to increases in salaries and wages of employees (Figure 58) and interest on time and savings deposits. It seems probable that the increase was larger because of the smaller base. The salaries and wages of bank employees in Montana were perhaps lower than the national average in 1946, and the attempt to catch up may have caused the much greater increase. Interest on time and savings deposits of Montana banks just recently has reached the levels of banks on the east and west coasts. Many Montana banks have been paying 3 percent on savings accounts for only a short period of time, whereas eastern bankers have been clamoring for an increase in the maximum rate of 3 percent set by law for some time.
Since 1957, the salaries of officers have increased more than national and regional salaries (Figure 57). Montana bank officers are probably not earning more than officers regionally and nationally, but they have done more catching up.

Even though from 1946 through 1959 taxes other than on net income have increased more rapidly for Montana banks than for those in Wyoming and in the United States generally, the increase has been less than for those in Idaho (Figure 60). This aspect of bank operations will be covered in more detail in the chapter on taxation.

Fees paid to directors and members of executive, discount, and other committees, which represent only about 1 percent of current operating expenses, are not an important element of bank operating costs.

Another expense classification, interest and discount on borrowed money, which also represents approximately 1 percent of current operating expenses, is a minor factor, but perhaps should not be. One of the monetary tools of the Federal Reserve Bank is the adjustment of rediscount rates. If the total charges on borrowed money are only 1 percent of operating costs, these
charges are certainly not a very important factor in maximizing profits and could practically be ignored with few ill effects. If this classification represented a larger portion of expenses, we could expect bankers to be more sensitive to changes in the rediscount rate by the Federal Reserve Banks. The reason it does not constitute a larger percentage is that traditionally bankers have wished to avoid debt to the central bank or Federal Reserve; it is regarded as bad policy. Changes in the rediscount rate are important, however, because they usually lead to changes in the prime rate and their effects are thus felt by both businesses and individuals.

One of the more important tools of the Federal Reserve Banks is the adjustment of the reserve requirements, but unlike changes in the interest rates changed banks by the Federal Reserve, these adjustments are not reflected directly in the financial statements.

It is also worth noting that interest and discount on borrowed money as a percentage of current operating expenses is more important nationally than regionally. Regionally this item of expense represents less than 1 percent of current operating earnings; nationally it represents slightly more than 1 percent.
Recurring depreciation on banking house, furniture and fixtures is unimportant in the analysis of expenses for two reasons. First, depreciation is approximately 2 percent of current operating expenses and is relatively minor. Secondly, depreciation is a function of the related asset, the bank premises or the furniture and fixtures, and as such is dependent upon the investment in these fixed assets. The relevant analysis, as shown in Chapter 1, is of the asset accounts.

Other current operating expenses, which account for about 25 percent of the total, include such things as advertising, auto expense, donations, dues, subscriptions to magazines and periodicals, heat, light, water, supplies, telephone, and telegraph, etc., and in the aggregate are a major factor in determining profits. But banks do not analyze the total of all these items in controlling costs; each item has a separate control, and some, such as donations or advertising, are much more variable than others, like heat, light, and water. Because the Federal Deposit Insurance Corporation reports all these items under only one category, current operating expenses, which is not very revealing, an analysis of this classification has little value and is omitted.
Because Wyoming's expenses relative to revenues did not increase as rapidly as Montana's from 1946 through 1959, Wyoming took the lead in increase in net current operating earnings (Figure 61). Montana, Idaho, and the United States were within 20 percent of each other at the end of the thirteen-year period with increases in net current operating earnings of a little more than 300 percent.

Figure 62, showing "total recoveries, transfers from reserve accounts, and profits," spotlights the 1953-1954 and 1957-58 recessions. The first thing that comes to mind is that the spurts are a result of transfers from reserve accounts made to offset losses on bad debts or uncollectable loans. This is not the case. The tremendous increases are the result of "profits on securities sold or redeemed," which increased, from 1953 to 1954, and from 1957 to 1958, approximately 1,000 percent and then in both cases dropped immediately the next year (1955 and 1959, respectively), to a level corresponding to that prevailing at the beginning of the cycle. Transfers from reserve accounts also increased in each case by a little more than 100 percent, a large increase, but nothing compared to 1,000 percent. Another reason that transfers
from reserve accounts is not so important as profits on securities sold or redeemed concerns the size of the accounts. The dollar volume of transfers from reserve accounts, except for 1959, was anywhere from 20 percent to almost 90 percent smaller than the amount reported as profits on securities sold or redeemed.

