

First National Bank & Trust Company
of Kalamazoo 1929-1941:
The Guardian Detroit Union Group Years

Lee McDonald
Local History Project
Spring 1981.

On February 14, 1933, Governor William A. Comstock signed a proclamation closing the 550 state and national banks in the state of Michigan. This banking holiday froze \$1.5 billion belonging to 900,000 depositors.¹ While the basic cause of the bank holiday was the severe depression the state was experiencing, the immediate cause was the precarious condition of the Union Guardian Trust Company, one of the larger units of the Guardian Detroit Union Group Incorporated.² Based in Detroit, the Guardian Detroit Union Group Inc. was a "holding company binding together one of the largest and most powerful group of banks in the United States".³ The group controlled 21 banks and had at least 40% minority interest in 6 additional banks and 5 corporate affiliates in Michigan.⁴ Realizing that the weakened position of Union Guardian Trust Company was symptomatic of the generally poor condition of banking in the Detroit area and fearing that the bank's collapse would destroy all the banks in the city, Governor Comstock issued his bank holiday proclamation.⁵ It was, however, too late.

On March 31, 1933, 45 days after Governor Comstock's banking holiday, Guardian Detroit Union Group, along with another large bank holding company in Detroit, Detroit Banking Corporation, filed for protection under Chapter 11 of the Federal Bankruptcy Act.

plans to reorganize.⁶

The Detroit Banking Union, a group of Detroit banks, is the largest. ⁷ The largest, First National Bank, is a member bank of the Guardian Detroit Union Group located over 100 miles west of Detroit in Kalamazoo, Michigan; one of the few member banks to survive the Detroit Banking Collapse of 1933.

First National Bank and Trust Company of Kalamazoo is Michigan's oldest national bank. Incorporated in 1863, First National claims allegiance to banking operations in Kalamazoo since 1855 through the private bank of Woodbury, Potter & Wood, which was later incorporated as the Michigan National Bank in 1865 and merged with First National in 1912. With the addition of a trust department in 1928 First National became First National Bank and Trust Company of Kalamazoo, which is its present name.³

When First National and Michigan National merged in 1912, Charles C. Campbell, then president of Michigan National, became the president of First National Bank. In the 32 years that he headed the bank, Campbell, more than any other person was responsible for its growth and survival. A conservative banker who intuitively knew the financial condition of almost everyone in Kalamazoo due to his years of experience, Campbell disdained financial statements. He felt that asking a man for a statement was like questioning his integrity and an insult.⁸ In an interview on May 27, 1934 Mr. Richard

Wain, executive vice-president of First National, stated that it was Mr. Campbell's conservatism and his policy of making loans based on character that led to the survival of the bank during the 1930's. History supports Mr. Campbell's policies, which came under heavy criticism from bank examiners and scholars. One author stated, "Banking theory does not support the claim that knowledge of local conditions entitles the banker to extend credit on a "character" basis, nor has such procedure in the long run been of advantage to the bank or community."¹⁰ Bank Board of Directors Minutes and Statements of Condition bear testimony to the fact that Mr. Campbell's policies had left First National as a profitable, sound bank as of 1929.

In 1929 discussions began between the Guardian Group Inc. and First National Bank and Trust Company of Kalamazoo regarding the acquisition of First National by the Guardian Group through an exchange of stock. The exact date of initial discussions and the names of the parties involved could not be discovered. The first recorded mention of the Guardian Group is in a motion by Mr. B.C. Dickinson, a director of the bank, "that the stockholder's letter as read be mailed to the stockholders together with an agreement relative to an exchange of stock with the Guardian Group Inc." during a special Board of Directors meeting held September 25, 1929 in Kalamazoo.¹¹ On December 3, 1929 at the regular Board of

Directors meeting President Campbell brought to the attention of the directors a letter of agreement of agreement of... dated to... of Michigan... the... original date of application of... November 1, 1931, to January 20, 1933 for the exchange of their... When, on January 20, 1933, a special meeting of the directors it was voted "that stockholders of the First National Bank and Trust Company exchange their shares in said bank for shares of Guardian Detroit Union Group Inc. on a basis of one share of stock of the First National Bank and Trust Company Kalamazoo for six shares of the stock of Guardian Detroit Union Group."¹⁵ Monday, January 20, 1933 final approval of the exchange was given in Detroit and the front page headlines in Kalamazoo read "First National Merges With Guardian."¹⁴

