Gilman State Bank: Case study of a Montana bank failure (1910-1923)

Jeffrey Lee Cunniff

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The Gilman State Bank: Case Study of a Montana Bank Failure (1910-1923)

By

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INTRODUCTION

The rapid influx of homesteaders into Montana after 1909 caused a dramatic change in the structure of the entire state. This change revolved around the dryland farming procedures undertaken on scant 320 acre plots. The newcomers to the Great Plains region built small communities criss-crossed by a patchwork of railroads. These honyockers altered not only the state's transportation system, but its politics, agriculture, educational institutions and banking facilities.

From 1917 to 1925 the state underwent still further change due to the drought conditions. These dry years were not confined to Montana but occurred in North and South Dakota, Idaho, and portions of Wyoming and Washington. The catastrophe was very complex, but its most significant aspect was the massive failure of hundreds of banks. These banks left thousands of homesteaders penniless, forcing them to migrate from the Great Plains destitute and with broken spirits.

No historian has ever chronicled this tragedy in its entirety. Its very complexity—drought, falling beef and wheat prices, loss of European markets, uncontrolled bank failures, years of despair and the subsequent disenchantment of the farmers—has made such a study extremely difficult.
Until each facet of this disaster has been thoroughly researched no historian can accurately write the whole story. This thesis is one example of such research and is confined to a single aspect of that cataclysm—the failure of one of Montana's commercial banks.

No history has ever been written that involved the failure of a Montana bank during this era. After a bank failed its papers and correspondence were burned. Consequently, historians have been forced to rely on state banking records. For this single reason the Gilman State Bank Papers are of major importance.

In evaluating the failure of the Gilman bank several essential questions must be answered. Why did the bank fail? Did it fail for primarily the same reasons other Montana banks failed? If so, can this failure be considered representative of the majority of the banks in the state? Once these questions are answered generalizations can be made concerning other banks that folded in Montana during the 1920's. These generalizations are important if one is to attempt even a brief understanding of the failure of a single institution. More importantly the cost of human emotion can be examined and the effects it rendered can be applied to other bank studies.

The first chapter is a terse explanation about the homesteaders and how they got to Montana. The chapter takes
into account the effect these newcomers had on the state's banking system. Conversely, the failure of these institutions forced bankruptcy on thousands of inexperienced farmers. This groundwork is essential for the reader to even hazard a guess at why a bank failed. The chapters which follow deal explicitly with the social, economic, loan and financial factors that caused the bank's failure.

This thesis does not presume to give the answers to all of the questions raised concerning the failure of Montana's banks. This is the study of a single bank. The conclusions reached, however, can hopefully be applied to other banks that closed. With these answers another piece can be fitted into a puzzle of mammoth proportions.

Jeffrey L. Cunniff
October, 1971
CHAPTER I

RAINBOW'S END: HONYOCKER YEARS
OF PROSPERITY AND BANKRUPTCY

They were called "homesteaders," "nesters," "scissors-bills," "honyockers," and a dozen other names. But no matter which title they were known by they came to Montana with hope for a new and prosperous life. This was the attitude of thousands of easterners and European immigrants who settled in Montana during the homestead era (1909-1925). These newcomers to the West came with little knowledge about their new homes, but soon became indoctrinated to the rugged life of prairie farming. Hope and despair became their watchwords and Montana's history during this period is filled with accounts of their struggles and triumphs. The homesteader had arrived!

"Some of them were chasing a rainbow; some of them thought they were getting 'free land.' And almost all of them had been subjected to a promotion and propaganda campaign of great proportions." K. Ross Toole, Montana: An Uncommon Land (Norman, Okla.: University of Oklahoma Press, 1959), 230. Hereafter cited as Toole, Montana: An Uncommon Land.

4
equal opportunity in developing his fortune. One particu-
lar poster widely displayed throughout the East showed a
plow being drawn across a Montana field turning over a fur-
row of golden coins. This was quite typical of advertising
used to entice these newcomers to move west and settle in
Montana's paradise.

The railroads played a major role in stimulating in-
terest in western agriculture. "Usually the literature con-
tained an endorsement by the governor and an agricultural
official as to productive value of eastern Montana lands,
and alluring illustrations of various phases of farming,
new buildings, farm equipment, and livestock."^3

The Milwaukee Railroad, through its poster and pamphlet
campaign, achieved great success in bringing thousands of
immigrants to eastern and central Montana. One of these
pamphlets emphasized the exceptionally good soil in the
Deer Lodge Valley region. It vividly described the rich
black soil that ranged in depth from ten inches to ten feet.
The brochure did not fail to mention the rich elements in

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^2 Carl Newton Abbott, _Montana in the Making_ (Billings,
Mont.: The Gazette Printing Company, 1934), 385-6. Here-
after cited as Abbott, _Montana in the Making_.

^3 Charles A. Dalich, "Dry Farming Promotion in Eastern
Montana: 1907-1916" (unpublished MA thesis, Archives,
University of Montana, 1968), 58. Hereafter cited as
Dalich, "Dry Farming Promotion, 1907-1916."
the soil (oxygen, nitrogen, potash, etc.) and its capability of producing enormous yields of winter wheat, oats, barley, flax and field peas without any appreciable exhaustion of the soil.  

Another booklet published by the Milwaukee described the climate of Montana as one of the most healthful in the world. It stated that "...there were few days during the entire year in which outdoor work could not be done in comfort," and stressed that "...no one need fear the winters of Montana."  

The Northern Pacific, with its vast land acquisitions, offered many immigrants an opportunity for a new life on cheap rich land. The land grant which the government made to the Northern Pacific gave the railroad the title to every other section (all the odd-numbered sections) for twenty miles each side of the right-of-way. The railroad sold its odd-numbered sections to land companies who in turn found it easy to sell to settlers since many of the even-numbered sections had already been settled. Townships rapidly populated in this manner.  

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The Great Northern, plotted by the visions of Jim Hill, opened the state to farming on the northern plains. Hill's success can be measured by the fact that homesteaders settled 42 percent of Montana from 1910 to 1922, (80 percent of which was unfit for grain crops). As one noted Montana author put it, "Montana, was after all Jim Hill's state." This, however, may be stretching a little far the importance of one man's ventures and his effect on the settlement of Montana.

In any case, the importance of the railroads in bringing homesteaders to the state cannot be overlooked. They came in cars which carried livestock. Some even traveled as stowaways. The majority of them, though, came on immigrant trains. "The honyocker rented a freight car (St. Paul

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7 Ibid. It was Joseph Kinsey Howard's contention that Jim Hill's vision of the settlement of the northern plains had come true. In 1912 at Havre's annual fair Hill explained his vision. He told those startled citizens that the time had come for the settlement of a farm family on every 160 or 320 acre plot within the millions of acres of Montana's public domain. Howard maintained that Hill's vision was so successful that all Montanans (the farmers and stockmen in the northern portion of the state in particular) were helplessly dependent on the railroad.
to eastern Montana, $50) and in it he was permitted to place 'all second hand articles such as household goods, machinery, agricultural implements, vehicles, wagons, tools, etc.' Small livestock (sheep and hogs) not exceeding 20 head and large stock (cattle, horses, and mules) not over 10 head were also permitted. In some instances the trip to Montana was a bit crowded.

Local and state organizations also participated in attracting homesteaders to Montana. They extolled the abundant rainfall of the region and conveniently failed to mention the sub-zero temperatures and cold winds that were common to Montana winters. Neither did these groups explain about the recurring droughts or the condition of the soil when the land became parched due to the lack of rain. One such alluring description of Montana's excellent climate appeared in a pamphlet distributed in 1904 by the Montana World's Fair Commission in St. Louis:

Because of the dryness of the atmosphere even the occasional extreme cold is not severely felt, nor is the warm weather of the summer at all disagreeable. In fact in the summer months Montana is one great pleasure and health resort, while its Indian summers, extending generally well towards the Christmas holidays, are incomparable.

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8Ibid., 181

9Montana World's Fair Commission, "Montana the Treasure State," ed. by John W. Read (St. Louis: Con P. Curran Printing Co., 1904), 7. The state issued this pamphlet under the direction of Montana's World's Fair Commission for free distribution at St. Louis during the Louisiana Purchase Exposition of 1904.
Another leaflet, released in 1908 about the city of Great Falls, claimed that its population was increasing more rapidly than at any time in its history. City fathers believed that the community would reach a population of fifty thousand in five years. The city, in fact, did not attain that population until fifty years later.

The Enlarged Homestead Act of 1909 also encouraged settlers to migrate westward. This act doubled the acreage allotment from 160 to 320 acres. In 1912 the "Three-year Homestead Law" cut the proving-up time from five to three years. In addition the owner could be absent five months each year from the claim.

One group that attested to the success of this advertising barrage and the passage of the Homestead Acts was the speculators. At every train stop there was a land office, and a "land locator," as they liked to be called, met each newly arriving train. Rushed to the land office, the locator quickly persuaded the honyocker to file on his new claim. "Then a wagon or buckboard, loaded with pro-

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10 Great Falls Chamber of Commerce, "Great Falls and the Midland Empire" (Great Falls: W. T. Ridgley Calendar Co., 1908), 5. The population of Great Falls was 13,943 in 1910; 24,121 in 1920; 28,822 in 1930; 29,928 in 1940; 39,214 in 1950; and 55,357 in 1960. Population statistics were from the U. S. Department of Commerce, Bureau of the Census, Eighteenth Census of the United States, 1960: Population, I, 10.

visions, barrels of water and a plow, would pull up outside. A homeseeker was urged to pay the fee usually from $25 to $50 and get 'expert' assistance in locating the best land."¹²

It was not unusual for a speculator to locate five or six claims in a day. They made a good living in this way and most of them were quite honest. However, some of these men only wanted to get rich, and at the homesteader's expense. These unscrupulous speculators quite often located more than one homesteader on the same claim.

Once located the newcomer quickly plowed the ground for cultivation and chose a suitable site for his new home. Some of the dwellings that the homyocker's built resembled the sod houses on the Kansas and Nebraska plains. However, most of the homes were 10 x 12 shacks with tar roofs and no foundation. In the winter time dirt and snow had to be piled up outside along the sides to prevent the cold from coming under the walls. Even old rags stuffed into cracks could not stop the cold air from piercing the dwelling and nothing could prevent the window frames from warping.

The wind was the worst enemy. It shook the small shacks with fury and the earthen floors became extremely cold. The stove, usually located in one corner of the

house, provided the only heat. Since wood was so scarce the homesteaders utilized cow dung and hay which gave off a rancid odor. Continual attention had to be given to keeping the fire going.

The problem of water was a major one, for only a few homes had ideal locations close to streams. Most of the water was hauled by barrel. This was often a half day or an all day task depending on how far the water had to be carried. Those that were fortunate enough to afford it hired someone to dig a well. When one could not afford it he dug his own. "This was not so bad in low-lands, but often enough he had to go down two or three hundred feet with a pick and shovel while his wife hauled up the dirt with a windlass.\textsuperscript{13}

In the winter many farmers left their wives and children to find jobs in neighboring towns. These courageous women had to rely on themselves and it toughened their spirits. The howling wind, the cold, the close quarters of the small shacks, and the loneliness were only a few of the problems with which they had to contend. Many did not survive and those that did persuaded their husbands to give up everything on their new homesteads to return east.

\textsuperscript{13}Toole, Montana: An Uncommon Land, 231-2. This was a common method of well digging for the poorer homesteaders. The process was slow and quite often the results proved unfavorable, but water was a necessity and every
From 1910 to 1918 Montana's farmers prospered. The need for wheat during World War I pushed the price of wheat to $2 a bushel. The price of land doubled and Montanans could see no end to the rising price of grain. The homesteaders borrowed money to buy more land and better equipment. Bankers loaned money freely because land was used as collateral. There was speculation that wheat might jump to $4 a bushel before 1920. Why shouldn't the banker help the farmer and also reap some of these benefits? The banks borrowed from eastern capital at 6 percent. They loaned to the homesteaders at 10 percent and secured a good profit.

In the years 1915 to 1920 the national income doubled. No where was this more pronounced than in agriculture. According to the Agricultural Department the farm income in 1919 had reached a level that was double that of the five years preceding the war. This increase in farm income was due to the 100 percent increase in the prices farmers received for their produce. Steadily rising prices for farm land and increased farm loans also reflected the post-war speculation of rising grain prices.

The global recession began in the summer of 1920 and prices dropped drastically. Grain prices declined 66 percent in the ensuing 15 months and meat prices fell 60 percent. The recession affected not only whole communities but the entire country.

Still another calamity dispelled the small hopes held by the Great Plains farmers. "When the drought came, it did not come all at once or in all places at the same time. Drought is a little like cancer; it seems to spread outward until it encompasses everything." Everyone was hit hard when the rains ceased to fall. The farmers could not meet the payments on their equipment. Cattlemen had difficulty in paying their feed bills. Local merchants had to extend credit to these people or file for bankruptcy themselves. Affected by all these groups were the banks. They continued to lend money while looking at the sky in desperation waiting for the rain to come.

No one could understand it. From the turn of the twentieth century to 1916, Montana yielded an average of 25 bushels of wheat to the acre. By 1919, the third year of the drought, the average was only 2.4 bushels. In July of that year Governor S. V. Stewart called a special

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15Ibid., 6.
16Toole, Montana: An Uncommon Land, 235.
17Howard, Montana: High, Wide, and Handsome, 197.
session of the Montana legislature to consider the agricultural emergency.

Despite these meager crop yields the worst was yet to come. The topsoil blew away. The farmer's plow had cut so deeply into the soil (sometimes up to a foot) it took only a slight wind to carry it away. Prairie fires, quite common during these dry spells, roared across the dry land with abandon. Wells even dried up.

If the farmer somehow managed to survive all this and cultivated even a small crop he could look forward to still another disaster—the grasshoppers. When these black clouds of insects swept across the land there was very little left in their wake. They even devoured the stubble leaving nothing to hold the soil.

From 1921-1925 one half of all the farmers lost their land through bankruptcy and foreclosure. From 1926-1929 there were ten thousand more farm foreclosures. Non-resident foreclosures made up approximately one-fourth of this total. This cut land value in half. The farmers that did remain through these years continued to borrow to plant more seeds and buy better equipment to insure larger yields.

This vicious cycle of borrowing and living on credit ended with the collapse of over half of Montana's banks

\[18\] Ibid., 207-8.
by 1926. Thousands of the state's farmers and their families left in disappointment. These people had been choked with despair. They remembered the good times of Montana's boom era—its rain and its prosperity. Most vivid in their minds, though, were the hard times. Many Montanans had little sympathy for the homesteader. They were skeptical of his way of living. When he could not conquer nature and all of its unpredictable elements they felt he had brought it on himself.

No matter what his treatment, by man or by nature, the homyocker secured for himself a place in Montana's history. For those farmers that remained the wet and dry cycles continued through the thirties and forties. The value of land also fluctuated accordingly. These diehards had survived harder times and would not quit. The homesteaders that did not survive the bitter years of the twenties had little to show for it. Many of them came to Montana with only a small savings. They left with nothing, except the memory of their struggle against impossible odds and their dreams of prosperity they brought with them.