One reason for the realization of profits on securities in recession years is to offset the losses from uncollectable loans. This would have two main effects. The bank would still be able to show a profit to the public or stockholders even though large losses occurred on loans. Second, and perhaps more important, the bank would be able to avoid the payment of income taxes on the security profits because they would be offset by the loan losses. Recession periods, with the resultant loan losses, may be regarded by bankers as opportune times for taking profits on securities.

Another major reason may be an attempt by bankers to maintain bank liquidity and reserves. If bank balances are drawn down during recessions and loans are not paid off, the banks may be forced to sell securities and transfer the funds to the Federal Reserve Bank to maintain adequate reserves. The sales may also be necessary to build up cash balances which, because of slow
payments on loans during a recession, are not replenished as rapidly as required.

Open market operations of the Open Market Committee of the Federal Reserve Banks may constitute a third reason. During a recession it is expected that the Open Market Committee will be a net purchaser of securities in an attempt to get the funds into the hands of the public. The purchases of the Committee would tend to drive up the price of securities, thus tempting the banks to sell because of the higher prices.

The prices of bonds may also be driven up because of the shifting of private and institutional investors out of the stock market and into the bond market during a recession in an attempt to achieve greater liquidity and safety. The fact that the fluctuations in Figure 62 are larger for Montana banks than the national average may simply mean that Montana bankers and banks are affected more by these reasons than are banks and bankers nationally. The effects, as evidenced by Figure 62, are more relevant regionally than nationally.

Figure 63 seems to invalidate the idea that banks sell securities to compensate for losses on uncollectable loans. Whereas "recoveries, transfers from reserve accounts, and profits" fluctuated by about 100 percent nationally and 200 percent regionally, the
classification "losses, charge-offs, and transfers to reserve accounts"
fluctuated at the most, except for Idaho, 100 percent regionally
and hardly at all nationally. And in 1959, when "recoveries, transfers
from reserve accounts, and profits" were 200 percent less than
in 1958, "losses, charge-offs, and transfers to reserve accounts"
were approximately 200 percent more.

In 1954 and 1958 when profits were taken on securities,
losses and charge-offs were practically negligible (Figure 64).
One might say that bankers were evidently extremely selective in
selling only those securities on which they would realize gains.
No one likes to take a loss, but the important thing is that since
1950 the losses taken have been much larger in every year except
1954 and 1958. The obvious reason is perhaps that because of the
recession the prices of bonds were driven up not only by the purchases
of the Open Market Committee but also by investors switching from
more risky securities, such as common stocks, to the safer invest-
ments in bonds. With the prices of bonds driven up the banks could
realize gains no matter what securities they sold and there would
be no losses.

The conclusion is that banks take advantage of high bond
prices during a recession by selling and reaping the capital gains.
It might be presumed that they enter the market after the recession and purchase bonds, readying themselves for the next recession when they will again be able to realize large gains, but Figure 5, showing the percentage increase in total securities, indicates that this is not the case. The dollar volume of securities held actually increases during the recession periods and decreases immediately afterwards. Bankers evidently want to protect their funds from losses by investing in the relatively safer securities during recessions, and then transferring their investment funds into loans after the recession, as shown by Figure 11.

Banks have had to contend not only with expenses increasing faster than earnings, but with taxes on net income increasing faster than net profits (Figures 65, 66, 67, 68, and 69). From 1946 through 1959 Montana banks had an increase in net profits before income taxes of 333 percent. During this same period total taxes on net income increased 452 percent. This fact shows the progressive nature of our income tax structure—as income increases, taxes take a larger and larger share of it. Taxation will be treated in greater detail in Chapter 5.

Figure 69, "Net Profits After Income Taxes," suggests that bankers should eagerly await the next recession. Net profits
after taxes took a big jump after the 1953-54 recession and again after the 1957-58 recession. The increase in profits could probably be attributed to several things, including the previously mentioned realization of profits on securities, more liberal monetary policy resulting in easy credit and allowing the banks to expand their loan and security portfolios, and a demand for funds from individuals and businesses.

The fact that net profits increase during recessionary periods has an important implication. The fact that Montana banks had a much greater increase than banks either nationally or regionally may indicate that the recession was worse in Montana than elsewhere. Carrying the analysis one step further, the fact that the net profits of Montana banks have increased faster than those of banks nationally or regionally since 1946 may indicate that Montana's economy has been worse, or that Montana has not kept up with the growth of other states.
FIGURE 51. -- Percentage increase in total current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

FIGURE 52. --Percentage increase in interest on United States Government obligations, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 53. --Percentage increase in interest and dividends on other securities, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 54. -- Percentage increase in interest and discount on loans, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 55. --Percentage increase in service charges on deposit accounts, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

Source: Ibid.
FIGURE 56. -- Percentage increase in total current operating expenses, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

