



A painting by Jose Vives-Atsara of San Antonio's Main Plaza in 1868 still hangs in the lobby of the Frost Bank in downtown San Antonio. The original Frost building is shown next to San Fernando Cathedral, the oldest operating cathedral in the United States.

A Profitable Century of Prudence

*Survival is a skill
some banks have honed
through many cycles*

By Gregory DL Morris



(Left) The middle building is the Hopland, CA, branch of the Savings Bank of Mendocino County. The larger building to the left is a hotel that was connected to the train station behind it. The train and the station are gone, but the smaller building to the right of the bank was the coach house from when the stage was the only commercial transport and the highway in front was just a wagon trail. (Above) A close-up of the bank.

MERE MONTHS AFTER the end of the Civil War in 1865, Francis Reid Long came to Kansas City with \$10,000 capital and started a bank, the Kansas City Savings Association above the Magnolia Saloon.

Three years later, and in local terms just 32 years after the fall of the Alamo, Colonel T.C. Frost opened a mercantile store in downtown San Antonio with his brother, selling goods to ranchers and farmers and operating a private bank to extend credit to his customers.

Those two institutions, as well as the Savings Bank of Mendocino County, California, founded in 1903, are among a select group of banks: all more than a century old having survived many panics and crises, while continuing to serve their communities. Their prudent management enabled them to do without any assistance from the Troubled Asset Relief Program (TARP) to survive the most recent recession.

Although the history and heritage of the three banks is different, there are common themes: close relationships between lenders and borrowers, capital reserves in excess of requirements, and continuity of management. At a time when the number of small banks being closed by regulators continues to grow, and when the largest

institutions are vilified as “zombie banks” it is important that at least a few banks prove that being responsible is both profitable and sustainable.

In Kansas City, the bank over the saloon prospered. By 1878, capital was \$50,000 and deposits were \$250,000. In 1881, W.S. Woods became president of the bank. He felt the name should reflect involvement with business. So in 1882, the bank was re-chartered under the name National Bank of Commerce. By 1890 it was the largest bank west of Chicago with deposits of \$36 million. In 1904, Arthur Eisenhower, brother of Dwight, started work at the bank as a messenger boy. His roommate, Harry Truman, was also employed by the bank.

In 1921, Commerce created a Women’s Department to help women gain a clearer understanding of banking. Commerce was also the first Kansas City bank to promote women to high-level banking positions, and Emma Hall, who became an authority on government bonds, was named assistant vice president in 1945. Her career with Commerce spanned 31 years.