19 In 1920 Montana had 396 state and national commercial banks in operation. Within six years 214 of those banks closed their doors either by suspending their operation, voluntarily liquidating, or placing the banks in the hands of receivers. These figures were compiled from the records of bank statements in the Annual Report of the Banking Department, State of Montana for the fiscal years ending, Nov. 30, 1920, and June 30, 1926, and the Abstract of Reports of the Condition of Montana State Banks, Trust Companies, Private and National Banks, Nov. 15, 1920, and June 30, 1926.
The rapid settlement of Montana from 1910 to 1920 created an uncontrolled hysteria in the expansion of the state's banking facilities. Montana's population increased from 376,000 to 549,000 during this period—an addition of 173,000 inhabitants. Rain was plentiful and the First World War doubled the price of wheat. The homesteaders, encouraged by private and public organizations, bought more land and machinery. It became the farmer's patriotic duty to raise food for the war. Consequently, the number of farms in the state doubled and land value soared from $250,000,000 in 1910 to the 1920 total of $700,000,000.20

To accommodate this new found wealth the chartering of 397 banks occurred from 1910 to 1919, three-fourths of which were state banks. In 1919 alone, the state chartered an incredibly high number of 82 banks, both state and federal.21 "The number of banks in the United States reached its highest point in 1921 with more than 30,500. Of these, 3,825 were in the Ninth Federal Reserve District (Montana,


North Dakota, South Dakota and Minnesota). This is almost three times the present number today."

To say that Montana was heavily overbanked at that time is an understatement. Obtaining a bank charter in the state was not a difficult task. There was a minimum capital requirement of $20,000 for a state bank in 1910. This money could be placed in the bank's own treasury. The law, amended in 1915, tightened controls and made it a requirement that the $20,000 be deposited in a different bank.

The requirements for bank charters were not strict and any small community could obtain a bank. The town of Agawam, for example, which had only 50 people, procured a charter in November, 1912, in hopes of being on a railroad line. The charter was never activated because the line terminated at that point.

Some towns, little more than drinking holes, had a bank in the community. A few of these little known towns included Toston, Vanada, Lothair, Savoy, Kolin, Coburg

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24 Ibid.
and Madoc. All of the banks in these locations acquired charters after 1913 and were either liquidated or placed into receivership by 1925.

The town of Medicine Lake (population 300) had three banks in 1923, two chartered in 1911 and one in 1912. Two of them failed in 1923, less than a month apart, and the third no longer exists. "To serve a total population of about 37,500 in Fergus, Hill, Sheridan and Valley counties in 1920, there were 85 banks (about one for each 440 persons—against a 1920 national average of one to 3,500)." Only eight banks survived.

One reason for so many small towns was the emotional fever over county splitting. County splitting groups quickly organized when the population surged. These new counties meant more towns, additional businesses, and increased employment. It also meant more public officials, construction of county buildings, and a larger state and county budget to run these agencies. For this, new taxes had to be levied. This growth was fine until the homesteaders experienced the drought and its hardships. For those that remained, taxes rose—as high as 140 percent an acre in some counties. Ready cash was no longer available and living on credit became a stark reality.

25Ibid.

The ease with which small town banks could obtain a charter, particularly the state banks, presupposes that there were never tight controls placed on the chartering of banks. Montana did have banking regulations at that time but statewide supervision proved very weak. Any person or group of bank promoters had only to put up the necessary collateral to purchase a charter. No experience in banking was required for the bank's officers or directors.

Since there were few experienced bankers in the state, local businessmen and farmers answered the call to fill the needed positions. Worse, bankers who were brought to Montana to manage these banks knew little of the state's dependence on a narrow agricultural economy. Although these men knew the ins and outs of banking they knew nothing about wheat farming and its unpredictable elements.

Before the drought came in 1917, hopes of making quick profits encouraged the extension of many loans. Bankers charged the farmer from 10 to 12 percent interest and rarely checked his collateral. There is the story of a Montana farmer who had borrowed $10,000 from a banker in Choteau county. A neighbor commented that he did not think he could sleep at night if it were he who had taken such a high loan. "Why should I be troubled," the borrower exclaimed, "the banker should be the one to worry, it's his money." 27

27Personal interview with Harold M. Brown, Choteau county homesteader and school teacher, Great Falls, Montana,
Not only were local bankers careless about making their loans, but this incident illustrated the irresponsibility of many borrowers. The average Montana farmer paid on his loan only after he had sold his crop, figured his living expenses for the coming year, and bought additional farm equipment—oftentimes a new car. "Usually the loan was renewed, and frequently the accrued interest was added to his debt; in fact, by that time most bankers had been carrying the loans so long that they had to try to keep their borrowers solvent or go down with them."28

The total deposits for all of Montana's banks in 1921 was only $2,000,000 more than their total assets. The ratio of loans to deposits was an incredibly high 98.6 percent.29 In many banks it was not unusual to find loans exceeding deposits, some by outrageously high amounts. In 1922 the First State Bank of Buffalo had $71,000 in deposits and $145,000 in loans; the Virgelle State Bank, $24,000 in deposits and $41,000 in loans; and the Citizens State Bank of Clyde Park, $55,000 in deposits and $199,000 in loans.


The latter had a loan to deposit ratio of 360 percent. The bank failed a year later in 1923.

"National banks were at a competitive disadvantage with state banks until the passage of the Federal Reserve Act of 1913, but thereafter they entered the field with an aggressiveness unbecoming their self-asserted conservatism." Reductions on reserve requirements and privileges of extending real estate loans opened the profitable savings business to national banks. Loans could be extended on improved farm land, providing they did not exceed one-half of the properties market value. There was a maximum limit of five years on these loans.

Competition between state and national banks became very pronounced, not only for obtaining depositors, but for loaning money. Unfortunately, though, the bankers proved to be better lenders than promotion experts in attracting depositors. This is borne out by the fact that the Helena Branch of the Ninth Federal Reserve District in February, 1921, (the day it opened) secured $4,775,000 in deposits from its member banks and $7,665,000 in loans.

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30 Ibid.
In only six months loans climbed to $13,601,000—three times the amount of its member bank deposits.33

To compound matters these small banks became caught in the same dilemma which faced many of the nation's other rural banks—the inability to diversify their loans. Dependent on one-crop industries, the country banks limited their sphere of operation. By not spreading their loans beyond the reach of a single local economy they could never hope to hold their own in a time of adversity. In times of prosperity in these sections, banks were prosperous, in times of adversity banks failed.34

America's banking systems in agricultural regions had never been sound in the past, due to their dependence on one-crop communities in which they were located. This proved to be the common denominator for the majority of the banks in Montana. In addition to one-crop dependence, Montana banks had several other "...distinct characteristics in common: more state banks failed than national; more small banks failed than large; more country banks failed than city banks; more new banks failed than old; and more failed east of the Continental Divide than west."35


The summer of 1917 brought little moisture. This first year of drought ushered in the lean years of 1918, 1919 and 1920. The summers were long and the parched lands of eastern Montana furnished no pasture for the vast sheep and cattle herds. Wheat harvests dwindled and the ground lay scorched in the glaring sunlight. Deflation ensued in 1919 and cattle that were worth $100 the fall before were sold from $25 to $50 a head. Wheat was $3.30 a bushel that year and sold for $.92 in 1922.

The surge in European agriculture during this time drove the price of wheat even lower in some states. In 1921 the United States exported $551,000,000 of wheat, by 1929 only $192,000,000, a decline of 65 percent. No longer could the western wheat farmer look to foreign markets to sustain his prosperity. Newspapers in reporting agricultural prices in July 1919 announced a seemingly unrelated fact that living costs had risen in the United States by 88 percent since 1913—further burdens awaited Montana's honyockers.


38 McCracken, The Northwest in Two Wars, 12-3.

The sudden closing of a bank's doors is a shock to the whole community. L. Q. Skelton, the state Superintendent of Banks, in 1924, in his annual report for the end of that fiscal year vividly described the effect of a bank's termination:

The ruin, the distress, the litigation, bankruptcies, the wrath of the depositors, a suicide or two, homes broken up, fortunes lost, labor's savings swept away, the widow's mite gone, business stagnated, confidence shaken, men of reputation sent to prison perhaps, and all that follows the order to close the doors of a bank, are circumstances of the first magnitude, and hence no thoughtful Superintendent can but feel the importance and responsibility of his office and the dreadful consequences of a false step.40

Local depositors were the worst hurt. Money was difficult to accumulate in rural communities, especially through years of self-denial and careful planning for one's final days of leisure. Banking policies were not easily understood. The sudden closing of a bank's doors and its placement in the hands of an unfamiliar adjustor caused a loss of confidence. To small merchants it often meant bankruptcy and ruin. To individual depositors it brought despair and bewilderment—Montana was a paradigm of all this in the 1920's.

40Annual Bank Report, June 30, 1924.
Equally affected were those who borrowed from the bank. To meet the demands of the depositors every asset was liquidated, the majority of which consisted of the notes of the borrowers. The immediate closing of a bank for receivership purposes or for liquidation necessitated the collection of all outstanding notes, usually held by local merchants and farmers. From 1919 to 1929 the bankruptcy rate of Montana's farms was the highest in the nation. Farm mortgage indebtedness reached an unbelievably high figure of $175,000,000.41

The stockholders of community banks bought shares for the purpose of investment—usually these shareholders were local farmers and businessmen. When a bank failed these stockholders were responsible for any loss to the depositors. Many Montana farmers and merchants who were fortunate to survive the disaster of the falling wheat market found themselves ruined because they owned stock in local banks.

Another class that assumed responsibility for bank failures was the directors. Boards of directors of banks possessed a personal liability for the actual operations of the bank. Although operated by a president and his staff, the bank's directors were liable for any negligence of mismanagement. Bank presidents, their vice presidents and cashiers, after a bank's failure, were generally

41Howard, Montana: High, Wide, and Handsome, 208.
the targets of an impaired reputation since they had not only a financial responsibility, but a moral obligation to the community.

One incident, for example, that questioned the integrity of one of these local bankers occurred in 1924, in a Fort Benton bank. A middle-aged widow with six children inquired if it would be safe to deposit her $300 savings in the bank. The banker replied, pointing out the window at the Missouri River, "Lady, when the water in that river starts to flow in the opposite direction, then you can begin to worry about the safety of your money in this bank." Two weeks after she deposited her money the bank failed, no doubt little surprise to the banker who knew the financial condition of his own bank prior to its failing.

Montana's bank failures produced an epidemic loss of faith and launched a run on the state's commercial banks. Farmers openly voiced their disenchantment and local politicians and newspapers took up the cry. Someone was to blame and the role of scapegoat fell to the Federal Reserve System.

42Interview, Harold M. Brown. Joseph Kinsey Howard took the opposite stance in supporting his attack on the Federal Reserve System as the major reason for Montana's bank failures. He maintained that dishonesty did not break one of the banks which closed in Montana during the 1920's. Several bankers and employees did go to jail, he contended, but in nearly every instance the offense was falsification of the books in a desperate attempt to keep their banks alive, and with no effort to profit personally. Howard, Montana: High, Wide, and Handsome, 233.
Joseph Kinsey Howard summed up the feeling of many Montanans in regard to that agency. He insisted that "...the Federal Reserve Board deliberately smashed prices while relentlessly squeezing agricultural paper out of rural banks leaving them with inadequate economic resources for the community." Further, "...unnecessary deflation policies removed money from Montana and placed it in Federal Reserve vaults while the life flowed out of the state." The final straw occurred when the Liberty Bonds, which were the last assets of the rural bankers and their customers, reached discounts of $.80 on the dollar. The end result for Montana's farmers was "...distress selling of wheat and livestock to meet overdue notes."43

This opinion has been widely accepted throughout the state, no doubt due to the popularity of Howard's book. Someone must accept the responsibility for the state's "banking disaster" in the 1920's and Montanans willingly approved the book's convincing arguments. "It was easier to deal with a conspiracy by men than the cycles of nature and complex world economic conditions."44

Howard's theories, however, are now being questioned by Federal Reserve officials and western historians. Since the Federal Reserve System began in 1913 it seems improbable

43 Howard, Montana: High, Wide, and Handsome. See chapter twenty, "The Role of the Federal Reserve."

that it was experienced enough to prevent the downfall of the western economy. The Board had no control over the drop in wheat prices and the resulting loss of faith. Nor, did the agency have the ability to control the balances of member banks to any important degree. Even had it possessed such power, it would not follow that the Board was responsible for either the magnitude of member bank balances or the use to which they were put.  

The Ninth Federal District and the Federal Reserve Bank of Minneapolis were no exception. The Federal Reserve had only limited authority over Ninth District banks. This is demonstrated by the fact that seventy percent of Montana's banks failed in the years 1921-1929. The same percentage failed in South Dakota, while North Dakota lost sixty-two percent and Minnesota thirty-one percent. This was the highest rate of bank failures of any district in the nation. The national average was only twenty percent, lending suspicion to local bank practices in the Ninth District.

When questioning the policy of the Ninth District, the Minneapolis Bank did all it could to prevent the run on its member banks—particularly those in Montana. In

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45 S. E. Harris, Twenty Years of Federal Reserve Policy (Cambridge, Mass.: Harvard University Press, 1933), 228.

46 Excerpt from 1953 Annual Report, Federal Reserve Bank of Minneapolis, Archives, University of Montana.
addition to the $13,601,000 the Minneapolis Bank loaned to Montana banks, "...so much credit was extended that the bank's gold reserves would have fallen below the legal minimum if it had not borrowed from other Federal Reserve banks." In 1920 approximately 89 percent of all the outstanding loans of the Minneapolis Bank (nearly $90,000,000) were extensions to agricultural and livestock interests in the Ninth Federal Reserve District.

Joseph Kinsey Howard was correct, though, when he said the Federal Reserve forced hardships on many western farmers. The board tightened credit too hard and too fast to curb "inflationary borrowing." It was also to blame for encouraging increased post-war wheat production and for being unsympathetic toward the mass exodus of ruined homesteaders. "Increased wheat planting held serious consequences for farmers who incurred large mortgage obligations on the basis of high war prices. They soon realized the mistake of carrying this indebtedness and making payments when prices dropped." But, it cannot be held responsible for indiscriminate chartering and inflated farm values. The chartering of state banks was not the responsibility of the Federal Reserve.

47 Ibid.


System. They were chartered by the state of Montana and the Comptroller of the Currency. Neither could the Federal Reserve accept responsibility when the banks became over-extended. Easy credit policies were not the answer, for further loans only encouraged banks to make further extensions of credit.

"The great number of failures of small country banks had no direct relationship to the Federal Reserve System." The same case can be made for the Ninth Federal Reserve District. The causes for these banking failures must be found elsewhere.

No one major cause can be attributed to the high mortality of Montana banks and the failures of its farmers. Rather it was a combination of many reasons that weighed so heavily on Montana's economy that a collapse was inevitable.

Drought, poor crops, inexperienced homesteaders, inflated land values, county splitting, declining wheat and beef prices, and the loss of European markets all placed a strain on Montana's banks. Promiscuous chartering, mismanagement, inexperience in banking, lack of diversification of loans, over-extension of credit, and unwise Federal Reserve policies compounded these matters. The end result was a loss of confidence for the local farmers, culminated by a run on the state's unstable banks and a mass exodus.

