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Corporate trustee and summary of Montana trust activity

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THE CORPORATE TRUSTEE AND

SUMMARY OF MONTANA TRUST ACTIVITY

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CHAPTER I

INTRODUCTION

Along with providing familiar lending, checking account, savings, and safe-keeping services, many commercial banks also perform a number of trust services of which many people have limited understanding. Of the approximately 14,200 insured commercial banks in the United States today, slightly more than 3,300 provide trust services to some extent.[1] Of this number over half of the trust department assets and income is concentrated in four states: New York, Pennsylvania, Illinois and California.

The purpose of this paper is to make a general appraisal of the regulations affecting the corporate trustee, describe the services performed by trust banks, and examine published and unpublished data concerning Montana trust activity.

Unfortunately little primary or secondary source material is available concerning Montana trust activity. Therefore, a questionnaire was sent to all banks maintaining fiduciary powers. Although some bank executives were reluctant to release

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1. American Bankers Association, Trust Division, "Panel on Problems of Small Trust Department," Trust Bulletin (March 1968), p. 360.

information, by corresponding with the U. S. Comptroller of Currency and the Montana State Department of Business Regulation a summary of Montana trust activity was obtained.

This paper sets forth the most complete summary of Montana trust activity, known to the author, to date. A complete list of Montana state and national bank trust departments is assembled and categorized by assets and number of accounts. In addition, the postwar profitability of Montana trust department is discussed using United States and regional comparisons to judge Montana's performance. In total, this information should provide the groundwork for an indepth examination of individual Montana trust departments.

In addition to the information given on Montana trust departments, Chapter II sets the stage with an overview of Montana commercial banking. Chapter III covers growth of the fiduciary and the regulation of trust departments both locally and nationally, and Chapter IV looks at the functions of and services provided by trust departments.

CHAPTER II

COMMERCIAL BANKING IN MONTANA: A SYNOPSIS

Commercial banking in Montana originated in Virginia City. In 1864, B. F. Allen and J. H. Millard started the first permanent bank in the Montana territory. The economy flourished and by 1895, the number of banks totaled 56. Of these, seven national banks and two savings banks were located in the "Gold Dust Capital" of Helena, where they maintained capital accounts totaling over $4 million. One Montana historian, Joaquin Miller, depicts the situation by saying:

> When we consider that Helena only has a population of twelve to fifteen thousand people, we can say that no other town in the United States has the same representation per capita of banking capital, banking surplus or banking deposits.[2]

The number of banks grew rapidly and by 1914 there were 287 commercial banks, 226 of which were either state institutions or private banks.[3]

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2. Joaquin Miller, An Illustrated History of the State of Montana, (Chicago, Illinois: Lewis Publishing Co., 1894), p. 689.

3. A large part of this chapter is based on "History of Montana Banking" by J. H. Dion, published in A History of Montana by K. R. Toole and M. G. Burlingame, vol. 1, (New York: Lewis Historical Publishing Co., 1957), p. 339-410.

Since these first days of Montana banking, there has been a great deal of fluctuation in the number of operating units. In 1920, Montana had 431 banks, or 1 for every 1,300 people. This is to be compared with New York's 1 per 9,800 persons and Massachusetts' 1 per 8,300.[4] Of course, this phenomenon was caused by a sparse agrarian population which required a greater number of smaller banks than was the case in the industrial states. This situation caused keen competition which inevitably led to overextended loan policies and excessively high interest rates. Ultimately, the twenties saw hard times, foreclosures and failures. In the five-year period from 1920-1925, 192 banks closed their doors, freezing deposits of $47 million.[5] The suspensions eased off to 8 in 1926, 2 in 1926, 2 in 1927 and 1 in both 1928 and 1929.

In 1929, the Montana banking picture changed as the Northwest Bancorporation and the First Bank Stock Corporation, both of Minneapolis, began acquiring Montana banks. These holding companies were making acquisitions with the thought that the agricultural area of the Ninth Federal Reserve District had suffered the last of its losses.[6] This couldn't have been more erroneous, as prices and public confidence

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4. Ibid., p. 406, citing P. W. McCracken, The Northwest in Two Wars, (Minneapolis: Federal Reserve Bank of Minneapolis, n.d.).

5. Ibid., p. 404.

6. Ibid., p. 406, Interview citing J. C. Thompson, President, Northwest Bancorporation (Minneapolis, Minnesota, July 13, 1954).

began to drop and continued to fall as the nation began experiencing the Great Depression. By 1920, Montana had 185 commercial banks holding total deposits of about $142.1 million. Then during the depression years 51 banks failed, freezing $10.4 million in deposits.[7]

Both Northwest Bancorporation and First Bank Stock Corporation acquired banks until 1931. At that time, the two groups controlled 30 of Montana's 156 commercial banks, and held 56 percent of the total Montana bank deposits.[8]

> As the depression deepened, the holding companies were obliged to pour millions of dollars into the impaired capital structures of their newly acquired affiliates and not a single institution controlled by either of the groups failed.[9]

After the depression many liquidations and mergers took place, decreasing the total number of commercial banks in operation. By 1941, 112 commercial banks operating in Montana held $184 million in deposits and were in excellent financial condition to meet the greatly increased demands about to be made upon them as a result of the war economy.[10] During World War II, Montana bankers played an important role in obtaining funds for the Montana War Savings Bank Organization and providing facilities for handling ration stamps.

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7. Ibid., p. 406 citing R. J. Ely, Montana's Production 1930-1949 (Missoula, Montana: Bureau of Business and Economic Research, School of Business Administration, Montana State University, 1950).
8. Ibid.
9. Ibid.
10. Ibid.

The war years saw a net decrease of 1 bank, leaving a total of 111 in 1945. During the postwar years, there has been a net increase of 33 banks, with a total of 144 on December 31, 1971. Comprising this total were 91 state banks, 52 national banks and 1 trust company (table 1).

Commercial banks, in terms of aggregate assets, are the most important type of financial institution in the United States. Montana is no exception; as of December 31, 1971, 144 Montana banks held total resources of $2.11 billion.[11] Montana's 12 Federal Savings and Loan Associations showed assets of only $2.72.[12]

Table 1 and figure 1 illustrate variances in banking units and resources. A casual observer would note the large change in resources over the last six years. From 1965 to 1970, Montana's increase in assets parallels that of the nation as both recorded increases of 64 percent.

Montana Banking Structure

Montana is one of the few western states that still maintains a unit banking system. Formal definition of unit banking stipulates that banking services must be offered by an individual bank corporation that maintains single offices

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11. Derived from State of Montana Department of Business Regulation, "Report on Montana Banks" (Helena, Montana, December 31, 1971).

12. Derived from Federal Home Loan Bank, Federal Home Loan Bank Directory (Washington D.C.: Federal Home Loan Bank Board, 1971).