At the time of its acquisition by the Guardian Detroit Union Group, First National was a sound, profitable, growing concern. It was not due to financial difficulties, as is often surmised, that First National joined the Guardian Group. Rather, monetary gain was the most likely reason. At the time of the exchange, the price of Guardian Detroit stock ranged from \$115.00 to \$120.00 a share. This meant that the owner of one share of First National stock would gain \$690.¹⁵ Mr. Klein states that in addition to monetary gain, the acquisition led to greater marketability of stock, a larger

customer base, and greater lending ability. Consider the following quote:

The primary reason that independent bankers have merged with holding companies is not some competitive weakness of small banks but rather the benefits which a bank's owners derive from such affiliation. The group system has been able to offer considerable financial gain to the stockholder of a small bank. The holding company's shares, when an exchange of stock occurred, were usually more marketable, provided a higher rate of return on book value, and resulted in a tax saving for the former owners of a new affiliate...¹⁶

At the time of the merger, Robert O. Lord, president of the Guardian Detroit Union Group, stated that its board of directors did not feel it was necessary for them to seek representation on the board of First National in view of First National's present personnel.¹⁷ The Guardian Groups idea was for each member bank to remain an independent, locally self-controlled organization. The by-laws of the group company specifically provided that 75 percent of the directors of the First National Bank & Trust Company be local business men.¹⁸ From these statements one may get the idea that the Guardian Group had little involvement in the day-to-day operations of First National. On the surface this appears to have been the case. Only one proposal by the Guardian Group is listed in the Board of Directors minutes. It was for a \$1 million Blanket Bond and was passed by the Board on February 2, 1932.¹⁹ Yet things were not as they appeared.

When the procedures of the group banking systems of Detroit--Guardian Detroit Union Group Inc. and The Detroit Bankers Company--were examined five areas of dubious practice stand out. They are as follows: (1) undue concentration of control in the board of directors of the group system; (2) drainage of resources from the unit banks to maintain dividends to the share owners of the holding company; (3) false and misleading reports of the group system and of the unit banks within the system; (4) loans to individuals and businesses with the stock of the holding company being held as collateral; (5) loans to officers and directors of the group system and of unit banks, often with the stock of the holding company put up as collateral.²⁰ While the Guardian Group is without a doubt "guilty" of carrying out all these procedures, in their dealings with First National only the drainage of resources seems to have been a problem.

1932 was not a good year for First National. Net losses for the year were \$232,157.70. Total losses on charge offs (bad loans and bonds) were \$330,708.26.²¹ Due to these conditions the bank adopted a new written 12-point loan making policy, reduced directors' fees from \$20 to \$10, and applied for a \$300,000 loan from the Reconstruction Finance Corporation (RFC)²²--a creation of the Hoover Administration whose purpose was to place resources at the disposal of financial institutions by loans to relieve temporary pressures.²³ Still First National paid out

\$10,000 in dividends, the majority of which went to the Guardian Group. As a final word on this period, a motion was carried by the Board in its meeting of February 1, 1933 that no loans be made by Directors for the bank without security.²⁸

February 16, 1933, two days after Governor Coons' eight-day bank holiday proclamation, Charles Campbell issued a statement to answer possible questions that might result from the revelation that financial difficulties of the Union Guardian Trust Company of Detroit were the cause of the bank holiday.