- Montana
- Idaho
- Wyoming
- United States

Source: Ibid.
FIGURE 57. -- Percentage increase in salaries of officers, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 58.--Percentage increase in salaries and wages of employees, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 59. --Percentage increase in interest on time and savings deposits, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming (1946 = 100)

Source: Ibid.
FIGURE 60. -- Percentage increase in taxes other than on net income, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming (1946 = 100)

Source: Ibid.
FIGURE 61. --Percentage increase in net current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 62. -- Percentage increase in total recoveries, transfers from reserve accounts, and 1000% profits, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 63. --Percentage increase in total losses, charge-offs, and transfers to reserve accounts, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
FIGURE 64. --Percentage increase in losses and charge-offs on securities, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

\[(1946 = 100)\]

Source: Ibid.

(1946 = 100)

Source: Ibid.
FIGURE 66. -- Percentage increase in total taxes on net income, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

\[(1946 = 100)\]

Source: Ibid.
FIGURE 67. --Percentage increase in Federal taxes on net income, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming (1946 = 100)

FIGURE 68.--Percentage increase in state taxes on net income, 1946-1959, of insured commercial banks in the United States, Montana, and Idaho (Wyoming does not have state taxes on the net income of banks).

Source: Ibid.
FIGURE 69. -- Percentage increase in net profits after income taxes, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

(1946 = 100)

Source: Ibid.
CHAPTER 5

BANK TAXATION

The net profits of Montana banks, both before and after taxes, have increased more since 1946 than those for either the United States in the aggregate or Idaho and Wyoming regionally (Figure 69). It should be expected then that taxes on net income for Montana banks should also have increased more since 1946, but this has not been so. Wyoming, except for four years, has had a greater increase in taxes on net income than has Montana (Figure 66).

Because Wyoming has no state taxes on net income the entire increase is attributed to Federal taxes. Wyoming banks have not had the increase in net profits since 1946 (Figure 65) that Montana banks have had, a fact which seems to be inconsistent. The reason is probably that Wyoming banks on the average had lower profits in 1946 than Montana banks and were thus in a smaller effective tax bracket; i.e., because the normal tax is 30 percent and the surtax is 22 percent in excess of $25,000 of
earnings, the effective tax comes closer and closer to 52 percent as net income increases. The Wyoming banks may be moving from a much lower effective rate toward 52 percent, while the Montana banks started close to 52 percent and have had only a small increase in the effective rate.

State taxes on net income have increased faster for banks in Montana than in the United States as a whole (Figure 68). In 1959 the difference was 528 percent compared to a difference of 140 percent in net profits before income taxes in 1959. Even with a decrease in profits in 1959 the state taxes on net income still increased. No national banks pay state taxes on net income; this tax, called the corporation license, is paid only by the state banks. This is probably why, in the aggregate, net profits decreased in 1959 but state taxes on net profits increased; the state banks had an increase in net income but for the state as a whole their increase was offset by the decreases of the national banks.

The state banks must pay not only the corporation license tax on net income, but also a tax on personal property. The Congress has not authorized the states to impose taxes on the personal property of national banks. (Section 5219 of the Revised Statutes of the United
States), but the Supreme Court of Montana declared that all property of state banks must be taxed (Daly Bank and Trust Company v. Board of County Commissioners, 33 Mont. 101, 81 Pac. 950). In addition to these discriminations, the dividends of state banks are taxable by the state as income, while dividends on national bank shares are not.

Taxes on real property and bank shares and moneyed capital constitute the main portion of "taxes other than on net income" shown in Figure 60. Most property in the state of Montana goes on the assessment rolls at much less than "true and full value"; real estate is usually assessed at from 10 percent to 70 percent of its "true and full value," the average being around 50 percent or less. But the shares of bank stock and moneyed capital are assessed at the value shown on the accounts of the bank, at 100 percent. Except for mining companies, which pay taxes based on the net proceeds of the mines, the banks are the only taxpayers in the state having to pay taxes on the "true and full value." With the passage of the "Better Banking Bill" (Section 3 of Chapter 172, Laws, 1957, incorporated into Section 84-308 of the Revised Codes of Montana, 1947) the banks were given some
relief. The assessment of 30 percent on all capital, was decreased to 7 percent on that portion of the surplus which was not in excess of the stated capital of the bank.

