

Colorado's new treasurer looks at banking system

By Sam Brown

Banks, as Martin Mayer notes in his book, "The Bankers," are the source of decisions which "determine who will succeed and who will fail." A great deal of the health of the economy and of the polity hinges on how well these functions are performed.

Legislation dealing with banks and bank holding companies currently pending in the Colorado General Assembly will bear critically on the size, nature and responsiveness of the institutions which are charged with the responsibility to decide "who will succeed and who will fail."

In analyzing the need for this legislation we ought to look at the nature of the decision-making structure which now makes these decisions for us in Colorado, i.e., the structure of the current banking system.

Second, we ought to look at the standards of service to the public to which they should be held, and, finally, we ought to look at the best ways to insure that these standards are met.

I do not believe that the public good will inevitably be served better by structural changes. However, the structural changes which I will suggest may bring us closer to a situation in which the public can have greater influence on the way it is served by the banking industry.

The five largest bank holding companies in Colorado now control approximately 58.5 per cent of the state's total deposits. This makes it easy to look at the way in which the majority of life and death economic decisions are made in Colorado, by looking at these five large holding companies.

In each holding company the policy for affiliate banks is theoretically set by the boards of those banks.

Philosophically, the Colorado banks have different views of their relationship. At one end is a small chain bank, Westland Banks, which candidly put the people from the central board on each board of the banks in the chain. On the other end are Colorado National Bankshares and United Banks of Colorado, which insist that they buy local talent and use a local board in each acquisition. All of them, however, know two things:

—The members of the board of the affiliate bank do not hold controlling interest in the bank. The control is held by the holding company, which, in turn, has its own board which may or may not have affiliate representation. No prudent person in the holding company would so distribute final judgments which reflect the earnings of a corporation as to give the affiliate bank complete autonomy.

—The affiliate bank is serviced by the holding company before it services correspondent banks. As a local holding company official said to me, "You take care of the consolidated statement first." This means that money flows to the city during tight times. It also means that the traditional city-country bank relationship is wounded when correspondent banks cannot get service.

Farmers have repeatedly told me that their local banks are unable to make farm loans because the city banks aren't participating. Country bankers confirm this.

Nonetheless, each affiliate does have a board, and assuming for the moment that the holding company which owns a bank does not control it and that it operates in the community in which it is located (a set of unlikely assumptions), it is interesting to know who these people are who control the huge holding companies and their subsidiaries.

At the First National Bancorporation — the

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state's largest holding company — 138 people sit on the various boards, according to the most recent edition of the Bank Directory. One is a woman, Audrey Meadows Six, and one is a Chicano. While it is not entirely possible to determine race or national origin from a list of names, Jews, East Europeans and Italians appear to be few and far between.

Similar patterns hold at the other giant holding companies. Some do a little better with women and minorities (United Banks has two women directors and two Chicanos in affiliate banks out of a total of 157 directors), and some

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holding companies do worse. Colorado National Bank is zero for 95, and Affiliated Bankshares of Colorado is zero for 247. The D.H. Baldwin Co. of Cincinnati, which owns several banks in the state, including the Central Bank & Trust Co. in Denver, has a woman director in a Greeley bank and a Chicano in Rocky Ford, for a total of two out of 105 directors.

None of the big five has a woman or a Chicano on the board of the holding company. In short, decisions about the economic future of a majority of Coloradans are being made by a small elite totally unrepresentative of the people whose futures they decide.

Reducing the stranglehold of this clique will not necessarily lead to better decisions, but it would at least spread decision-making authority around a little more.

It is impossible to assess some aspects of the impact of the current situation. We cannot know, for example, where loans are made (by geographic location of the borrower), rates of interest charged for various kinds of loans, or the direction of money flow (rural to city or vice versa).

Consequently, until adequate disclosure is required by law, we cannot know exactly who is being served. But we can know that an extremely small, socially homogeneous, Denver-based group of men decide the economic futures of most of the rest of the people in the state.

But, it is argued, we need to provide additional banking services to the people of the state, and this is possible only through expansion of holding companies or through some form of branch banking.

The experience of the last year — one of the worst years for a new bank — denies this. Eight new banks were opened, six of them independent, and 21 charters were granted — 16 for state banks, including 13 independents and three holding company banks, and five for national banks, four of which belong to holding companies and one of which is independent. This is a growth of nearly 8 per cent in the total number of banks in the state, opened or chartered.

There are areas of the state which are underbanked, but permission to grow will not assure banking in the poorest areas of the state. It will simply permit the already big to get bigger. It could also force uniformity of interest rates with unitary money markets, as in California and North Carolina.

Our public officials should be most concerned with the public interest. Today, we are faced to some extent with large conflicting private interests to be reconciled.

Legislation limiting the size of bank holding companies will not resolve many of the problems of the banking system which demand our attention. It will neither assure nor deny service to the currently under-served. It will not assure access to the banking structure for women and minorities. It will not break the monopoly which some small town bankers now exploit to the detriment of their communities.

These issues will only be resolved when we have a banking structure which truly is competitive with institutions of comparable size competing for their consumers.

The only way to move toward such a structure is to take a step now to reverse the trend toward domination of the state's financial future by a few oversized institutions far removed from the people they serve.

In summary, it is my strong sense that a system close enough to a community to see its problems and understand its needs, related as a correspondent bank to a city bank, strong enough to assure its overlines, and committed to correspondents, not affiliates, best serves the public interest, and any move in that direction is a healthy one.

The recent statements of the First National Bancorporation and United Banks of Colorado show record profit levels. When the market can be dominated by three to five huge banks, we all pay for their record profits.

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