Banksters, Bosses and Smart Money

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William H. Gunckel was the sort of amiable sport that everyone liked. Naturally, this short, cherubic Toledo banker was the easy choice of his colleagues to organize the week’s entertainments for the Ohio Bankers’ convention. His job was not easy. Not only were there a great number of men to be entertained—over a thousand conventioneers overflowed Toledo’s hotel rooms—but, being bankers, the association only conducted business before noon, leaving five days of afternoons, evenings, and nights of entertainment to be filled by Will Gunckel. Besides the many details to arrange, he bore the weight of having to boost his city, of having to live up to the honor of Toledo being selected as the host of the convention during that troubled year of 1931. For this one week Toledo would be the object of scrutiny of financiers throughout Ohio.1

On the face of things, Toledo’s situation appeared bright. Though the city had sagged with the rest of the nation after the Crash of 1929, it appeared to have bounced back since then. The city’s employers added workers the very week of the bankers’ convention, and the Federal Reserve reported that from February to April Toledo’s department stores posted the highest first quarter sales volume of all eight cities surveyed in its district. All of Toledo’s banks reported profits and issued dividends the previous week. Even the city’s troubled automobile industry seemed to have begun to claw back out of its hole—the largest parts manufacturer, the Electric Auto-Lite Company, was turning profits by producing popular “dollar clocks” that were being distributed by four thousand dime stores nationwide. So, there was some justification for the morning newspaper to welcome the bankers with an editorial that boasted that “the bankers could not have chosen a better city in which to hold their 41st annual convention for in addition to having facilities with which to entertain Toledo can show a good clean banking picture to the visitors.”2

Gunckel (figure 3) had little difficulty arranging for all of the city’s dozen private country clubs to open their doors to the state’s bankers. After each
morning’s sessions the bankers could play tennis, hit the links, or ease back into the deep armchairs of the swank Toledo Club with a sherry and cigar. For the traditional convention dinner and ball, held at Gunckel’s own club, he focused all his energies. The ballroom and grounds were decorated to resemble Venice, and hundreds of boats were festooned with lights in the yacht club’s harbor. Then an extravagant dinner was followed by a mock naval battle and a fireworks show. It was, according to the society columnist, a brilliant and most unusual event.\(^3\)

But William Gunckel had no chance to enjoy the week he so carefully prepared. He knew better than most of his fellow Toledoans that the condition of his firm, the Security-Home Bank, the third largest in the city, was desperate. A week earlier, Gunckel was concerned enough about his ability to secure cash that he arranged for his own bank to advance him a $10,000 loan on his own home, which it did even though the property was assessed at only $6,880.\(^4\) Just as the convention opened he heard of the trouble brewing at their branch in the Polish district. A thousand dollars had gone missing from the vault, and a bank employee had failed to show for

\(\text{Figure 3}\)
work the next morning. While Will Gunckel and his banker friends were just sitting down to enjoy their convention-opening dinner, Michael Szymanski, a thirty-year-old bank clerk, came home to his wife of six months with a thousand dollars stuffed in his pocket and made her cry by telling her, “I’m going to jail. I’m a crook.” He couldn’t face her for long and he left in his rented car, a couple of pints of whiskey on the seat beside him. Szymanski parked his car between a rooming house and a used car lot just up the street from the Toledo Club, where his fellow bankers partied. Szymanski guzzled his booze, passed out, and awoke the next morning to find his pockets had been emptied during the night.

Disheveled and hung over, Szymanski drove to a newsstand and bought the morning papers to read about his embezzlement and was surprised when he could find no notice of it. Perhaps he wasn’t aware that the president of the city’s largest newspaper was also president of the Second National Bank or that other interlocking directorates tied all the city’s industries together into one tight web of interest. In such a rocky year as 1931 and with Ohio’s bankers in town, what editor in his right mind would risk sparking a bank run by publishing news of embezzlement in a bank in one of the poorest districts of the city? It was bad enough that the papers had to print the reports coming out of Chicago that morning of mass bank runs and the closing of a half-dozen banks. Anyway, Szymanski knew that news, even news that didn’t make it into the paper, traveled quickly in his close-knit immigrant neighborhood.5

When, later that day, Michael Szymanski turned himself in to the police, Security-Home Bank president Stacey L. McNary found himself staring into the abyss. McNary (figure 4) was the golden boy of Toledo bankers, a young man who began as a bank messenger boy and whose climb since then had been steep. Before he was forty he had become president of the Security Bank, then head of the Toledo clearinghouse, and finally leader of the Toledo Bankers’ Club. In the years leading up to Black Tuesday, McNary had helped engineer a succession of mergers that tripled his bank’s size. But since those peaks of 1929, Toledo’s employment had dropped and the bottom had fallen out of its go-go real estate market. Now with rumors flying across the city about embezzlement at his bank, with news of a wave of bank failures that swept Chicago, and with a deep drop in European bond prices caused by fears of the possibility of a total German default, McNary’s edifice teetered on the brink.6

In the banking business in those days it was well known that a seemingly trivial incident was often the spark that would burn through a dry and rotten bank. A journalist writing in a national magazine at the time described such a “minor incident of the type that often causes major changes” in which “Mrs. Smith has seen the banker the evening before help a dizzy blonde
out of a taxi in front of a night club—and the aforementioned ravishing beauty was not Mrs. Banker. Secrets like that are usually shared at once with the general public. Was the banker spending his own money? The question is asked by a thousand depositors. In the days that follow, funds withdrawn exceed funds deposited."

McNary’s achievement of building Security-Home into the city’s third largest bank had come at a high cost. Each of the smaller banks that were taken over brought with them a heavy load of rotten loans that had not been properly depreciated in the bank’s books. Each merger expanded the size of the board of directors, increasing the number of men in a position to favor themselves and their companies with sweetheart loans. In 1926, the Security bank had nineteen directors. Five years later the boardroom was nearly twice as crowded, with thirty-four directors.8 When McNary acquired Banker’s Trust in 1929, he also took over $355,144 in loans held by Banker’s Trust’s directors, about the same amount Security-Home had lent to its own officers. After purchasing the Home Bank in 1930, Security-Home swallowed an additional million dollars in insider loans that had been made to the Home Bank’s directors. By the fall of 1931, over $2 million, or one out of every ten dollars loaned by the bank, had been lent to the men who approved all loans.9
In making loans to themselves, the Security-Home board tended to be more trusting and forgiving than they were to the person who walked in off the street. Nearly one in five of the dollars lent to directors were loaned without any security whatsoever (18.9 percent). Another 20 percent were loans given solely on the security of shares in real estate companies and real estate trusts whose major asset were thousands of unsold lots. The collateral pledged to secure the remainder of loans consisted of a mixture of equities and real estate shares that even during the peak markets of the 1920s fell short of securing one hundred percent of the loans.¹⁰ Had these loans been given to anyone but those who ran the bank, they would have been called in long before the bank began to tip into the red. At the very least, the bank would have demanded more collateral as the value of pledged securities dropped. Instead, when it was clear the bank was headed for the rocks, the directors voted to renew their own loans without any change in their terms. In the six months prior to April of 1931, bank directors renewed $75,983.52 worth of their own loans. In the ten weeks before the bank closed, they extended the terms on their own personal loans amounting to $959,767.30.¹¹