50 Letter, Clement Van Nice to John H. Toole, Dec. 8, 1966 Archives, University of Montana.
51 Collins, Rural Banking Reform, 42.
of Montana's homesteaders.
CHAPTER II

SOCIAL AND ECONOMIC
FACTORS OF THE BANK

I

On February 15, 1910, the Gilman State Bank officially became an incorporated bank in Montana. Originally known as the Augusta State Bank, it began operation in Augusta, Montana, 53 miles west of Great Falls and 25 miles south of Choteau at the foot of the Rocky Mountains. The idea of starting the bank originated in Cando, North Dakota; six men signed the articles of incorporation.

Augusta at that time was badly in need of a bank because merchandise had to be brought by freight team and mail had to be transported overland by stage.¹ A bank in this region, these men reasoned, would serve a useful purpose. If managed properly, Augusta had the capacity to support a local bank.

The principal coordinator, and only president of the bank, was Abraham Lincoln Bradley. Born of English parents and reared in Ontario, Canada, Bradley began his career at the age of seventeen. After graduating from high school in 1882, in Bowmanville, Ontario, he assumed the position

¹ Tape recording, Homer J. Wellman to the author April 15, 1971. Hereafter cited as tape, Homer J. Wellman.
of messenger boy in the Merchants Bank of St. Thomas, Ontario. He remained in that capacity for two and one-half years until he started a homestead near Langdon, North Dakota.

Bradley's homesteading days lasted ten years, until 1894, when he accepted the post as bookkeeper in a Langdon implement firm. In 1900, after a six year stint in Langdon, he moved to Cando and worked as a bookkeeper for another implement company, Currie and Riggs. He stayed there until 1910, when he assumed the presidency of the Augusta State Bank.²

Another charter member of the bank was R. Percy Abbey. A native of Grand Forks, North Dakota, he graduated in 1904 from the University of North Dakota. He studied law for a year and eventually obtained employment in Cando as chief clerk and cashier for a local realty company.³ He also handled duties as bookkeeper and abstractor, and managed many of the firm's farm loans. It was in Cando that Abbey and Bradley met and formed their lasting friendship. From the bank's origin to January, 1917, Percy Abbey served as cashier.


Other men instrumental in the bank's formation and signers of the articles of incorporation included: Harry Lord, cousin to Abbey and cashier of the First State Bank of Cando; J. S. Conyers, a local Cando rancher; J. C. Furman, Augusta resident and hotel owner; and M. A. Wellman, owner and operator of an Augusta mercantile firm.

These men bought 200 of the original 250 shares in the bank. Each share sold for $100. This left only $5,000 to sell to meet the original $25,000 goal for the bank's capital stock. Augusta area residents bought some of the shares and the remainder went to interested parties in North Dakota, Iowa, Minnesota and Illinois.

The Augusta State Bank began its operation in the center of the Sun River Valley. The bank did a respectable business in Augusta and speculation ensued over building a

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<thead>
<tr>
<th>Name</th>
<th>Shares</th>
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<tr>
<td>Harry Lord</td>
<td>50</td>
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<tr>
<td>J. S. Conyers</td>
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<td>$5,000</td>
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<tr>
<td>A. L. Bradley</td>
<td>40</td>
<td>$4,000</td>
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<tr>
<td>R. Percy Abbey</td>
<td>40</td>
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<td>J. C. Furman</td>
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<td>M. A. Wellman</td>
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The Articles of Incorporation, Feb. 15, 1910, Gilman papers.
permanent structure, as the bank had only temporary quarters. At that time Augusta had a population of 400, served by a variety of stores.

The local paper, in a short historical sketch about the community that appeared weekly, described the assets and opportunities abounding in Augusta. In addition to its four churches and excellent school, the article stated that the community maintained "...three general stores, three saloons, two good hotels, two barber shops, a pool and billiard hall, an opera house, a moving picture show, a clothes cleaning shop and a first class creamery."\(^5\)

The small town also had the usual lumber yard, drug store, livery stable, blacksmith shop, garage, implement dealer and real estate company.

The Great Northern received a great deal of freight out of the Augusta area in the way of cattle, sheep, and wool. Ranchers shipped few farm products as most of it was used on the ranches. Other railroads, such as the Milwaukee, got this freight after it reached Great Falls, so the Great Northern board of directors was anxious to tap this area with a spur line.\(^6\)

The railroad undertook a survey to determine the main line through the Sun River Canyon. The railroad announced that it intended to continue the line through the canyon, "...over the continental divide and down the Middle

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\(^5\) Appeared weekly in the *Augusta Times*.

\(^6\) Tape, Homer J. Wellman.
Fork of the Flathead River to join with the main track in the vicinity of Nimrod on the southern boundary of Glacier Park." When the railroad completed the survey, Augusta was off the planned route; one reason being that the area had poor drainage.

At a point two miles northeast of Augusta on the proposed route the railroad bought approximately 160 acres of land from a longtime area rancher, E. D. Boone. Here it established a new town, Gilman--named after one of the Great Northern officials. The Gilman Townsite Company formed as a corporation and "...was known as being owned by the Great Northern. Bradley, however, was one that was very active with the front men in selling lots."8

Bradley and several other Augusta residents saw the opportunity of moving to this new location. They had the idea they could move most of the businesses to Gilman. By moving general stores, hotels, livery stables and saloons, Bradley and the others felt that a ghost town would be left behind.9

In March 1912, Percy Abbey wrote a friend that, "...we are selling lots in the town of Gilman and have

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7 *Great Falls Tribune*, Jan. 7, 1938.
8 *Tape, Homer J. Wellman.*
sold quite a number. Augusta people have taken lots and there are already 70 lots gone already. Five months later in correspondence with a stockholder, Abbey wrote: "The townsite company has offered us two lots, free on the best corner in town if we will erect a brick or stone building." He further expressed hope in the move: "I think we can greatly increase our business when we have a building that looks like a bank. It will more than make interest on the investment and we are getting a valuable corner thrown in."11

Most of Montana's banks at that time had buildings of either brick or stone. The bank in Gilman, constructed of red brick, was no exception. This construction not only limited the chance of fire and burglary, but denoted strength and stability in the institution. Depositors felt more secure with their money in an imposing structure, not to mention the prosperity it represented in the community.

The townsite also gave lots to prospective residents and businessmen to entice them to abandon their ties with Augusta and re-establish themselves in Gilman. "The old guard in Augusta was quite a stubborn group and they were

10 Letter, Abbey to Orie T. Brown, March 2, 1912, Gilman papers.

11 Letter, Abbey to F. W. Ramaley, Aug. 27, 1912, Gilman papers.
not in agreement with Bradley moving the bank.\textsuperscript{12}

One of these men was J. C. Furman, an original stockholder in the firm. On September 12, 1912, the bank called a special stockholder's meeting to discuss removal to Gilman. Bradley, who controlled 90 votes (50 of his own and 40 by proxy), voted in favor of moving the bank and changing the name to the Gilman State Bank. Percy Abbey, with 80 shares (40 by proxy), also favored the motion. J. C. Furman, who had 10 individual shares and controlled the proxy on 40 more, opposed the move. After the motion passed, the directors decided to keep pace with the foreseen prosperity by voting to increase the number of directors from five to eight.\textsuperscript{13}

Furman immediately resigned as one of the bank's directors before it relocated in Gilman, later to serve as a director for a new bank in Augusta. Other residents in the area also chose sides and two camps developed—those supporting the established city of Augusta, and those who backed Bradley and the formation of Gilman.

Disenchanted with the move the bank's vice president, A. W. Beach, "...offered his stock for sale and withdrew active support of the institution" as reported in the

\textsuperscript{12}Tape, Homer J. Wellman.

\textsuperscript{13}Minutes of the stockholder's meeting, Sept. 12, 1912, Gilman papers. Hereafter cited as minutes (with given year).
minutes. The stockholders elected E. D. Boone to fill the new vacancy.\textsuperscript{14}

An intense rivalry developed between the two communities to take the other off the map. Gilman's residents based their hopes on the populace moving from Augusta to their town; Augusta's citizens relied on the belief that the railroad would be extended the additional two miles to their city. The \textit{Great Falls Tribune}, some years later in describing the rivalry, commented: "Not only were the townspeople arrayed against each other, but families were split by divided loyalties."\textsuperscript{15}

Habitual conflict over the railroad, coupled with the removal of the bank to Gilman, pushed ill-feeling to feverish heights. This, added to Bradley's attempts to garner support from Augusta firms, precipitated a move in Augusta that dealt heavily on the Gilman State Bank. Bradley had alienated so many Augusta residents that a group organized to start another bank--this one in Augusta. The action immediately cut in half the bank's potential monetary resources in the area. The new bank, the Peoples Bank of Augusta, received its charter on December 22, 1912. This occurred less than one month after the Gilman bank had relocated.

\textsuperscript{14}Minutes, Nov. 12, 1912, Gilman papers.

\textsuperscript{15}Great Falls Tribune, Jan. 7, 1938.
The rivalry reached such a high point that by the fall of 1913, Gilman residents clamored for their own school district, the construction of a school, and the hiring of a teacher. Several citizens circulated a petition for the employment of a teacher and the expense of running a school for four months. These people collected $270 of the $300 pledged; only four of the twenty-four who pledged their support did not pay.16

An article in the Helena Daily Independent reported the school dispute: "Apparently the Augusta people want to control the Gilman school, which is decidedly un-American."17 The county commissioner and chairman of the board of school trustees in the Augusta district, C. C. Covington (who resided in Augusta) refused to allow the move. A Gilman resident, C. W. Burns, "...appeared in the office of the county commissioners one day with a new petition asking that the district be created." He stated: "I do not represent the Gilman Commercial club nor do I represent Mr. Bradley and the Gilman State Bank, but I

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16 Undated petition sent to the school trustees for the establishment of a school, Gilman School District No. 31 papers, Archives, University of Montana. Hereafter cited as Gilman school papers.

17 Helena Daily Independent, date unknown, clipping in Gilman school papers file.
do represent the people of this district."\(^{18}\)

In describing the issue the Helena paper remarked:

There was a persistent rumor from the Gilman neighborhood to the effect that Burns forgot to include one other institution among those whom he represented—namely C. C. Covington. At any rate Mr. Covington suffered a complete change of heart almost instantly and before Burns had left for his Gilman home that afternoon Mr. Covington and the remaining members of the board readily and graciously agreed to give Gilman the school district.\(^{19}\)

Six months later, in April 1914, Gilman held elections for school trustees and C. W. Burns ran for one of the three posts. At that time there was no official ballot and the candidates had to print their own. The other three candidates all had their names on the same ballot; E. D. Boone, the vice president of the Gilman bank, being one of them.

In reporting the election the *Helena Daily Independent* stated: "All the candidates but Burns had their own ballots printed, but one of Covington's political wheels apparently missed a revolution, for this important piece of political strategy was overlooked by him and his candidate."

By forgetting to have his ballots printed Burns lost the election. This probably had only a limited effect on the election for he had very little support. The news-

\(^{18}\) *Helena Daily Independent*, April 12, 1914.

\(^{19}\) Ibid.
paper article continued: "That the people of Gilman did not want Burns in the office of school trustee is shown in the decisive manner he was beaten. Out of the total of 100 votes cast, Philip Mayer received 96; E. D. Boone 94; F. M. Mack 64, and C. W. Burns 35."20

Dissatisfied over Burn's defeat Covington stated that the election was illegal and it was not the will of the majority. Again the Helena paper replied: "The will of the majority in this instance meant the will of Covington who has been attempting to boss the political fortunes of the northern part of Lewis and Clark county for several years." Concluding, the story noted: "Although Mr. Covington is a resident of Augusta, he was in Gilman during the entire day of the election gum-shoeing for votes for his own candidate."21

The problem of creating the new school district in Gilman and the subsequent issues over the election dealt a final blow to Bradley's aspirations for his bank, and more importantly his town. After that any supporters he had left in Augusta deserted him in favor of the newly formed Peoples Bank. This maneuver proved without a doubt Bradley's intentions of making Gilman completely

20Ibid. In this election the electorate voted for three of the four candidates.

21Ibid.
independent of Augusta, at the latter's expense. Others, more skeptical, felt such action only augmented Bradley's true intent in trying to eliminate Augusta.

A. L. Bradley was like many of the bankers in Montana during this time. These men were in such positions of influence that they naturally became the leaders in the community. They had to know a little about everybody, and a lot about everything that influenced the town. Since they depended on the town's economy and the local residents it proved necessary to be well informed. These men frequently ran for local offices, especially those that maintained the schools. E. D. Boone's election as a school trustee pleased Bradley and ensured still further control of Gilman.

Bradley through his leadership in the community, as banker and chief public relations man, attempted to gather support from all areas. In a letter sent to a man inquiring about the town, he replied: "We believe that Gilman will make a 'cracking good town' and it will pay you to investigate the same when you come to Montana."22

Further writings in the local papers greatly intensified the split between the towns. The flamboyant journalism employed by the two editors in no way helped

22Letter, Bradley to O. C. Lauch, March 16, 1912, Gilman papers.
Bradley heal the wounds and regain financial support from Augusta businesses and residents. Editorials in the *Augusta Times* and the *Gilman Optimist* underscored the sentiment of the two towns. Leo J. Simpson of the Gilman paper and Will J. Randall of the *Augusta Times* carried on tirades in their weekly papers predicting the immediate ruin of the other's township.

Randall frequently referred to Bradley as "Old Long Nose sitting in a gilded cage pulling the strings."²³ Local residents applauded his bombastic editorials and his staunch supporters refused to move. Simpson retorted that the people in Augusta should quit worrying and resign themselves to Augusta's fate as a "vanishing entity." He ranted that they would never get the railroad and Gilman would succeed as the leading community in the Sun River region.

In November 1914, Randall blasted Simpson in one of his true-to-form editorials. "Were it not for the insistence of the *Optimist* in saying we will not get the railroad, we would not pay any attention to it. We know positively that we will get the railroad and we know just how we are going to do it."²⁴

²³Tape, Homer J. Wellman.
²⁴*Augusta Times*, Nov. 20, 1914.
A year later in response to an action by Simpson the Times observed:

After more than 2 years of fruitless effort to get a strangle hold on Augusta and silence her forever, he [Simpson] has hit upon an effective plan and by a simple twist of the wrist-presto-change-Augusta vanishes in the ethereal blue and does not even make a blot on the snow covered landscape.

It was all done so quietly. No noise, no confusion, no blood curdling scenes or shrieks of anguish. The operation was painless. Just one stroke of a penknife and Augusta disappeared off that map forever.

The first knowledge of our misfortune was obtained from the Gilman Optimist of last week. It contained a map of the Sun River Valley oil field and when we looked for Augusta, the map did not show that there was such a place. The editor of the Optimist had quietly erased [sic] it.23

The movement of the Augusta bank to Gilman, the subsequent formation of the Peoples Bank, the early rivalry for the railroad, and the division of the school districts did not help Bradley's attempts to establish rapport with Augusta's citizens. Lines that had separated the towns became more clearly drawn in the ensuing years. The struggle between the banks continued; neither one prospering. Since the larger ranchers in the area had their banking connections either in Helena or Great Falls, the two country banks "...had to rely on the small businesses and pick up the crumbs here and there as they could find them."26


26 Tape, Homer J. Wellman.
The newly formed Peoples Bank of Augusta loaned mostly to small ranchers and Augusta merchants. The bank in Gilman had two strikes against itself after the Augusta bank started operating. First of all, the bank "...took all of the slow loans out of the Augusta area when it moved to Gilman." The more prominent businessmen and citizens could not condone Bradley's actions and withdrew support of his bank when it relocated. Secondly, "...the Gilman bank loaned almost exclusively on the properties known as the bench to the homesteaders, who in turn had no experience in farming and very little chance of making good, except in some bumper years, which did not happen."

