The Human Impact of Bank Failures: The Demise of Bankers Trust Company of Philadelphia in the Great Depression

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Background

Incorporated in 1926, Bankers Trust of Philadelphia grew by leaps and bounds over its short life. It acquired nine other banks and grew to include 11 branches and $50 million in deposits (the equivalent of about $628 million today). Its failure to open on the morning of December 22, 1930, brought the Great Depression painfully close to home for many Philadelphians, perhaps for the first time. In response to this and thousands of other bank crises around the country, in 1933 the federal government enacted sweeping banking reforms that included the creation of the FDIC.

The downfall of Bankers Trust can likely be tied to its July 1930 acquisition of the struggling Bank of Philadelphia and Trust Company. Within months of this last merger, Bankers Trust began experiencing a run on its deposits. Bankers Trust officials believed it was healthy enough to survive the short-term distress, and two large Philadelphia banks loaned about $7 million to cover withdrawals. In mid-December, with Bankers Trust still in distress, a group of local bank presidents reassured the Pennsylvania Department of Banking that Philadelphia banks would support Bankers Trust.

However, according to several accounts, the local bank presidents changed their minds at a private meeting in the days before December 22 and decided to let Bankers Trust fail. On the morning of December 22, the bank did not open and the board of directors voluntarily turned over its operations to the Department of Banking.

The bank's board of directors, which included prominent Philadelphia businessman Albert M. Greenfield, held an emergency meeting the morning of the 22nd to discuss how to reopen Bankers Trust as soon as possible. Within a few days, concerned depositors formed a Depositors' Committee, which drafted a plan to allow the bank to reopen by the spring of 1931. On January 2, 400 of the bank's 500 employees were laid off with assurances that they would be the first to be rehired when the bank reorganized.

Understandably, the reorganization plans envisioned by the bank's directors, stockholders, and depositors differed. Even the bank's depositors disagreed, with some depositors arguing that the Depositors' Committee (see plan on p. 31) was too closely aligned with Bankers Trust stockholders and directors to the detriment of the depositors' interests. After months of back and forth, on September 24, Secretary of Banking William D. Gordon announced his decision to proceed with the bank's liquidation.

Over the next few years, the Pennsylvania Department of Banking oversaw a lengthy legal process that returned to Bankers Trust customers about 59 cents on every dollar on deposit. While, on average, liquidations during the Great Depression lasted about 6 years, Bankers Trust Company's liquidation process lasted *16*. The sixth and final payment was not made to depositors until May 1946. Needless to say, the bank employees never regained their jobs.