Each time McNary absorbed a smaller bank, he acquired its financial skeletons as well. By 1931 McNary’s closet had become quite full. There was the phony $96,000 loan that McNary and his fellow directors had put on the books to cover a huge stock loss. There were the mortgage loans issued to a company controlled by a former director that were based on forged mortgage papers. There were the loans given to companies controlled by directors without collateral and then forgiven. There were the bundles of worthless South American bonds that were still carried at their face value on the bank’s accounts.¹²

Now the skeletons were coming to life. While rumors of the embezzlement at the Opieka Branch prompted a few working class Toledoans to remove the tens or hundreds of dollars in their savings accounts to some hiding place in their homes, these didn’t amount to much. The real trouble came when a few major corporations, tipped off by bank insiders, decided to pull the plug. The Electric Auto-Lite Company withdrew $56,000 on June 11. American National Co., which had as much as a hundred grand on account, began drawing it down until only thirty-four hundred remained at the end of the week. Libbey-Owens-Ford, the world’s largest maker of auto glass and one of the largest corporate depositors, began making substantial withdrawals. Fearing collapse, McNary met with his bank’s largest shareholder, the industrialist Clement O. Miniger, and told him that a merger was the only way to save the bank. There were only two other banks in the city with assets large enough to submerge whatever rotten liabilities Security-Home carried. One possibility was Toledo Trust, the second largest bank, which was
owned collectively by the old-moneyed families of Toledo and conserva-
tively steered by Henry L. Thompson, a somewhat stodgy holdover of a
bygone era in finance. The other was the largest bank in town, the Ohio
Savings Bank, run by Miniger’s own brash son-in-law, George Jones, a self-
made man who amassed his first fortune in the rough-and-tumble of run-
ning southern Ohio coal mines. Being a hard-headed businessman,
Miniger knew that whatever shaky foundation Security-Home rested on
probably underlay his son-in-law’s bank as well, as it too was the product
of a recent flurry of mergers and takeovers, so, instead, he passed over kin
and turned to Thompson for help.

Henry Thompson might have been willing to extend a helpful hand to
a fellow banker whose house was on fire, but only as long as he was amply
and richly rewarded for his effort and there was no risk of being singed him-
self. Before he would even negotiate he ordered an independent audit of
Security-Home’s books, a reasonable but time-consuming demand.
Anyone connected with Security-Home worried that an independent
audit would kill the deal, as it might reveal the truth behind the bank’s cooked
books—that the bank had nothing but debts to merge, over 16 percent of
its loans were unsecured, a large proportion of its mortgage loans were backed
with worthless lots, and another 10 percent of its loans were in the hands
of the bank’s own directors. A valiant attempt was made by some
unknown insiders to spruce up the books when a flurry of commercial checks
were deposited totaling a million dollars on June 11, the day that the logs
and ledgers were to be examined by Thompson’s accountants.

While they waited for the results of the audit, the Security-Home’s board
of directors voted to issue a stock dividend of sixty-two and one half cents
per share, or a total of $37,500.99, on Tuesday, June 9, just as they had before
at the end of March. Dividends are a return of profits to the investors in
the corporation, but in this case the bank had not turned a profit since the
close of business on January 28. When the March dividend was declared,
the bank’s official ledger claimed it to be profitable, but the insiders knew
this to be untrue and that it in fact had lost over eighty thousand dollars in
just the first quarter of the year. To keep the books balanced, someone had
shoved three and a half million dollars in real estate loans, seven hundred
thousand in securities, and over eight hundred thousand in commercial loans
that were not being paid into a “non-accrual” list that were not declared
as losses. When the directors, fresh from their banking convention revel-
ries the night before, voted to reward themselves, their corporation was another
twenty thousand dollars in deficit. Such a vote, at the moment when the
failure of a bank is a real possibility, took money directly from the depos-
itors, for when the bank was liquidated, every dollar short was one less to
repay those who were owed their savings. Moreover, it was one of the few things bank directors could do that was expressly prohibited by state law.\\(^{15}\)

A week after the Security-Home board meeting in which the directors personally walked away a little over fourteen thousand dollars richer (that being their share of the stockholder dividends), a meeting was called for 8:30 A.M. to hear the report of the independent audit of the bank. Besides the usual group of directors, the superintendent of banks for Ohio, Ira J. Fulton, was present with his staff attorney and head examiner in tow. The news could not have been worse. The audit revealed that Security-Home's claimed surplus of $1.5 million had long been wiped out, leaving it with a deficit of $394,870. Superintendent Fulton, the son of a bank president himself, seemed unfazed by the numbers and urged the directors to redouble their efforts at obtaining a merger and suggested that a committee of three be picked to meet privately with Thompson, Miniger, and himself to iron out the details.\\(^{16}\)

Apparently, nobody but Fulton had any hope left at the conclusion of the meeting. As soon as the meeting broke up, the Security-Home Bank directors headed downstairs and quietly began emptying their accounts. Being on the teller side of the cages allowed them to avoid the lines that were just forming up outside the doors. President McNary put $483.23 in his pocket, leaving less than $30 in his savings account. Director L.G. Pierce withdrew just a little less, $450. Vice-president Raleigh D. Mills managed to walk out with $1,000 in his own cash though he had only $180.86 in his account (he later made good on the overdraft). Director Sidney Spitzer withdrew $654.09, the last of an account that weeks earlier had held $3,687.14. Director Julian Tyler snatched five grand from his account.

Will Gunckel was a very busy man that day. As secretary of the board of directors it was his job to keep the official minutes of that morning's meeting. When it was done, he too went downstairs and began salvaging what he could of his and his friends' money. Of course he took out the last of his own money, $1,822. Then he closed the accounts of friends—over two thousand for Jennie Kibble; over ten thousand for Marcel Metz, about a grand for Mary E. Haskins, and an even two grand for Florence Morris.

The bank's employees were lining up to take out money from behind the counter as fast as the public was lining up in front of it. S. R. Dority, the manager of the safe deposit department, emptied his wife's account of $1,300. Treasurer Karl Naugle cleaned out his account. Of course, the secretaries and assistant secretaries were best positioned to quietly pocket their own money. Carl D. Rideout closed out his and his wife's account, then swept clean the accounts of family members Oliver and D. P. Rideout, the last one holding over fourteen thousand dollars. Theodore Klinksick closed his
own account, his wife’s, and that of his brother. And James R. Newell made off with all of his wife’s account and his son’s little nest egg of $122.63, although through some small mathematical error he left a total of seventy-eight cents in two other accounts of his own. Newell also did a big favor for Jeremiah Bingham, a retired industrialist, and withdrew his savings account of $114,000. Assistant Trust Officer and Assistant Secretary F. J. Klauser took a bit more than he had on account and owed the bank about a buck and a half when it closed. His colleague J. W. Wilson also erred and left an overdraft of $2.81.