The lowering of the tax rate was to have the effect of encouraging the increase of bank capital. The benefits from an increase in bank capital were discussed in Chapter 2. Figures 48 and 49, "Surplus" and "Undivided Profits" respectively, reveal that there was an increase in "that portion of any surplus which is over and above the amount represented by the stated capital of a bank," of 30 percent from 1957 to 1958 and 25 percent from 1958 to 1959 in "Surplus" and 40 percent from 1957 to 1958 and 40 percent from 1958 to 1959 in "Undivided Profits" based on 1946. The increases were much larger than for the United States in the aggregate, but they almost paralleled the increases for Wyoming and Idaho. Because 1958 was a boom year for banks we could assume that undivided profits would have increased tremendously anyway, but perhaps if the tax rate had not been decreased from 30 percent to 7 percent the banks would not have retained the earnings but paid them out in dividends instead. It is also interesting that even with the extreme drop in profits from 1958 to 1959, there was an increase
in the profits retained (income not distributed as dividends) by the banks. Evidently dividends were decreased or passed up in favor of building up the capital structure, which may be a direct result of the "Better Banking Bill."

The increase in the capital accounts of Montana banks since 1946 has fallen behind the increases in Wyoming and Idaho, though it has kept ahead of the United States as a whole. The jump from 1957 to 1958 was the largest since 1946. If the increase is attributed to the "Better Banking Bill," then perhaps greater growth could be stimulated in the capital accounts through further tax revision.

The change in the tax rate is reflected in Figure 60, "Taxes Other Than on Net Income," which shows a drop in tax revenues from 1956 to 1957. Because the new rate was to apply to the 1957 taxes on bank capital, this decrease could have been expected. The banks made up the decrease one year later, by December 31, 1958, and during 1959 tax revenues again increased to a new high.

With Montana banks' net income increasing faster than the income of banks regionally or nationally, one might suppose that
taxes on that income should also increase faster. But by increasing faster than the national average, the "Taxes Other Than on Net Income," which consist mainly of real estate and capital taxes, have been a hindrance to the growth of Montana commercial banks.
CHAPTER 6

OPERATING RATIOS

Current operating earnings, classified by type of income, simply reflect the composition of the assets of the banks. A series analysis of the earnings shows the shifts occurring between loans and securities investments and also the changes in the rates of interest charged or received.

Where applicable, amounts per $100 of total assets and the resulting analysis are incorporated into the earnings and expense ratios and analysis. Amounts per $100 of total capital accounts, although computed by the Federal Deposit Insurance Corporation, are not included. Total capital accounts as a percent of assets are lower for Montana banks than the national average (Appendix to Part I); thus the ratios for the Montana banks will be higher than the national average. The analysis of the ratios based on total assets is considered the more important analysis because all the resources of the banks should be included and not just capital contributions. In banking, the contributions of the creditors (depositors) are especially important to the success of the business.
Total current operating earnings, as a percentage of total assets, have been increasing steadily since 1946 for all banks in the United States (Figure 70). This means that bankers have been earning more revenues on each dollar invested in assets. The increase in revenues per dollar of assets can be attributed to the increase in yields on securities (Figures 72 and 74), and the rise in interest rates on loans (Figures 75), the two main sources of revenue for banks. One of the primary reasons for the percentage increase has been the investment portfolio shift from securities to loans mentioned in Chapter 1. Banks are investing a larger proportion of their assets in loans, which have a relatively higher yield than bonds, where previously the majority of funds for investment were placed.

As could be expected from the analysis given in the preceding chapters, which indicates that Montana banks have had a slower rate of asset growth but a higher rate of increase in profits, Montana banks have had a higher rate of increase in return on assets than United States banks in the aggregate and Wyoming banks, but less than Idaho, since 1954.

It was pointed out in Chapter 1 that Montana banks have a larger percentage of their assets invested in securities than the
national average. We could therefore have anticipated Figure 71, which shows that Montana banks derive a larger proportion of their current operating earnings from interest on United States Government obligations than do banks nationally. The fact that regionally bankers may invest more in securities than in loans is also illustrated in Figure 71, for Wyoming and Idaho are above the national average too.

The shift in investment portfolios from securities, mainly obligations of the United States Government, to loans is indicated in Figure 71 by the falling percentage of income derived from interest on the obligations.

Idaho and Montana banks obtain approximately the same rate of return on investments in United States bonds, notes, and bills as the national average, but Wyoming appears to lag behind (Figure 72). Because gains and losses on securities transactions appear in other accounts, the accounts recording income reflect only the nominal rates of interest and not the effective rates; i.e., after adjustments for discounts and premiums. Therefore, Figure 72 actually indicates that there are differences in the average yields obtained by bankers nationally and regionally. This is probably
a result of differences in regional economies, which cause the banks in different parts of the country to buy and sell at different times and at various rates of interest prevailing at those times.