The statement had several features which were pertinent to the connection of the First National Bank with the Guardian Detroit Union Group Inc. These features all bore out the fact the banking operations locally had nothing whatever to do with the emergency that arose in Detroit. The features were as follows:

- 1--That all the assets of First National Bank had been held intact locally and were now available for the benefit of the bank's depositors.
- 2--That no money ever had been loaned by the First National bank to any other Guardian unit bank, nor had any of the assets of the First National Bank ever been mingled with those of any other Guardian unit bank "in any way, shape, form, or manner."
- 3--That the group company had no power to draw on or drain the assets of First National bank by directing the payment of dividends, a power held solely by the First National's own board of directors not in any other manner.
- 4--That the First National's liquid condition had been unchanged by the emergency that arose in Detroit.
- 5--That difficulties encountered in liquidation of the Union Guardian Trust Company could in no way affect the standing of the First National bank because it was a separate corporation with restrictive by-laws that allowed it to stand on its own merits.

6--That because of this protective provision, any problem presented in liquidation of the Union Guardian Trust Company was a matter lying solely in the hands of the man in charge of that institution and, as such could not possibly have any bearing of the financial standing of any other unit in the group. 25

Despite the banks "liquid" condition" the following day a special meeting of the Board of Director's was held to make an application for a "loan in an amount not to exceed One Million Five Hundred Thousand (\$1,500,000) dollars..."²⁶

March 7th, 1933, the day after President Roosevelt's national bank holiday proclamation the Board concurred in a suggestion to stop the payment of director's fees until "conditions warrant." ²⁷ The effects of the nationwide depression and banking crisis were being felt at First National.

At the end of the banking holidays, First National reopened on a 100% basis.²⁸ Unfortunately the same cannot be said for the group company, Guardian Detroit. The placing of the Guardian Group into receivership meant that all holders of the group company's stock had lost their money. The immediate effect of First National, however, was slight. Besides a short resolution returning its bond portfolio-- which had been handled by the Bond Investment Committee of the Guardian Group--no other mention is made of the collapse of the Guardian Group in the Board of Directors Minutes.²⁹

Efforts to regain local control of First National's stock began in September 1933. On September 5, Director F.A. Lenke moved that Directors C.H. Stearns and E.H. Shepherd,

who were Vice President and Executive Vice President respectively of First National, he requested to interview Mr. Alex Groesbeck, the former Michigan governor who was the receiver for the Guardian Trust. Their instructions were to purchase the stock of First National at no more than \$7,500.00. Ten days later in a special meeting of the Board it was moved "that Mr. Campbell select a committee to accompany him to Detroit to make further overtures to Mr. Groesbeck for the purchase of our stock."³⁰

At the regular monthly meeting of the Board on October 3, 1933 the two committees made their reports. Mr. Stearns reported that on September 12, 1933, Mr. Shepherd and he had gone to Detroit to interview Mr. Groesbeck regarding the purchase of the stock of First National, but their efforts were of no avail. Mr. Campbell then reported that a committee consisting of Messrs William Kersjes, E.C. Dickinson, E.H. Sergeant and himself called on Mr. Groesbeck on September 26, 1933 in regard to the purchase of First National Bank stock. Mr. Groesbeck offered to sell the stock for \$50,000; payment to be made as follows: \$25,000 upon delivery and the balance after the directors were satisfied that the deposits had been fully protected.³¹ No action was taken on either of the committee reports and for the next eight years no further mention is made of any attempts to repurchase the stock from Mr. Groesbeck and Guardian Detroit. Mr. Klein, who is quite knowledgable of the bank's history, stated that

national and international events, combined with the day-to-day operating of the bank contributed to the eight year delay.

During the years 1933 through 1941, First National returned to the sound, profitable, condition it had enjoyed prior to the 1920's. In 1934, the bank reduced its common capital stock by \$400,000 in order to eliminate, or charge off unsatisfactory assets in the amount of \$910,000. These charged off assets, however, remained the property of the bank. The bank then increased its preferred common stock by \$500,000.³² This was done by selling the stock to the Reconstruction Finance Corporation with the right to repurchase or retire the stock. This arrangement was in effect a loan with dividends paid to the RFC instead of interest payments. These actions made First National more stable and played a huge role in the bank's fast recovery. One bit of evidence which shows the returning prosperity of the bank was the motion made August 4, 1936 to increase the director's fee to \$20.00.³³ It had only been three years earlier that director's fees had been suspended due to poor financial conditions.