Other directors had no need to wade into the panicked chaos on the banking floor—they had drained their accounts a day or two earlier. Badger Bowen took his last two grand the previous Saturday. Amos Lint withdrew about ninety percent of his account the day before, netting over fifteen thousand. The same day George Moore cleaned out ten thousand. Earlier, director J. D. Hurlbut managed to draw down his accounts from over seventeen thousand to a balance of about twenty-five hundred and those of Phillip A. Hurlbut from nearly twenty-five hundred to just seventy-eight dollars. J. E. Rundell, being a former director of the Security Bank and not currently sitting on the bank’s board, was late in arriving on the bank’s last day of operation and when he tried to cash in his two certificates of deposit for a whopping $179,666.67, the tellers could not scrape up enough cash. The barrel now being empty, Rundell settled for a bank check for that amount to a bank in Cleveland. Unfortunately for Rundell, the next day when he presented his checks in Cleveland, the banks refused to honor them. He was too late.

But it wasn’t the hundreds of thousands withdrawn by the bank’s directors and officers that delivered the coup de grace to Security-Home. The death shot to the balance sheets came when the bank’s officers scrambled to defend the assets of other companies they were connected to. The City Auto Stamping Company, a large auto parts manufacturer, shared four of its six directors with the Security-Home Bank, and while the bank was sinking they helped liberate about four hundred thousand dollars of its cash. Another large Toledo company, the Woolson Spice Company, luckily had both its own president and vice-president on the board of the Security-Home Bank. Woolson usually maintained a balance of between eighty and eighty-five thousand but was left with only eleven dollars and twenty-nine cents before the day’s accounts were finally tallied. The Toledo Grain and Milling Company shared its treasurer with the board of Security-Home and on the last day it managed to free $26,000 from its corporate account. Rufus H. Baker, vice-chairman of the board, and director Leroy E. Eastman were also partners in Smith, Baker, Effler, Allen & Eastman, a leading corporate
law firm. They set about draining their firm’s own deposits and those of their most important corporate clients.

Superintendent Fulton’s hopes for a merger that would clean up the mess at Security-Home before it became an embarrassment to his department could not have lasted for long that day, if ever they truly existed. C. O. Miniger, the bank’s largest stockholder and the man Fulton felt was key
to working out a deal with Thompson, apparently had no illusions that
the bank was salvageable. While Fulton attempted to work out a deal, Miniger
withdrew the last of his personal account, $141,504.55. Later that
evening, Fulton assembled the Security-Home directors one last time so
they could vote to officially close the bank and turn its assets over to the
state for liquidation. Perhaps when he called the question, Security-
Home’s president, Stacey McNary, recalled the speech he had given two
years earlier before the Epworth Men’s Club, when he had proclaimed that
bank panics like that which had occurred in 1907 were now “practically
impossible” because of the advent of the Federal Reserve system. At that
moment the irony of one of the bank’s last newspaper advertisements became
palpable. Four days before, a quarter-page Security-Home advertisement
(figure 5) that made a pitch for the traveler’s business was headlined “Au
Revoir.”

In the last six weeks of the bank’s operations, a little over $3 million in
deposits were lost (table 6). Nearly half of that amount was withdrawn by
the officers of the bank, their relatives, and the other businesses in which
they had interests. On the day of the fabled bank run that shut down Security-
Home Bank, the frightened public withdrew $679,971 from their savings
accounts. That same day, June 16, bankers with commercial interests and
other insiders quietly removed a much larger sum, $1,039,303.
On Wednesday, when the Security-Home Bank failed to open, a more general panic began. Each of the banks in the financial district was beset by crowds of people, clutching their passbooks. On the busy corner of Summit and Cherry streets, crowds lining the sidewalk in front of the Commerce Guardian bank stood beneath a massive fourteen foot high lighted sign whose message “Save To-Day” became an instant mockery.24

Some members of the crowd who succeeded in emptying their accounts suffered a pang of guilt afterwards. A few more civic-minded men obeyed their consciences. One man took out $1,400 and walked around the block. Drawn back to the doors of the bank, he hesitated, then walked around the block again, until finally, he gave up, stood back in line, and redeposited his money. Another made it home with his life savings of $4,000 but couldn’t sleep that night and returned his cash to the bank the next day. Another man briskly walked out with over a thousand dollars cash in his pocket and was robbed once he rounded the corner.25

Inside the city’s newest skyscraper, the Ohio Bank tower, two dozen directors of the city’s largest bank weighed their options. Long before the panic caused by the collapse of the Security-Home bank, the Ohio, too, had been in trouble. Six months before, the state Banking Department had grown alarmed at the bank’s mountain of loans to shaky real estate companies and its accumulating pile of second mortgages on undeveloped lots, a pile that amounted to about 60 percent of the bank’s assets. Bank superintendent Fulton insisted that the Ohio Bank suspend issuing dividends and instead build up its reserves so it could write down the inevitable losses from those sour investments. In response the Ohio Bank sent a letter to Fulton signed by its most politically well-connected officer, vice-president Edward Kirschner, who explained that the bank had ample reserves and capital to weather any storm. Though Fulton wrote again with the same demands on March 21, the Ohio’s directors simply ignored them and continued to drain the bank of $22,500 each month in dividends, knowing the Banking Department was a paper tiger and Fulton was a servant of political forces over which they had substantial influence.26

However, with the situation in the street beginning to spin out of control, the Ohio Bank’s directors were faced with a stark choice. They could liquefy as many assets as they could and borrow heavily from banks outside the district to meet the demands of those clamoring for withdrawals, or they could invoke a rarely used legal provision that would allow them to suspend withdrawals for up to sixty days. Being the largest bank in town, the Ohio Bank stood the best chance of weathering the storm of withdrawals, especially if the bank began calling in its least secured loans and selling off some of its vast holdings of real estate. Moreover, if the bank adopted this
course of action and met depositors’ demands, it would probably stand to gain business in the long run as smaller institutions failed.

Though by all objective measures converting assets to cash and calming the panic by making lots of cash available was the best choice from a purely business perspective, it was made impossible by the personal interests of the men who controlled the bank. As the Ohio Bank’s own officers themselves owed the bank $139,000 in unsecured loans and $2,519,660 in mostly under-collateralized loans, and as firms that the bank’s officers were invested in or controlled owed the bank another $6,650,000, calling in loans was a very unpopular idea. The directors were also handcuffed by their own past deceitfulness. Had the bank begun selling off its mortgages or its lots, the true value of these holdings would be revealed and this would force the bank to account truthfully for its long-term losses. If the balance sheet was corrected in this way, the bank would be forced to suspend dividends and it might even be compelled to admit its previous false reports, leaving the bank’s officers open to prosecution or civil suits. Even worse, from the perspective of those who ran the bank, if the bank attempted to calm the public’s fears by piling up cash to meet the demands of common depositors, there might be less cash left for themselves in the event their house of cards toppled.27

Instead, the men in charge of the Ohio Bank chose a course that doomed their bank, but best preserved their own fortunes. A vote was called and a motion was passed that read: “Due to unreasonable demands to withdrawals of savings deposits, the (executive) committee unanimously resolved to put the 60-day notice rule into effect on all time deposits beginning Thursday morning, June 18, and continuing until further notice, but subject to certain exceptions at the discretion of the officers and tellers of the bank.” This meant, in effect, that any of the board members, at their own discretion, could withdraw funds from the bank, though the bank was closed to the public. After the Ohio Bank board adjourned, a copy of the resolution was sent to the newsrooms for publication in the morning papers. Apparently, the bankers thought it best to edit their resolution for public consumption and dropped from the copy they gave reporters the clause explaining how bank insiders could approve withdrawals. This fact would remain secret until revealed by a state senate investigation three years later. This vote probably made vice-president Claude Campbell feel a bit foolish, as he had earlier that day arranged to ensure recovery of his own savings account by having the bank grant a $5,700 loan for his wife secured by a flimsy second mortgage. Had he waited, he could have just withdrawn the money.28