From 1956 through 1959 interest and dividends on other securities was as important a part of current operating earnings for Montana banks as it was for banks nationally, though it was relatively less important from 1946 to 1956 (Figure 73). The increase was probably a result of the expansion of credit to states and political subdivisions as analyzed in Chapter 1.

The yield on other securities fluctuates widely, as shown in Figure 74. Montana, Idaho, and Wyoming banks, however, have tended to lag behind the national average, and until 1956, Montana trailed Idaho and Wyoming in rates of return. It is interesting to note that the divergent rates of interest converged in 1959, indicating a relatively fixed rate over the entire United States.

Figure 75 indicates that the rates of interest have not only been increasing on securities (Figures 72 and 74), but also on loans. Another fact revealed by this figure is that rates of interest are higher regionally than they are nationally, with Montana tending to be midway between Idaho and Wyoming. The
higher rates of interest charged by Montana banks may have tended to slow down the rate of growth in the state. The higher interest rates may be caused by the lack of local competition, the distance from financial centers, the greater risks involved in lending, or by a slower response to money market conditions.

Because a greater percentage of assets is invested in securities than in loans, Montana banks derive a smaller percentage of their current operating earnings from income on loans than do banks nationally (Figure 76). Income from loans is becoming a more important source of earnings, but because of the conservative nature of the investments by Montana bankers, not so important as it is nationally, or even regionally, especially compared to Idaho.

Service charges on deposit accounts as a percentage of total current operating earnings have been relatively stable since 1946, although regional banks, with Montana banks on top, have derived a larger proportion of their earnings from service charges than have banks in general (Figure 77). The reason for this is indicated in Figure 78, which shows that service charges per $100 of demand deposits are higher regionally than they are nationally.
As was stated in Chapter 4, this does not necessarily mean that Montana banks have higher service charges, but perhaps that Montanans have relatively lower balances in their accounts.

Other service charges, commissions, fees, and collection and exchange charges have been contributing less and less each year since 1946 to total current operating earnings (Figure 79); they are, however, more important source of income in Montana and Wyoming than nationally or in Idaho.

Other current operating earnings have also been decreasing as a percentage of total current operating earnings, but in this case the account is less important regionally than it is nationally (Figure 80).

Total current operating expenses as a percentage of total assets have increased in almost the same proportion as earnings but a little faster, as stated in Chapter 4 and indicated in Figure 81. The greater returns from a given dollar invested in assets have come about mainly because of the much greater expense incurred per dollar of assets. And, as indicated in Figure 82, expenses since 1946 have represented a greater and greater proportion of current operating earnings. Since 1955 expenses have taken
a larger bite out of the income dollar for Montana banks than nationally.

The increase in current operating expenses has not been because of the increase in salaries, wages, and fees (Figure 83). Except for Wyoming, salaries, wages, and fees per $100 of current operating earnings have been decreasing since approximately 1950. The decrease for banks nationally and regionally, except for Wyoming, has been almost exactly the same.

Montana banks have paid and continue to pay lower rates of interest on savings accounts than banks nationally or regionally (Figure 84). This means that savings deposits are a cheaper source of funds for Montana bankers than for bankers nationally or regionally, as Figure 85 shows; interest on time and savings deposits per $100 of current operating earnings is lower for Montana banks than for banks in Idaho, Wyoming, or the average of all banks in the United States.

Even though they pay relatively low rates of interest, the banks in Montana have had a remarkable growth in savings deposits since 1946, a growth second only to that of Wyoming and exceeding that of Idaho and United States banks in the aggregate
(Figure 41). Perhaps further increases in the interest rate would encourage an even greater growth in savings deposits and thus increase the base for loan expansion.

Figure 86 spotlights one of the biggest operating problems for Montana bankers. Taxes other than on net income per $100 of current operating earnings for banks in Montana are three times what they are in Idaho and two times what they are in Wyoming and in the United States in the aggregate. It will be recalled from Chapter 5 that the two main taxes involved are those on real estate and on capital accounts. Compared nationally and regionally, Montana banks are carrying more than their share of the tax load.

Recurring depreciation on banking house furniture and fixtures per $100 of current operating earnings for Montana banks since 1951 compares favorably with the national average but is much less than for Idaho or Wyoming (Figure 87). The greater than average increase after 1956 probably reflects the rapid depreciation of new banking quarters built since 1955. An analysis of the figure reveals that there may be a relationship between the size of the banking quarters and the current operating earnings. From this analysis one might conclude that Wyoming and Idaho banks have
larger or more expensive banking quarters than their volume of business warrants.

Figure 88 reveals that there is a wide divergence in "other current operating expenses per $100 of current operating earnings." An analysis of this account without a finer classification of expenses is meaningless, as stated in Chapter 4.