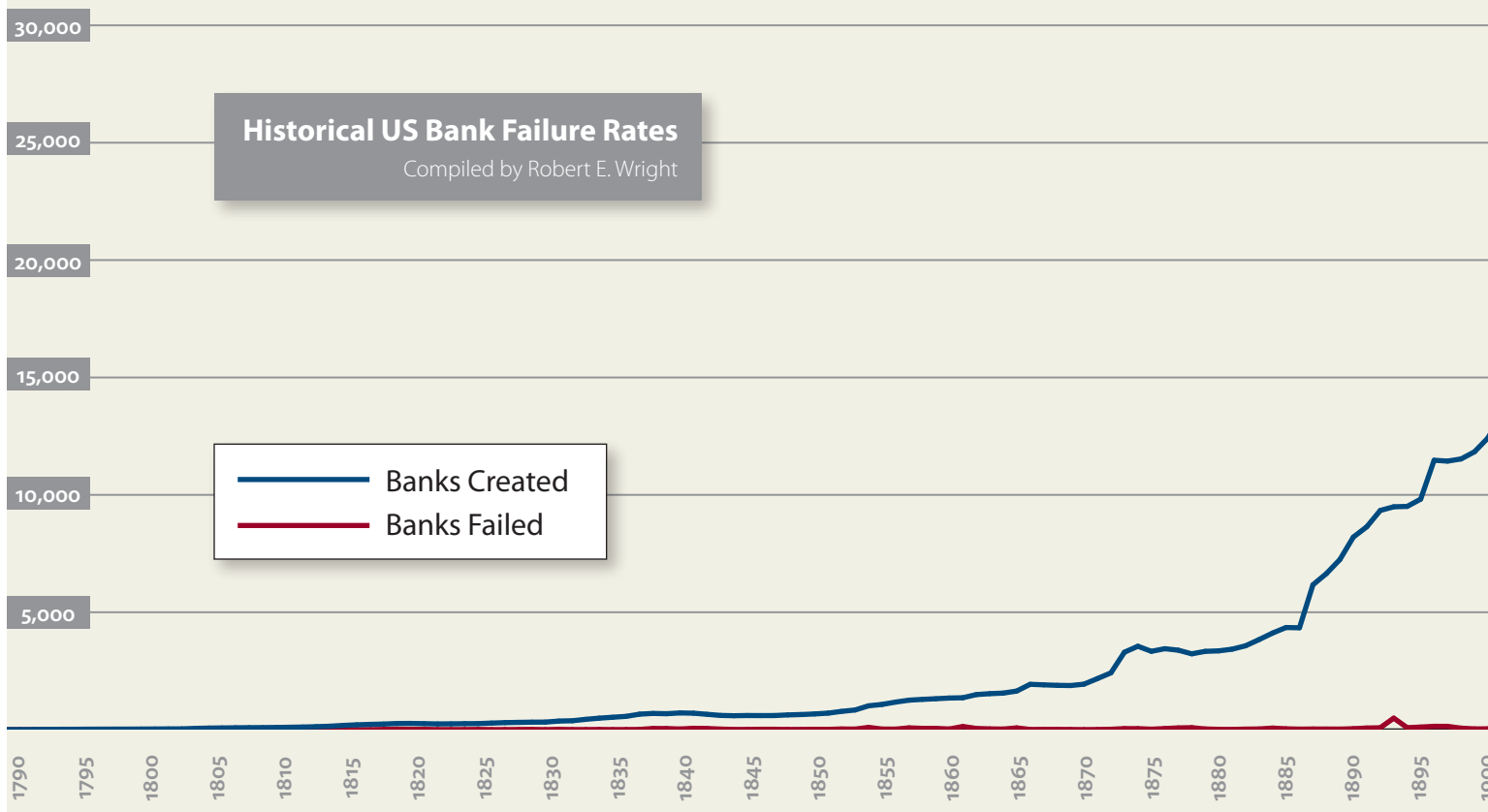
In 1928 Commerce began the first 24-hour transit department in the country. The correspondent services allowed banks in smaller communities to turn to

the bigger bank for assistance in making large business loans or providing other special services to their customers. The service grew and by the early 1930s, the bank had more correspondent customers than all but a few banks in the country.

“Kansas City was the nation’s second largest rail center, and was a huge hub where the railroads from the southwest all came together,” says Jonathan M. Kemper, vice chairman of Commerce Bancshares and chairman of Commerce Bank for the Kansas City Region. “Paper was coming in from all over, so we established a clearing and transit operation at the railroad station.”

The Kemper family has a four-generation association with the bank, starting in 1906 when Woods appointed William T. Kemper as president of Commerce Trust. His son James M. succeeded him as bank president in 1922 at age 31. In 1955 James Kemper Jr. was elected president. He became chairman and president in 1964. In 1982, David W., son of James, Jr. and brother of Jonathan, was elected president and chief operating officer.

That continuity is one of the keys to success for the bank. “For many years we had the highest ratio of inside ownership



Between 1790 and 2010, an average of a little more than one out of every 100 US banks were bankrupted each year. This chart shows, however, that most years were not average. In many years, a trivial number of banks failed but in other, thankfully rare years, the nation lost on the order of 10% of its banks. Most failed banks were small, but in 2008 an unprecedented number of very large banks had to be closed or folded into other, more viable institutions.