By splitting the business in the upper Sun River Valley, the two banks "...had no more chance of making money than some of the homesteaders out on the bench." For example, if the bank had $150,000 worth of loans and got 12 per cent interest (one percent a month), that was only $1,500 a month income. In addition, the bank borrowed from the customers in the way of time certificates of deposit and had to pay six percent interest. This

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27 Ibid.

28 The name bench referred to the benchland areas north of Gilman. Land of this nature was generally on rolling plateau regions above river valleys and canyons.

29 Tape, Homer J. Wellman.

30 Ibid.
expense, plus the salaries of the bank employees, and the cost of doing business—the overhead of the building, utilities, taxes, interest, insurance, etc.—left a very thin margin for doing business.  

After the bank moved to Gilman the election of new officers and directors took place. Bradley remained as president, Boone as vice president, and Abbey as cashier. Directors included: M. M. Connor, Alex Chisholm (later a director of the Augusta bank), Oliver Bernier, G. B. Christian, Harry Lord, and the three bank's officers.

II

Gilman, located in the heart of the Sun River Valley, was a community of about 250 people in 1913. Speculation had it at one time that the town might reach several thousand. It had the usual lumber yards, general stores,

31In December, 1920 the Gilman bank president received $225 salary per month, the cashier received $190, and the assistant cashier $175—this totaled $590. In addition the monthly average for expenses that year was $1,170; added to salaries this brought the total to $1,760. Loans in December 1920 reached $204,000. Average monthly interest (figured on a 12 percent yearly basis) was $2,040. That left just about $280 with which to transact business—very definitely a thin margin. Report of the Condition of the Gilman State Bank, Dec. 29, 1920, Gilman papers. Hereafter cited as Gilman Condition Report (with given year).
jewelry shop, meat market, elevator, stock yards, hotels and saloons. The completion of the railroad in December 1912 opened the way for the development of the area under the Sun River Irrigation Project. The intent of such a project was to open the Sun River Valley region to irrigated farm land, in addition to controlling spring run-off.

The entire Sun River project made up five separate units ranging from the foot of the Rocky Mountains eastward to Great Falls. These units included: Greenfield, Sun River Slope, Big Coulee, Mill Coulee, and Fort Shaw. It comprised portions of three different counties—the southeastern part of Teton county, northwestern Cascade, and northern Lewis and Clark county.

Before the advent of this project the Sun River region depended heavily on stock raising as its principal commodity. The buffalo, like the cattle herds, found an abundance of good grass. The Blackfeet abounded here due to a storehouse of meat and other edible forage. The white man's westward movement pushed the Indians off this land and by the 1880's they had been placed on reservations.

The white settlers found hunting and trapping facilities very enticing and remained to locate in the area. The Sun River provided a bountiful water supply ideal for

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32 Letter, Abbey to Ramaley, Aug. 27, 1912, Gilman papers.
settlement. One writer quite aptly described the Sun River:

The little stream which, like a silvery ribbon joins the metropolis of Montana to the pleasures of the mountains, was well named when called the river of the Sun. Flowing almost directly east and west, both the morning and evening sun reflect in this stream.33

Stockmen drove their herds from western Montana and Idaho into the Sun River Valley soon after the construction of the Fort Shaw Military Post. Completed in 1869, the fort prevented "...marauding Indian parties from driving off livestock."34 Many ranchers located in the foothills and stream valleys that fed the Sun River. "The land taken up by the early stockmen was chiefly bottom lands suitable for pasture and for the production of wild hay, winter grazing lands, and land on which water holes were located."35

An editorial in the Great Falls Tribune in 1905, in anticipation of the Sun River project stated:

Nothing in the history of this part of the country has been undertaken that means so much for Great Falls as the irrigation of the Sun River lands, both north and south of the river. The completion of this work alone will mean at least 25,000 additional people in this city.36

33 Great Falls Tribune, May 1, 1932.


36 Great Falls Tribune, Sept. 24, 1905. See the population statistics of Great Falls on page 9, footnote 10.
In another editorial that same year the project gained rhetorical acclaim:

Out of the deep canyon fortresses of the main chain of the Rockies, where gray granite and white limestone pierce the clouds, flowing eastward from the continental divide, pours down the Sun river, a crystal, icy, rushing torrent, leaping over precipitate heights and surging through narrow and impassable gorges.

Would man bridle and tame such an untamed broncho of the wild western country, running its fierce, unchecked course, and make it do plebian duty on the agricultural plains and valleys below? Such is the plan for 800,000 acres of fertile desert loam \[\text{as it}\] awaits the touch of the Sun waters. 37

The whole Sun River Project was in its infancy in 1913 when Gilman began to establish itself as a potential economic center of the valley. The Reclamation Service at that time began building Diversion Dam on the North Fork of the Sun River (20 miles northwest of Gilman), and constructing 54 miles of main irrigation canal. This entailed a 1000 man payroll. In addition to being the headquarters for the Reclamation Service's offices and supplies, Gilman was at the terminus of the 20 mile road constructed to the dam site. 38

The majority of the workers spent their wages and leisure time in Gilman. Those that had a mind for thriftiness deposited their money in the Gilman bank. "For the next \[\text{several}\] years Gilman continued to grow with its popu-

37 \textit{Ibid.}, March 1, 1905.

lation being estimated variously between 500 and 600. It became a center of the area. Farmers and ranchers gathered here for fairs and rodeos and Fourth of July celebrations. Money flowed freely. Things looked good." Mr. Bradley's "gilded cage" prospered.

Completion of Diversion Dam, and in later years Gibson Dam, changed the agricultural complexion of the region. Irrigation altered the range country from intensive stock raising to a mixture of grain crops and livestock. No longer did stock raising remain so predominant. By 1921, C. W. Tewell, then cashier of the Gilman State Bank, wrote to a stockholder that "...about half of our territory is grain and the other half livestock." 

The rapid change of the region into a grain growing section necessitated the alteration of much of the stock grazing land. Local farmers borrowed from the bank to buy the necessary equipment. The Gilman State Bank and the rival Peoples Bank of Augusta had to also alter their own banking methods. The officers and directors knew very little about grain crops. Until that time the banks depended almost entirely on the livestock in the area. They got along fine through the wet years, but when the dry years arrived it was not only the farmers that suffered, but also these two banks.

\[39\text{Ibid.}\]

\[40\text{Letter, Tewell to Charles G. Reynolds, Aug. 10, 1921, Gilman papers.}\]
The majority of the depositors and borrowers that depended on the Gilman bank for their services had homesteads on the Fairfield bench. This region covered several hundred square miles northeast of Gilman extending from Spring Valley to the town of Fairfield, some 25 miles away. The bank did have patronizers that lived south of Augusta, but the bank in Augusta handled the majority of that business. Some of the farmers east of Gilman supported the bank, but most of them did their business in Simms and consequently did their banking in the same place. Located west of Gilman about 15 miles were the Rocky Mountains. There was limited farming in this area due to the rocky slopes of the mountains; stock raising proved to be most profitable and less strenuous than cultivation of grain crops.

A bulletin published by Montana State College in 1927 thoroughly described the region around Gilman. "The soils of the Fairfield bench have been termed 'Fairfield' ... and vary in texture. Rounded gravels are encountered just below plow depth and may increase in number until a distinct gravelly loam layer is encountered."41

North of Gilman on the level land of the Sun River Slope the soil is termed, "Pishkun." "In some cases the

upper 2 or 3 inches of the surface soil contains but a small percentage of very fine gravels, but below this to a depth of 10 to 12 inches the gravel content is high and larger in diameter."42

The farmers east of Gilman planted their grains in "Simms silt loam" because this soil predominated in the vicinity of the town of Simms. This type of earth originates from recent stream deposits and is comparatively free of gravel particles. This soil has a tendency to become water-logged, but it is better than either Fairfield or Pishkun.43

None of these soils was conducive to dry land farming, and the gravel content in Fairfield and Pishkun types made irrigation almost hopeless, except for anything but stock raising.44 The tendency of Simms loam to become water-logged when irrigated also altered standard farming procedures. The inexperienced homesteaders in this region knew little about soil content, let alone even some of the

42 Ibid., 21.
43 Ibid., 30.
basic considerations of grain farming. It is no wonder that these farmers could not get the yields that they had hoped. When times proved rough during the good years, failure and bankruptcy prevailed during the dry ones.

To make things even more difficult for the farmers, "...the Sun River Project was within the region affected by chinooks. These warm winds were of benefit to stockmen in taking the snow off the range, but with the change to dry farming they occasioned a loss of moisture and laid the land bare and subject to blowing."45

When the dry years began "...many homesteaders loaded all their goods on lumber-wagons and left their shacks to look for greener pasture; the little town of Gilman began feeling the bite of depression."46 Rain that once fell from the sky in profusion was now as reliable as a slow train.

The 30 year rainfall average for the Sun River (11.09 inches)47 from 1888 to 1918 was not as high as that for the entire state (15.78)48 in an equivalent period. In fact, the least amount of rainfall desirable for dry land

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45 *Sun River Soil Survey*, Bulletin 207, 6-7.
46 *Great Falls Tribune*, March 29, 1959.
47 *Montana's Resources*, 1919, 38.
48 The state average covered a 31 year period from 1894 to 1925. *Montana's Resources*, 1926, 17.
farming was 15 inches. Four inches on the Sun River during the "wet years" meant a lot of difference; during the arid years it was disastrous.

The Gilman bank depended on farmers that lived in three different counties—Lewis and Clark, Teton and Cascade. In 1916, three of the six counties that re-

49 Montana's Resources, 1923, 37.

50

TABLE 2

PRECIPITATION IN MONTANA FROM 1916-1919; MEASURED IN INCHES

<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>Lewis and Clark</th>
<th>Teton</th>
<th>Cascade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1916</td>
<td>17.90</td>
<td>18.96</td>
<td>18.88</td>
<td>21.60</td>
</tr>
<tr>
<td>1917</td>
<td>13.64</td>
<td>15.50</td>
<td>11.05</td>
<td>22.31</td>
</tr>
<tr>
<td>1918</td>
<td>13.85</td>
<td>11.18</td>
<td>6.43</td>
<td>12.32</td>
</tr>
<tr>
<td>1919</td>
<td>15.77</td>
<td>12.77</td>
<td>17.08</td>
<td>15.14</td>
</tr>
</tbody>
</table>

Six Highest Counties

<table>
<thead>
<tr>
<th>Year</th>
<th>Average</th>
<th>Counties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1916</td>
<td>23.20</td>
<td>(Hill, Gallatin, Cascade, Sanders, Beaverhead and Custer)</td>
</tr>
<tr>
<td>1917</td>
<td>19.88</td>
<td>(Carbon, Lincoln, Sweet Grass, Powell, Cascade and Sanders)</td>
</tr>
<tr>
<td>1918</td>
<td>19.70</td>
<td>(Gallatin, Sanders, Stillwater, Beaverhead, Sweet Grass and Carbon)</td>
</tr>
<tr>
<td>1919</td>
<td>19.63</td>
<td>(Beaverhead, Gallatin, Carbon, Fergus, McCon and Lincoln)</td>
</tr>
</tbody>
</table>
ported the most precipitation were northern and central counties: Hill, 20.70 inches; Cascade, 21.60 inches, and Sanders, 25.90 inches. The six lowest, with an overall average of 12.90 were all southern counties: Big Horn, Wheatland, Meagher, Carter, Park and Jefferson.

Two years later a complete reversal occurred. The counties reporting the least amount of moisture were all northern and central counties: Teton, Blaine, Toole, Chouteau, Phillips and Hill—the average was 8.71 inches. That same year only one northern county, Sanders, was among the top six that reported the most precipitation and it ranked fifth. Clearly the years of drought hit the northern counties first.

It was not until 1918 that the Gilman region felt the effect of the lean years. In an August letter of that year C. W. Tewell commented on the condition of the area: "It won't be a good yield because the early grain suffered

<table>
<thead>
<tr>
<th>Year</th>
<th>Average</th>
<th>Counties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1916</td>
<td>12.90</td>
<td>(Big Horn, Wheatland, Meagher, Carter, Park and Jefferson)</td>
</tr>
<tr>
<td>1917</td>
<td>8.10</td>
<td>(Sheridan, Valley, Carter, Meagher, Phillips and Blaine)</td>
</tr>
<tr>
<td>1918</td>
<td>8.71</td>
<td>(Teton, Blaine, Toole, Chouteau, Phillips and Hill)</td>
</tr>
<tr>
<td>1919</td>
<td>12.81</td>
<td>(Ravalli, Blaine, Lewis and Clark, Custer and Valley)</td>
</tr>
</tbody>
</table>

by the drought quite a little. I just returned from the
Shelby country and feel pretty well satisfied with the
country here. I didn't see a spear of green grass in
that whole country and the grain in many places never
sprouted at all."^51

A year later Tewell informed Percy Abbey: "...things
are well dried out;...even the stock ranchers are going to
have to ship about all of their cattle because of the
shortage of hay and pasture. Rain coming now would make
the feed pretty good, but the grain I think is shot."^52

By 1921 agricultural conditions had not improved.
In August, Tewell wrote a stockholder: "The local situa­
tion, disappointing as it is from the view of our early
expectations is paradise compared with some other sections
of the country." He continued with a personal observa­
tion--"While this does not help us materially it seems
there is enough meanness in the average human being so
that he usually derives a little satisfaction, poor tho
it is, from the fact that some other fellow has a heavier
load to carry or a worse lot to share."^53

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^52 Letter, Tewell to Abbey, July 8, 1919, Gilman papers.
^53 Letter, Tewell to Reynolds, Aug. 10, 1921, Gilman papers.
The rainfall increased gradually from 1920 to 1923 on the Sun River, but the drought had already done its damage. Farmers, ranchers, merchants, and most of all the bankers, all prayed for moisture. The 1919 edition of the bulletin, The Resources and Opportunities of Montana, expressed this feeling appropriately:

The people of the state are undaunted and are making the usual preparations for the season of 1920. It is pointed out that Montana has never before in its history had three seasons in succession as dry as the seasons of 1917, 1918 and 1919. From this it is argued that the state will surely come back in 1920.55

The state did come back, but it came back gradually. Agriculturally it was too late for the Gilman bank. Dependent on a narrow economy, inexperienced farmers who worked the poor soil on the bench and the uncertain years after 1917, the bank could not remain open. On November

54

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>9.50</td>
</tr>
<tr>
<td>1921</td>
<td>10.25</td>
</tr>
<tr>
<td>1922</td>
<td>13.17</td>
</tr>
<tr>
<td>1923</td>
<td>15.83</td>
</tr>
</tbody>
</table>


55 Montana's Resources, 1919, 6.
28, 1923, the bank's officers closed the doors of the Gilman State Bank to be reopened in the hands of a receiver appointed by the state Superintendent of Banks.