The fact that current operating expenses have increased faster than current operating earnings is shown clearly by Figure 90. Since 1946, net current operating earnings per $100 of current operating earnings have been steadily decreasing.

Even though operating expenses have risen faster than operating earnings, the increase in net current operating earnings per $100 of total assets has been greater than that in total assets, as Figure 89 shows. Since 1946 the assets of commercial banks have been yielding more and more for a given dollar of investment.

It should also be noted that there are no wide divergences in the increase in net current operating earnings per $100 of total assets. Montana, Idaho, and Wyoming have all had increases approximately equal to each other and to that of the United States in the aggregate.
Figure 91 practically duplicates Figure 62, except that during the 1957-58 recession, Montana had a greater return on total assets as a result of "total recoveries, transfers from reserve accounts, and profits" than did Idaho. Perhaps Montana banks had a greater percentage of assets in securities than Idaho banks, or perhaps Montana banks realized greater profits on securities sales for a given dollar investment. Other relevant analysis, presented in Chapter 4, will not be repeated here.

Figure 92, showing total losses, charge-offs, and transfers to reserve accounts per $100 of total assets, indicates that Montana banks have tended to realize greater losses on investments than have bankers nationally or regionally, a fact which helps to explain the conservatism shown by Montana bankers. Their greater losses may have forced them to be more conservative. The higher loss rate may also be the reason for the higher rates of interest charged for loans. Following the analysis one step further, one may also find in the loss rate a clue to the economy of Montana; i.e., the losses may be the result of a faltering economy, where as a result of unemployment, lack of sales, etc., there is simply no money with which to keep current on loans or to pay them off.
Net profits before and after income taxes, as shown in Figures 93 and 94, respectively, are almost identical, except that the progressive tax structure tends to smooth out the profit trend line; net profits after taxes as plotted do not fluctuate as widely as net profits before taxes. Because bankers are interested mainly in profits after taxes, because bankers have no control over the tax rate except through legislation, because taxes on income may be treated as a distribution of profits to the United States Government leaving a residual which may be reinvested or distributed, and because the two graphs are almost identical, only net profits after income taxes per $100 of total assets will be analyzed.

Net profits after income taxes, as a percentage of total assets invested to realize income, represent the "return on investment," which tells us how profitable the operations of the bank have been with the given amount of investment in assets. Figure 94 indicates that Montana banks were less profitable than others, both regionally and nationally, until 1955, when Idaho bankers did not realize as much on their investment in assets as did Montana bankers. Montana banks were less profitable than Wyoming banks and the national average until 1957, when Montana banks became more profitable.
FIGURE 70. — Total current operating earnings per $100 of total assets,\(^1\) 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

\(^1\)For the U. S. ratios as reported by the FDIC are used, based on averages of the total assets reported at the beginning, middle, and end of years. For Montana, Idaho, and Wyoming, December 31st figures for each year are used.

FIGURE 71. -- Interest on United States Government obligations per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

Source: Ibid.
FIGURE 72. --Income on United States Government obligations per $100 of United States Government obligations, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

1 Ibid.
Source: Ibid.
FIGURE 73. --Interest and dividends on other securities per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

Source: Ibid.
FIGURE 74.--Income on other securities per $100 of other securities, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

1 Ibid.
Source: Ibid.
FIGURE 75. --Income on loans per $100 of loans, 1 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

Source: Ibid.

1 Ibid.
FIGURE 76. --Income on loans per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 77. -- Service charges on deposit accounts per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 78. --Service charges per $100 of demand deposits, 1 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

1 Ibid.
Source: Ibid.
FIGURE 79. --Other service charges, commissions, fees, and collection and exchange charges per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 80. — Other current operating earnings per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

Source: Ibid.
FIGURE 81. -- Total current operating expenses per $100 of total assets, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

1 Ibid.
Source: Ibid.
FIGURE 82. -- Total current operating expenses per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 83. --Salaries, wages, and fees per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 84.--Interest paid per $100 of time and savings deposits, 1 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

Source: Ibid.
FIGURE 85. --Interest on time and savings deposits per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 86. -- Taxes other than on net income per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

Source: Ibid.
FIGURE 87. -- Recurring depreciation on banking house furniture and fixtures per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

Source: Ibid.
FIGURE 88. -- Other current operating expenses per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 89. --Net current operating earnings per $100 of current operating earnings, 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

Source: Ibid.
FIGURE 90. -- Net current operating earnings per $100 of total assets, \(^1\) 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

\(^1\) Ibid.

Source: Ibid.
FIGURE 91. -- Total recoveries, transfers from reserve accounts and profits per $100 of total assets,¹ 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

¹ Ibid.
Source: Ibid.
FIGURE 92. -- Total losses, charge-offs, and transfers to reserve accounts per $100 of total assets, 1 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming.