Down the street filling with lines of depositors, the officers of the Commercial Savings Bank sat around a long oak table and discussed the growing crisis.
The Paramount Theatre marquee visible through the window advertised its newest feature, “The Vice Squad,” and a bit further up the block the Valentine offered “The Laughing Sinner” with Joan Crawford. Like all the bank boards in the city, this was an august group of notables. This assemblage of directors, for example, included the ambitious lawyer and Democratic politician, Frazier Reams, who within a year would be elected the county prosecutor and would eventually represent the region in Congress. A year later, Reams would find himself in the uncomfortable position of having to prosecute bankers for their actions during this crisis. Seated across the table from Reams was Harold Fraser, a leading trial lawyer and the man who would eventually defend his fellow bankers against Reams all the way to the Ohio Supreme Court.

According to their public statements of assets and liabilities, these men had little cause to worry. But many of the men seated around this table knew the public books weren’t to be trusted. Some knew about the forged notes used as collateral for loans to a company that one bank director himself controlled; others knew how depositors’ funds had been used to buy New York stocks on hot tips with brokers’ commissions going to the director who arranged them and losses shunted off to dummy subsidiaries; there were the Florida bond losses illegally held off the books; there was the 200 percent dividend declared in 1928 at the conclusion of a year in which the bank showed a loss. At one end of the table President W. H. Yeasting was aware of allegations that the manager of the Ashland Avenue branch was passing loans through fictitious names to speculate in stocks and splitting the profits with a brokerage firm run by his brother.

But it would have been business suicide and, perhaps, jeopardizing of their own liberty to make these things known, so the directors agreed to endorse a reassuring advertisement to be placed in the papers: “The general banking situation in Toledo is such as to warrant confidence. Calm reflection will convince everyone there is no reason for concern...” Of course, some of the directors had just beaten the rush in the street by quietly making “loans” to themselves (which they knew would later be swapped for their deposits), or, in the more creative case of director L. H. Hartman, by just that morning arranging for the bank to purchase bonds with money from his savings account on his behalf. Like the other bankers meeting that day, the Commercial’s directors made two momentous and contradictory decisions. First, they voted to join with the Ohio Bank and impose a sixty-day moratorium on all withdrawals. Then, they authorized the executive committee to issue a quarterly dividend of one and a half percent, or $10,500, nearly one-third of which would flow directly into the pockets of the thirteen men gathered in the board room.
When the Commerce Guardian bank followed suit and joined the others in suspending withdrawals, its president, Edward G. Kirby, told reporters, “There is not a particle of sense to all these rumors and this hysteria. All I have to say is that our bank is sound—a member of the federal reserve system—and it will remain sound. We will treat all patrons alike.” Like the other big banks that were frozen, Kirby’s bank had some thawed spots that those in the know could reach through. Over the next sixty days, nearly four million dollars, or 17 percent of all deposits, would drain through holes in the ice.33

From the beginning of the crisis, all of the city’s newspapers backpedaled the story. The Blade’s first report of the closing of the Security-Home Bank reported that the bank’s directors closed the bank due to the “unwarranted fears” that led depositors to run on the bank. The suspension of withdrawals by three of the four largest remaining banks in the city did not make the News-Bee’s headlines, but was buried in paragraph six of a story entitled, “Patrons Return Funds” and after the soothing subheadings, “Situation Safe, Sound” and “Toledo Banks in Good Shape, Presidents Say.” Likewise the Blade didn’t mention that banks had frozen accounts until the fourth paragraph of its story, whose headline read like a hypnotist’s chanted suggestions: “Banks Are Sound, Presidents Aver; Confidence Urged—Institutions Capable of Meeting Normal Demands, Heads Say; Sane Thinking Asked.” Before getting around to the actual story that most of the large banks in the city had closed their withdrawal windows, the Blade attempted to ease readers’ minds by reporting that “powerful offers of support [had come] from nearby financial centers—Detroit, Cleveland, Pittsburgh and even New York. But Toledo banks and bankers have the situation so well in hand that it was not necessary to take advantage of these offers.” The Blade’s report appears to have been wholly fabricated, as all evidence indicates that only Toledo Trust received any outside assistance during that time and the other banks were forced to sell assets at a loss to raise funds. With one last article on the day after the bank suspension whose headline, “Bank Situation Back to Normal” summed up the sunny gist of the story, the daily newspapers drew a curtain of silence around the banking situation.34

While the daily newspapers reassured the public that the panic was unwarranted and the banks were sound (figure 6), newspaper insiders rushed to close out their own accounts. The same day the Blade printed stories extolling the city’s citizens to do their patriotic duty and keep their money in the bank, it withdrew over twenty thousand dollars from the Security-Home bank, depleting an account that a month earlier had held over fifty thousand to just under five thousand. The Blade’s editor, Grove Patterson, low-
ered his own Security-Home account from a high of $855.47 to $183.26, while his fellow editor at the Toledo Times, R. C. Patterson, rescued nearly half of his ten thousand dollar account before the bank collapsed. Officers of the paper were able to skip to the front of the panicked crowd because of its close connections to the bank. The Blade's president, Barton Smith, was the senior law partner of two members of the Security-Home board.
of directors. The president of the Toledo Blade Printing Co., its printing plant subsidiary, was W. C. Carr, who was also a director of the Security-Home bank.

All the molders of opinion in the city swung into action when the enormity of the bank crisis became apparent. The editor of the suburban *Sylvania Sentinel* in a rare front page editorial entitled “No Time for Hysteria!” declared, “Our banks our sound, they are safe, they are well governed, so let us all be loyal to our community and to its institutions . . . by keeping calm.” Mayor William T. Jackson issued a statement saying, “I feel that financial conditions do not warrant the scare of yesterday.” But the most authoritative voice in the heavily Catholic city was newly installed bishop, Karl J. Alter, whose first official action was to instruct all parish priests to counsel their parishioners to remain calm and to act in the public interest by keeping their money in the bank. “If the people withdraw their confidences in all their financial institutions,” wrote Alter to his priests, “they will precipitate a condition which means business failures, closed factories, loss of employment and a host of evils such as despair, injustice, hatred and ill-will.” Therefore, Alter explained to his priests, they should instruct their parishioners, “It is a duty at present dictated by justice and charity to be calm and reasonable,” or, in other words, to keep their money in the banks.35

The Better Business Bureau purchased a full-page ad in the *News-Bee* addressed “To the People of Toledo” urging them to “stand fast . . . We advise that you pay no attention to the many unfounded rumors which have been afloat and which without a doubt have caused the unwarranted withdrawal of funds from substantial institutions by a hysterical minority.” In the same issue readers would have seen other advertisements telling them their patriotic and moral duty was to stay home and keep their money in the bank. The Irving B. Hiett company, one of the leading real estate companies that had overbuilt the subdivisions and had burdened the city’s banks with many unpaid loans, paid for an ad that said “Keep Your Money in the Banks . . . It is the safe thing to do. We know that every such going institution is perfectly solvent.” The Toledo Real Estate Board sent open letters to the presidents of each of three banks that suspended withdrawals thanking them for protecting the deposits of the citizens of Toledo. Wilk, Clarke & Co., brokers, paid for an ad that was most to the point, saying simply, “Stop Worrying and Trust Your Bank.”36