III

Along with the surge in population the movement of the honyocker to the West rapidly increased the number of farms. From 1910 to 1920 Montana's population increased by 46 percent while the number of farms multiplied by 120 percent. Lewis and Clark County showed a 38 percent addition in farms. By 1925 the state lost 19 percent of

<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>Lewis and Clark</th>
<th>Teton</th>
<th>Cascade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>13,370</td>
<td>531</td>
<td>347</td>
<td>1,144</td>
</tr>
<tr>
<td>1910</td>
<td>26,214</td>
<td>529</td>
<td>1,187</td>
<td>1,502</td>
</tr>
<tr>
<td>1920</td>
<td>57,677</td>
<td>855</td>
<td>1,135</td>
<td>1,703</td>
</tr>
<tr>
<td>1925</td>
<td>46,904</td>
<td>543</td>
<td>1,089</td>
<td>1,257</td>
</tr>
<tr>
<td>1930</td>
<td>47,495</td>
<td>612</td>
<td>1,023</td>
<td>1,404</td>
</tr>
</tbody>
</table>

the farms and Lewis and Clark recorded a loss of almost one-third of all its farms. Of that number the majority of those failures in the county occurred from 1922-1925. The abandonment of 273 of the county's farms transpired during that time. Changes were not as dramatic in Teton and Cascade counties during this period.

The sudden loss of farms also drastically lowered the value of land. In 1921 a letter from the bank's cashier to a loan company in Great Falls revealed the poor shape of one of the Gilman farmers. The letter read: "We are holding the land at $15.00 per acre. There are better than $1500 worth of improvements on the place and we estimate that it places the raw land at about $9.00 per acre." The Sun River Valley did not fare as well as the rest of the state in comparison of land value.

The average piece of land per acre in 1920 in the state (buildings included) was $22.15; by 1925 a loss of

57 Letter, Tewell to Lord, June 28, 1921, Gilman papers. This 310 acre plot was 25 miles northwest of Gilman in Teton county. It was probably a mixture of non-irrigated farming land and grazing land due to its location at the base of the Rocky Mountains. In 1920 land varied in Teton county from $75 to $100 an acre for irrigated land, $20 to $100 an acre for improved non-irrigated tracts, and $8 to $15 an acre for grazing land. At $9 an acre for raw land the farmer was barely getting the minimum for grazing land. Montana's Resources, 1920, 185.
approximately $8.00 per acre occurred. This compared with a $7.00 loss in Lewis and Clark county, a $11.50 loss in Teton and over a $17.00 decrease in Cascade. This meant on the average a loss of approximately $1,500 to $3,000 a farm. Such a loss could not be absorbed readily by farmers that were already in a precarious position with their banker.

TABLE 5

AVERAGE VALUE OF LAND AND BUILDING PER ACRE IN 1920, 1925, and 1930

<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>Lewis and Clark</th>
<th>Teton</th>
<th>Cascade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>$22.15</td>
<td>$18.44</td>
<td>$27.06</td>
<td>$33.68</td>
</tr>
<tr>
<td>1925</td>
<td>13.91</td>
<td>11.64</td>
<td>15.56</td>
<td>16.44</td>
</tr>
<tr>
<td>1930</td>
<td>11.81</td>
<td>10.61</td>
<td>15.44</td>
<td>17.20</td>
</tr>
</tbody>
</table>

TABLE 6

AVERAGE VALUE OF LAND AND BUILDING PER FARM IN 1920, 1925, and 1930

<table>
<thead>
<tr>
<th>Year</th>
<th>State</th>
<th>Lewis and Clark</th>
<th>Teton</th>
<th>Cascade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>$13,468</td>
<td>$16,264</td>
<td>$14,628</td>
<td>$24,763</td>
</tr>
<tr>
<td>1925</td>
<td>9,709</td>
<td>17,017</td>
<td>11,684</td>
<td>13,836</td>
</tr>
<tr>
<td>1930</td>
<td>11,109</td>
<td>16,415</td>
<td>14,721</td>
<td>15,448</td>
</tr>
</tbody>
</table>

For example, the typical Gilman farmer had a small 320 acre farm, valued at $6,000, with a mortgage on it. He usually owned a model-T Ford, 3 or 4 pieces of small machinery—a tractor and a plow, accompanied by small tools and garage equipment. He had 5 to 10 head of cattle (which he hoped to sell to pay off his first bank note), a milk cow, 100 tons of alfalfa and 80 to 100 acres planted in wheat. The farm also had various acres in potatoes, corn, rye, barley, and flax. The average farmer was barely making it in 1920 and with such a tremendous reduction in the value of land a reduction occurred in his ability to repay his loan or mortgage at the bank.

Some hope remained in the Sun River Canyon that land value would increase. This hope rested on oil speculation in the region. Drilling had become a common practice by 1914 on the Sun River. When the dry years set in many Gilman residents believed that oil strikes would relieve the declining economy. Oil discoveries in Wyoming and north-central Montana gave encouragement to the Sun River land owners that their luck would change. Such was not the case for the area did not produce a single well—even today oil companies have continued to drill, but to no avail.

Stockholders and officers of the Gilman bank, like the community's citizens, also believed that oil might be
the secret for relieving the financial pressure in the valley. Although the bank did not invest in any such ventures many of the people that owed money to the bank participated in oil speculation. By 1918, C. W. Tewell revealed the disenchantment with the poor outlook in response to a letter inquiring about the oil drilling. "It has been such a long winded business that I have lost some of my enthusiasm about it, but they [the oil companies] seem to be stickers."\(^{59}\)

A year later the situation had not improved and prompted one of the bank's stockholders to write to Tewell: "I am sorry the oil well is at a standstill. Seems as tho the devil has a hand in preventing the completion of the well. Down 2000 ft, and now must abandon it!" Jokingly he noted, "I'll bet they'll find a German spy down there monkeying with those tools. Of course, there's oil there, but there's German interference."\(^{60}\)

After 1919 prospects for oil promotion looked bleak. C. W. Tewell, in correspondence with another stockholder, Charles G. Reynolds, commented about a local oil firm: "I am afraid the Sun River Oil stock is a rather poor investment. They are doing nothing here and I cannot get a

\(^{59}\)Letter, Tewell to Lord, Aug. 17, 1918, Gilman papers.

\(^{60}\)Letter, Reynolds to Tewell, July 27, 1919, Gilman papers.
word out of them. It would appear now as tho they were just a promotion company and organized just for the purpose of selling stock."

A more successful firm from outside the region, the Wyomont Oil and Gas Company, quickly capitalized on the declining interest in Sun River Oil stocks. In a 1919 form letter to the Sun River shareholders the Wyomont Company attempted to lure new customers by trading their stock for that of the "worthless" Montana corporation. The letter stated:

The basis on which the stock will be exchanged is one for five—one share of Wyomont stock for five shares of Sun River. You will have fewer shares of the new stock than you had of the old, but the par value will be twice as much, and we firmly believe that the real value will soon be several times as much.

The failure in oil speculation, the decline in land value, and the subsequent days of meager rainfall accompanied the drop in agricultural prices. Wheat prices fell so drastically in Montana in 1919 that the state lost $50,000,000. Not only did drought effectively hamper production, but severe winters, lasting well into spring cut the production of grain crops.

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61 Letter, Tewell to Reynolds, Aug. 10, 1921, Gilman papers.

62 Letter, F. P. Motie (Secretary of the Wyomont Oil and Gas Co.) to stockholders of Sun River Oil and Gas Co., April 11, 1919, Gilman papers.

63 Toole, Montana: An Uncommon Land, 235-6.
A letter from Tewell to a corresponding bank in June 1918 stressed the problem of no moisture: "Owing to the long dry period of time we have had, the farmers on the benches around us will have short crops, especially will this be true of their winter wheat."³⁴ Three months later Tewell stressed that: "I think if the yield around here will average ten bushels we will be doing well this year."³⁵ This compared with a state average of 12.3 bushels per acre.³⁶

By 1919, in correspondence with Harry Lord, Tewell explained his concern about the outlook for wheat: "Our grain crop here is practically nothing—the winter wheat in some places is running about 3 bushels per acre and the spring wheat as a rule has not been cut for feed. The feed shortage is, however, our greatest worry."³⁷ In 1919 Montana averages for wheat production fell under five bushels per acre.³⁸

Mr. Tewell's fears for feed shortage were real ones.

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³⁴Letter, Tewell to the Northwestern National Bank, Minneapolis, June 27, 1918, Gilman papers.
³⁵Letter, Tewell to Lord, Sept. 24, 1918, Gilman papers.
³⁶Montana's Resources, 1919, 28.
³⁷Letter, Tewell to Lord, Oct. 16, 1919, Gilman papers.
³⁸Montana's Resources, 1920, 27.
The state shipped in nearly $45,000,000 worth of feed for livestock in 1919 to save the cattle and sheep industry.\textsuperscript{69} Ranchers around Gilman were in the same predicament as their fellow Montanans. Livestock owners in the area bought slough grass that had been cut around the lakes of Minnesota. This grass had little nourishment but was still sold for as much as $50 a ton.\textsuperscript{70}

The price of cattle dropped correspondingly with the decrease in wheat. Many ranchers, like the wheat farmers, did not want to sell owing to the continuous decline in prices. They held out as long as possible but had to sell eventually to meet daily operating expenses and overdue bank loans. After 1919 Montana cattle herds dwindled. The state had over a million head of cattle and by 1920 the number totaled only 900,000. This loss of such magnitude meant a monetary loss of nearly $22,000,000.\textsuperscript{71}

Montana's entire economy had been dramatically altered by the land and wheat boom during World War I. From 1909 to 1925 Montana split its counties and increased the

\textsuperscript{69}\textit{Elliott, "Commercial Bank Failures, 1920-1926,"} 50.

\textsuperscript{70}\textit{Tape, Homer J. Wellman.}

\textsuperscript{71}\textit{Montana's Resources, 1920,} 36.
number from 33 to 56. In that time the influx of inexperienced homesteaders into the state changed the whole complexion of Montana's economy, and more drastically its banking structure. The Gilman State Bank was caught in this whirlwind of change. "Suffice it to say that it was an enormously costly experiment...thus when the drought came---and with it the grasshoppers; even the cutworm competed with the homesteader for control."  

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72Dalich, "Dry Farming Promotion, 1907-1916," 85.
CHAPTER III

LOAN FACTORS OF
THE BANK

I

Loans played the major role in the operation of the Gilman State Bank during the days of the honyockers. This loan experience was of three types. First of all, eastern bank inquiries for local bank and farm loans before 1918 were very important. Secondly, when the dry years prevailed the Gilman bank requested loans from these eastern banking corporations and used local loans as collateral for the money it borrowed. Thirdly, to forestall bankruptcy, local farmers flooded the Gilman bank with loan requests.

As a new bank in the state in 1910 the Augusta State Bank received many letters of inquiry from eastern banks concerning its affiliation with them as a correspondent bank. Many of the large banks in New York, Chicago and Minneapolis served as correspondent banks for those in the west that did not belong to the Federal Reserve System. This made it possible for western institutions to borrow at a low rate of interest and have their loans rediscounted.¹

¹Rediscount. This is a transaction undertaken by one bank desiring funds from another bank. By this means the bank desiring funds presents a discount (a note it has accepted from a customer to run for a specified length of time) to another bank in order to get an advance. In turn,
The National City Bank of Chicago (a bank only three years old), wrote a typical letter in March, 1910 inquiring about the Augusta bank as a correspondent: "While sentiment cuts very little figure in the banking business as a general proposition, we feel that, all things being equal, there should be a 'fellow feeling' between new banks." This bank, like the other eastern banks, offered to pay 2 percent interest annually on money placed in its bank. These banks also loaned money to western institutions at a rate of 6 percent, usually for a 60-90 day period.

Insurance companies also realized the potential of the western states and had their own methods of tapping this resource. The New World Life Insurance Company, as one example, proposed a plan of mutual benefit for itself and the newly formed bank. "Its a businessman's proposition, 'pure and simple,'" the plan stated. "We have the money to deposit with you right now, provided we can do so on reciprocal terms. We will put a substantial deposit in your bank provided that you will help us get in-

the bank which presents the note for rediscount endorses it, thereby guaranteeing that it will be paid at maturity. H. Parker Willis, American Banking (Chicago: Chicago, LaSalle Extension University, 1916), 165.

2 Letter, Elmer E. Whittaker to Abbey, April 12, 1910, Gilman papers.
surance either by acting as an agent of the Company your-self, or helping us secure an active agent to do this work in your locality."^3

Surety firms,^4 likewise, had an interest in reaping the resources from the newly arriving homesteaders. The Wells-Dickey Company of Minneapolis handled such a tremendous volume of farm mortgages and municipal bonds in central Montana that it opened a branch office in 1913 in Great Falls. Six months after they had established themselves local agents informed the Gilman bank officers: "No loan is too small and none too large for our consideration, if the margin of security is sufficient and the man behind the gun worthy of credit."^5

Other companies were just as willing to extend credit but were more selective on the type of loans they

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^3Letter, New World Life Insurance Co. to Abbey, July 9, 1914, Gilman papers.

^4Surety. This is a financial institution which operates in the commercial field as an acceptance house. The company does not advance funds, but only guarantees the credit of the drawer by accepting true obligations drawn against them, which are later sold in the financial market. The purchasers of these obligations advance the funds and the acceptance house acts only in the capacity of guarantor. Luther Harr and W. Carlton Harris, Banking Theory and Practice (New York and London: MaGraw-Hill Book Co. Inc., 1936), 18.

^5Letter, Edwin H. Jones to the Augusta State Bank, Aug. 28, 1913, Gilman papers.
would handle from the farmers. Keeler Brothers, a Denver firm that desired to accommodate large borrowers, requested only ten year loans, "...as the livestock producer then has ample time to increase his herd to where his entire debt can be easily paid, and the cattle which are sold can be held for the most favorable market." "On a short term loan," the company stressed, "it is not uncommon that the rancher is forced to sell his cattle off the range to meet maturing obligations."  

This is exactly what happened during the dry era. The outside banks and investors, following sound business principles, wanted loans only during good times and for long periods. The short term loans did not prove productive enough, and in the dry years they were too risky.

One firm in 1914 requested that "...farm loans be made upon improved farms only."  

This meant that the company handled loans only on land that had one quarter of the claim under cultivation. In 1916 the Banking Corporation of Montana requested only specialized loans. The company wanted "mixed farming loans ranging from $10,000 to $250,000. By mixed farming the company meant lands devoted to hay, grain for feed and various livestock

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6 Letter, Keeler Brothers to the Gilman State Bank, March 6, 1916, Gilman papers.

7 Letter, R. H. Carstens to Abbey, Feb. 27, 1914, Gilman papers.
Still other companies desired loans on cattle ranches that maintained a certain number of head. They loaned on amounts usually over $5,000.

The specialization of these loans—mixed farming loans, improved loans, big business loans over $10,000, long term loans, and cattle loans—made the borrowing of money extremely easy for the homesteaders. Outside corporations did a good business and they left enough small loans for the bank in Gilman so that everyone prospered. However, when these companies refused to extend loans during the troubled years, it placed financial pressure on the local bank. The Gilman bank had to handle all of the loans, in addition to the ones deemed too small by eastern corporations.