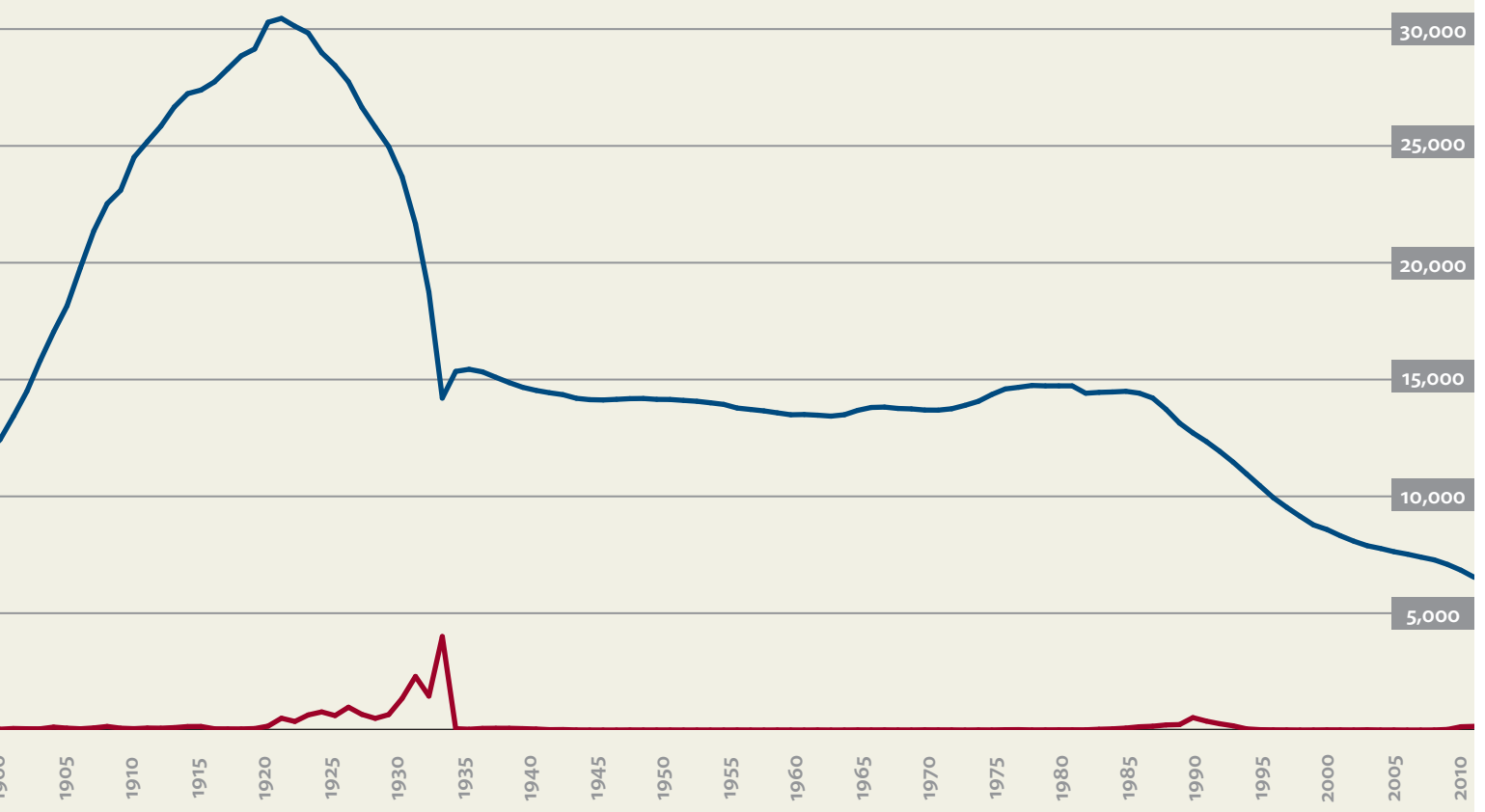
of the largest 50 banks in the country,” says Jonathan Kemper. “We are still very high on that list. Both my brother and I are heavily invested in the bank, and we identify as much with our shareholders as we do with our management.”