For some that week’s crisis was all they could take. Martin Burneth, a 51-year-old unemployed carpenter, waited until his wife left for work and then closed all the windows, put a towel under the kitchen door and unscrewed a cap from an unused gas line on the floor. Mrs. Burneth found his body when she came home that evening. According to Toledo’s mortality statis-
tics, Burneth was not the only person to have been driven to despair around this time. In 1931 there were 43 percent more suicides than the previous year and 35 percent more than the average for the previous five years.\textsuperscript{37}

In an ideal world, the sort of place imagined in business textbooks, when a bank ran short of cash its financial Solomons judiciously sold some assets and used the generated cash to reestablish normal banking. The purpose of a moratorium was to give the bankers breathing room to gain the best prices they could for their notes and equities, rather than having to throw them into a fire sale and suffer a huge loss. Reality, however, is just not so neat, and bankers are men, not philosopher-kings, and the sixty-day withdrawal period was wasted as bankers sold off whatever they could and then withdrew the cash themselves as fast as it came in. Even though there was no immediate pressure to discount their assets and sell them overnight, because the bankers themselves were eager to liquefy bank property so as to rescue their own accounts, deals were made with little regard to the health or profit of the bank as whole.\textsuperscript{38}

The panicked directors of the Ohio Bank heeded neither their fiduciary responsibility nor even the law in their haste to raise ready cash. With nearly two-thirds of the bank’s assets in the form of real estate, mostly lots and mortgages, many of which were second liens and many others near default, the bank could not easily cash out its investments. As it would have been impossible to sell the notes and parcels individually in a short time, the bank’s leaders looked to sell a huge portfolio of notes in one bundle. Large insurance companies were ready buyers for mountains of mortgages, for they had the capital and the long-term investment horizon to wait for these properties to perform.

Ohio Bank found just such a prospect interested in a bundle of their notes, the Metropolitan Life Company of New York, but in order to make the deal they had to rifle through several trust accounts, swapping good mortgages out of these supposedly sealed trusts in exchange for dogs from the bank’s holdings. Apparently this was not enough to seal the deal. Metropolitan Life took full advantage of the fact that the Toledo bankers were laid out on the rack and secured a guarantee that the bank would pay the arrears of interest, principal, and taxes on many of the notes both in the past and for an undisclosed time into the future. Such payments were clearly contrary to state securities laws, as was made clear to the Ohio’s directors by a representative of the Department of Banks. But, as was customary, state officials made no attempt to back up their orders, and Ohio Bank directors made over $300,000 in illegal mortgage payment advances to Metropolitan Life. The cash generated by the sale made possible the millions of dollars of withdrawals made by insiders through the rest of the moratorium period.\textsuperscript{39}
“Smart money” withdrawals hurt the banks in two ways, in the obvious way by drawing down its remaining cash at a time when it was supposed to be building it up, but also by setting the stage for an even bigger bank run at the end. For smart money withdrawals could not be kept secret. Whispers of big smart money deals spread throughout the city as the sixty-day deadline neared. As the public increasingly suspected that the smart money was cashing out, so did the numbers of those determined not to be the sap left holding the bag. As the public’s anxiety level increased, so did the smart money’s judgment that there was little hope for the banks, and so they took more of their own cash out. Insider withdrawals fed public rumors which in turn pushed insiders to withdraw more in a deteriorating spiral that doomed the banks long before the sixty-day holiday ended on Monday, August 17.

When the leaders of the three large banks announced they were suspending withdrawals, they left large loopholes in their policies. None of the banks applied their suspensions to their commercial accounts, allowing most of their corporate and business customers to empty their accounts by check. Nor did they suspend payment on certificates of deposit, which were used by the wealthiest customers to park huge uninvested sums of capital. Trust accounts, stuffed not only with retirees’ pensions but also with real estate companies’ mortgages and remaining cash, were also exempt and open to drain. Every bank also overlooked its own rules and granted numerous exceptions to insiders. Only the Ohio Bank didn’t break its own withdrawal policies, but this was true only because it specifically authorized any director or officer to allow withdrawals in a clause in its minutes withheld from the public.

Smart money withdrawals at the Commerce Guardian bank were so heavy that they exceeded the potential withdrawals scheduled to occur when the bank reopened by several multiples (table 7). During the period of suspension, smart money withdrawals amounted to $5,123,000. At the same time, general depositors filled out withdrawal slips due after August 17 totaling only $1,131,373. Of the forty-two trust accounts held by the bank, all but six were zeroed out before August 17. To pay for these withdrawals, the bank was forced to sell two-thirds of a million dollars in securities and borrow over three million dollars from the Federal Reserve.  

Similarly, the Commercial Bank was a sieve of smart money during the summer suspension. Over two million dollars in commercial accounts fled first; $120,350 in certificates of deposit were cashed. Then another $1,197,208 was withdrawn from regular accounts while the bank was closed to the public. Given that the Commercial had about fifteen million dollars on deposit before the summer began, smart money amounted to over 20 percent of all its deposits.
In order to pay out such a large proportion of its deposits, the Commercial Bank resorted to selling off a huge portion of its real estate portfolio at a steep discount to the Prudential Life Insurance Company. Beginning on June 26, the Commercial transferred twenty-six properties to the Prudential and continued to sell an average of half a dozen properties every business day through the summer. By the time it closed it had sold to the Prudential mortgages worth $974,249, or one-fifth of its entire real estate loan portfolio.42

The smartest money was in the Ohio Bank, whose insider withdrawals exceeded those of all the other banks put together. A staggering $10,334,512 secretly flowed out of the Ohio Bank during the suspension period, roughly half from commercial accounts and CDs and half from regular deposits (table 8). Being the largest commercial bank in northwest Ohio, the Ohio Bank enjoyed the lion’s share of the region’s large corporate accounts. When the banks teetered, large corporations were quick to pull the plug. Electric Auto-Lite, the company founded and owned by the father-in-law of the Ohio Bank’s president, withdrew $865,990. The Willys-Overland Company, whose president was a director of the bank, pulled out $720,122 in July. Owens-Illinois Glass cashed out $230,604. Kroger Foods withdrew $573,881. Ford Motor claimed $99,966, a drop in the ocean compared to its capitalization. The law firm of Tracy, Chapman, and Welles, whose senior partner, Newton Tracy, was a director of the Ohio Bank, closed out its account

**Table 7**
Cumulative deposit losses, Commerce Guardian Bank, June 12–August 15, 1931.

![Graph of cumulative deposit losses](image)

*Source: Toledo Blade, Nov. 25, 1933.*
of $44,036. Newton Tracy’s father, Pratt Tracy, was president of the Air-Way Appliance Company, which walked away with $181,432. In all, local businesses took over three million dollars out of the frozen bank.43

Though no complete listing of all individual withdrawals was ever made public, a few select and incomplete inventories did surface that reveal a glimpse of the connections that made smart money intelligent. There are the expected family connections—Margaret, the wife of John Cummings, an Ohio director emeritus, ten years retired from the bank, had access to her savings of $705.25. Alice and Eleanor Walbridge, wife and daughter of the Ohio Bank director Sinclair Walbridge, salvaged their savings.