When prosperity vanished these companies were no longer eager to help the "western homesteader." In 1920 the Gilman State Bank received a letter from the Portland Cattle Loan Company that politely refused any offers for future loans. "Due to the large amount of commitments and the present tightening of the money market, it would be impossible for us to consider the good business which you offer at this time."  

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8 Letter, George L. Ramsey to the Gilman State Bank, June 1, 1916, Gilman papers.

9 Letter, W. A. Willis to the Gilman State Bank, May 19, 1920, Gilman papers.
Another cattle company was a bit more direct: "The present uncertainty of the money market and financial outlook makes it necessary for us to demand retirement of our loans at maturity provided security can be liquidated without loss." The company concluded, noting: "There is no market for commercial paper [promissory notes]—consequently there is no other alternative than liquidation."\(^\text{10}\)

The key to this type of business was that these companies waited for the loans to mature, hoping they did not take a loss. Such companies handled so many loans, in so many different regions, that a loss on one loan in Gilman was just written off the books. However, this was not as easy for the Gilman bank. Since the loans were restricted to a single region the bank could not depend on loans in other areas to keep the bank solvent. The only way to accomplish solvency was to continue advancing second and third loans hoping for good weather and the eventual repayment of all the loans.

At its formation the bank also received a completely different type of inquiry from a Council Bluffs company that specialized in bank stocks. Rather than an inquiry concerning loans the Iowa firm requested to buy out the newly formed bank. The company wondered if the Augusta

\(^\text{10}\)Letter, Spokane Cattle Loan Co. to the Gilman State Bank, May 19, 1920, Gilman papers.
bank "would like to have private aid in disposing of its present banking interests?" It promised quiet negotiations and stressed that there was no need to "...fear a violation of confidence."  

Several weeks later in a follow-up letter the same company suggested that "...even you may have had the opportunity to go into a larger bank and have turned it down because of the fear of publicity in disposing of your present banking interests." The letter continued, "...bank selling at first blush would seem to be an unheard of thing. In times gone by a banker simply had to hang on to his bank because there was no reliable house through whom he could quietly sell." The company advised: "Do not think that it is necessary to hunt for buyers after you consent to sell. We have hundreds of them anxious to locate at once in your section of the country."  

The author of the letter from the Council Bluffs company was wrong in presupposing that bankers' attitudes --particularly A. L. Bradley's--had changed concerning the retainment of their small banks. Very few bankers,  


12 Letter, R. W. Walters to the Augusta State Bank, Oct. 27, 1911, Gilman papers.
or stockholders for that matter, sold to outside clearing houses. Most of these banks had been started by local residents for their convenience, as well as for the small profits they returned. More importantly, these bank officials had a moral obligation to the community and selling their bank was out of the question.

The Gilman State Bank and its personnel rigidly followed this philosophy. Since it was the bank officials that were instrumental in starting the town of Gilman it would be illogical to assume that these men were anything but faithful to their bank. Bradley was unlike other bank presidents because he had his reputation staked on the success or failure of the community. He felt that the success of the town relied heavily on the success of the bank, and did all he could to keep the bank's doors open.

For all his manipulations to establish Gilman, making enemies in the process, Mr. Bradley can never be accused of failing the town or the bank. Although he lacked experience in banking and knowledge about wheat farming, he made up for it in organization and his willingness to sacrifice friendship to achieve one goal—making Gilman the most prosperous community in the Sun River Valley.
The second factor that had a significant part in the bank's loan experience involved the direct borrowing from other banking institutions. The Gilman State Bank was no exception and utilized this opportunity only during certain times of the year. These loans could be obtained on long or short terms, but the usual terms were up to 90 days. In 1918 in a typical letter stating the Gilman bank's position, C. W. Tewell wrote to an Illinois bank:

"It has been our practice to borrow during the spring and summer months to take care of the demands on us and we take up in the fall when the cattle shipments are made to the Chicago markets."\(^{13}\)

From 1918 onward the reduction in agricultural productivity forced the local farmers to make constant demands on the Gilman bank for loans. The complexion of seasonal borrowing vanished. The demands by area farmers for financial relief compelled the bank to seek aid from its correspondent banks.

In August 1919, Tewell wrote to the First National Bank of Great Falls (its correspondent bank in Montana)

\(^{13}\)Letter, Tewell to H. R. Drew, Oct. 25, 1918, Gilman papers.
to handle some cattle loans. At that time Tewell stated he expected loans to be "...larger than [the bank] could carry." Sam Stephenson, then president of the First National Bank, replied that his bank could not carry the loans due to the "...unsettled conditions of the times." Two months later the state bank in Gilman wrote a similar letter to its corresponding bank in Illinois (The First National Bank of Joliet) requesting a renewal on its $15,000 in certificates of deposit. The bank agreed to renew the certificates for one year at a rate of 6 percent. On December 17, 1919, Tewell requested help from another corresponding bank (The Northwest National Bank of Minneapolis). He commented: "The unusually hard and


15 Letter, Sam Stephenson to the Gilman State Bank, Aug. 19, 1919, Gilman papers.

16 Letter, Tewell to the First National Bank of Joliet, Oct. 17, 1919, Gilman papers. Certificates of deposit. Certificates of deposit are issued by banks for money left on deposit for short or long time periods. These deposits are payable on demand or at a stated time and usually draw interest at a stated rate. A certificate of deposit is an elastic instrument, through which a bank may accommodate the customer who desires interest on deposits that are not likely to remain until the close of interest periods in the savings department. William H. Kniffin, Commercial Banking (New York: MacGraw-Hill Book Co. Inc., 1923), 477.

17 Letter, Harry R. Drew to Tewell, Oct. 21, 1919, Gilman papers.
early winter has created a heavy demand on us for money. For an ordinary year we estimated we had a sufficient cash reserve to carry us partly thru the seeding season but the high prices for feeds have made heavy inroads in that." He continued by requesting a loan to aid in the bank's relief: "Can you take us for ten or fifteen thousand dollars?"18 The bank readily accepted the loan on a 6 percent annual basis.19

That same day Tewell sent an exact duplicate letter to the First National Bank of St. Paul. The reply was much the same. The Minnesota bank agreed on the loan provided its correspondent in Montana backed the note with good collateral.20

The refusal by the bank in Great Falls to aid the Gilman bank, and the help offered by the three mid-western banks, lends credence to the economic problems at that time. Montana banks in 1919 had reached the stage where loans of any type—be they loans to fellow banks, or the acceptance of farm loans for collateral on certificates of deposit—were no longer assets, but liabilities.

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19 Letter, MacGregor to Tewell, Dec. 22, 1919, Gilman papers.
After 1919 the predicament of the Gilman State Bank paralleled the fate of other Montana banks. These institutions had borrowed and loaned to such an extent they stayed above water because they floated on their own commercial paper. This, however, was not good enough for eastern organizations. They desired only profitable returns on money invested in the West, and it proved an insurmountable task for the Gilman bank to forestall these companies for time to recover.

Responding to a request from a Minneapolis surety company to pay off its deposit, C. W. Tewell replied: "We realize that you are not in the loaning business and that you have paid this money out and want it back. We believe also you can understand our situation here and that payment at this time would work a severe hardship on us. We therefore are compelled to ask you to carry this for us until fall." 21

In the letter the Gilman Bank enclosed a $1,000 check covering the payment on the principal and the interest on the deposit. This maneuver, intended to persuade the company to leave its deposit in the bank, caused the Gilman officials to comment: "This is a small payment but it rep-

21 Letter, Tewell to Harrison B. Martin, May 5, 1922, Gilman papers.
represents quite a little cash at this time. We want to state too that if consideration is shown in extending us this needed time we will use every effort to clean this up as rapidly as we can." It was a sad situation when the bank had difficulty even paying the interest on a time deposit, let alone paying back the entire amount of the deposit.

The Gilman State Bank had reached such straits that an abundance of letters continually flowed from the bank to institutions outside of Montana requesting funds. These letters usually read: "It is useless to call on our Montana correspondents for cash so we feel obliged to call on you to extend us a little credit for a short time."^23

The changed attitude of one of the eastern investors in Illinois brought the typical reply to the Gilman bank officials:

I was able to deposit money in western banks for a good many years as this money represented surplus funds which we did not need to use at that time in our community.

I always endeavored to let my friends in Montana and the other western states know that these were surplus funds which we might some time have to use in our immediate vicinity, although at that time I could not see far enough ahead to realize to what extent this might be necessary. As a real matter of fact, I had to draw in all

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^22 Ibid.

^23 Letter, Tewell to Lord, July 30, 1923, Gilman papers.
my deposits with western banks, which at one

time amounted to between $4,000,000 and $5,000,000.

I don't want you to feel that we merely deserted
the ship in the west at the time you needed help
as we have never considered our deposits of money
on certificates quite in the same light as an
active banking relationship and I don't believe
that you so considered them."24

In March, 1922, the Wells-Dickey Company, in a similar
predicament, wrote to A. L. Bradley informing him of the
changed attitude of its investors: "Some of them are assum­
ing a threatening attitude...and it will be impossible to
hold them off any longer. We regret it will be necessary
for us to start foreclosure on some loans, and the only
way to forestall such action will be for you to make good
at once."25

The persistence of the Wells-Dickey firm in collecting
overdue notes is displayed in a 1922 letter--this one from
a farmer at Riebling, 10 miles east of Gilman. "I just
received a letter from Wells-Dickey Co. Gt. Falls and they
can't wait eny longer for there money. I git a letter
from them every time I go to the Post office giving me
Hell." He requested the bank to "...fix things up with
\( \text{them} \) as they Bother me to death."26

24 Letter, F. W. Woodruff to Tewell, Oct. 30, 1922,
Gilman papers.

25 Letter, R. J. Stallman to Bradley, March 10, 1922,
Gilman papers.

26 Letter, C. A. Larson to the Gilman State Bank,
March 13, 1922, Gilman papers.
The pressure of these surety firms prompted the state Bank examiner to write the companies. He stated: "This department is informed that bonds are refused on original application, renewal of risks refused and bonds terminated or cancelled on too short notice." Further, "...hope is held out that renewal will be forthcoming until the last moment and finally refused; unreasonable demands and requirements are made and impossible conditions imposed." More importantly, the "...failure of banks might be traced to refusal to renew at the last moment, when as a matter of fact the company did not intend to renew from the very beginning." 27

Unlike these companies the Gilman State Bank was not as quick to foreclose on local farmers and ranchers, and was more willing to extend delinquent loan payments. The bank foreclosed on a farm only when the owner was in such a predicament that he was ready to file for bankruptcy. In addition, it was not uncommon that the bank extended a third or even fourth loan to those farmers who needed money, only so he could go deeper into debt.

Immediate foreclosures of farms and ranches, rather than continued extension of loans, was the simple solution. However, the good of the community had to be considered

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27 Letter, L. Q. Skelton to the Gilman State Bank, Nov. 30, 1921, Gilman papers.
and bank officials thought about these people first, rather than the welfare of the bank. It is ironic that to keep the town of Gilman strong Bradley depended on the bank to show the leadership. But it had to have people—dependable and reliable workers, preferably—to even maintain a town. Consequently, Bradley had to make a choice between his bank or Gilman’s homesteaders—he chose to help the latter.

Had Bradley reacted like other community bankers, and worried only about his bank, the state bank of Gilman might have survived. But, in this instance, Bradley thought more about his town. The bank in Augusta also failed, but the town survived. The bank officials and directors did show concern for the farmers to whom they loaned, but unlike Bradley, they placed more concern on their bank.

In any case, it is illogical that either bank would have survived under the circumstances. Two banks in an area that supported no more than 1,500 people had no chance for survival. The population, combined with the agricultural and economic conditions of the time, makes it improbable that even a single bank in the region would have stayed open.
The third consideration of the bank's loan experience involved the local farmers' pleas for aid. The good years preceding the drought did not necessitate an excessive number of loan requests from local Gilman ranchers. The drought did not reach the Sun River area until 1918 and farmers that borrowed money before that time relied on the bank for only small loans. After that time out of state companies ceased to loan to western farmers because of unstable collateral. Local residents then besieged the Gilman bank with loan requests. Since these homesteaders had begun farming on big hopes and small pocketbooks they turned to the local bank for help.

The plight of these farmers is best summed up in the 1919 edition of The Resources and Opportunities of Montana. The journal stated: "It is not advisable to locate on a homestead in any case unless the settler has a sufficient supply of funds to carry him through. For a man with a family this should not be less than $2,000."28

In a 1927 survey taken by the Experimental Station of Montana's Resources, 1919, 20.
Montana State College it revealed that the typical rancher in the Sun River Valley on a 100 acre plot cleared $416 a year. On a 160 acre claim he cleared $1,433. In neither case was the amount cleared anywhere near the minimum $2,000 suggested.

The amount increased, however, for those who owned more land, but even on the average 320 acre farm the additional income was not enough to offset the staggering drop in agricultural prices. More importantly the small income of the farmers made it financially impossible for them to meet the loan payments due at their community bank.

Compounding the difficulty of the farmers in meeting loan payments was the corresponding drop in parity. "During the five years 1916-1920 Montana farm wheat prices averaged 57 percent above parity." However, "... during the years 1922-1926, when bankruptcies were heaviest, Montana wheat prices averaged 4 percent below

29 Agriculture on the Sun River Irrigation Project, Bulletin 321, 53-9

30 Parity. This is a system of regulating prices of farm commodities, usually by government price supports, to provide farmers with the same purchasing price they had in a selected base year. Random House Dictionary of the English Language, ed. by Jess Stein (New York: Random House Inc., 1967), 1049.
parity." The drop in wheat prices faster than the drop in prices of commodities farmers bought placed impossible burdens on the homesteaders. Since there was no increase in production the loss in net prices accompanied the reduction in the farmers' incomes.

In June, 1918, loans in the Gilman State Bank were $151,000 and deposits were $131,000. Two years later on the June, 1920 condition report loans reached the highest ever—$237,000. Deposits increased by over $52,000 to $183,000. In that short time loans had increased 60 percent while deposits were up 40 percent. In March of that year overdue notes totaled $18,000 and all rated as being slow. There were no recordings in the doubtful or loss columns in the report.

By September, 1921, even though the total amount of loans dropped to $189,000, over one-quarter of all the


32 Gilman Condition Report, June 29, 1918.

33 Ibid., June 30, 1920.

34 Letter, H. S. MaGraw to the Gilman State Bank, March 2, 1920, Gilman papers.
bank's loans were overdue—$54,000. Of that total the list in the slow column was $36,000; doubtful repayments were $4,000; and those considered as a total loss reached $2,000—the latter was a conservative estimate of unreclaimed loans. The remaining $12,000, mostly loans less than three months overdue, were considered as being subject to repayment.

Finally on November 27, 1923, the closing condition report for the bank listed $196,000 in loans and discounts. Of that figure $140,000 fell into the good column; $9,000 as doubtful for repayment; and $47,000 as a total loss—this was nearly one-quarter of all the bank's loans. After the bank's closure it became the responsibility of the newly appointed receiver, George H. Minson, to collect the overdue notes and those that would come due in the future.

In a 1921 letter from the Banking Corporation of Montana the company chastised these delinquent farm mortgage borrowers in hopes of repayment. "We have been carry-

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35 Gilman Condition Report, Sept. 6, 1921.