TABLE 1

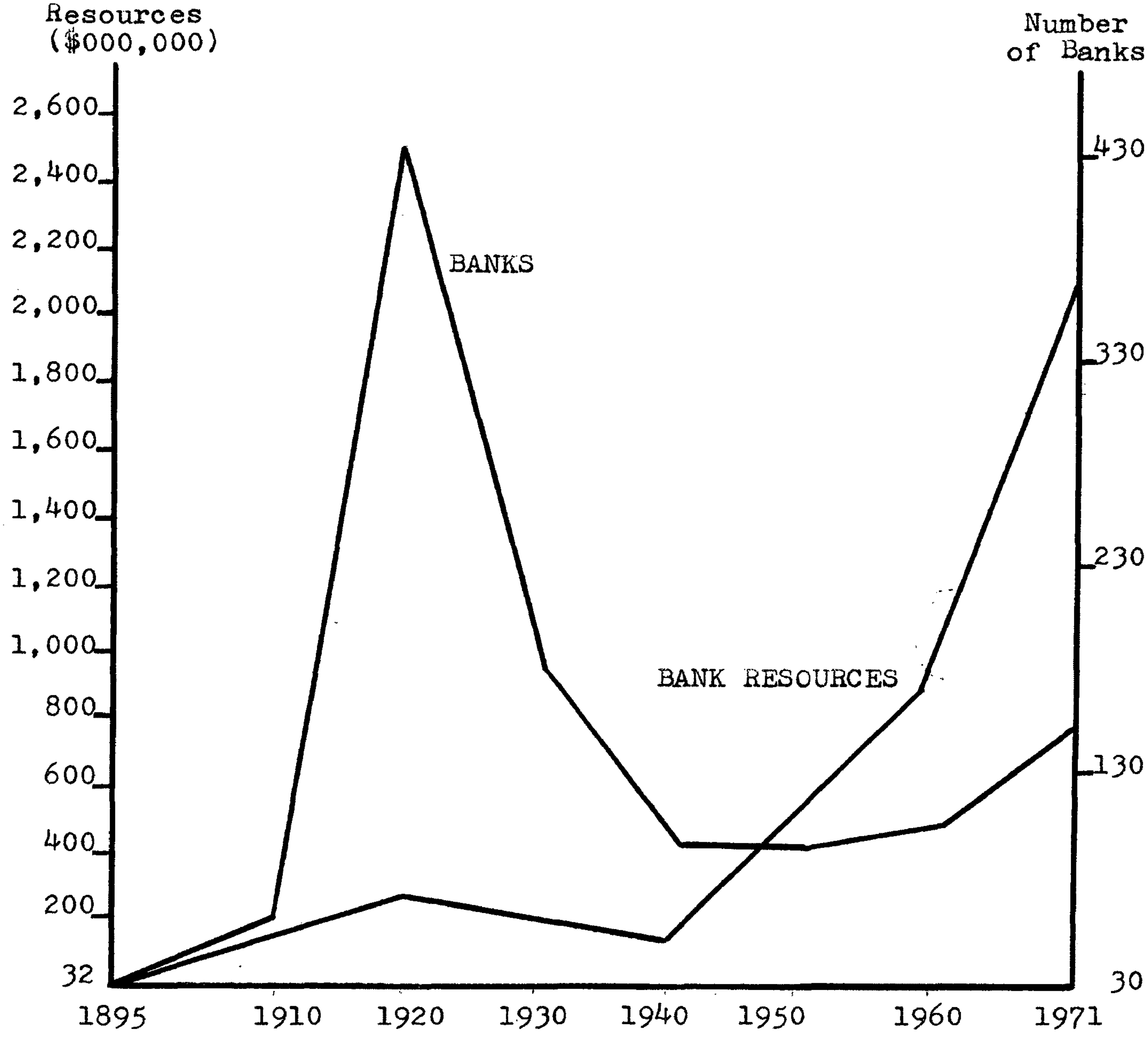
NUMBER AND RESOURCES OF MONTANA'S STATE AND NATIONAL BANKS SELECTED YEARS 1895-1971

Year	State	National	Total	Total Resources ($000)
1895	30	26	56	32,000
1900	35	21	56	34,000
1905	58	29	87	52,000
1910	135	54	189	92,000
1915	231	65	295	114,000
1920	286	145	431	234,000
1925	150	85	235	160,000
1930	122	63	185	176,000
1935	72	46	118	129,000
1940	69	43	112	161,000
1950	72	39	111	563,000
1960	76	41	117	841,000
1965	82	48	130	1,137,000
1971	91	43	144	2,110,000

Sources: State of Montana, Superintendent of Banks, Selected Data on all Montana Banks (Helena, Montana, December 31, 1967); and State of Montana, Department of Business Regulation, Report of Montana Banks (Helena, Montana, December 31, 1971).

FIGURE 1

NUMBER AND RESOURCES OF MONTANA BANKS
SELECTED YEARS 1895-1971



Sources: State of Montana, Superintendent of Banks, Selected Data on all Montana Banks (Helena, Montana, December 1967); and State of Montana, Department of Business Regulation, Report on Montana Banks (Helena, Montana, December 31, 1971).

and has its own board of directors and stockholders. Under this regulation, corporations and individuals are restricted in that they may not control more than one bank.

Montana is one of approximately 34 states that employs the unit banking system, and many feel that the state will remain under the unit system as long as strong individualistic attitudes persist among people who believe that branch banking tends to develop a "money trust", and is detrimental to our free enterprise system.

Montana does not adhere strictly to the unit banking regulation, as five branch offices and four holding companies are operating within the state's boundaries. As table 2 shows, the First Bank Stock System of Minneapolis is the largest, having 16 Montana affiliates with deposits totaling over $477 million. The second largest is Northwest Bancorporation with seven Montana affiliates and over $237 million in deposits. Western Bancorporation owns three banks with total deposits of over $79 million. Bancorporation of Montana and a chain owned by Edward Towe account for 24 banks and deposits of over $146 million. The 1970 figures show these holding company affiliates accounting for 50, or 35 percent, of Montana's banks and controlling over $941 million, or 60 percent, of the total deposits in the state.

In terms of population per bank office, Montana bank services stand on a par with Wyoming while being lower than

TABLE 2

NUMBER, DEPOSITS AND LOCATION OF MONTANA BANK CHAINS AND HOLDING COMPANY AFFILIATES DECEMBER 31, 1970

Bank Stock System	Number of Affiliates	Total Deposits ($000)
First Bank Stock System	16[a]	$477,728
Northwest Bancorporation	7[b]	237,554
Western Bancorporation	3[c]	79,330
Edward Towe Bank Chain	13[d]	74,918
Bancorporation of Montana	11[e]	71,930
Total	50	$941,461

Note:

The First Bank Stock System, Northwest Bancorporation and Western Bancorporation are holding companies, and Towe and Bancorporation of Montana are private chains.

Sources: Derived from 1971 Bank Directory of the Ninth Federal Reserve District (Minneapolis, Minnesota: Commercial West Magazine, n.d.), pp. 265-312; Moody's Investor Service, Inc., Moody's Bank and Finance Manual (April 1970), pp. 440-511-648; and 1969 American Bank Directory, Spring edition (Atlanta, Georgia: McFadden Business Publications, 1969), pp. 1949-1972.

[a]Located in Billings, Bozeman, Butte, Forsythe, Fort Benton, Great Falls, Havre, Helena, Lewistown, Livingston, Miles City, and Missoula.

[b]Located in Anaconda, Billings, Dillon, Great Falls, Helena, Kalispell and Lewistown.

[c]Located in Cut Bank, Great Falls, and Kalispell.

[d]Located in Absarokee, Baker, Belgrade, Bozeman, Butte, Circle, Fairview, Plentywood, Red Lodge, Richey, Roundup, Superior, Wibaux.

[e]Located in Big Sandy, Butte, Chester, Chinook, Conrad, Great Falls, Havre, Missoula, Rudyard, Valier.

that of the nation and higher than Idaho. The 1970 figures show Montana having 4,789 people per bank office with Idaho and Wyoming having 3,958 and 4,611 respectively. The figure for the entire 50 states was 5,505.[13]

Although Montana's population density is low and economic growth has been slow, 1960 figures show Montana with only one community of over 5,000 people with only one banking office. Nationally there were 192 such communities in 1958.[14] Montana banks, however, are relatively small with average assets totaling about $12 million, compared to $39 million for the United States.[15]

Montana's per capita personal income has been sluggish at best; in 1968, Montana ranked 31st among the 50 states with $2,897 per capita income.[16] Has Montana banking suffered appreciably from a seemingly slow economy? One author noted recently:

> The percent change in both deposits and personal income was larger for the United States than for Montana during most of the postwar period. However, the ratio of the change in bank deposits to the change in personal income has consistently been higher for Montana than for the nation as a whole.

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13. Derived from U. S. Bureau of the Census, U.S. Census of Population: 1970, Number of Inhabitants, U. S. Summary, Report PC(1)-A-1 (Washington, D.C.: U.S. Government Printing Office, 1971), and Federal Deposit Insurance Corporation, Annual Report, Assets, Liabilities and Capital Accounts: Commercial and Mutual Savings Banks, December 31, 1971 (Washington D.C., n.d.), Table 103, p. 178-187.

14. Patricia P. Douglas, Montana Banking Study (Helena, Montana: Helena Branch, Federal Reserve Bank of Minneapolis, 1971), p. 8.