There were also courtesies extended to fellow bankers. J. D. Hurlbut and Clifford Whitmore, whose Security-Home bank he helped guide into the dirt two weeks earlier, were allowed to cash out $26,000 and $958.49 from the Ohio, respectively. The Ohio Bank allowed Florence Tiedtke, the wife of Ernest Tiedtke, who was a director of the Toledo Trust bank, to withdraw $4,135.75 on the first day of the suspension. It also gave back $500 to Carrie Pierce, whose husband Lawrence was a director of the Security-Home bank. F. C. Fuller, relative of Rathbun Fuller, who directed Toledo Trust, was loaned $11,275 against his Ohio Bank savings account of $12,452.

It also appears that pulling political wires could yank money out of the bank. On the Friday before the Ohio Bank closed for good, Margaret O’Dwyer,
wife of the head of the county Democrats, Kevin O’Dwyer, was given a loan of $1,500 against her savings account. Robert C. Dunn, past president of the Lucas County Republican Club and later remembered as “one hell of an after-dinner speaker,” put $300 cash in pocket. Most spectacularly, Toledo’s powerful Republican federal judge, John M. Killits, the judge who had crushed the Willys-Overland strike of 1919 with a flurry of restrictive injunctions, was allowed to borrow over $100,000 from the Ohio Bank on one of its suspended days.44

From the fragmentary records that exist it also appears that bankers made allowances for clubs, charities, and service organizations they were affiliated with to rescue their funds. F. A. Fleischman, the assistant treasurer of the Commerce Guardian Bank, signed off on the withdrawal of the Toledo Woman’s Club of $2,145. Commerce Guardian also handed back the $2,000 banked by the Women’s Relief Corp. The bank’s vice-president, G. L. Mills, helped his Rotary Club get its $5,000 back. The Commercial Bank gave back $1,000 to the Toledo Post of the American Legion, $5,500 to the Y.M.C.A., $1,750 to the Jewish Federation, $4,000 to the Toledo Public Health Association, and $1,034 to the Brotherhood of Railroad Trainmen Local 397. The Ohio Bank allowed withdrawals on behalf of the Toledo Catholic Charities ($2,000), the Toledo Firemen’s Pension Fund ($700), and the Toledo Museum of Art ($10,000).45

In those banks where the board resolution suspending withdrawals did not allow exceptions as the Ohio Bank’s did, the preferred method used by insiders to empty their accounts was to make loans to themselves.46 All knew that it was far better to owe a closed bank money than vice versa. Even better, in the event that a bank held both a customer’s loan and a customer’s deposit, the two would likely cancel each other out, making the loan the same thing as a withdrawal. This strategy worked regardless of what collateral was offered to back the loan.

The directors at the Commercial Bank used the suspension period to grant themselves loans of this kind. Director E. H. France would wait a month and then arrange for himself a $30,000 loan backed by 367 shares of his own bankrupt real estate company. Future county prosecutor Reams would also take out a sizable loan, but to his future relief as a politician it was reported that he backed it up with solid A.T. & T. stock. Stanley Roberts, the third largest stockholder in the boardroom, waited a couple days before turning title to a downtown warehouse and a $5,000 certificate of deposit into a $73,000 loan. In late July B. L. Boyer, a mortician, accepted an unsecured loan from his bank of nearly $10,000 for himself and another worth nearly $5,000 for his mortuary. A couple days into the suspension period, U. Denman, whose measly five shares in the bank made him the
smallest investor among the directors, took two unsecured loans for himself worth about a grand and another in partnership with Frank Miller, the manager who cooked the books of the bank’s Ashland-Bancroft branch, for over $3,000.  

Four weeks into the withdrawal suspension period, Commercial Bank director Harold Fraser, one of the leading trial attorneys in the city, arranged loans for himself from his own bank totaling $35,500. As collateral for this cash, Fraser threw a pile of securities at the bank, much of which were worthless. There were hundreds of shares in near-bankrupt real estate companies such as the Second Mortgage Security Company and the City Hall Realty Company. Fraser even had the audacity to include fifty shares of Commerce Guardian Bank stock, though that bank had seized up too. Moreover, by accepting bank stock in a frozen bank as collateral on its loan, the Commercial risked being saddled with the cost of double-liability payments if Fraser defaulted and the Commerce Guardian was liquidated. The only things of value in Fraser’s stack of certificates were five hundred shares of Electric-Auto Lite, amounting to about four-sevenths of the value of the loan. A year later Fraser would lead the defense team representing bankers accused of misappropriation, false reporting, and other crimes.

Two weeks after the Commercial Bank suspended withdrawals to the public, its president, W. H. Yeasting, enclosed a letter to “our family of stockholders” along with their dividend checks. In his letter Yeasting praised the hard work of the bank’s staff and the fortitude and dedication of its officers in that frenzied bank run. So devoted to the institution were they that Yeasting wrote that he did not know “of a single officer or director, or stockholder either, that drew out of his savings account . . .” A month later Yeasting would execute a complicated series of maneuvers whereby the bank purchased government bonds and then swapped them with Yeasting for his cash deposits and trust interests, rescuing over $25,000 of his family’s deposits.

Loans were the preferred method of grabbing cash at the Commerce Guardian bank. That bank accumulated an additional $3,000,000 in “loans” during the sixty-day suspension period. According to one journalist, “The loans which were made to intimate friends of members of the banks were not registered in this bank as assets but were merely offset, in other words the loans were considered lost and covered up because the bank was holding their collateral in the form of nothing more than pass books and certificates of deposit . . .”

However, when the end of the sixty-day period neared, insiders abandoned the more cumbersome method of taking loans in favor of a direct raid on the vault. Toledo Mortgage Company, one of the shell companies owned by Director Zale Reuben’s family, successfully withdrew over
$5,000 from the Commerce Guardian bank on August 3. With less than a week to go until the bank opened withdrawals to the public, $200,000 was being taken out of the Commerce Guardian bank every day, the climax coming on the day before the bank was scheduled to reopen, when $275,929 was withdrawn.\textsuperscript{52}

As the sixty-day suspension deadline approached, state officials searched for a way to avert another panic. By Saturday, August 15, the Commodore Perry Hotel was bursting at the seams with nervous bankers and scrambling accountants. The Ohio Department of Banks booked several floors of rooms to house the sixty examiners and assistants, virtually the entire department staff, brought to Toledo to clean up the mess. Upstairs suites were filled with bankers from New York, Chicago, Detroit, and Cleveland who had come to hear merger offers from the drowning Toledo banks. Other rooms were occupied by country bankers who had rushed to Toledo to salvage what they could of their reserve deposits held by the big banks.\textsuperscript{53}

Again, the best hope of saving the banks lay in a massive merger of all the banks that had imposed withdrawal suspensions. Though pooling their assets would not straighten their balance sheets, a combined bank would give the appearance of strength and perhaps leverage more outside cash. To make the plan work, an infusion of fresh capital was needed to tide the new bank over long enough for confidence to be restored so that the money that smart insiders had squirreled away (by one estimate over fifteen million in cash had been stuffed into bank safe deposit boxes) would be redeposited by them. Over time, with new deposits and a rising proportion of performing loans, the bank’s bad loans could be gradually charged off the books. The sum of twenty million was what the accountants and consultants concluded was needed to effect the plan, and a syndicate of out-of-state investors were ready to buy in to the merger provided they could be reassured that there was sufficient local support and leadership to see the merger through to success.