36 Letter, L. Q. Skelton to the Gilman State Bank, Sept. 15, 1921, Gilman papers.

37 Gilman Condition Report, Nov. 27, 1923, Gilman papers.
ing you for some time [sic] at considerable expense and this year we expect, and must have, an adjustment."
Further, "...you perhaps owe your local bank, grocery, hardware, lumber dealers and others. In making settlement, please keep prominently in mind the fact that your farm, your home, is the boss of your earning power." In ending the company advised: "The mortgage on your home, interest on this mortgage and the taxes against these lands must be taken care of."\(^{38}\)

No one knew this better than the Gilman homesteaders, but they could do nothing to alter the situation. When a farmer went bankrupt it was a personal admission of his hopeless state of affairs. This acted as a deterrent for many of these people who had strong ambitions and unusually intense personal pride. Consequently, they struggled on against great odds only to find too frequently that in the end they were unable to repay their loans and the creditors forced liquidation through foreclosure.\(^{39}\)

To better understand this problem of bank loans a study made by the Montana Experiment Station of five central Montana counties is extremely helpful (Teton and

\(^{38}\)Letter, The Banking Corporation of Montana to delinquent farm mortgage borrowers, Aug. 5, 1921, Gilman papers.

\(^{39}\)Montana Farm Bankruptcies, Bulletin 360, 9.
Cascade counties included). Made over a twenty-two year period (1911-1933), the study concluded that, "...land productivity and loan experience were closely related."
The report revealed: "Loans were not successfully adjusted to the productivity and debt-carrying capacity of the farm--an indication that poor lands were greatly overappraised while good lands were underappraised."40

No where was this more correct than in the case of the Gilman bank. The bank's officers did make periodic trips to local ranches and farms, but neither Bradley, Abbey, nor Tewell possessed any real knowledge about wheat farming or cattle ranching. Bradley had spent several years in North Dakota as a farmer, but this was during a time when drought and falling prices seldom occurred.
The only real experience these men had in evaluating a farm's capacity occurred during their association with the bank. They, like the homesteaders, knew nothing about dry land farming or the raising of livestock under such conditions.

Another report undertaken by the Station to determine the cause of farm bankruptcies reached a similar conclusion.

40 Montana Experiment Station, Farm Mortgage Loan Experience in Central Montana, Bulletin 372 (Bozeman: Montana State College, 1939), 2. The five Montana counties included in the survey were Cascade, Chouteau, Fergus, Judith Basin and Teton.
"The first and most important step towards a sounder loan procedure is the determination of the productivity value or true worth of lands based upon a scientific soil survey and average yields and prices, to be used as the basis for lending." \(^{41}\)

Here the problem rested for the bank never undertook a survey of the land productivity in the region or adjusted the appraisal of good and poor lands. The bank's officials made the majority of the loans based on the abilities and character of the man. The only major consideration taken at all on the land, naturally depended on whether it could be irrigated.

From 1910 to the bank's failure in 1923, loans greatly affected the operation of the state bank of Gilman. In the end it was this poor loan experience that contributed significantly to the bank's closing. Delinquent farm loans, compounded by the demands of eastern institutions for repayment, placed the bank in the middle of two immovable forces. Lack of experience by bank officials in loaning in no way alleviated the problem and also played an instrumental role in the bank's failure.

\(^{41}\) Montana Farm Bankruptcies, Bulletin 360, 50.
CHAPTER IV

FINANCIAL FACTORS

OF THE BANK

The failure of the Gilman State Bank on November 28, 1923, followed very closely the failure of other banks in Montana. The bank remained financially sound until 1918, but after that time the drain on deposits and the extension of loans caused a gradual decline in the bank's stability. This proved to be the same case for the majority of the state's banking institutions.

Ironically the rival Peoples Bank of Augusta closed its doors on December 22, 1923, less than one month after the bank in Gilman folded. When examining certain aspects of the Gilman bank's closure it would be foolish to ignore the condition of the Peoples Bank in the neighboring community. Not only were these two banks located in the same area, but they depended primarily on the same regional economy.

The December 6, 1923 edition of the Augusta News reported:

The Gilman State Bank, 'The Bank of Friendly Service,' failed to open its door for business last Friday morning by action of the Board of Directors. While it is claimed that this ac-
tion was taken to protect the depositors and that the bank will reopen and pay dollar for dollar, it is the general opinion that the institution is past all stage of redemption and estimates as to its ability to pay out run as low as ten cents on the dollar.¹

In retrospect, three weeks later on December 27, the same paper reported the Augusta bank’s failure:

The Peoples Bank of Augusta was closed last Saturday morning by order of the State Superintendent of Banks after an examination by C. E. Cleave. The bank was closed after a most strenuous effort on the part of directors to keep it open in which effort a few men have sacrificed much of both time and money.

A steady drain on the bank’s resources since the close of the Gilman bank caused its failure. Since that time over $25,000 have passed out of the Augusta institution and to the last moment local men were ready and willing to put up their money to save the bank.

It is an awful blow to the community and will not be felt to its fullest extent for some time. The bank will undoubtedly pay out dollar for dollar and the possibility of reorganizing is not abandoned.²

The closure of the Augusta and Gilman banks started rumors of other bank failings in the valley. Only five weeks after the Augusta bank had closed its doors a notice of correction appeared in the Augusta News:

¹Augusta News, Dec. 6, 1923.

²Ibid., Dec. 27, 1923.
The News last week contained the announcement that the 'State Bank of Simms expresses a desire to discontinue its business and invites its depositors to come in and get their money.'

Now it happens that there is no 'State Bank of Simms' or never has been; the only bank at Simms being the 'Sun River Valley State Bank.' This bank has no intention of quitting business.

We do not care to say where our information leading to the publication of the item came from but it was common talk about town the forepart of last week. ³

Rumors continued to spread and in one respect the banks themselves were to blame. Banks used to close at every opportunity, this was especially the case for holidays. Bank officials, for example, usually hung a sign on the door that said—"Bank Closed"—and in finer print "For Washington's Birthday." After the banks started to close people passed these buildings and read the sign in the window—"Bank Closed"—and that was as far as they went. This immediately started a run on the bank. For that reason banks today generally announce—"This Bank will observe Washington's Birthday." ⁴

The failure of these two upper Sun River banks greatly affected the people in the region, both financially and emotionally. In addition to this fact the failure of the

³Ibid., Jan. 31, 1924. The Sun River Valley State Bank received its charter on June 10, 1913, and voluntarily liquidated on March 1, 1937.

⁴Tape, Homer J. Wellman.
Gilman State Bank and its rival Augusta bank can be considered good examples of Montana banks that folded during the 1920's. Both banks fall into categories that are representative of the majority of the state's commercial banks that closed during this era.

The Peoples Bank of Augusta and the Gilman State Bank were state rather than national banks. From 1921-1925 "...the percentage of state bank failures was higher than those for national banks."\(^5\)

In four of those five years the ratio of state banks failing as compared with national banks was two to one.\(^6\) Also, neither bank belonged to the Federal Reserve System; non-member banks failed more often than member banks.

Size in determining bank failures was another important factor. For state banks that failed the average capitalization in Montana was $36,000; for banks that did not fail, capitalization was $47,500.\(^7\) The Augusta bank, upon its failure, had $40,000 in capital stock, while that of the Gilman bank was $25,000.\(^8\) The banks in the state with capital of $20,000-$30,000 represented almost one-half

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\(^6\) Ibid., 22.

\(^7\) Ibid.

of all the bank failures in Montana. Ninety-five of the 214 banks that failed fell into this category.\textsuperscript{9}

Total resources of a bank were also an important guide when comparing Montana's financial disaster—on the average, local state banks that failed had resources totaling $563,000. Those that did not fail had resources of $983,000.\textsuperscript{10} The Augusta bank had slightly more resources on June 30, 1922, than did the Gilman State Bank; $323,000 to $264,000 respectively.\textsuperscript{11} Fifteen months later in September 1923 the Gilman bank's resources dropped drastically to $207,000.\textsuperscript{12}

Amounts of total time and demand deposits were useful in measuring bank closures. The twenty-seventh annual report of the State Examiner, released in June, 1922, reported that the Peoples Bank of Augusta maintained only $128,000, while the Gilman bank totaled $143,000.\textsuperscript{13} The average for those state banks that failed was $205,000.\textsuperscript{14} In both cases, the Gilman and Augusta banks'

\textsuperscript{9}Elliott, "Commercial Bank Failures, 1920-1926," 23.
\textsuperscript{10}Ibid.
\textsuperscript{11}State Examiners Report, June, 1922.
\textsuperscript{12}Gilman Condition Report, Sept. 14, 1923.
\textsuperscript{13}State Examiners Report, June, 1922.
\textsuperscript{14}Elliott, "Commercial Bank Failures, 1920-1926," 23.
deposits were considerably lower than other failing banks.

"Since a bank primarily serves its local area, the location of failing and non-failing banks is an important part of the failure pattern. Generally, failing banks were located in smaller communities--58 percent of Montana's bank failures occurred in communities of less than 500 population."^{15} At the time of the two banks' failures neither community could claim a population much over 500.

In addition, the location of these two banks east of the Continental Divide placed them in an area dependent on agriculture, as compared with western Montana that relied on mining and forestry. "The area in Montana east of the Continental Divide experienced the failure of 56.4 percent of its banks during the 1920-1926 period, in the area west of the Divide, 38.5 percent of the banks failed."^{16} Thus, those banks in eastern Montana, dependent on an unstable agricultural economy, were more susceptible to failure than their counterparts across the Divide.

The length a bank had been established in a community represented still another determining factor lending keys to the investigation of Montana's commercial bank failures. Of the 214 banks that collapsed, 73 received charters from the state in the years 1910-1914.^{17} This was over one-third of all the banks; the Gilman and

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^{15} Ibid., 25-6.
^{16} Ibid., 76.
^{17} Ibid., 27.
Augusta banks fit into this category. Such a comparison revealed that "...failing banks were not as well established and were newer institutions than non-failing banks."\(^{18}\)

A final consideration when comparing the Gilman and Augusta bank failures with other Montana banks deals with the dependence on a local one-crop economy and the lack of diversification. The two Sun River Valley banks in times of prosperity were better off than most banks. Since the economy of the Sun River area was almost equally divided between livestock and grain crops, good revenue in one area offset failing prices in the other.

However, this was not the case after 1917, for both wheat and livestock prices plummeted. Farmers who had borrowed money to buy new equipment for harvesting could not depend on adequate returns from the sale of their cattle (and in some cases sheep) to cover their losses. These men continued to borrow from the Augusta and Gilman banks in hopes of returning to more prosperous days.

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\(^{18}\) Ibid.
Excluding the Augusta Bank, many financial factors concerning deposits greatly influenced the failure of the state bank in Gilman. First of all, the most important aspect of deposits when examining the bank's financial status was the loan to deposit ratio. The majority of the banks that failed during this period had loan to deposit ratios between 100 and 200 percent. This trend was more pronounced in the small country banks than it was in the urban banks. The Gilman bank was no exception in this matter.

The years 1910 to 1916 revealed a slow increase in loans with a proportionate increase in deposits. \[\text{TABLE 7}\]

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans</th>
<th>Total Deposits</th>
<th>Loan to Total Deposits Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td>$13,701.45</td>
<td>$23,758.81</td>
<td>0.58</td>
</tr>
<tr>
<td>1911</td>
<td>48,571.76</td>
<td>37,030.65</td>
<td>1.31</td>
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<td>1912</td>
<td>48,392.34</td>
<td>42,044.69</td>
<td>1.15</td>
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<td>1913</td>
<td>56,814.62</td>
<td>44,438.92</td>
<td>1.29</td>
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<tr>
<td>1914</td>
<td>74,687.65</td>
<td>70,136.89</td>
<td>1.07</td>
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<td>1915</td>
<td>77,795.93</td>
<td>57,725.03</td>
<td>1.35</td>
</tr>
<tr>
<td>1916</td>
<td>75,975.41</td>
<td>76,321.55</td>
<td>1.00</td>
</tr>
<tr>
<td>1917</td>
<td>124,104.09</td>
<td>120,653.15</td>
<td>1.02</td>
</tr>
<tr>
<td>1918</td>
<td>150,904.06</td>
<td>131,127.07</td>
<td>1.15</td>
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<td>1919</td>
<td>199,901.50</td>
<td>202,339.56</td>
<td>0.99</td>
</tr>
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<td>1920</td>
<td>236,913.32</td>
<td>183,470.32</td>
<td>1.30</td>
</tr>
<tr>
<td>1921</td>
<td>186,518.80</td>
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<td>1.29</td>
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<td>1922</td>
<td>213,793.25</td>
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<tr>
<td>1923</td>
<td>202,869.67</td>
<td>119,465.31</td>
<td>1.67</td>
</tr>
</tbody>
</table>

Gilman Condition Reports, June reports 1910-1923.
ing this seven year period the loan-deposit ratio averaged about 120 percent. The picture changed, however, in 1918 when the drought reached the Gilman area and loans in the community's bank increased by over $25,000. Deposits also increased but not at the rapid rate that loans followed. This caused a steady increase in the loan-deposit ratio.

In 1918 optimism prevailed in the minds of the bank officials. They disregarded sound banking practices by over-extending the bank's loans. These men believed the drought would not continue and the Gilman bank would regain its losses in future years.

Better times did not return and by 1919 loans reached nearly $200,000. Deposits were over that figure--$202,000. The following year the ratio jumped to 130 percent and from that time on the bank could not halt the run on loans. Loans increased $37,000 while deposits fell by $20,000.

From 1920 to 1923 the bank's loan-deposit ratio remained over 120 percent. Although loans decreased after 1920, deposits did not increase enough to effectively help the bank's poor financial condition. In fact, from 1922 to 1923 the bank lost nearly $24,000 in deposits; the loan to total deposits ratio reached the highest in the bank's history--167 percent.
From 1910-1917 the individual deposits to total deposits ratio remained relatively stable. However,

TABLE 8
Gilman State Bank (1910-1923)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits</th>
<th>Individual Deposits</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td>$23,183.81</td>
<td>.97</td>
<td></td>
</tr>
<tr>
<td>1911</td>
<td>36,039.27</td>
<td>.97</td>
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<td>1912</td>
<td>35,682.54</td>
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<td>1913</td>
<td>40,972.81</td>
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<td>1914</td>
<td>55,349.44</td>
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<td>1915</td>
<td>45,225.78</td>
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</tr>
<tr>
<td>1916</td>
<td>44,499.29</td>
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<td></td>
</tr>
<tr>
<td>1917</td>
<td>See Table 7</td>
<td>.60</td>
<td></td>
</tr>
<tr>
<td>1918</td>
<td>61,288.54</td>
<td>.47</td>
<td></td>
</tr>
<tr>
<td>1919</td>
<td>84,659.43</td>
<td>.42</td>
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</tr>
<tr>
<td>1920</td>
<td>56,934.61</td>
<td>.31</td>
<td></td>
</tr>
<tr>
<td>1921</td>
<td>51,709.36</td>
<td>.36</td>
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</tr>
<tr>
<td>1922</td>
<td>59,459.56</td>
<td>.41</td>
<td></td>
</tr>
<tr>
<td>1923</td>
<td>24,061.01</td>
<td>.12</td>
<td></td>
</tr>
</tbody>
</table>

Gilman Condition Reports, June reports 1910-1923.
as in the case of the loan-deposit ratio, the years after 1918 showed a significant change. In 1918 the individual deposits total deposits ratio dropped 13 percent from the preceding year. The next two years showed a steady decline, but by 1921 a reversal occurred and it looked as if the bank might recover. In 1923, though, the percentage of individual deposits to total deposits dropped by over two-thirds (from 41 percent to 12 percent). This meant a monetary loss of over $25,000—a loss too great from which to recover.