15. Ibid., page 10.

16. Ibid., page 18.

> This suggests that Montana banks outpaced banks nationally, at least in relation to economic growth. Stated another way, the growth of Montana banks was not as seriously affected by the sluggish growth of the state's economy during the 1960s as one would have expected.[17]

It is not within the scope of this paper to examine all the data and ramifications affecting Montana's commercial banks. Let it suffice to say that it seems as though the progress of Montana's commercial banks has not been impaired appreciably by the slow growth of the state's economy.

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17. *Ibid.*, page 27.

CHAPTER III

GROWTH AND REGULATION OF THE FIDUCIARY

The fiduciary concept of "trust and confidence" has been known since ancient times. Emperor Augustus enacted legislation referring to trust-held property, and it was at that time, as it has been since, that men have found it necessary to entrust other men with the custody and management of their property. Of course, it has always been the case, when upon death the property of the deceased must be administered by others.

For hundreds of years, whether by Augustus' _fidei commissa_ or by present day "trustee," there has been an agent selected as an intermediary for the administration and protection of property. Usually the agent was a friend, as there was little other alternative. This created obvious problems, as it was difficult to find the right man for such a cumbersome burden. This problem led to the idea of the "corporate trustee" and ultimately its development began to make headway in the early nineteenth century.

On April 17, 1822, the legislature of New York granted an insurance and loan company the power to hold either real or personal property in trust and to perform and execute duties prescribed therein.[18] In 1875, when the first report of the Comptroller of the Currency was issued, there were 35 trust companies: 12 in New York, 10 in Connecticut, and 7, 5, and 1, in Pennsylvania, Massachusetts, and Rhode Island, respectively. By 1900, there were about 500 trust companies with deposits of $1 billion.[19] A large increase in the number of banks offering fiduciary services took place from 1900 to 1924. Including both trust companies and trust departments of commercial banks, the number of corporate trustees was about 4,400--an increase of nearly 800 percent in 24 years. Aggregate assets amounted to approximately $20 billion in 1924.[20]

The first acknowledgement by the Comptroller of Currency regarding national bank fiduciary services was recorded in the 1927 Annual Report. In that year, 643 national banks were administering 26,000 individual trusts, and the number of banks applying for the right to exercise trust powers were increasing at the rate of 200 a year.[21] The McFadden Act became law in February 1927 and was of importance because it created stability as it gave banks intermediate charters which assured them that

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18. Clay Herrick, Trust Departments in Bank and Trust Companies, (New York: McGraw-Hill Inc., 1924), p. 2.
19. Ibid., p. 3.
20. Ibid., p. 8.
21. Comptroller of Currency, Annual Report, 1927 (Washington, D.C.: U.S. Government Printing Office, n.d.).

their charters would not expire before their trust obligations were fulfilled.

In the mid-twenties, the public began to recognize the advantages of trust banking. This is evidenced by the increase of trust accounts from 1926 to 1928. In 1926, national banks were administering 26,053 trusts; on October 3, 1928 the number had grown to 63,776.[22] On January 1, 1927, nearly a third of all national banks in the United States held permits to exercise fiduciary powers. As operations of trust departments have grown so have earnings that national banks report from that source. In 1927, trust departments were responsible for aggregate earnings of $10.8 million; this represented a gain of $4.8 million over 1925.[23] Moreover, many banks found their trust departments were not only a great service to the community but that they also brought new business to other bank departments.

In 1936, the Comptroller of Currency published a compilation of separate trust accounts. In that year, 1,573 active trust departments were administering 132,842 individual trusts with assets of $9.5 billion and 16,997 corporate trusts with assets of $11.1 billion. Of the total trusts being administered, 47 percent, or 70,194, were living trusts; 42 percent, or 62,648,

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22. Comptroller of Currency, Annual Report, 1928 (Washington, D.C.: U.S. Government Printing Office), p. 10.

23. Comptroller of Currency, Annual Report, 1927 (Washington, D.C.: U.S. Government Printing Office), p. 13.

were under court jurisdiction; and the remaining 11 percent, or 16,997, were under corporate agreement. Private trust assets were $7.7 billion while court trustee assets totaled $1.8 billion.[24]

Table 3 shows the number of national banks exercising trust powers declined 17 percent for the 20-year period, 1931-1951. Nevertheless, trust department assets increased by $16 billion, or 55 percent for the same period.

While the number of banks performing trust services again decreased from 1951 to 1960, gross earnings nearly tripled. In 1960, 38 percent of all national banks were authorized to exercise trust powers.[25] Of the total liabilities for accounts held by trust departments as of December 31, 1960, 35 percent were in living trusts and court accounts, and 65 percent were in agency type accounts.

From 1960 to 1970, active national bank trust departments increased 13 percent and totaled 1,696. This represents the largest percentage increase in operating trust departments for any ten-year period since 1928. Earnings also increased by 60 percent for the five-year period 1965-1970 (table 3).

Federal Regulation of Trust Departments

State trust companies professing "states rights" and

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24. Derived from Comptroller of Currency, Annual Report, 1936 (Washington, D.C.: U.S. Government Printing Office, n.d.).

25. Comptroller of Currency, Annual Report, 1960 (Washington, D.C.: U.S. Government Printing Office, n.d.), p. 10.

TABLE 3

FIDUCIARY ACTIVITY OF NATIONAL BANKS IN THE UNITED STATES SELECTED YEARS 1928-1970

Year	Number of National Banks with Authorized Trust Powers	Exercising Trust Powers	Aggregate Trust Department Liabilities ($000,000)	Gross Trust Department Earnings ($000,000)
1928	2,373	1,585	3,297	16
1931	2,407	1,856	15,960	26
1936	1,923	1,573	20,731	30
1941	1,863	1,537	18,686	32
1951	1,773	1,512	36,137	74
1956	1,722	1,486	39,000	117
1960	1,738	1,507	73,217	201
1965	1,865	1,574	89,952	360
1970	1,943	1,696	150,305	629

Source: Derived from Comptroller of Currency, Annual Report, 1928-1970 (Washington, D.C.: U.S. Government Printing Office, n.d.).

opposing the Federal Government's authority to grant fiduciary powers to national banks, were chagrined with the passage of the Federal Reserve Act of 1913. The 1913 act, especially Subdivision K of Section 11, opened the way for national banks to obtain the authority to act in a fiduciary capacity.

The states rights advocates persisted in their opposition until their case reached the Supreme Court in 1917. Chief Justice White handed down the decision that read:

> Section K of the 1913 Act is in fact constitutional but intends that State laws should govern and regulate national bank trust departments within the individual states.

In 1923, Regulation F, entitled "Trust Powers of National Banks," was enacted to supplement Subdivision K as it further clarified that the individual state was to be the primary regulator of national bank trust departments. This regulation covering fiduciaries went virtually unchanged for over 39 years.

The most significant development in the history of trust institutions has been the replacement of Regulation F by Federal Regulation 12-9, of 1962. The new regulation is entitled "Fiduciary Powers of National Banks and Collective Investment Funds," and it was enacted and issued on September 28, 1962. This regulation is more commonly referred to as "The Trust Powers Act of 1962" and grants the Comptroller the authority to:

> Grant by special permit to national banks applying therefore, when not in contravention of state of local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which state banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the state in which the national bank is located.
>
> Whenever state law authorizes or permits the exercise of any or all of the foregoing powers by state banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of state or local law within the meaning of this Act.[26]

Upon being charged with the regulation of trust powers for national banks the Comptroller promptly organized a trust division and enlarged the agency to handle the new job. In so doing, the examination of trust departments was separated and placed on a parity with commercial bank supervision. To make the Comptroller a viable supervisor of trust activities, young law school graduates were recruited and pay scales were revised to meet the competition. In 1963, Comptroller Saxon anticipated that, "the trust department of every national bank will receive a thorough and specialized examination during 1963, and annually thereafter."[27]

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26. General Services Administration, <u>Code of Federal Regulations</u>, Title 12, part 9, Chapter 1, (Washington D.C.: U.S. Government Printing Office, 1971), p. 120.
27. <u>Ibid</u>., p. 121.