Source: Ibid.

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1 Ibid.
FIGURE 93. --Net profits before income taxes per $100 of total assets, \(^1\) 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

\(^1\) Ibid.

Source: Ibid.
FIGURE 94. --Net profits after income taxes per $100 of total assets, 1 1946-1959, of insured commercial banks in the United States, Montana, Idaho, and Wyoming

1 Ibid.
Source: Ibid.
SUMMARY AND CONCLUSIONS

It is desirable that a benchmark be established which shows the performance of the aggregate economies of Montana, Idaho, and Wyoming, and of the United States as a whole. The benchmark may then be used to compare the growth of the banking sector with that of the total economy. The comparison may perhaps indicate where banks, through their financial statements, reflect conditions existing in the economy, and where and how the banks may have influenced the economy in turn.

Nothing like Gross National Product, used for national economic analysis, exists for a regional analysis. The writer feels that the best indicator for measuring the aggregate economy of a state or region is personal income figures as compiled by the Office of Business Economics of the United States Department of Commerce. To comprehend the relevancy of a comparison made with personal income, it is necessary to understand the concept of personal income:

State personal income is the current income received by residents of the States from all
sources, inclusive of transfers from government and business but exclusive of transfers among persons.¹

There are two major aspects of the personal income concept:

1) It is a before-tax measure. Personal income is defined as the gross of income taxes, other personal taxes, and various types of so-called "nontax payments" made by individuals to the Federal, State, and local governments.

2) Allowance is made for nonmonetary income, or income received in kind rather than cash. At present, this makes up about 4 percent of personal income for the country as a whole, although there is considerable variation in this regard by States.

Personal income by states is an excellent indication of the aggregate state economy; it reflects the results of all the forces existing within the state, and it is the most comprehensive and reliable measure currently available.

Using 1946 as a base year, the increase in personal income in Montana from 1946-1958 appears to compare very


² Ibid.
favorably with the increase for the United States, and seems better than the increases of Idaho and Wyoming (Figure 95). But while income in Idaho, Wyoming, and the United States continued to increase during 1959, it faltered and decreased in Montana. A glance at Figure 96 indicates that most of Montana's growth in the period of analysis occurred between 1946 and 1950, and that compared to the region and the nation, Montana has done very poorly since 1950. As the analysis in Chapter 4 makes clear, the banks have profited from the depressed economy.

The slower rate of growth for Montana's economy in the aggregate is reflected in the slower rate of asset growth for Montana banks compared nationally and regionally.

The conservatism of Montana bankers compared to bankers nationally is indicated by the distribution of assets. Montana bankers still prefer to lend more of their funds to the United States Government and to other states and political subdivisions than to Montana businessmen and individuals. Considering the fact that many Montana banks participate in large loans made to businesses in other states, the situation is perhaps even worse than the balance sheets indicate.
Despite their conservatism, Montana bankers appear to have given the economy of the state more help than bankers in general have given the United States. Montana banks have increased their investments in securities slightly more than the national average and their investments in loans half again more than the national average since 1946. That Montana banks have perhaps done more to bolster the economy of their state through credit extension than United States banks as a whole have done for the nation is shown by the increase in loans since 1946. It should be noted, however, that this increase may also indicate a greater demand for loan funds because of a faltering economy.

The writer contends that these increases reflect a desire on the part of Montana bankers to catch up with the rest of the United States. They have not been leaders, they have been followers, as their very conservative investment portfolios show, and they have a considerable amount of catching up to do.

The relevancy of these increases to possible economic growth in Montana depends at least in part on where the loan funds are placed. A better than average increase is of no value if the credit is extended to borrowers outside the state.
One of the reasons for the conservative nature of Montana bankers may stem from the desire of Montanans to remain more liquid than depositors nationally (Appendix to Part I). By maintaining a greater proportion of funds in demand than in time deposits, Montana depositors may have forced the desire for liquidity and conservatism upon the bankers. The fact that growth in demand deposits in Montana has fallen behind while the growth in time deposits has exceeded the national average since 1946 may indicate that bankers should change their attitudes.

The desire of Montanans to remain more liquid than depositors nationally may result from the policies of the state's bankers. By keeping the interest on savings accounts comparatively low, Montana bankers have done nothing to encourage depositors to accumulate funds in savings accounts. Thus it may not be the depositors who, preferring demand to time deposits, have forced conservatism on the bankers, but the bankers who have forced conservatism and stagnation on Montana.