The years between 1933 and 1941 also saw the expansion of First National. In April 1936, a branch bank was opened in Vicksburg, Michigan. Three years later in October 1939, First National agreed to take over the Galesburg State Bank at Galesburg, Michigan and operate it as a branch.³⁴ With the opening of these branches, First National was better able to serve its agricultural loan customers, who have been and

are some of its most important.

At the regular monthly Board meeting on June 10, 1941, Mr. Campbell brought up for discussion the matter of purchasing the bank from the Receiver of the Guardian Group. Once again, no action was taken.³⁵ What discussions and events took place between this meeting and the Board meeting of October 14, 1941 are not exactly known. Yet at the October 14 meeting, Mr. Campbell, Mr. J.H. Tolhuizen, executive vice-president; and Mr. Merrill Taylor, vice-president and trust officer reported that the response to the letters sent out to certain individuals regarding the purchase of the bank stock from the Receiver of the Guardian Group was very satisfying and encouraging and that the officers presently held subscriptions amounting to about \$600,000. The Board was pleased with the response and authorized the officers to proceed with the plans for the repurchase of the stock.³⁶ A general discussion regarding the purchase of the stock of the bank from the Guardian Detroit Union Group, Inc. took place at the monthly Board meeting November 12, 1941.³⁷ Still the question of what led to the sudden reinterest in purchasing the stock is unanswered.

A local newspaper article stated that in September 1941, local officers and directors were given an indication that \$1,100,000 might be the possible purchase price. On that promise, subscriptions were taken from local people and that amount fully pledged.³⁸ Mr. Klein stated that the winding down of the New Deal with the dissolution of the National Recovery Act (NRA) and the RFC plus the international events taking place at the time (war in Europe, etc.,) led to the

recontrol of the bank.

The best existing account of the purchase of the stock is that of C. Hubert Kleinstuck,³⁰ a lawyer and member of the Board of Directors of First National at the time. He was later to serve as President of First National in 1933 when Charles Campbell retired.

Messrs. Campbell and Kleinstuck after repeated visits with the receiver decided to make one final bid, not be fended off anymore and have the stock go to the highest bidder, period. Mr. Howard Stoddard, president of the Michigan National Bank was also interested in acquiring control of First National. He wished to make it a branch of the Michigan National chain group and had made a bid of \$1,200,000 for the stock.

Mr. Campbell along with Mr. James Tolhuizen and Directors Donald S. Gilmore, L.H. Upjohn, and C.H. Kleinstuck went to the Continental Illinois Bank which provided the financing of a \$100,000 note to be used as earnest money for the bid. Tolhuizen, Merrill Taylor, and Kleinstuck were appointed trustees of the bank's bid and travelled to Detroit to interview Groesbeck. There they stated their purpose, how they wanted sealed bids, that the highest bidder would win, and that he was to set the time when the bids would have to be in. Thanks to Kleinstuck's personal friendship with Clifford Longley, an attorney who had some influence on Groesbeck, everything was agreed to.

On Wednesday, December 3, 1941, the bids were submitted. It had been agreed to earlier that no bid would be under one million, one hundred and fifty thousand. First National bid \$1,200,888. Originally the bid had been for \$1,200,000 but as this bid was passed around through the directors of the bank, Donald Gilmore said he wanted to make it eight hundred and eighty eight dollars and eighty cents because he was always lucky on eights. His luck held up again.