Regulation 12-9 contains many far-reaching changes as it enumerates 19 specific areas. Structurally, it was improved by adding the section on definitions and eliminating many administrative procedures, such as the practice of granting certain trust powers and denying others.[28] The detailed requirements for trust organization were eliminated and the "good judgement rule," which required that all trust operations be conducted by committees, was also discarded.

The new law also requires that trust assets be held separate from the assets of the national bank and that the trust departments keep separate books and accounts. State banking authorities are authorized to examine reports rendered to the Comptroller of Currency, insofar as they relate to the trust department of the bank in question.

It is interesting to note that under the new law, no capital requirement is needed for the establishment of a trust department of a national bank. The regulation simply states that the Comptroller will: "take into consideration whether the amount of capital is sufficient, and other facts and circumstances that should be considered before a charter is granted. They include (1) the sufficiency of capital and surplus; (2) the needs of the community; (3) the general capital structure in relation to the asset and liability

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28. Not all national banks applying for trust powers succeeded in obtaining them. During 1970, 45 applications for permits to exercise fiduciary powers were received by the Comptroller and 26 were approved.

condition; (4) the management potential; and (5) the bank's access to legal counsel.[29] In actuality, provided that state laws regarding capital and surplus requirements are met, the Comptroller is governed only by his prudence.

In the area of reporting of statistical information, two important steps were taken. The Comptroller's Annual Report was revised to call for market values of trust assets, instead of cost value or unit value. This revision enabled the Comptroller to provide meaningful figures for the first time. The Comptroller also assumed the responsibility for collecting and publishing information concerning common trust funds.

In 1963, the Comptroller of Currency also undertook an intensive study of trust regulations and revised the Manual of Instructions for Representatives in Trusts. This was the first updating in 25 years. The manual contains all applicable laws, examination forms, instructions for conducting examinations, and interpretations of each. It is extensively used by trust departments throughout the United States.

Montana Requirements for Trust Operations

The Comptroller of Currency offers a great deal of latitude in his supervision of banks thereby making Montana law the primary regulator. Thus, the State Department of Business

29. General Services Administration, Code of Federal Regulations, Title 12, part 9, Chapter 1, (Washington D.C.: U.S. Government Printing Office, 1971), p. 120.

Regulation is the examiner of all trust funds and trust accounts held in possession or control of Montana banks or trust companies.[30] The Department of Business Regulation maintains the authority to prohibit all banking and trust business unless that business is operated within requirements of Montana law.

Montana law is fairly comprehensive as it classifies four distinct institutions which must adhere to the "Montana Bank Act". The classes are: (1) commercial banks: (2) savings banks; (3) investment banks; and (4) trust companies. These financial institutions are each subject to different operational requirements and are defined by the duties they are allowed to perform. More specifically, a commercial bank may receive deposits of money, lend money, and deal in commercial paper, securities, coins, and bills of exchange. A savings bank may accumulate and loan deposits of its members, and declare and pay dividends on these deposits.

An investment company may receive moneys in trust; buy and sell securities, bonds, and commercial paper; and accept money for deposit, either on time or demand.

Trust companies are formed and operated to perform the following:[31]

1. Receiving moneys in trust.

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30. Revised Codes of Montana, 1947, Sec. 5-207.
31. Ibid., Sec. 5-106.

2. Accepting and executing all such trusts and performing the duties therein.

3. Taking and holding real or personal real estate or trust in accordance with Montana law.

4. Acting as an agent for the investment of money, for either persons or corporations.

5. Accepting and executing and managing trusts for married women.

6. Acting as trustee in all cases when it is lawful for a person to establish a trust and act as a guardian for those who may be unable to manage the estates.

7. Loaning money on encumbered real estate.

8. Buying and selling bonds, commercial paper, stocks and other investment securities, bills, and foreign and domestic exchange.

9. Accepting and holding deposits, either time or demand, and operating safe storage.

Montana law governing trust departments of commercial banks is sketchy, with only the guidelines shown above. The code does, however, make reference to trust companies with regard to incorporation and organization. To incorporate, the amount of the capital stock of a trust company or investment company shall not be less than $100,000 or more than $10 million, of which $100,000 must be subscribed and fully paid up in cash and on deposit with some bank, or banks, in this state when the application is made for authorization to operate. The shares of common capital stock of all banks shall have a par value of $100. The Department of Business Regulation retains the right to cancel any certificate of authorization if the first meeting of stockholders is not held within 30 days of the incorporation date or if the corporation fails to conduct business within 90 days after incorporation.[32]

Bank affairs shall be managed by a board of directors of not less than three and not more than eleven persons. All must be stockholders and United States citizens and two-thirds of the board must be Montana residents. Each member of the board is required to own a minimum of $1,000 in bank stock. Each director is elected by the stockholders and serves a one-year term.[33] Generally a bank will apply for trust powers in conjunction with the original commercial bank application. However, if a state commercial bank wants to add a trust department, an application must be made to the Department of Business Regulation, Helena, Montana. The application is usually in letter form, and trust powers are usually granted after the capital of the applying bank is checked.

Within the last six years, three Montana banks have applied for and been granted limited trust powers. These banks only wished to accomodate their best customers, and generally only one or two individuals.[34] Many state banks also wish to call

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32. Ibid., Sec. 5-206.
33. Ibid., Sec. 5-208.
34. Statement by L. W. Alke, Administrator, personal interview, Financial Division Montana State Department of Business Regulation, Helena, Montana, April 27, 1972.

themselves "full service banks," which is another reason for making application for full or limited trust powers. The banks with limited trust powers have the authority to act as executors or administrators of estates and guardianships and may exercise these powers only when requested by established customers.

State examination of trust departments of Federal Reserve member banks is made in conjunction with Federal Reserve examiners. The Department of Business Regulation only verifies figures of trust departments and makes no attempt at analysis, as is done with commercial banks.

It is difficult to examine trust departments because there is no uniform system for carrying values of trust department assets. Essentially there are two systems employed, the cost of assets system and the unit value system. Unit value systems carry bonds at $1 per $1,000 and stock at $1 per share, or par value.[35] A combination of both systems is usually found in most trust departments, which means that figures taken from ledger accounts have relatively little meaning. As to the actual value of the property held, the unit value system is used primarly for internal auditing purposes, and generally requires that another set of books be kept for tax purposes.

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35. F. J. Skufca, Senior Bank Examiner, Montana State Department of Business Regulation, Helena, Montana, Personal Interview, April 28, 1972.

CHAPTER IV

MODERN-DAY TRUST SERVICES OF COMMERCIAL BANKS

Trust activity of commercial banks consists almost entirely of supervision, care and protection of property, both real and personal. To explain trust services one must further classify types of trust activity into two classes, public and private.

Public Trust Activity

Public trusts, created and maintained by the courts, are those considered to be matters of public interest, such as; settlements of estates, administration of testamentary trusts, and the administration of guardianships.

Settlement of Estates

The corporate trustee is commonly sought out to serve as an executor, administrator, or administrator-with-will-annexed in settling estates. An executor is an individual or corporate trustee named in the decedent's will. When the decedent leaves no valid will, the person is said to die "intestate", and the court appoints an administrator. If there is a valid will, but no executor is named or the one named cannot or will not serve, the court appoints an administrator-with-will-annexed.[36] Corporate trustees also serve in many other estate oriented capacities, one of which is aiding individual executors.

The settlement of the estate involves assembly and care of the decedent's property, payment of taxes and valid creditors' claims, and final distribution according to the terms of the will or according to state law if there is no valid will. While these duties may seem simple, their performance frequently is not and requires considerable expertise. For instance, the decedent's property may be in varied forms, such as: crops and livestock requiring immediate, specialized care; an operating business that would suffer by being closed during probate; a partnership interest or other interests which are difficult to evaluate; or personal items that may have little monetary value but are of importance to the family members. Items such as these cause particular problems when the decedent has failed to specify their disposition in his will.