In some cases family succession can lead to ossification, but it has done just the opposite for Commerce. “We are proud of our history at the bank, but we stress that it is a history of innovation and opportunity,” says Jonathan Kemper. “Dr. Woods

was an innovator, very entrepreneurial moving out from Kansas City to the hinterlands. Another big innovation came on Dad’s watch. He recognized the growth of retail banking. We already served many of the granger banks through our clearing



T.C. Frost draft from 1885.



SOURCES: Historical Statistics of the US, Cj251, *Banking and Monetary Statistics, 1914–1941* (Fraser, 283). Annual Report of the Federal Deposit Insurance Corporation for the Year Ending December 31, 1934 (Washington, DC: FDIC, 1935), 92–93. Federal Deposit Insurance Corporation, Failures and Assistance Transactions, Number of Institutions, 1934–2010, FDIC Historical Statistics on Banking Federal Deposit Insurance Corporation, Number of Institutions, Branches and Total Offices. “Count of Banks by State—Daily,” by Warren E. Weber, FRBMN Warren Weber, “Early State Banks in the United States: How Many Were There and When Did They Exist?” Working Paper (December 2005) Grossman, Richard. “US Banking History, Civil War to World War II.” EH.Net Encyclopedia, edited by Robert Whaples. March 16, 2008. URL <http://eh.net/encyclopedia/article/grossman.banking.history.us.civil.war.wviii>. James A. Haxby, *Standard Catalog of Obsolete Bank Notes, 1782–1866* (Iola, WI: Krause Publications, 1988).

system. When the bank holding company laws were changed, we became one of the largest in Missouri acquiring those. When interstate banking was allowed, we became the largest bank in Kansas.”

In 1967 Commerce Bancshares became a registered bank holding company with the ability to acquire Missouri banks as affiliates—the first bank in Missouri to organize on a multi-bank basis. In 1970, total consolidated assets broke the billion-dollar barrier.

Missouri is the only state with two Federal Reserve banks, and not a little rivalry between the two principal cities of the state. In 1983 Commerce bridged the divide and entered the St. Louis market in a big way through the acquisition of County Tower Corp. That made Commerce the largest institution in the state in terms of banking offices with 111; and third largest in deposits, assets and loans.

The following year Commerce introduced another connection—“Special Connections,” the first card having the combined features of a credit card and an automated-teller-machine transaction

card. “Consumer credit was never a separate operation as it was at other institutions,” says Jonathan Kemper. “It was always tied back to the branches and integrated with all the other operations. But we resisted the temptation to send credit cards out to Florida and Las Vegas. As a result, our credit card losses are literally half the national average.” The credit card business is being developed into more comprehensive corporate accounts-payable services.

The corporate mantra at Commerce is, “be accessible, offer solutions, build relationships.” That resonates closely with the watchwords at Frost: “identifying problems early, staying close to customers, continuing to build business.” Both sets of ideas stand in stark contrast to the well-documented troubles at the banks that had to take TARP money.

But then, maybe survival begets survival. “Of the 10 largest banks in Texas at the time, we were the only ones to survive the recessions of the 1980s,” says Dick Evans, chairman and CEO of Frost. That triple threat—a bust in land and oil prices as well as the savings-and-loan

fiasco—was even worse than the most recent recession, he adds.

“We have always tried to protect depositors and liquidity, and conduct prudent lending,” Evans recalls, “but it was a very difficult, very humbling time. With \$150 million in capital we had to charge off \$400 million in loans by the time it was all over. We dug ourselves out one shovel at a time.”

He stresses that growth and prosperity require “mutual respect and long-term relationships. It takes both the borrower and the lender working together to get out of the ditch.” Again that guiding principle stands in stark contrast to the bank practices at other institutions that created toxic assets.

“Eleven years ago we got out of the residential mortgage business because we saw that it had become a commodity and not a relationship,” says Evans. “That move was questioned at every level, but our depositors and our managers and our investors understand our business. We have never been confused as to what performance means to this bank.”



First home of the Kansas City Savings Association, forerunner of Commerce Bank, over the Magnolia Saloon.