Montana banks have had a greater than average increase in net profits after taxes since 1946. Some of the difference may be attributed to the Eastern bond portfolio managers, who reap
capital gains for their bank clients in securities transactions; but part of the difference is certainly the result of the higher interest rates Montanans are charged (Figure 75), the lower interest they are paid on savings accounts (Figure 84), and the higher service charges they must pay per $100 of deposits (Figure 78).

A further hindrance to the growth of the state is the fact that in many cases the resulting profits are exported to holding companies outside the state.

Montanans have reason to criticize the banks, but the banks also have reason to criticize Montanans, particularly the Legislature. Montana banks' "taxes other than on net income per $100 of current operating earnings," chiefly real estate and capital stock taxes, are twice the national and regional average (Figure 86). By thus penalizing their banks, especially through taxation of bank capital, Montanans have discouraged bankers from increasing their capital and have handicapped state growth.

The higher charges paid by Montanans and the lower rates of interest received on savings accounts have enabled Montana banks to become as profitable as banks nationally after trailing behind from 1946 through 1957 (Figure 94). The writer believes that if
Montana bankers were less conservative, i.e., if they would switch their portfolios from government securities with relatively low yields to "loans and discounts," which have relatively higher yields, they could lower their charges to Montanans for services and loans and, in the case of banks not now paying the maximum rate, increase the interest paid on savings accounts, thus attracting more and relatively less liquid funds, and still maintain a rate of return on investment (total assets) equal to that earned by bankers nationally.

A less conservative policy would not only enable Montana bankers to increase or maintain their profits while lowering charges and perhaps increasing interest paid on savings accounts, but it would also make it possible for them to provide additional help for the state's economy. Montanans would not only be able to borrow more, but they could borrow more at less cost. The author believes that this would stimulate the expansion of old facilities and the construction of new facilities within the state. The additional investment, perhaps coupled with an increase in purchasing by consumers because of cheaper credit, should generate new growth. Bankers who are willing to cast off their conservative and provincial attitudes might help Montana enter a new period of steady economic growth.
FIGURE 95.--Percentage increase in total personal income, 1946-1959, of the United States, Montana, Idaho, and Wyoming

(1946 = 100)


FIGURE 96. -- Total personal income, 1946-1959, of the United States, Montana, Idaho, and Wyoming

Sources: Ibid.
BIBLIOGRAPHY


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### Section A. -- Percentage distribution of assets, liabilities, and capital accounts of operating insured commercial banks in the United States, December 31, 1945-1959

#### Number of Banks

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<td>1946</td>
<td>14,132</td>
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<tr>
<td>1947</td>
<td>15,875</td>
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<td>1958</td>
<td>14,073</td>
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<tr>
<td>1959</td>
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</tr>
</tbody>
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#### Assets

- **Cash, balances with other banks, and cash collection insecure-total:**
  - 1945: 24.12
  - 1946: 27.20
  - 1947: 27.99
  - 1948: 27.54
  - 1949: 28.04
  - 1950: 27.67
  - 1951: 26.22
  - 1952: 26.08
  - 1953: 27.17
  - 1954: 27.87
  - 1955: 28.15
  - 1956: 27.87
  - 1957: 25.17
  - 1958: 24.98
  - 1959: 24.68

- **Liabilities and Capital Accounts**

  - **Assets**
    - 1945: 165.00
    - 1946: 165.00
    - 1947: 165.00
    - 1948: 165.00
    - 1949: 165.00
    - 1950: 165.00
    - 1951: 165.00
    - 1952: 165.00
    - 1953: 165.00
    - 1954: 165.00
    - 1955: 165.00
    - 1956: 165.00
    - 1957: 165.00
    - 1958: 165.00
    - 1959: 165.00

  - **Liabilities**
    - 1945: 165.00
    - 1946: 165.00
    - 1947: 165.00
    - 1948: 165.00
    - 1949: 165.00
    - 1950: 165.00
    - 1951: 165.00
    - 1952: 165.00
    - 1953: 165.00
    - 1954: 165.00
    - 1955: 165.00
    - 1956: 165.00
    - 1957: 165.00
    - 1958: 165.00
    - 1959: 165.00

  - **Capital**
    - 1945: 165.00
    - 1946: 165.00
    - 1947: 165.00
    - 1948: 165.00
    - 1949: 165.00
    - 1950: 165.00
    - 1951: 165.00
    - 1952: 165.00
    - 1953: 165.00
    - 1954: 165.00
    - 1955: 165.00
    - 1956: 165.00
    - 1957: 165.00
    - 1958: 165.00
    - 1959: 165.00

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1. Because of rounding components do not always equal total.
2. Supposing in 1959 IRC reports introduced a valuation reserve which was applied as a deduction from the total.