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Interview of Ted Jacobs of the First National Bank by Dale Johnson on  
December 19, 1974:

TJ: Because of severe asthma, for which they had no cure at that time, my father came out from Baltimore just before the turn of the century, having completed either the sixth or seventh grade. He went to work in Colorado in the mines. Then he went to Salt Lake for a short time. Somehow he found out about an opening in a bank in Dillon. He went into the bank as bookkeeper and general clerk, without any previous accounting or banking experience. He stayed there until the fall of 1909, when he came to Missoula. At that time, he went into the Missoula Trust and Savings Bank, which has since gone out of business. He was there a few years, but didn't like the policies of the management of that bank and got out after three or four years, operating at home what little business he had. Then in the late winter of 1918, the opportunity came to come into the First National Bank and to acquire the controlling interest, which he did in the fall of 1919.

DJ: Did he come to Missoula with a job in mind, or did he just come to Missoula?

TJ: Well, he came to Missoula with a job in the Missoula Trust and Savings Bank. They needed a man with some experience, which my father had at that time. He went in there as cashier under Jack Keith.

DJ: This was about the time that Keith set up the Missoula Trust and Savings. I believe it was in 1909 when he got out of First National?

TJ: Yes.

DJ: 1919 was an intriguing year because Anaconda took over the Western Montana Bank and put in Fred Sterling?

TJ: Yes.

DJ: This is also the year that your father took over the First National Bank?

TJ: Yes.

DJ: From Mr. Lusk. Now one of the things that occurs to me is, Mr. Lusk was not a very well-liked man around Missoula apparently?

TJ: No.

DJ: Did his personality have anything to do with the setting up of the ACM Bank?

TJ: Well, I don't know about the personality; with respect to personality, he was not a banker. In fact, I will give you a little background of the situation at that time. There were four banks in the City of Missoula at that time. The two national banks are still here—the leading banks of the city. Then there was the Missoula Trust and Savings Bank, which Mr. Keith had. Then the Scandinavian American Bank, which later became the American Bank and Trust Company, run by Dahlgren, who got into trouble and his bank got into trouble. It closed in 1923. The situation revealed at the closure of the American Bank and Trust Company (plus additional facts that came out later) was that every one of the four banks in Missoula was broke. There wasn't a dollar of sound capital in any one of them. There was a negative capital of over a million dollars in the four banks surveyed. Now that situation would be impossible today. Banking, because of the quality of bank supervision, has improved. In the 20s—the national banks' supervision was better than the states', but not good by any means. This bank and the Western were both, well,—let's say broke. The American Bank closed, with 28i percent the greatest amount paid off on deposits. This

means that the stockholders got nothing. That was in the days when there was a so-called double liability. Every stockholder was subject to an assessment for the benefit of the depositor. Even with that, the bank paid out only 28i percent. A similar situation existed in the other three banks. The situation came to a head in the First National when the examiners insisted that Lusk get out. They wanted a change of management. He and his wife were both directors, and they defied the examiners. They weren't about to put up with that. The last examination that took place when Lusk was in here, my father had been here less than a month. He came in on a trial basis. He wanted to come in on a trial basis to see whether to take the institution over. They were being examined every 90 days, on a special list, instead of the normal six months. My dad said, "Well, give me to the next examination, approximately 90 days. At the end of that time I will either be in charge of that bank and own the controlling interest or get out." They said that is perfectly reasonable. We can't insist that the bank change management in 24 hours. When I came back in approximately 90 days, Lusk was out and my father was in. The bank hadn't improved its condition particularly, because in 90 days you can't do a hell of a lot. But the examiners were satisfied that the trend had stopped. After one more examination, they took the bank off the special list. The point is that the banks in Missoula were broke. The depositors lost \$750,000 in the one bank. The second bank that closed when the First National took them over was in 1927. In 1919 the First National was taken over by my dad, who cleaned it up over the years. That same year, Anaconda took over the Western Bank, and I don't know the details. I know that there were substantial losses in there, so the bank wasn't worth very much. It was

only worth whatever it might be worth as a going bank—there were no additional values. That situation arose in my mind, and it is fairly well agreed to by economists and historians. For political and other reasons and the supervisory authority of banking departments was not good, in Montana particularly, though it was also true for much of the rest of the country. Bank credit was easy to get. It didn't take much money, and certainly no experience with banking was required. Today management is the big factor, and adequate money must be raised to start a bank. It's very difficult to acquire good management, though not impossible by any means, but even with sound management the examiners and the supervisory authority sit right over the management and look for adverse trends.

