

Before saving the nation's banks, Jones bailed out Houston

By BILL HOBBY

As the world struggles to come to grips with the global financial crisis, it might be instructive to look back at how Jesse Jones and other Houston leaders dealt with an earlier banking calamity.

The Chronicle's Loren Steffy recently published an interview with Jones biographer Steven Fenberg describing how Jones, chairman of the Reconstruction Finance Corporation, saved the nation's banking system. (A Houston icon dealt with '30s credit crisis, by Loren Steffy. October 1, 2008).

Before he went to Washington in 1932 to serve on the RFC board, Jones saved Houston's banks. In effect he created a Houston Deposit Insurance Corporation before Congress created the federal version (FDIC).

In 1931, the Public National Bank, owned by W. L. Moody of Galveston, and the Houston National Bank, owned by Governor Ross Sterling, were in deep trouble. Public National was sure to close, to be followed by Houston National and hundreds of smaller banks in other counties and states whose reserves were in those two large institutions.

According to Fenberg, "Jones saved the banks not by passing a law but by calling together Houston's bankers to hammer out a bail out plan."

They met in his office atop the Gulf Building on Sunday afternoon, October 25, 1931. The meeting was long and rancorous. At 2 a.m. Monday morning, Mr. Jones called another Houston icon, Captain James A. Baker, for support. Captain Baker, vacationing in Massachusetts, helped persuade the holdouts and the group finally agreed to supply \$1.25 million (\$14 million in today's dollars) to keep the banks open.

Captain Baker had earlier kept a murderer and a forger from stealing the money William Marsh Rice had left to found Rice Institute. He is the grandfather of former Secretary of State James A. Baker III.

The money came from 12 local banks, the electric, gas and telephone companies, and Anderson Clayton & Co.

By Tuesday morning, Mr. Jones' National Bank of Commerce owned Public National Bank. Joseph Meyer owned Houston National. The pool formed by the local leaders was sufficient to pay depositors, to support the transition and to guarantee Houston's banks.

A couple of days after the emergency meeting, Jones wrote Captain Baker, "My telephone talk with you the other night gave us real courage after several days and nights of a very harrowing experience. I felt that none of us had a right not to stop the tragedy that would have followed our failing to do that which we did."

Fenberg said Jones' actions helped save Houston's banks. "As a result of Jesse Jones' initiative, and because local leadership put community well-being first, Houston banks did not fail during the Great Depression," he said.

Other cities were not so fortunate in their leadership. Jones wrote a letter of thanks to one of the bailout opponents who came around at the last minute, "I believe that all we have done, are doing and must continue doing, is necessary for the general welfare. We cannot escape being our brother's keeper."

Fenberg says, "After Jones went to Washington as a board member of the RFC, he urged Henry Ford to form a pool to save Detroit's banks, similar to what had successfully been done before in Houston. Only this time, instead of only local and private action, the federal government, through the RFC, was a willing participant."

Jones agreed to lend \$65 million (\$833 million today) to the Union Guardian Trust Company if Ford agreed to contribute to the rescue fund and allow smaller depositors and investors to have first claim on the bank's resources before he collected his \$20 million (\$244 million today) in deposits. According to Jones, "Mr. Ford refused to put his chips into the kitty and said, 'Let the crash come. There isn't any reason why I, the largest individual taxpayer in the country, should bail the government out of its loans to banks.'"

The result was predictable. Jones recalled, "The closing of all banks in the motor capital was the principal prelude to the collapse, during the next three weeks, of the nation's entire financial system."

Jones asked J.P. Morgan Bank to form a pool to save the New York banks. Morgan refused and the New York banks also failed. The Great Depression was on.

Another Houston banking story from the Depression era also illustrates the value of putting community well being before self-interest.

Houstonian Jakie Friedman ran a gambling house called "Domain Privee" in a colonial mansion off South Main. He banked with the First National Bank.

There was a run on the bank. Depositors were lined up around the block to withdraw their money. Friedman asked Judge James Elkins, the bank president, if he should withdraw his money.

Judge Elkins said, "Mr. Friedman, if you tell me now that you are withdrawing your money, I will lock the doors and close the bank. If you leave your money in, we may make it."

Friedman left his money in and the bank did not close. Friedman never had any more banking problems in Houston. He eventually moved to Las Vegas and built The Sands in the early 1950s.

During the Great Depression, Jesse Jones and Jakie Friedman, unlike Henry Ford, put their community first. Jones knowingly explained to a colleague after finalizing Houston's 1931 bailout, "Other communities are having plenty of bank troubles and all of them will pay dearly for not stopping the fire before it starts."

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