In all cases, an attorney's services are required in the settlement of estates. The attorney prepares all documents, which he presents to the court on behalf of the executor or administrator. It is best that the attorney's services start well before the principal dies. In so doing the latter obtains

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36. McInnis, Trust Functions and Services, (American Institute of Banking, The American Bankers Association, 1971), p. 56.

professional services, such as the preparation of an adequate will and advice on trusts, gifts, joint tenancies, etc., a move which generally proves to be financially prudent.

Many other factors combine to add difficulty to already encountered problems. If the estate is greater than the allowable tax exclusion, federal estate and inheritance tax returns must be prepared. Community property laws, joint tenancies, valuation dates, gifts made prior to death, distribution to minors, and location of heirs and assets are only a few items that add to the complexity of estate settlements. The final closing of an estate requires a court order that is provided only after it is shown that the settlement is complete.

Testamentary Trusts

A testamentary trust is a trust created by the last will of the deceased. This type of trust is known as a trust under will and generally uses the corporate trustee for final distribution. This insurement enables the individual to retain sufficient control of his property, beyond death, to assure that, for example, college funds are available, care of elderly parents is accomplished, and so forth.

Testamentary trusts are also used to produce tax advantages. For instance, rather than leave all his property to his wife, a man might create a testamentary trust, thereby leaving all income to be paid to his wife, with the principal to go to his children upon the death of his wife. Therefore, rather than being reduced by federal estate taxes twice, the husband's estate is taxed only once, on his death (figure 2).

Guardianship

The term "guardian" regarding the corporate trustee applies to estates, minors, and incompetents. The guardian of a person, if one is appointed, is usually a relative or one personally involved. Property title does not pass to a guardian as it does to a trustee. The duties of an estate guardian usually include care of property, collection of income, and disbursals to the minors until they become of age, or to incompentents during their lifetime.

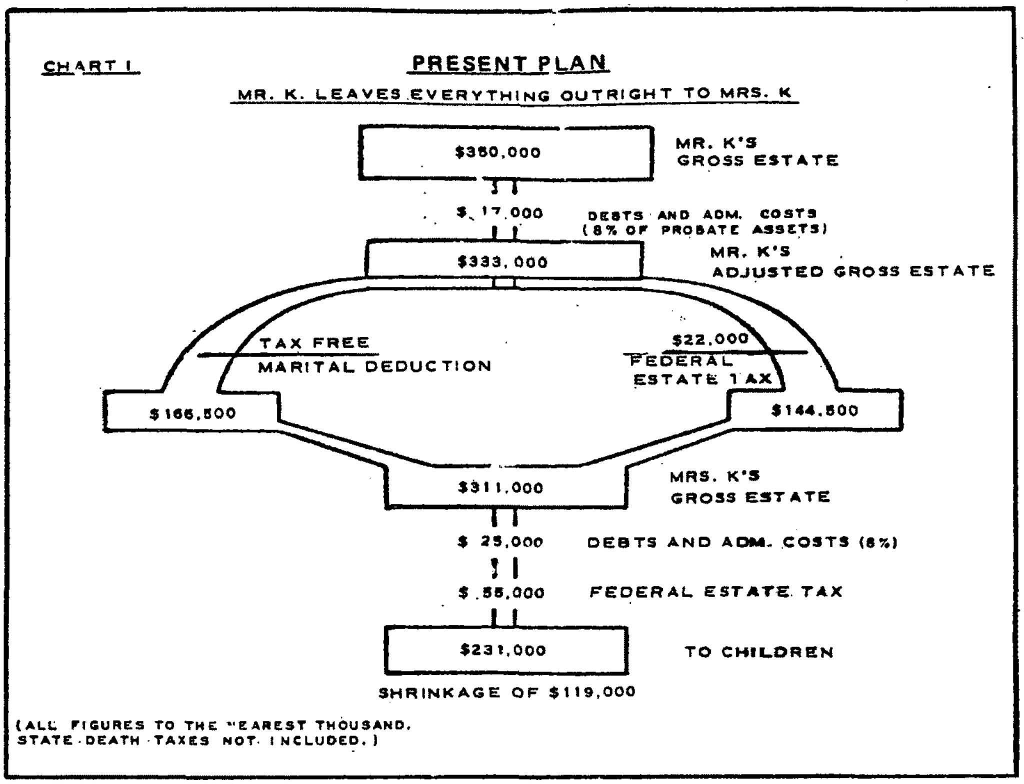
Many of the problems of administering guardianships arise as a result of actions of the wards. A minor may be delinquent, incurring fines or other expenses which are charged against his guarded estate. An incompetent, especially one of healthy body, may be particularly prone to involvement in problem situations.

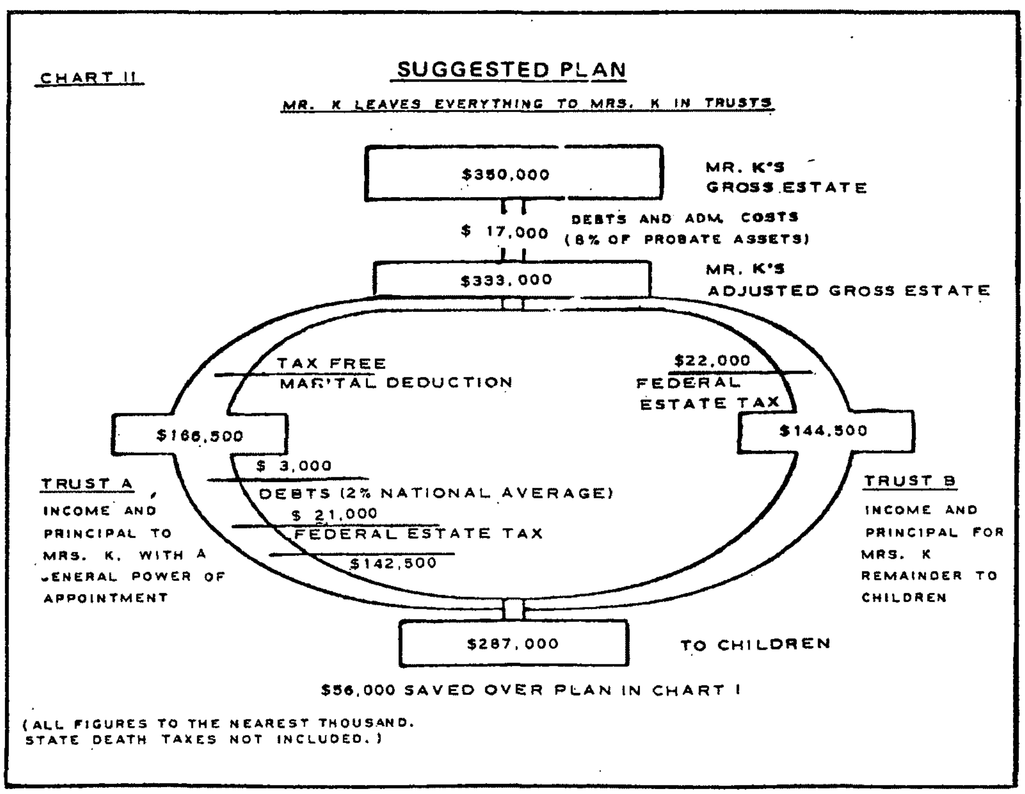
Private Trust Activity

Many trust activities are not considered matters of public interest. These include living trusts, life insurance trusts, trust indentures, and the performance of agencies.

FIGURE 2

COMPARATIVE ESTATE SHRINKAGE
OUTRIGHT INHERITANCE vs. TESTAMENTARY TRUST





Source: Martin C. Crandell and Arthur E. Downer, "Case History of a Working Team", Trust Bulletin, vol. 47, no. 1, (September 1967), p. 25.

Living Trusts

Living trusts, also termed voluntary or inter-vivos trusts, are established with a written agreement between the trustor and trustee and come into being while the trustor is still alive.

Title to property is held by the trustee, who manages it in accordance with the agreement and for the benefit of a third party. The trust is generally continued beyond death, whereupon the property passes to the beneficiary, avoiding probate of the property.