We had close to 400 banks in Montana when the bank was 50 years old. I believe in 1919, there were about 225 banks in the state. There was a proliferation of bank charters by 1923. Let's say 480 banks, give or take a few. There weren't a hundred bankers in those banks. Bankers were in very bad repute, but you couldn't criticize the bankers because they had no control over who was a banker. There were no statutory standards, no boards where you passed examinations—nothing like the medical profession, or even like the legal profession, which was pretty loose at that time. So the political machines created banks. They created bankers who weren't experienced or competent to run the banks. During that period there was a rather steady rise in land values. The period referred to is for the 25 years preceding 1923, a time when banks were being created just right and left. The Dahlgrens had banks scattered all over the reservation. There were three banks in Hamilton, one in Corvallis, one in Victor, which is a good bank and is still there, and two in Stevensville, one of which survived and is a good bank. That situation left its mark. Now when one of

these banks did close, it was a little rough on depositors, particularly those with the American Bank and Trust Company of Missoula. Depositors lost \$750,000. That's a lot of money for a town the size of Missoula, with the dollar as it was valued at that time. As far as I know, nobody went broke because of the loss.

There was no FDIC so the depositor got 23 8/10 of his deposit. The real damage in my mind, and I am not alone at all in my opinion, is that the borrowers were the ones who were ruined, all because of loose credit and rising market prices for land and cattle. People were encouraged to borrow, with the result that a big mass of borrowers were over their heads in debt. The bank didn't realize it and the borrowers didn't realize it until the situation surfaced, and then in general the realization hit that a lot of people were bankrupt or, I would say, broke. Bankruptcy was very uncommon in those days, so there weren't a lot of people who were helped by that. For many years this was one of the big factors in the lagging economy of the community and of the state. From that point of view all four banks were guilty. The attitude was that while the depositors lost nothing, the banks didn't fail and they paid off depositors at 10 percent, no hard therefore was done. The harm, however, was done, and it is done today whenever you make a poor loan and contribute to people going broke. Our biggest function is to lend money and to lend money wisely so it benefits the borrower. There's no trick to getting people in debt. You and I can do that easily. If the matter isn't brought to light, and we collect a big rate of interest on those loans for a period of ten years, and there is no attempt at collection, there is an awful good profit involved, plus the fact that there are no big expenses. In the 20s, taxes were low and there

were no income taxes, so banks were awfully profitable. Even when losses were building up, nobody knew the losses were there. They should have known, but they didn't. So they were making tremendous profits on their invested capital, and when the crash came, the depositors in those banks were hurt. A lot of the borrowers were ruined. This bank had a lot of charged-off paper. I was in it. I wasn't too well aware of the whole situation. I heard a lot and in a few years began to see the notes, and that stack of uncollected charged-off notes represented ruined borrowers by and large.

DJ: Were most of these loans agricultural loans?

TJ: The big percentage of them were.

DJ: Did Lusk stay in Missoula after he left the bank? What did he do then?

TJ: Well, he stayed in Missoula for a time. He and his wife lived in the Wilma Apartments. I couldn't tell you how many years. Lusk died and many years later, in 1934, she died. They didn't like anybody. They were very unpopular. They were no factor in the community.

DJ: One of the other things is the letter I showed you of Mr. Hammond when he was explaining to Greenough his sale of his bank stock to Lusk. Apparently they threatened to withdraw as directors. Did they go with Keith, Ross, Toole, and Greenough into the Missoula Trust and Savings Bank or did they stay with the First National?

TJ: Well, let's see. Greenough went to the Missoula Trust bank. Ross went to Western. John R. Daily did. I don't think he was ever in here when we took them over. They are the only ones that I can think of.