No transcripts or records remain of the Commodore Perry conference. No reporters were admitted into the conference rooms where men, some desperate, some angling for a bargain, some needing to be convinced, argued across a paper-strewn table. What was widely known was that the deal hinged on two men whose mutual enmity had grown over more than a decade of personal rivalry. No deal could go through without the cooperation of George Jones, the primary stockholder and president of the Ohio Bank, and Henry Thompson, the president of the Toledo Trust, the largest bank still operating in the city.

According to one report in \textit{The Nation}, the bad blood between Jones and Thompson originated in Jones’s success at locking Thompson out of the
subdivision realty market in the 1920s and deepened when the two men fought for control of the Willys-Overland Company after John N. Willys decided to sell out and retire in 1929. In their struggle for ownership of the largest company in northwest Ohio, the two resorted to both legitimate and underhanded tactics. According to one account, “deals were made and unmade, reputations were blackened . . . and the wounds of that battle were never allowed to heal.” Though Jones offered to purchase four and one-half million dollars of stock in the new combined bank and Thompson pledged one and one-half million, they could not easily agree on the details of the merger. Business Week reported that the big city bankers were dismayed to find “a feeling verging upon bitterness” between these two captains of Toledo industry and quietly pulled out of the deal because of this “lack of cooperative spirit.”

By eight o’clock in the evening, after the big city bankers pulled out, Superintendent of Banks Ira Fulton met with the heads of Toledo’s largest banks and had no more hope to share. With no merger prospects, no outside infusion of cash, and little cash on hand, all three of the four largest banks in the city, the Ohio Savings Bank, the Commerce Guardian Bank, and the Commercial Bank, were closed and turned over to Fulton’s department for liquidation. After the meeting broke up, the city’s authorities were alerted to expect trouble.

As soon as he was told that the big banks were not going to open the next morning, Mayor Jackson ordered a full mobilization of the city’s forces. Police chief Louis Haas quickly recalled all the men on vacation and ordered every detective, cop, and desk jockey on the force, night and day shift, to be on duty in the morning. Mayor Jackson called Colonel Gilson Light, commander of the 148th Infantry Brigade of the Ohio National Guard, and discussed contingency plans for a military mobilization to protect the downtown banks from looters.

Early on the morning of the sixtieth day, Monday, August 17, crowds began to form in the financial district. The police roped off streets in several directions, turning the once busiest corner of the downtown over to the jostling crowd. At the usual banking hour of nine o’clock those closest to the bank doors saw the notices hung on the lobby doors—the banks were not going to open. According to the Polish-language newspaper, “the news hit people like a lightning bolt from a clear sky.”

The police presence was heavy enough to keep the leaderless mass from rioting. Downtown there were three officers posted to every intersection. Every closed bank had more police stationed inside the building. The only protest recorded that day was one angry depositor who picked up a bottle and threw it through the glass door of a branch of the Ohio Bank located
in the heart of Polonia, at Central and Lagrange. Even the few “communist agitators” spotted in the crowd by an alert reporter were unusually quiet, and simply talked among themselves and watched the throngs pass by.  

At the end of the block, Toledo Trust, the only large bank that hadn’t suspended withdrawals for the previous two months, opened unusually early. Henry Thompson had heard the night before that his rivals had decided not to open, and he recognized opportunity in the midst of disaster. Thompson, long frustrated by his competitors who had locked him out of the booming mortgage business, now saw his chance to build Toledo Trust into the preeminent Toledo bank. All he needed to do was to hold out against another day’s storm of withdrawals and he would cement the confidence of his depositors. Even more importantly, he knew that as the failed banks were liquidated or consolidated by the state Banking Department, their remaining cash would be transferred to any remaining banks in the city and, in spite of their overall insolvency, there were still millions of dollars at stake.

Besides opening his bank early in a bold expression of confidence, Thompson relied on the feds for backup. As the largest member bank of the Federal Reserve in Toledo, run by a banker politically well connected to the Hoover administration, Toledo Trust’s plea for help rang the fire bells at the Federal Reserve in Cleveland. That morning two armored cars roared out from Cleveland loaded with $11 million in cash and sped down state Highway 20. About a mile out of Fremont, in its haste the lead truck smashed into a sedan driven by Mrs. H. Banaszak of Milwaukee, breaking her foot and giving her passenger, Irene Czechorska, some nasty bruises on her head. As a crowd of onlookers and rubberneckers gathered, some of the guards brandished tommy guns while others began transferring heavy sacks of currency from the wrecked van to another.

An hour later the line of people stretching out from the bank on Summit Street parted to let the armored car through. The exhausted guards began carrying the locked sacks to the vault but were stopped by a bank manager who had come up with a novel idea. He directed the guards to unload the stacks of bills in the tellers’ cages, where all the people in line could see the great hoard of dollars. The trick seemed to work, and as the day progressed the line dwindled, some deciding at the last minute not to withdraw their savings, and by four in the afternoon, an hour before closing, business was about back to normal. Toledo Trust would emerge from this crisis as Toledo’s largest and fastest growing bank.

Though it seemed impossible to find any optimism in the week’s events, the Chamber of Commerce issued a public letter urging businessmen to “keep a level-headed attitude” towards the city’s banks. The letter tried to strike a positive note, saying, “The basic factors that have built up Toledo
industries in the past are, of course, still here . . .” Perhaps more than a few
wags noted that this letter was signed by the chairman of the Chamber’s
industrial committee, Adam R. Kuhlman, a man who was also a director of
the failed Security-Home Bank.62

Others panicked, however. J. M. Wilson, the director of the Ohio Bank
branch at Dorr and Collingwood, was nowhere to be found on August 15
when the Ohio Bank closed for good. Along with Wilson, a sum of ten grand
or more was missing and it was rumored that he had fled to Canada with
the loot.63

Toledo’s bank crisis attracted the attention of the nation’s largest press
outlets. Time magazine called it “as grave a financial crisis as could possi-
ably overtake a large U.S. industrial community.” Business Week compared
Toledo’s situation to that summer’s collapse of German banks, “Toledo, O.,
has been furnishing a clinic on how Americans behave under conditions they
had been reading about in Germany.”64

Toledo’s banking collapse shook the financial markets of the entire nation.
According to Barron’s financial magazine, it was news of Toledo’s closings
that “disturb[ed] the delicate balance of a highly professional market.” While
the market had suffered from some “speculative uneasiness” after the Chicago
banking problems earlier in the summer, such feelings “immediately
became general” after Toledo’s spectacular failures. Word of Toledo’s bank
collapse sparked a broad sell-off on Wall Street after a rare week of steady
gains. That August one economist observed a “large upswing” in the amount
of money in circulation as unnerved depositors chose the mattress over the
vault, a circumstance he attributed to “banking difficulties in Toledo.”65

With over $100 million frozen behind the locked doors, the city of Toledo
was suddenly plunged backward in time, back to a barter economy.
Thousands of businesses without any liquid assets and tens of thousands
of citizens were left without the savings which they needed to get them through
stretches of unemployment, sickness, and old age. Local industries, whose
cash was tied up in the shuttered banks, were often unable to pay their sup-
pliers or honor their contracts. The financial disruption was passed down
the business food chain until businesses far away from Toledo felt the pinch.