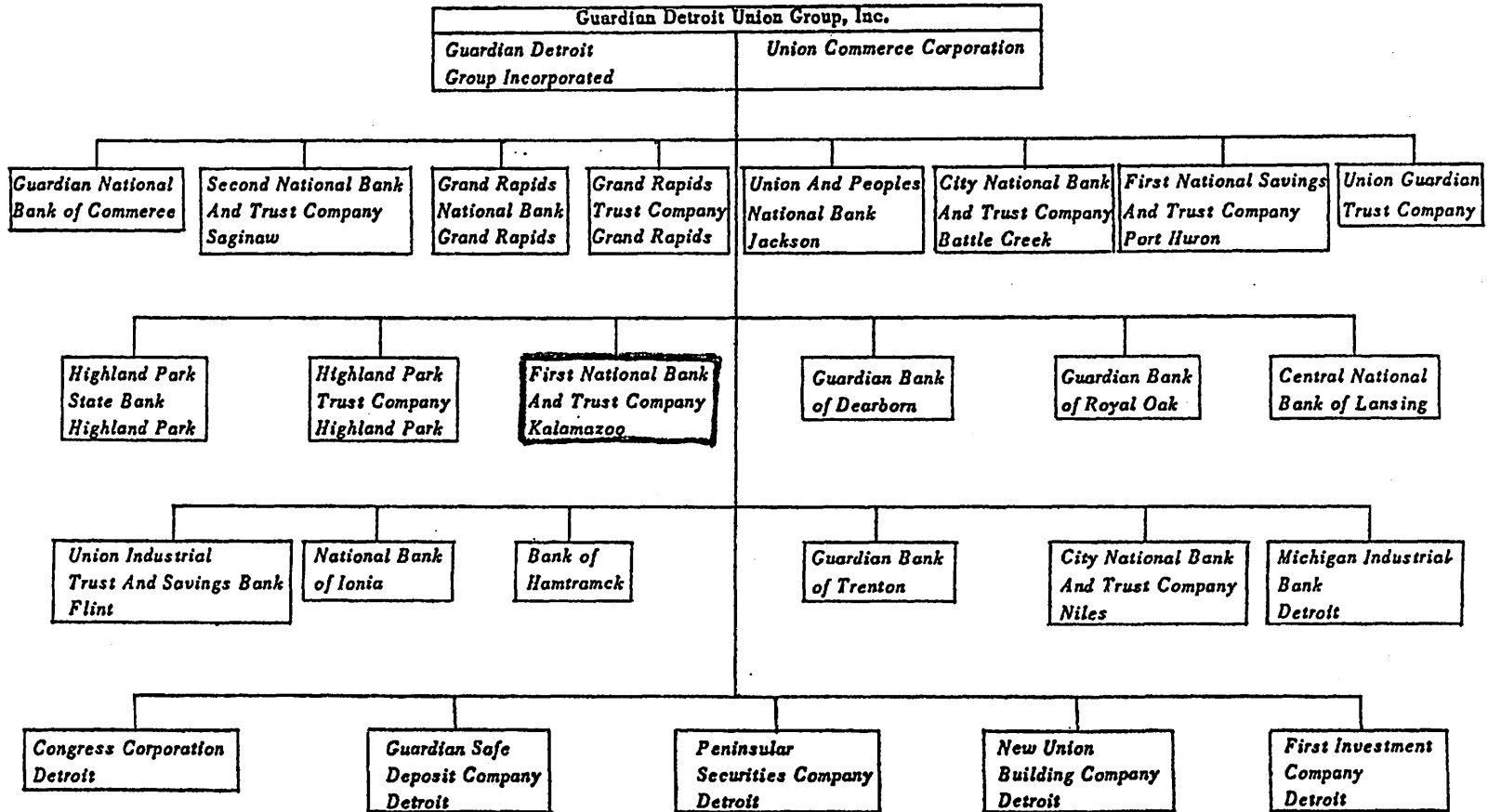
When the bids were finally opened, Groesbeck said, "Well, that settled it." Kleinstuck asked, "Well what is it, who is it?" "Well" he said, "you won it, you have it." Stoddard had bid \$1,200,001. Donald Gilmore's lucky eights had made the difference. First National was again home-owned.⁴⁰

Naturally there was much excitement at First National and in Kalamazoo with Grand Rapids also joining in the celebration.⁴¹

Thus, First National's involvement with the Guardian Detroit Union Group Inc. came to an end. It has been said that the decision to merge with the Guardian Group was Charles Campbell's one and only mistake. Yet it was he who led First National through the crisis years to its position as one of the strongest banks in the state and the largest in southwest Michigan as of 1941.⁴² While the bid to regain control was substantial, especially when compared with \$50,000 price offered in 1933, those intervening years with all the profits added to the capital structure aided in First National's rapid growth. Was First National's involvement with the Guardian Detroit Union Group Inc. beneficial? I believe so. First National came away stronger and wiser. Barkers rarely make such good "mistakes."