Another consideration in determining the bank's failure was the adequacy of capital funds. To determine this a ratio of capital funds to total deposits is compiled. "Conventional thought during the 1920's maintained that a 10 percent minimum was necessary for operating safety."21 This rule is illusory, however, for the majority of Montana banks in 1921 and 1922 were in excess of the ratio by 20 percent.22

In compiling such a ratio the figures revealed a failure of the stockholders to maintain adequate capital to cover the liabilities in the bank. This capital was

22 Ibid., 67.
used "to establish confidence, and if this confidence was disturbed, the amount of capital was not sufficient to offset rapid deposit withdrawals."²³

The Gilman bank in comparison with other Montana banks from 1918-1923 had a very similar ratio.²⁴ From 1918 to 1922 the ratio was under 20 percent, but considerably over the minimum 10 percent. The rapid withdrawal of money in 1923 caused a dramatic change in the capital to total deposits ratio. That year the bank recorded an increase of 4 percent from the previous year—the ratio reached 21 percent. The inadequate deposits in the Gilman Bank after 1918 caused the high ratio to be recorded.

²³ Ibid., 66.

²⁴ TABLE 9

Gilman State Bank (1918-1923)

CAPITAL FUNDS TO TOTAL DEPOSITS RATIO

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits</th>
<th>Capital Funds</th>
<th>Capital Funds to Total Deposits Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918</td>
<td></td>
<td>$25,000</td>
<td>.19</td>
</tr>
<tr>
<td>1919</td>
<td></td>
<td>25,000</td>
<td>.12</td>
</tr>
<tr>
<td>1920</td>
<td>See</td>
<td>25,000</td>
<td>.14</td>
</tr>
<tr>
<td>1921</td>
<td>Table 7</td>
<td>25,000</td>
<td>.17</td>
</tr>
<tr>
<td>1922</td>
<td></td>
<td>25,000</td>
<td>.17</td>
</tr>
<tr>
<td>1923</td>
<td></td>
<td>25,000</td>
<td>.21</td>
</tr>
</tbody>
</table>

Gilman Condition Reports, June reports 1918-1923.
Ironically, in 1912 the bank purchased a book entitled *How to Increase a Bank's Deposits*. The book proved to be of little value, though, for A. L. Bradley and his bank. "In 128 pages, the book delineated eighteen ways to advertise. But in spite of the do-it-yourself approach aimed at increasing deposits, the bank was better at loaning money than at attracting depositors."^{25}

A final consideration of the bank's failure dealing with deposits concerned the comparison of total deposits to total resources. The higher the proportion of deposits to total resources, the higher the leverage factor and, therefore, the profitability to the bank owners."^{26}

In the case of those banks that failed the ratio of deposits to resources was generally low. The same case can be made for the Gilman State Bank. After 1919 the bank's total deposits were in a continual decline and

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^{25}Toole, "Montana: A Twentieth Century Portrait," 52.

^{26}Elliott, "Commercial Bank Failures, 1920-1926," 68.
so was its deposits to resources ratio. In 1922 the ratio fell to 54 percent and the last year of the bank's operation the ratio dropped to 50 percent. This compared with the state's 1923 ratio of 75 percent for all banks and a national ratio of 81 percent. The profitability for the bank's owners reached such a low point that the only consideration was the bank's closure.

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**TABLE 10**

**Gilman State Bank (1918-1923)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits</th>
<th>Resources</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918</td>
<td>$185,750.43</td>
<td></td>
<td>.71</td>
</tr>
<tr>
<td>1919</td>
<td>—</td>
<td>249,486.50</td>
<td>.81</td>
</tr>
<tr>
<td>1920</td>
<td>See</td>
<td>274,649.18</td>
<td>.67</td>
</tr>
<tr>
<td>1921</td>
<td>Table 7</td>
<td>235,049.52</td>
<td>.62</td>
</tr>
<tr>
<td>1922</td>
<td></td>
<td>263,973.21</td>
<td>.54</td>
</tr>
<tr>
<td>1923</td>
<td></td>
<td>237,867.95</td>
<td>.50</td>
</tr>
</tbody>
</table>

*Gilman Condition Reports, June reports 1918-1923.*

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Other financial factors besides deposits also played major roles in the collapse of the state bank in Gilman: dividends paid, the surplus account fund, bills payable, and the state's reserve requirement for all commercial banks. The years before 1920 did not show any significant change in the amount of yearly dividends paid. In 1916 stockholders received a 15 percent dividend, in 1917 and 1918 a 10 percent dividend, and 15 percent in both 1919 and 1920. That last year $3,750 in dividends went to shareholders at $15.40 a share.  

After January 20, 1920, the bank did not pay a single dividend. In 1922 a letter from C. W. Tewell to one of the bank's stockholders explained the predicament:

We did not declare any dividend this year. The directors thought it wise not to declare any until times looked better. In view of the fact that we had very light crops during the last two or three years, together with the slump in prices on stock and grain, it has made it necessary to carry a good many of our customers with principal and interest.

The last sentence lends credence to the problem the bank faced after 1920. Since the Gilman bank foreclosed

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29 Gilman Condition Reports, June reports 1916-1923.

30 Letter, Tewell to Reynolds, March 6, 1922, Gilman papers.
on only a small number of farmers Bradley and his associates continued to extend credit to farmers and ranchers. At the same time they did not force payment on delinquent loans. This caused a further breakdown in the financial spectrum.

The bank did not have enough money to pay the interest on money borrowed from eastern banks. These banks in turn received pressure from their own stockholders to force payment. This resulted in eastern banks pleading with Bradley to meet his commitments. Bradley pleaded with his farmers and the latter pleaded with mother nature for relief.

A letter from the Wells-Dickey Company in Minneapolis illustrated the problem of all parties concerned. "Isn't there some way you can put a stick of dynamite under Heckman Bros. so they can produce some money soon? The insurance company to whom we have sold this loan is demanding an early settlement." In concluding the firm underscored future action that would be taken. "We are fearful, unless the Heckmans get busy and make this payment at an early date, the insurance company will instruct us to commence immediate foreclosure. We should very much dislike to see this happen because it would cause additional expense and embarrassment to the Heckmans,
as well as to all of us."  

To compound matters the bankers and farmers were under pressure from a different source as a 1923 letter from Tewell to Lord denoted:

The winter wheat is practically ripe here now and its harvest is commencing this week. Farmers coming in for repairs and twine have been told by the implement dealers that everything is cash on delivery. A representative of the International Harvester Co. was in the bank today and told us that this is the case all over the state.  

The situation in no way made it any easier for the Gilman farmers. Such a restriction for purchasing goods forced the homesteaders to seek additional funds from the bank so they could meet their daily operating expenses.  

"The surplus account is of some importance as a reflection of book earnings. Profits not distributed to owners are eventually charged to the surplus account."  

Here again the Gilman bank is an excellent bank to examine.

The five years preceding 1922 the bank religiously placed money in the surplus fund. The seven thousand

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31 Letter, Wells-Dickey to the Gilman State Bank, Jan. 12, 1922, Gilman papers.

32 Letter, Tewell to Lord, July 30, 1923, Gilman papers.

dollars used those years, added to the previous $3,000 brought the total to $10,000. In 1922 and 1923 the bank ceased to operate with a profit and operated in the red. There was no excess profit, consequently no money could be placed in surplus. 34

<table>
<thead>
<tr>
<th>Year</th>
<th>Added to Account</th>
<th>Total in Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1911</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1912</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1913</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1914</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>1915</td>
<td>2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>1916</td>
<td>-</td>
<td>3,000</td>
</tr>
<tr>
<td>1917</td>
<td>1,000</td>
<td>4,000</td>
</tr>
<tr>
<td>1918</td>
<td>1,000</td>
<td>5,000</td>
</tr>
<tr>
<td>1919</td>
<td>1,500</td>
<td>6,500</td>
</tr>
<tr>
<td>1920</td>
<td>1,500</td>
<td>8,000</td>
</tr>
<tr>
<td>1921</td>
<td>2,000</td>
<td>10,000</td>
</tr>
<tr>
<td>1922</td>
<td>-</td>
<td>10,000</td>
</tr>
<tr>
<td>1923</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Gilman Condition Reports, June reports 1910-1923.
The amount of bills payable the bank possessed was also an indication of the institution's stability. From 1910 to 1916 the bills payable column remained relatively clear. After that the bank increased its bills payable until it reached a peak in 1921 of $55,000. The next two years the bank recorded reductions of $15,000 and $13,000, but they were of no great consequence to halt the failing of the bank.

At the time the majority of Montana's banks failed there was a state reserve requirement for both national and state banks. In a circular sent to all the banks

<table>
<thead>
<tr>
<th>Year</th>
<th>Bills Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td>-</td>
</tr>
<tr>
<td>1911</td>
<td>-</td>
</tr>
<tr>
<td>1912</td>
<td>-</td>
</tr>
<tr>
<td>1913</td>
<td>-</td>
</tr>
<tr>
<td>1914</td>
<td>$10,000</td>
</tr>
<tr>
<td>1915</td>
<td>12,500</td>
</tr>
<tr>
<td>1916</td>
<td>-</td>
</tr>
<tr>
<td>1917</td>
<td>10,000</td>
</tr>
<tr>
<td>1918</td>
<td>20,000</td>
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<tr>
<td>1919</td>
<td>15,000</td>
</tr>
<tr>
<td>1920</td>
<td>52,500</td>
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<td>1921</td>
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<tr>
<td>1922</td>
<td>39,900</td>
</tr>
<tr>
<td>1923</td>
<td>27,000</td>
</tr>
</tbody>
</table>

Gilman Condition Reports, June reports 1910-1923.
in the state the bank Superintendent stated the reserve policy: "Every bank, except a reserve bank, shall main­tain at all times a reserve of at least ten per centum of its deposit liabilities."36

The problem of maintaining the required reserve proved to be a mammoth one for Montana banks. A. L. Brad­ley in response to a letter from the Wells-Dickey Cor­poration touched upon that problem. "You understand as well as we that conditions all over the state are not good and it is keeping the banks busy to keep up the re­quired reserve."37

From 1918 to 1920 the Gilman bank maintained a very adequate reserve in proportion to its total deposits.38

36 Letter, State Department of Banking to all Montana banks, April 23, 1920, Gilman papers.
37 Letter, Bradley to A. P. Morris, April 6, 1921, Gilman papers.
38 TABLE 13

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits</th>
<th>Reserve</th>
<th>Reserve to Total Deposits Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918</td>
<td>$ 16,888.98</td>
<td>.13</td>
<td></td>
</tr>
<tr>
<td>1919</td>
<td>31,598.35</td>
<td>.15</td>
<td></td>
</tr>
<tr>
<td>1920</td>
<td>21,354.96</td>
<td>.12</td>
<td></td>
</tr>
<tr>
<td>1921</td>
<td>15,831.16</td>
<td>.11</td>
<td></td>
</tr>
<tr>
<td>1922</td>
<td>16,291.12</td>
<td>.11</td>
<td></td>
</tr>
<tr>
<td>1923</td>
<td>7,274.55</td>
<td>.06</td>
<td></td>
</tr>
</tbody>
</table>

Gilman Condition Reports, June reports 1918-1923.
However, in 1921 the reserve to total deposits ratio dropped to 11 percent and remained at that level the following year. It could not be increased and fell drastically below the required 10 per cent. On the June condition report of 1923 the bank recorded a ratio of only 6 percent. Five months later on the final report of November 27, the day before the bank closed, the reserve to deposits ratio remained unchanged.\(^39\)

On November 28, 1923, the board of directors of the Gilman bank considered the problem of the bank's reserve and acted accordingly. "Realizing the reserve must be built up to the legal requirements the matter of a stock assessment was discussed. Inability of the stockholders to place new money in the bank, made an assessment valueless. The prospect of closing the bank was taken up for discussion as it was the sense of the meeting the bank could not hope to build up its reserve. Naturally the motion was made, seconded and unanimously carried to close the bank."\(^40\)

The Gilman State Bank was a financially sound institution from 1910 to 1917. During this period it adequately served the needs of the farmers and ranchers in the Gilman area. The bank did not secure a sizable

\(^39\)Ibid., Nov. 27, 1923.

\(^40\)Minutes, Nov. 28, 1923, Gilman papers.
profit but cleared enough each year so that an adequate dividend could be awarded the stockholders. When the grain growers and stockmen prospered so did the Gilman bank.

After the drought hit central Montana the small bank suffered along with its depositors. Loans increased at a rapid rate. Deposits fell and caused the loan-deposit ratio to soar. The bills payable could not be effectively reduced and money ceased to be placed in the surplus account. Most importantly the bank's capital stock was not increased nor was its reserves. The only alternative for the directors was to go into receivership in hopes of reopening the bank at a later date.
CONCLUSION

The closure of the Gilman State Bank in 1923 epitomized the failure of other Montana banks during the 1920's. It was a small country bank run by inexperienced personnel. It depended on homesteaders who lacked knowledge about western farming procedures. Worst of all, the bank was located in an area that relied on a marginal economy.

The dry years after 1917 caused a chain reaction of events. Falling agricultural prices forced Montana farmers to seek aid from their local banks. The banks in turn requested help from their correspondent banks in the East. These institutions granted the requests until their stockholders demanded repayment of the loans. This reversed the cycle, climaxed by the failure of hundreds of Montana banks and the bankruptcy of thousands of the state's farmers.

The Gilman bank was representative of this failure. Continual requests for loans from the local homesteaders caused a steady increase in the loan-deposit ratio. The bills payable could not be reduced. This forced the bank's president to seek additional help from eastern correspondents. When this help was refused the Gilman
bank could not maintain an adequate reserve and meet its financial commitments. Since other banks followed this procedure the collapse of the Gilman bank can be considered a typical example of a Montana bank failure.

The story of the Gilman bank is also unique because it involved the formation and collapse of a whole community. A. L. Bradley built the town of Gilman in conjunction with the Great Northern Railroad. When the bank failed and the railroad was extended to Augusta in 1923, Gilman residents deserted their community. They depended so much on Bradley and his bank that when either faltered the whole town suffered.

The town of Gilman is but a memory today. The bank building still stands but the only sounds heard on main street are the rustle of the tumbleweeds and the whistle of the wind. In its glory the community aspired to be the center of the Sun River Valley. It was led by an ambitious man who was outdone only by the fierce competition with nature—a battle few men could hope to win.
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Pamphlets


Reports


Unpublished Works


Letters


Interviews

Personal interview with Harold M. Brown, Great Falls, Montana, December 20, 1970.

Tape recording from Homer J. Wellman, April 15, 1971.
Collections


The collection contains correspondence (1915-1917), financial records, board minutes and some student records. There are also newspaper clippings and petitions in reference to the formation of the school district.


The collection contains ledgers, minutes of the meetings and correspondence during the bank's operation and when it went into receivership. Most of the correspondence is concerned with banking matters but there are numerous references to general and economic and political activities in the area.