DJ: Toole must have stayed with this bank then as a director?

TJ: Yes. He came to this bank. Of course, Toole was John Toole's father and Ross Toole's father—very fine man.

DJ: Did Ross, and Daily, come over when they absorbed and took over the Missoula Trust and Savings? Did Ross and Greenough come back at the time that your father bought out the bank?

TJ: No. I don't think so.

DJ: Greenough was probably dead by then?

TJ: He was dead by that time. Daily came down from the Missoula Trust Bank and Alex Peterson was on that board; he didn't come down. Sid Coffee was on that board and he did come down. That was Oakley Coffee's father. Sid was on our board until he died, then Oakley came on the board and stayed until he died.

DJ: You mentioned that the Scandinavian American Bank had these banks out in the local farm areas. Did the First National ever have anything like this type of arrangement?

TJ: No. See the Scandinavian American Banks didn't have any other banks. They couldn't. They couldn't own stock in any other banks. Dahlgren, who owned the controlling interest, did start somewhere between five and ten banks. They all went under.

DJ: Did they fold the Missoula bank under? Or did the Missoula bank go broke?

TJ: The Missoula bank went under on its own. Dahlgren of the Scandinavian Banks was crooked as a dog's hind leg. He was tried on criminal charges. Never could be convicted, because his attorney, who didn't know anything about banks, confused the issue. The prosecuting attorney didn't understand it either and had the whole issue so confused that they just



dropped it. He left here and went to South America. There was a very strong rumor that he was far from broke. I have no proof of that. I don't offer that statement beyond a very strong but unconfirmed rumor. His bank was loaded with poor loans. We had known that it was in very great difficulty. It finally just closed.

DJ: In one of C. H. McLeod's letters to Hammond about the time it closed, probably after it closed, he mentioned to Hammond that the Mercantile had taken some of the good notes and so had this bank, I believe, taken over some of the good notes. There were just too many bad notes to pay off?

TJ: You see, there was a concerted effort on the part of the Missoula Mercantile Company and Mr. McLeod and this bank, my dad, and the Western Bank through the Anaconda Co. A few other interests raised some money to keep that bank going, and the idea was that the other existing banks would take over after their losses were taken care of. The losses were just more than the money we could raise, because whatever money was raised was just a donation from the community. It just couldn't be done. It would have taken, oh, roughly three quarters of a million dollars, which was a tremendous amount of money in those days. This bank and the Western were each, say, 2\ million dollar banks at that time. The Scandinavian bank was broke and the Trust bank was a million. Those were its profit figures. Very small banks, all of them, compared to the banks today. The Trust bank we were able to take over after an assessment of the stockholders. The stockholders got part of their assessment bank. Final liquidation was about ten or 12 years later.

DJ: Was the Missoula Trust in better financial position when they went under than the Scandinavian American?

TJ: Yes. They weren't as bad. They were bad enough. See, the stockholders gave up their capital. Put up their capital of 200 thousand dollars. Think they had \$50,000 in surplus. They put up an assessment of 70 percent of \$140,000 and then \$30,000 or \$40,000 in undivided profits in reserve. We paid them somewhere around \$30,000, three percent of their deposits, to keep them going. After acquiring the bank, we took their losses. We were able to take it over because we didn't liquidate any closed institution. We absorbed it and liquidated it as a going institution.

DJ: Was Mr. Keith a poor banker do you think? Of the quality of maybe of Lusk or do you think he was?

TJ: Well, yes. There is the matter that Keith was crooked.

DJ: That's what I understand.

TJ: There is no question about that. He came down here as chairman of the board for a period of time and was very popular. A fair, dignified man, very generous. Something aroused our suspicion and I got busy after he died. He was with us a year before he died. We began to dig into the Trust Bank, and we filed a claim on behalf of the stockholders of that bank for about \$175,000, which was a lot of money. That was money that he had appropriated for his own use from the bank. There was no sense of completed . There was an accountant in Spokane who came over, and we (he and I) worked together for some time. We quit an hour before the final day for filing claims. We didn't do any more digging because it was pointless from then on. When they compromised that claim, we paid his creditors, outside of the stockholders of the Trust Bank, about 75 to 80 percent. His widow got nothing. Other requests got nothing. There should

have been \$25,000 for the Episcopal Church. They never got a dollar of it, Keith built this mansion over on Gerald Avenue, He had quite a lot of rental property in town. Far as I could tell, he stole every bit of it.