The living trust may be irrevocable or revocable depending largely on tax considerations. An irrevocable trust, once created, cannot be terminated and, if not made in contemplation of death, is not subject to inheritance and estate taxes. The principal, however, loses all control of his entrusted property. The amount will be subject to gift taxes, but if they are spread over a number of years and the exclusion advantage is taken, the effective rate should be far below the federal estate tax rate.

The revocable trust is subject to state inheritance and federal estate taxes but should still serve to reduce probate costs.

Life Insurance Trust

The life insurance trust consists wholly of life insurance proceeds which upon death are paid to the trustee for management or disbursal to the named beneficiary.

Trust Indenture

The trust indenture is an instrument under which corporations or municipalities issue bonds. As trustee under the agreement, the corporate trustee acts for the holder of the bonds. If the issuer defaults, the trustee must foreclose or take action according to the indenture.

Performance of Agencies

Trust agencies, like other agencies, act for another by the latter's authority. Under an agency agreement, the title to the property does not pass from the principal to the agent and the duties of the agent are usually of a limited scope. This agent-type performance can be separated into three classes; for individuals, for corporations, and for institutions.

Individual Agencies. The principal agencies for individuals are fiduciary safekeeping, custody, management, and escrow. In the fiduciary capacity, the corporate trustee acts as the aforementioned executor or administrator and is commonly called a probate agent. Safekeeping agencies generally provide for the receipt and safekeeping of the property, while custody agencies hold and administer securities.

Individuals frequently utilize the management agency which includes managing and investing in securities, as well as management of businesses, and represents the fastest growing area in trust banking. The largest of the two areas, performed by the corporate trustee, is the investment management department, which receives stocks and bonds, collects and dividends and interest, and takes care of the clerical duties. More important, the corporate trustee developes investment recommendations which the principal may approve or reject or which may be implemented without the principal's awareness if such discretion is granted in the agency agreement. All corporate trustees of any significance should have one or more officers with knowledge of investments. Many trust departments have separate departmental staffs with specialists in security analysis and investments.

Also an instrument of frequent use is the escrow agency. Escrow holder service is an agency agreement under which two or more parties deposit securities, money, or other documents to be delivered upon meeting certain conditions. The principals are usually a buyer and a seller or borrower and lender.

Corporate Agencies. Corporate agency functions that a trust institution most commonly may be called on to perform include those of transfer agencies, registrar agencies, dividend-paying agencies, depository agencies, and pension and profit-sharing plans.

Trust institutions are usually appointed by large corporations to act as transfer agents and handle records to insure stockholders against improper transfers, failure to effect transfers, and other errors concerning the stock. The same duties apply with regard to bonds.

As a "Registrar of Stock," the trust institution has the duty of guarding against an overissuance of stock. It also checks each transfer for originality of certificate and legality of transfer.

Of the corporate agencies listed above, the pension and profit-sharing plans occupy the largest share of most trust departments' time. Corporate trustees manage many of the private pension and profit-sharing plans of corporations and other employers. A pension plan calls for payments into a fund to be made by the employer in accordance with needs established by actuarial projections. Under a profit-sharing plan, the amounts paid-in depend on the firm's profits. Both types of plans have the basic purpose of providing retirement incomes for employees, but these plans may provide significant tax benefits for both employees and employer. Contributions to a qualified plan are tax deductible to the firm; frequently these funds can be invested in the sponsoring company's securities or loaned outright to the company, thus giving it the use of the funds. For the employee, the contributions are not taxed, thus providing him with tax-free, though deferred income. The benefits are taxable when paid, but the retired taxpayer is likely to be in a very low tax bracket.

The duties of the corporate trustee in administering pension and profit-sharing plans consist of receiving contributions, managing investments, keeping records, and making benefit payments. The investment management aspect is very important. Actuarial projections are made on the assumption of certain levels of income, and the future welfare of the company's employees is partially dependent on the corporate trustee's investment performance.

Institutional Agency. As agent for institutions the corporate trustee is commonly engaged to hold and administer endowed funds.

In summary, the corporate trustee has many advantages over individuals in the performance of trust activities. As prophesied by C. F. Morris in 1898, continuous existence is most important, as the corporate trustee continues to exist long after the death or incapacity of an individual who might have been named as trustee. Other advantages of the corporate trustee include impartiality, disinterest, financial responsibility, and superior ability to perform all services.

The extent to which any one bank performs all of the services described above may be limited. Many banks perform no trust services at all. Others have extensive trust departments and may provide numerous services other than those described above. There are many variations in the laws of the 50 states, but the above descriptions should give a general understanding of the most important trust services provided by commercial banks.

CHAPTER V

SUMMARY OF MONTANA TRUST ACTIVITY

The trust activity of Montana banks is modest in relation to that of banks in some states, but this segment of Montana banking has expanded in recent years and should continue to grow as more and more individuals and corporations become aware of the fiduciary services that banks can offer. This chapter summarizes Montana trust banking activity with emphasis on trust department profitability. The first section briefly describes the history of Montana's trust business. The second and third sections list and discuss Montana state and national bank trust departments presently in operation. Finally, the fourth section examines the profitability of Montana trust departments.

It should be noted that a difference exists between trust companies and commercial bank trust departments. Trust companies have no commercial bank affiliations, and there is only one in Montana and less than 100 in the United States. As one authority on trust banking states; "In only a few countries, and in those on only a comparatively small rate, has the pure trust company, wholly disassociated from a bank, thrived....[37]

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37. Gilbert T. Stevenson, Trust Business in Common Law Countries (New York: Research Council, American Bankers Association, 1940), p. 658.

Growth of Montana Trust Departments

The first Montana trust department began operation on January 17, 1898, as the Union Bank and Trust Company of Helena opened for business. The trust department was first headed by former Montana Chief Justice Claude F. Morris, and in 1903 he described early trust business in Montana:

> A rotten currency system, ineffective and grossly inadequate banking laws, the disposition of many bankers to take gambling chances, all contributed to destroy public confidence in the banks until in recent years, and such a situation was not at all conducive to bringing trust business to a bank. One of our best arguments in soliciting appointments as executors of wills, administrators of estates of deceased persons, etc., was the continued existence of a trust company, and the uncertainty of a person acting in any trust capacity.[38]

The second institution to secure trust powers was the Daly Bank of Anaconda, in 1903. During the years that followed, many banks obtained trust powers; but the volume of business was small and the risks were great, causing most banks to obstain from handling any trust business.[39]

"By 1947, however, the trust business had developed to the point where a trust committee of the Montana Bankers Association seemed desirable." Thus, an organizational meeting was held in Helena, and H. C. Schuyler was elected president of the first organization of trust men in Montana.[40]

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38. Dion, "History of Montana Banking," p. 407.
39. Ibid, p. 408.
40. Ibid.

In 1949, nineteen Montana banks held trust powers. Of these, seven were passively active, seven were considered active and five were completely inactive (table 4). The seven banks that are shown as maintaining passive trust departments questioned the profitability of trust department operation in their areas and didn't solicit new business. Of the five banks that were inactive in 1949, the Great Falls National Bank has since become active in the trust field.[41]

The 1949 figures show Montana trust departments accounting for approximately $10 million in trust assets and earnings of $45,000. At that time, the Union Bank of Helena and Security Trust and Savings Bank of Billings were the only two Montana banks that maintained trust assets over $2 million.

In 1965, J. H. Dion of the Union Bank and Trust Co., Helena, conducted a survey and found fourteen trust departments administering assets totaling $144 million, or 14.4 times the 1949 total. In addition, six trust departments reported assets exceeding $10 million and accounted for $135 million, or 93.7 percent, of total trust assets. The remaining nine trust departments ranged from $100,000 to $3 million in total assets.[42]

By year end 1971, thirty-one Montana banks held trust powers while twenty-six actually administered accounts. Trust

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41. J. H. Dion, Interview, Helena, Montana, August 1967.
42. Ibid.