That said, Evans adds, “there are great opportunities in every economic cycle. Having learned the lessons of the ’80s, we were the first public company to say ‘thanks but no thanks’ to TARP. Instead of taking bailout money, we got out there to prospect. We knew that there would be tremendous opportunities for deposit growth in the recession.”

And so it has been for Frost from the start. The nation’s bloodiest trial, the Civil

War, was over less than three years when Colonel Frost opened his shop. Texas was in the grip of a drought and still two years from being readmitted to the Union, the last of the former Confederate states to do so. In contrast, Texas was well ahead in economic recovery. The land and cattle and rail booms were building; the transcontinental railroad would be completed the next year.

Frost had many careers in his lifetime: a Latin instructor, a Confederate army

officer, a lawyer, a Texas Ranger, a postmaster, an auctioneer, the owner of a general store and finally, a banker. Joseph Hardin Frost, known as “Mr. Joe” and second son of Colonel Frost, steered the bank through the Depression and World War II. He was named chairman of the board in 1948.

When the Federal Reserve System was established, Frost National Bank was a founding member of the Reserve Bank of



Progressive banking at Commerce, 1920s style.



The main entrance to the home office of Savings Bank of Mendocino County, in Ukiah, CA. The columns are from the original headquarters, since replaced by a modernist structure.

Dallas in 1914. During the Great Depression, Frost experienced a heavy withdrawal of funds, but because of its sound assets and liquidity, Frost survived and became the largest bank in San Antonio.

Regional growth was succeeded by state-wide growth. On 7/7/77, Frost merged

with Houston-based Cullen Bankers to form Cullen/Frost Bankers, Inc., creating the eighth largest holding company in the state at the time. The company began trading on the NASDAQ. Acquisition was one of the few avenues open to growth because branch banking was not passed by the Texas legislature until 1986. Evans, chairman of Cullen/Frost Bankers, was named chief executive officer in 1997, the first non-Frost family member to hold that position. That same year the institution shifted its listing to the NYSE.

At only 108 years old, the Savings Bank of Mendocino County (SBMC), based in Ukiah, is younger than the other two, and is also different in that it is privately held. But many of the guiding principles that have sustained the other two larger institutions also carry on in the hills and canyons of north-central California.

Charles Mannon, chairman of the board, is a second-generation Ukiahn who went away to law school but came back to practice; he had worked summers in the bank, but did not intend it to be his career. Yet, he has been with the institution for 35 years.

The region, about 50 miles inland from the ocean, has always been agricultural. Today that is most notably wine, but Mannon remembers picking hops in his youth.

The hop flower crop gave way to orchard fruits over time and eventually to viticulture. Lumber was also a major business, and some of that remains today.

Mendocino County is far enough from San Francisco that it has not been battered by the worst of the real estate volatility, but the bank has always taken a prudent approach to deposits and lending.

“We always make sure we have more than enough capital,” says Mannon. “As one of our former chairmen liked to say, ‘lack of profitability is painful, but lack of liquidity is terminal.’”

Which is not to say that the bank was unscathed by the recent recession. “Our CFO had people come in and try to sell us derivatives and such. But we don’t buy anything we don’t understand. I was always skeptical of housing from the start. We never looked at homes as investments.”

Floyd Ross, executive vice president, notes that the bank continues to make residential loans, and even sells some into the secondary market, but SBMC retains the loan service to keep the connection to the community. Ross has been with the bank for 62 years.

In the mid to late '40s William Chessall, the principal of the local high school, was also chairman » *continued on page 72*

A Profitable Century of Prudence

continued from page 19

of the board of the bank. He instituted a program where students would work part time at the bank. “My father, a blacksmith, was also an early depositor at the bank,” says Ross. “I started in 1949 in bookkeeping. We handled a lot of paper checks. I also ran a lot of errands, including hand delivering statements to customers.”