CHART I

ORGANIZATIONAL CHART OF THE GUARDIAN DETROIT UNION GROUP, INC.



as of March 4, 1933
(14)

¹ John K. Hancock, The Banking Crisis of 1933, Columbia University Press (1933) p. 25.

² Gerald C. Fischer, Bank Holding Companies, (New York: Columbia University Press, 1967), p. 157.

³ Detroit Free Press, 22 February, 1933, p. 5.

⁴ Ibid., p. 5. see chart on page 18.

⁵ Fischer, p. 158.

⁶ Fischer, p. 157.

⁷ See Kennedy, The Banking Crisis of 1933, chapter 4; Fischer, Bank Holding Companies, pp. 157-159; Howard R. The Detroit Banking Collapse of 1933, East Lansing: Bureau of Business and Economic Research, Michigan State University, 1960, chapters 2, 3, 4; Flynn, John F. "Michigan Magic--The Detroit Banking Scandal," Harpers Magazine, 162 (December 1933): 1-11.

⁸ See Dunbar Willis F., Kalamazoo and how it grew...and grew..., rev. ed., (Kalamazoo: Western Michigan University, 1960)--Financial Progress in Kalamazoo County since 1834 [Kalamazoo County Chamber of Commerce, 1966]

⁹ Kleinstueck, Oral History Memoirs, Southwestern Michigan Regional Archives, Western Michigan University, 1923.

¹⁰ Frenner, E.D., American Banking Failures, (New York: Columbia University Press, 1935), p. 107.

¹¹ First National Bank and Trust Company of Kalamazoo, Board of Directors Minutes 1913-1933, (Kalamazoo, 1933), p. 183.

¹² Ibid., p. 186.

¹³ Ibid., pp. 190-191.

¹⁴ Kalamazoo Gazette, 20 January, 1933.

¹⁵ Kalamazoo Gazette, 21 January, 1933.

¹⁶ Fischer, p. 150.

¹⁷ Kalamazoo Gazette, 21 January, 1933.

¹⁸ Ibid., 16 February 1933.

¹⁹ Board of Directors Minutes, p. 218.

²⁰ Neville, p. 21. For more on group banking procedures see chapter 3.

- ²¹ Statement of Earnings and Expenses Year of 1932, First National Bank and Trust Company, Kalamazoo 1933.
- ²² Board of Directors Minutes, pp. 220-227, 231, 222-223.
- ²³ Neville, p. 83. For more on the RFB see Kennedy, p. 36-39; "The RFB." Fortune 21 (May 1940): 45-50, 122-44.
- ²⁴ Board of Directors Minutes, p. 243.
- ²⁵ Kalamazoo Gazette, 16 February 1933, p. 1.
- ²⁶ Board of Directors Minutes, p. 245-246.
- ²⁷ Ibid., p. 247.
- ²⁸ Kalamazoo Gazette, 14 March 1933.
- ²⁹ Board of Directors Minutes, p. 248.
- ³⁰ First National Bank and Trust Company, Board of Directors Minutes 1933-1948, (Kalamazoo, Michigan, 1949) p. 1-2.
- ³¹ Ibid., p. 2.
- ³² Ibid., pp. 18-20; 23-39.
- ³³ Ibid., p. 80.
- ³⁴ Ibid., pp. 73-73; 128; 142.
- ³⁵ Ibid., p. 171.
- ³⁶ Ibid., p. 178.
- ³⁷ Ibid., p. 180.
- ³⁸ Kalamazoo Gazette, 4 December 1941, p. 3.
- ³⁹ Kleinstuck, C. Hubbard. Oral History Memoirs.
- ⁴⁰ Ibid.
- ⁴¹ Kalamazoo Gazette, 4 December 1941, Michigan Tradesman, 10 December 1941, (Grand Rapids, Michigan) p. 1, 11; 23 January 1942, p. 20, 21.
- ⁴² Ibid.