TABLE 4

ACTIVE, PASSIVE AND INACTIVE MONTANA TRUST DEPARTMENTS, 1949

Active:	Billings	Montana National Bank
	Billings	Security Trust and Savings
	Bozeman	Commercial National Bank
	Butte	Miners National Bank
	Helena	First National Bank and Trust Company
	Helena	Union Bank and Trust Company
	Missoula	First National Bank
Passive:	Anaconda	Daly Bank
	Billings	Midland National Bank
	Bozeman	Gallatin Trust and Savings Bank
	Bozeman	Security Bank and Trust Company
	Dillon	State Bank and Trust Company
	Great Falls	First National Bank
	Great Falls	Montana Bank and Trust Company
Inactive:	Big Timber	Citizens Bank and Trust Company
	Deer Lodge	Deer Lodge Bank and Trust Company
	Dillon	First National Bank
	Great Falls	Great Falls National Bank
	Missoula	Western Montana National Bank

Source: J. H. Dion, Executive Trust Officer, Union Bank and Trust Company, Helena, Montana.

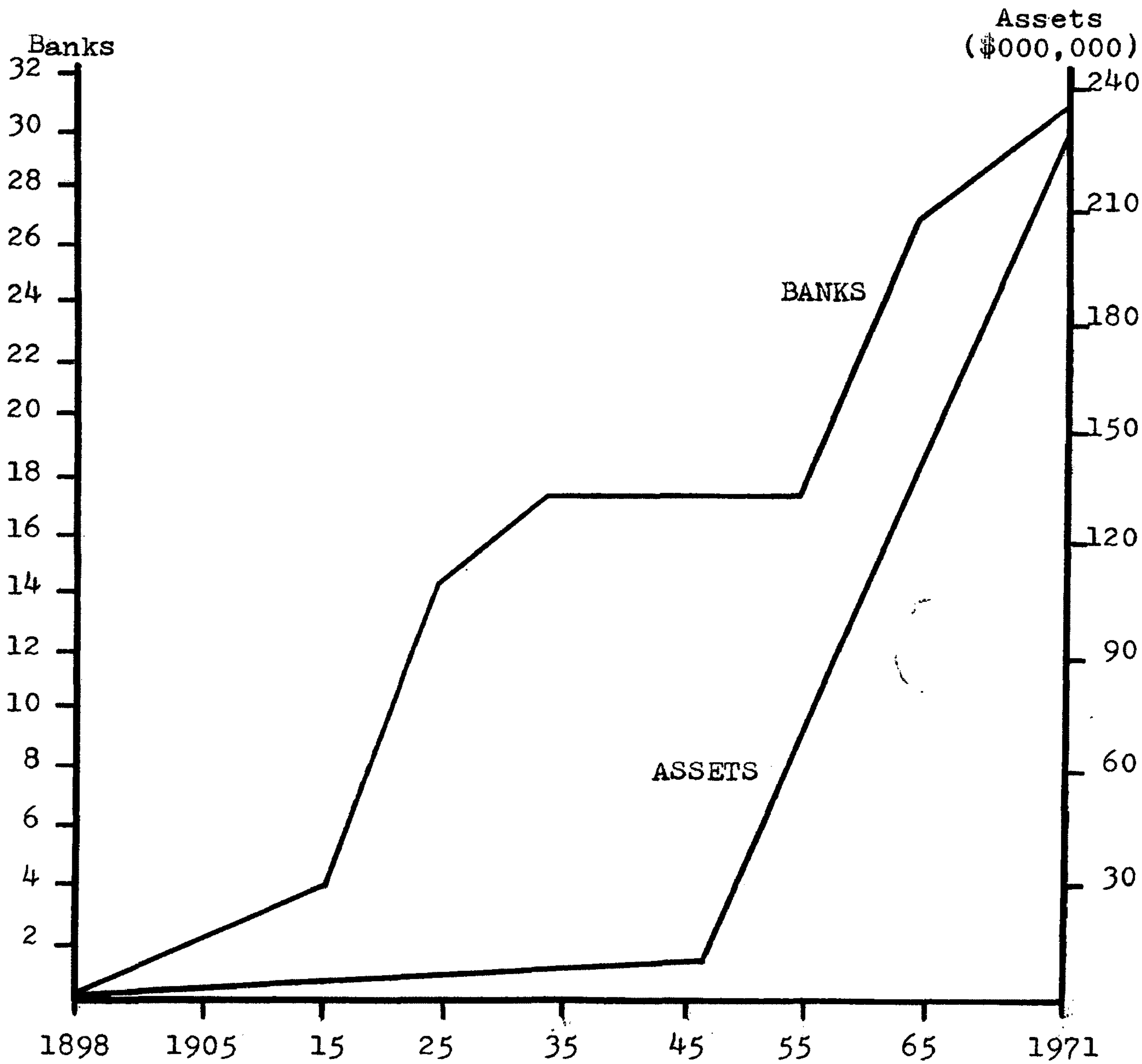
assets held by the active departments totaled approximately $215 million and ranged from $1,000 to $93 million. Figure 3 shows the number and assets of all Montana commercial bank trust departments from 1898 to 1971. The number is based on those trust departments that maintained trust powers in 1971 and assumes that no bank has ever relinquished their powers.

Prior to 1956, only large trusts had the advantage of well-balanced investments and correspondingly small trusts often suffered from their inability to obtain adequate diversification. As a result of increasing pressure applied by state trust bankers, common trust fund legislation was passed by the 1955 Montana Legislative Assembly. Shortly thereafter, Montana's first common trust fund was initiated by the Union Bank and Trust Company of Helena. In 1957, the same bank began a pooled trust for pension and profit-sharing accounts. Not only was this Montana's first pooled fund, qualified with the Internal Revenue Service, but also the first of its kind in the nation. The Union Bank also began Montana's first H.R.-10 (Keogh) plan in 1967. This plan provides qualified retirement plans for self-employed Montana residents and their employees.

All common trust fund investments are made under the supervision of their respective trust committees, and participation is limited to trusts of which the respective trust department is trustee or co-trustee. Usually no charge is made to participating accounts for admission or withdrawal;

FIGURE 3

NUMBER OF ASSETS OF MONTANA COMMERCIAL AND TRUST DEPARTMENTS
1898-1971



Source: Unpublished data obtained from Montana Commercial Bank Trust Departments, May 1972; and J. H. Dion, Interview, Helena, Montana, August 1967.

the only compensation allowed is the regular trustee's fee.

Since 1956, common funds have been initiated by three other Montana banks. The state's common fund assets have shown remarkable growth, increasing in size nearly 300 percent from 1963 to 1969. Nationally, common fund assets only doubled for the same period. In 1963, two Montana banks were administering four common funds, with 336 account participations and \$3.3 million in assets. The 1969 figures show four Montana banks administering six common funds having 770 account participations and \$9.4 million in assets. Nationally, common trust fund assets increased from \$4.5 billion to \$9.2 billion for the same six-year period.[43]

Presently, trust bankers are very optimistic about future common fund growth, and a noted economist shares their view:

> It is even more true today than it was yesterday that most people should not quarterback their own investments. Now that stock-exchange commissions are being rationalized in terms of true costs, the little man pays more when he buys and sells a few thousand dollars worth of stocks than when this is done on his behalf by a mutual fund, insurance company, trust department at the local bank.[44]

State Bank Trust Departments

Presently sixteen of ninety-two Montana state banks have

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43. Derived from Comptroller of Currency, Annual Report, 1963-1969 (Washington, D.C.: U.S. Government Printing Office, n.d.).

44. Paul A. Samuelson, "Personal Finance," Newsweek, (April 17, 1972), p. 83.

full or limited trust powers and account for total deposits of over $350 million (table 5). Of these, four have limited trust powers and are allowed to act only as executors or administrators of estates and as guardians and may exercise these powers only when requested by an established customer.[45]

In 1970, state bank trust departments accounted for over 2,600 trust accounts, $143 million in trust assets, and employed approximately 50 people (table 6). Asset size of these trust departments ranged from $1,000 to $93 million. Twelve state banks maintained 1,961 personal trust accounts with assets of $87.4 million and range from the largest having 1,136 accounts totaling $18 million to the smallest having one account totaling $19,300. Nine state banks were administering 371 personal agencies with total assets of $37.1 million. Nine banks also maintained 76 corporate accounts with assets of $78.1 million. Six state banks were administering 203 pension and profit-sharing accounts totaling $10 million in assets.