DJ: I was reading a thesis that was done several years ago on bank failures in Montana from 1920 to '26. By far the largest percentage of banks that failed in Montana were state banks. In addition to that, they were on the east side, in the agricultural area, more than in this part.

TJ: Yes. That is true. Traditionally the supervision of national banks has been of much higher quality than the state banks. Also it has been a little harder to get a national charter. But at that time, it was too easy. The supervision of national banks was nothing compared to what it is today. The state banks just had no experienced people in the banking department or as the superintendent of the banks, or bank examiners, and they wouldn't pay enough, and today they can't pay enough to attract good, competent people. Nevertheless, the state supervision is of much better quality than it used to be. Now all the state banks are members of the FDIC and their supervision and examiners are very good. So there is supervision in the state banks. That fact, as well as the guarantee of the deposits, protects the country against poor banking. The real protector is not the insurance, but the supervision.

DJ: Is there a difference in diversification in Montana banks in that in the late teens and early 20s most of the loans were agricultural? Do you think that this has changed?

TJ: Well, to some extent, yes. For instance, I believe our diversification involves agriculture both as far as loans and deposits at about ten to 12 percent. It's hard to break that up, hard to figure what are deposits from

agriculture. Loans are a little bit easier. We're not essentially an agricultural bank. A little less than ten percent of our loans are agricultural loans.

DJ: Do you think this differs a great deal from 1919, 1920?

TJ: Quite a bit.

DJ: In Missoula?

TJ: Missoula has developed somewhat of a great industry, because the lumber and wood products didn't amount to very much in the twenties. You began the attack. Now somewhere between 60 and 75 percent of our economy is based on wood products. Butte, of course, is only a very small percent agriculture. Billings is, I would guess, about like Missoula in that respect. Bozeman would be more agriculture, Helena not anymore. A lot of the small towns with the smaller banks have so-called country banks. A country bank is anything smaller than we are.

DJ: What has been the opposition to branch-banking in Montana? Is it the opposition of the bankers or is it opposition from the public?

TJ: I am not sure. Branch Legislation has been on the books as long as I can remember. There was one statute in 1933 permitting two banks to merge and do business at both locations. There were shareholders of both offices. There was one consolidation under that statute. The First National Bank at Butte and the Daly National Bank at Anaconda combined. They repealed that law right after that. Within my experience, the bankers have been opposed to it. That was lessened to some extent, maybe to quite an extent. For a long time these banks, in general, were passed on from father to son or kept in the family. The growth of the banks wasn't spectacular. The death taxes were not so high, so that it could go from one to

another without increasing our tax liabilities so that couldn't be handled. Today the banks have grown substantially. For instance, our bank, when my dad died, was under four million. Today we are 72 or 73 million. Net worth is five to six million. Those days it was under 500 thousand. So you can see that the profits have been increasing but have been filed right back into the business. "Capital gains" is just a means of scaring everyone to death. The death taxes are on a pace that I couldn't manage if I had a larger holding in the bank. I wasn't the controlling stockholder. Between my brother and my stepmother and my sister, we had more than 50 percent. My dad's stock was split four ways. When my stepmother goes, hers is split three ways. Of course, we had sold the controlling interest in this bank to a group of investors. This means my estate could be handled. I won't be a rich man, but the capital gains will be paid and I will be gone. That situation has taken place since the growth of the mid-forties. You trace any of these banks in the area here and you will find that to be true. Those banks have increased in size many-fold since that time. From 1909 or 10 when I came aboard, the population was stagnant and increasing very little. Once or twice it went down over a ten-year period. It wasn't until the 40s we began to have growth. Then the inflation added to that, and made the dollar volume go up. All of those factors are breaking down the resistance to branch-banking. I predict that in five to ten years we will have it.