WESTERN MICHIGAN UNIVERSITY

Local History: Kalamazoo

Wheinstuck, J. Hubbard. Southwestern Michigan Regional Archives,
Western Michigan University, Kalamazoo, Michigan

Books

Bremer, C.D. American Banking Failures. New York: Columbia
University Press, 1935

Dunbar, Willis B. Kalamazoo and how it grew. Kalamazoo: School
of Graduate Studies, Western Michigan University, 1959

———. Kalamazoo and how it grew...and grew...new ed. Kalamazoo:
Western Michigan University, 1962

———. Financial Progress in Kalamazoo County Since 1834
[Kalamazoo County, Michigan, 1930]

Wheeler, Harold G. Banking in Michigan. New York: John Wiley
University Press, 1961

Kennedy, Susan Westbrock. The Banking Crisis of 1933.
Michigan State University, East Lansing, Michigan, 1933

———. The Banking Crisis of 1933. Michigan State University,
East Lansing, Michigan, 1933

Podary, Robert A. State Bank Failures in Michigan: A Study
of the Causes of Michigan State Bank Failures during the
Depression and Prior to the Banking Holiday, with Suggested
Remedies.

Bank Documents (Unpublished)

First National Bank & Trust Company of Kalamazoo, Board of
Directors Minutes 1913-1914. Kalamazoo, Michigan 1942.

———. Statement of Condition 1930-1937. Kalamazoo, Michigan, 1958

———. Various Bank Letters. Kalamazoo, Michigan, 1941

Government Documents (unpublished)

United States, Treasury Department, Comptroller of the Currency,
Examiner's Report of the Condition of First National Bank
of Kalamazoo 1917-1921. Kalamazoo, Michigan, 1929

Special Examination of Condition of First National Bank of Kalamazoo, 1925-1931. Kalamazoo, Michigan, 1931

Articles

"Bank Reorgan Approved on 6 to 1 Basis". Kalamazoo Gazette,
21 January 1930, p. 1,2

"Banks Open at End of Holiday Period". Kalamazoo Gazette,
23 February 1933, p. 1,2

"Bouquets to the Civic Spirit of Kalamazoo!". Michigan Tradesman
23 January 1928, p. 20,21

"The Banks Reopen". Business Week, 22 March 1933, pp. 3-4

"Charles S. Campbell, Notorious Banker Dies". Kalamazoo Gazette,
27 January 1933, p. 1,11

"C. S. Campbell Dies in Home After Long Illness".
Kalamazoo Gazette, 27 January 1933, p. 1,11

"C. S. Campbell Dies". Michigan Tradesman, 27 January 1933, p. 1

"C. S. Campbell Dies". Michigan Tradesman, 7 April 1933, pp. 5-6

"First National Bank Reorgan Approved", Kalamazoo Gazette,
21 January 1930, p. 1,2

"First National Bank with 6 to 1 Basis", Kalamazoo Gazette,
20 January 1930, p. 1

Flynn, John W. "Michigan Regulates Detroit Banking Scandal".
Harpers Magazine, 193 (December 1933) 11-11

"Gov. Toletock Looking for Banking Holiday". Kalamazoo Gazette,
14 February 1933, p.1

"Kalamazoo Bank Starts Independent". Michigan Tradesman,
10 December 1931, p. 1,11

"Kalamazoo Institutions Again Open Now Restricted Operations".
Kalamazoo Gazette, 7 March 1933, p. 1,7

"Local Banks Awaiting Verdict to Reopen After Roosevelt Orders
Army Holiday". Kalamazoo Gazette, 6 March 1933, p. 1

"Michigan's First Holiday". Business Week, 22 February 1933,
p. 2

"The RFD". Farmer, 21 (July 1949): 43-50, 122-44

"RFD Goes to Michigan". Business Week, 1 March 1933, p. 6

"Two Banks Here Announce 1933 Opening". Kalamazoo Gazette,
14 March 1933, p. 1,3

"U.S. and State Open 162 Banks: New Deposits Offset Cash
Withdrawals at First National Here". Kalamazoo Gazette,
15 March 1933, p. 1