Echoing the familiar theme of mutual support, Ross recalls that he heard first-

hand from people in the community and at the bank that they all got through the Great Depression together. “If it had not been for the bank supporting the community, the whole area would have been devastated. That reciprocity continues to this day. We have been able to support each other even during the current fiscal crisis in the state.” \$

Gregory DL Morris is an independent business journalist based in New York. He is principal and editorial director of Enterprise & Industry Historical Research, and is an active member of the Museum’s editorial board. He can be contacted at gdlm@enterpriseandindustry.com.

The Most Notable Figures in Fund History

continued from page 59

Under Ned Johnson’s leadership, Fidelity has become one of the largest fund families in the nation and has been a constant innovator, both in the fund industry and financial services generally. In the mutual fund area, Fidelity led the industry’s movement from distribution through broker-dealers to direct marketing; was one of the first fund families to enter the 401(k) market; and introduced a host of new products and services including check-writing on money market funds, tax-exempt money funds and sector funds that utilize hourly pricing. In the broader world of financial services, Fidelity introduced discount brokerage services and walk-in investor centers.

Fidelity has repeatedly transformed itself—from a traditional load fund group distributing fund shares through broker-dealers, to a no-load giant, to a broader service firm. Fidelity has been a training ground for all types of fund personnel, and the company has experts in every area of fund activity. The mutual fund industry is filled with executives who received their start and their training under Ned Johnson at Fidelity.

For these reasons, he is arguably the most important figure in modern fund history.

**Paul G. Haaga, Jr.,
John J. Brennan, Terry K. Glenn
and James S. Riepe**

**Defending the
Mutual Fund Industry**

From the time of the Investment Company Act in 1940, fund managers generally acquitted themselves well in serving fund

shareholders. However, in 2003, due to the efforts of New York Attorney General Elliot Spitzer, it came to light that a number of fund groups had entered into arrangements with speculators, permitting them to trade fund shares in violation of stated policies. Speculators’ gains came at the expense of other shareholders.

These revelations could not have come at a worse time for the fund industry. Many investors had lost substantial sums in the 2000–2003 bear market and were angry. The bear market had been followed by revelations of major corporate and accounting scandals, resulting in enactment of the Sarbanes-Oxley Act. Many saw mutual funds as the next area in need of reform. The Securities and Exchange Commission, the regulator of the fund industry, had been weakened by Spitzer’s upstaging of the agency in connection with Wall Street research analysts. He now blamed the SEC for not detecting and thwarting the fund trading abuses.

Three Congressional committees held hearings on the abuses. Industry critics testified in favor of extreme measures, such as requiring fund boards to put advisory contracts out to bid, requiring fund contracts to be cost-plus, requiring funds to internalize management when they reach a certain size, prohibiting funds from imposing new fees (and thus introducing new services) without prior SEC approval and prohibiting funds from advertising their past performance. Adoption of these measures would have homogenized, commoditized and dumbed down funds, to the great

detriment of fund shareholders. Nevertheless, the press predicted that Congress would enact tough legislation.

Fortunately, the chairman of the Investment Company Institute was Paul Haaga, who was experienced, well-respected and tough. He had attended Princeton, obtained business and law degrees from the University of Pennsylvania and worked at the SEC and a law firm before joining the Capital Group in 1985.

Haaga led the industry in calling for strict enforcement of the law including criminal penalties, payment of full restitution to injured shareholders, and adoption of new SEC rules to combat illegal trading and other abuses. Haaga kept the industry united in favor of this program. He was assisted by the three prior Institute chairmen: Jack Brennan, Terry Glenn and Jim Riepe. The SEC acted swiftly and decisively. As a result of Haaga’s leadership and the SEC’s work, Congress determined not to enact punitive legislation that would have harmed the industry and fund shareholders. \$

*Matthew P. Fink is the author of the first history of mutual funds, *The Rise of Mutual Funds: An Insider’s View*, published by Oxford University Press. He has written numerous articles on funds and lectures on their history, regulation and current developments. He was with the association of the fund industry, the Investment Company Institute, from 1971 to 2004, and served as its president from 1991 to 2004. He may be reached at mainsailmd@verizon.net.*