Banks are legally required to deposit a large proportion of their cash reserves
in other banks, and for convenience and by custom most maintain those
reserves in neighboring banks. As a consequence, when the giant banks of
Toledo plunged over the precipice, they dragged down with them all the
eleven building and loan companies in Lucas County and over a dozen small
town banks that held the savings of hard-pressed farmers for a hundred miles
in every direction. The more than $100 million in frozen assets in the city’s
banks were now joined by nearly $50 million held by the city’s building and
loans. Though the impact of Toledo’s bank disaster extended for hundreds of miles, people in Toledo were not always aware of these ripple effects. News of the death of an official of the recently closed National Bank of Defiance did not go far beyond the small town newspapers, especially as police ruled that his death, alone in his garage with his automobile running, was an accident.66

Among the smaller banks crushed by the weight of the toppled giants was the American Bank, an unusual bank founded by Toledo’s labor unions in the early 1920s. Led by the Toledo’s glass workers union, the American Bank gave Toledo’s unions control over their own assets, and the dues of most of Toledo’s working men and women were pooled there.

In the spring of 1931 at the same time that the larger banks in Toledo were voting large dividends, salaries, and loans to their officers, the union members, who viewed the American Bank not as a business proposition but as a tool of their labor movement, rushed to shore up its condition. To make up for the securities in the bank’s portfolio that had sunk in value, the American Flint Glass Workers Union purchased them at their full book value of $157,830. The bank’s president, William P. Clarke, reduced his salary to zero. When the large banks imposed sixty-day withdrawal restrictions in June, American followed suit, though few of its depositors clamored to withdraw their money. On August 15, the American needed to pay out only $1,667.36 to meet that day’s requests.67

State banking law required the American Bank to deposit the bulk of its cash reserve in the larger banks in the city. American Bank possessed $143,944.70 in cash, more than 10 percent above the legal minimum, but could only keep $14,558.88 in its own vault. A larger sum, $18,227.64, sat in the basement of the Commercial Bank, and an even larger chunk, $77,864.59, was locked up in the Ohio Bank, only three blocks away but far beyond their reach. Another $21,990.62 was held by a correspondent bank in New York City. When the day of reckoning came for Toledo, the American Bank, one of the few banks in the city that had more cash on its balance sheet than necessary, closed simply because it couldn’t get its own money out of the larger banks.

When the American Bank failed, nearly all of the unions in the city, who had loyally deposited all of their funds in the labor bank, were suddenly bankrupt. The president of the Stationary Firemen’s Local wrote, “Our funds are all tied up in the American Bank but one consolation is that there are thousands in worse shape than we are.” Among those worse off than the firemen were the glass workers, whose union had chartered the American bank. Toledo’s glass workers had their wages garnished to pay the American Bank’s double liability as, technically, they were the shareholders.68
With their treasuries frozen in a failed bank, Toledo’s unions struggled to continue their routine activities but found themselves confronted by the extraordinary situation of employers who responded to the city’s economic crisis by declaring huge wage cuts. The Bentley Construction Company led the way by announcing a cut in the wages of bricklayers working on a new wing of the Toledo Art Museum from $1.50 per hour to just $1 per hour. This was doubly galling as James Bentley, in addition to being a partner in Bentley Construction, was a director of the Commerce Guardian Bank. The editor of Toledo’s labor weekly fumed that “The eminently respectable people who, through control of industry or business employ workers, take advantage of the misery of their workers at such a time as this to lower wages are a hundred fold more dangerous to society than all of the bootlegging and hi-jacking racketeers that can possibly evade the law . . .” But with unemployment spiraling upwards 25 percent between May and October, workers could do little except talk tough but toothlessly about waging “warfare” against wage-cutters that “will be started at once and carried on to the bitter end . . .” From 1930 to 1932 the average annual wage among building trades workers fell from $1,616 to $955.

The bank failures struck a coup de grace to the city’s budget. Beyond the $1,350,000 of city funds that were directly frozen, the city also suffered as tax collections plunged in the wake of the bank crash by 15 percent, or another $1,100,000. By badly tainting anything having to do with Toledo, the bank failures made it nearly impossible for the city to market its usual volume of municipal bonds, leaving some $1,846,062 of them unsold.

While all departments of the city government felt the hit, the worst affected was the one most needed. The city’s relief committee had just issued $289,000 in bonds to pay for the burgeoning food program that provided groceries to thousands of unemployed workers each week. Just as the schools opened in September the board announced that the school year would be cut by four weeks and the salaries of teachers were slashed by 10 percent and most of the city’s school nurses were dismissed.

While there are no complete and reliable unemployment statistics for the city in these years, there are many indicators of how deeply the job axe fell after the bank crash. Between May and October of 1931, between the days when the city’s banks were still all open and after the long collapse of the summer was complete, the fifty-one leading industries in Toledo laid off 5,243 workers, or 26 percent of their total workforce. As it was estimated at the time that these fifty-one companies represented 40 percent of all workers, the total number of people who lost their jobs during the bank crisis is probably closer to twelve or thirteen thousand out of a total workforce of approximately sixty-four thousand. This estimate is close to the Ohio
Industrial Commission’s figures that calculated overall employment dropping by 10,884 from 1930 to the end of 1931, the largest single decrease for any year of the 1930s. This is also near to the total of 14,800 men and women who were eventually employed by the Works Progress Administration in Toledo at the peak of that program in 1936, when it was the city’s largest employer.72

As the grim city prepared for winter, the private desperation of many Toledo families broke into view. Families too proud to ask for help scavenged in the parks and open lots and gleaned the fields at the edge of the city. One man brought home a bag of mushrooms to feed his hungry family, and before morning four of them were dead and two others lay critically poisoned in the charity ward of the hospital. The squatter’s camp expanded along the banks of the Maumee River, less than a quarter mile from shiny new downtown banks. Just as the snows began to fall, the police descended on the camp and forcibly drove off its residents, then set fire to the shanties that had just been strengthened against the cold. In October the annual charity fund drive for the relief of unemployment was cancelled because, as the city’s welfare director admitted, it would be futile because likely donors “have been struck so hard by the bank failures we could expect no help from them.” With but a few weeks to go before Christmas, the Salvation Army reported that its bell-ringers had brought in only eighty-six dollars, the lowest total ever in the Army’s thirty-nine year history.73

Five weeks had passed since the banks’ final collapse when President Herbert Hoover stepped from a train at Toledo’s Union Depot and gave a short speech to a sparse crowd in front of the station. As he finished and walked back towards the platform, Hoover turned to one of the local politicians flanking him and asked, “How are banking conditions in Toledo now?” He walked back to his train silently after receiving his grim answer. Within a fortnight Hoover announced his first major initiative, the National Credit Corporation, a voluntary program whereby stronger banks would make more funds available to help weaker ones. Undoubtedly, Toledo’s dire example played some part in spurring the administration to take the banking situation more seriously.74