Presently, two state bank trust departments operate four common funds. The Union Bank of Helena and Security Trust and Savings Bank of Billings each administer two common funds, with combined total assets of $9.7 million. Both trust departments have an equity fund invested fully in common stocks and a fixed

45. L. W. Alke, Interview, Helena, Montana, April 28, 1972.

TABLE 5

MONTANA STATE BANKS WITH FULL AND LIMITED TRUST POWERS

City and Banks	Total Deposit in 1970 ($000)	Year Trust Powers Granted
Banks with Full Trust Powers:		
Big Timber, Citizens Bank & Trust Co.	8,352	1927
Billings, Security Trust & Savings Bank	98,581	1956
Bozeman, Security Bank & Trust Co.	26,635	1919
Butte, First Metals Bank & Trust Co.	49,295	1903
Deer Lodge, Deer Lodge Bank & Trust Co.	6,900	1921
Dillon, State Bank & Trust Co.	11,429	1915
Great Falls, Central Bank of Montana	8,290	1961
Great Falls, First Trust Co. of Montana	------	1956
Great Falls, Montana Bank	35,227	1959
Helena, Commerce Bank & Trust Co.	9,009	1959
Helena, Union Bank & Trust Co.	41,838	1898
Miles City, First Security Bank	17,687	1962
Banks with Limited Trust Powers:		
Columbus, The Yellowstone Bank	7,678	1969
Laurel, The Yellowstone Bank	10,590	1969
Shelby, First State Bank	10,785	1968
Shelby, Toole County State Bank	9,030	1964

Source: Unpublished data obtained from Montana State Bank Trust Departments, April 1972, and Montana State Department of Regulation, unpublished data, April 1972.

TABLE 6

NUMBER, ACCOUNTS, AND TRUST ASSETS OF
STATE BANK TRUST DEPARTMENTS
MONTANA-1971

Trust Assets Size	Number of Banks	Number of Trust Accounts	Total Trust Assets ($000)
$20,000,000 or more	3[a]	2,400	132,000
$2,000,000 - $3,000,000	4[b]	213	11,000
$100,000 - $300,000	1[c]	10	198
Less than $100,000	4[d]	11	
Inactive	4[e]		

Source: Unpublished data obtained from Montana State Bank Trust Departments, April 1972, and Montana State Department of Business Regulation, unpublished data, April 1972.

[a]Union Bank and Trust Co. (Helena), First Trust Co. of Montana (Great Falls), and Security Trust and Savings (Billings).

[b]Montana Bank and Central Bank of Montana (Great Falls), First Metals Bank and Trust (Butte), and Security Bank and Trust (Bozeman).

[c]First Security Bank (Miles City).

[d]Toole County State Bank (Shelby), Deer Lodge Bank and Trust Co. (Deer Lodge), First State Bank (Shelby), State Bank and Trust Co. (Dillon).

[e]Citizens Bank and Trust (Big Timber), Commerce Bank and Trust Co. (Helena), The Yellowstone Bank (Columbus), The Yellowstone Bank (Laurel).

income fund invested in bonds and real estate mortgages. Common funds of the Union Bank and Trust Co. account for over $8 million and approximately 65 percent of all common funds in Montana.

Montana's state bank trust department earnings are more than twice those of Montana national banks. Earnings of national bank trust departments in 1970 were $346,000 while state bank trust departments earned $700,000 (table 7).

In 1946, Montana state bank trust departments earned $17,000 or 38 percent of the total earnings of all bank trust departments. Since that time the earnings of state bank trust departments have increased far more than their national bank counterparts. Their percentage of the total has increased from 38 percent to 67 percent. In part, this is due to the large increase in assets of one state bank-The Union Bank and Trust Co. of Helena. This bank has done remarkably well considering the bank is located in a town with a population of only 25,000 (figure 4).[46] As one might expect, many of their large accounts are from out-of-state clients.[47]

In 1946, all United States state banks earned 57 percent of all trust department income. That figure gradually decreased, and in 1970 state banks were earning 44 percent of all trust department income (table 7).

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46. Winchester Bank, Trust Department Report, Winchester, Kentucky, 1968, (unpublished study).
47. Allen Peenstra, Interview, Helena, Montana, August, 1967.

TABLE 7

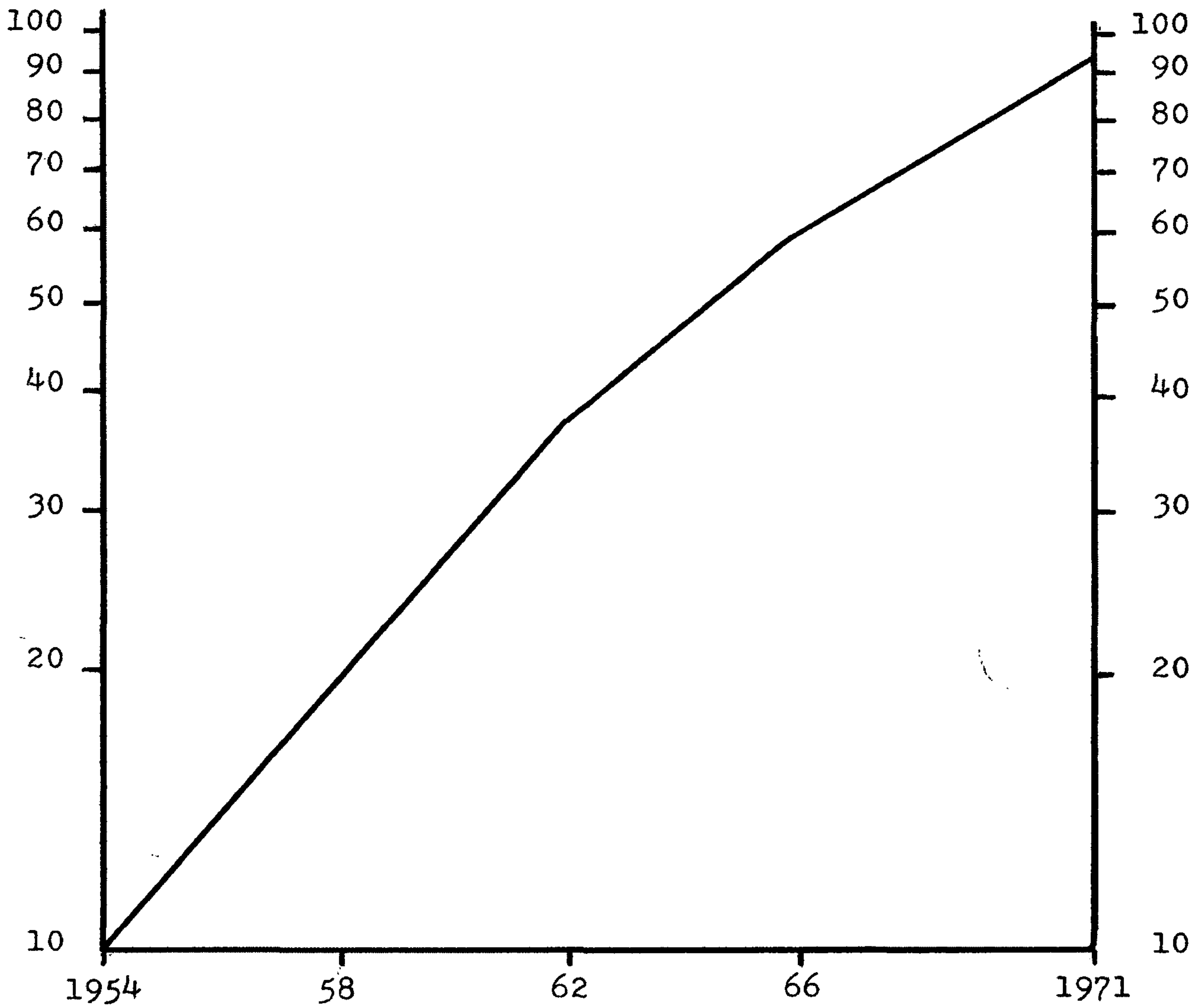
TRUST DEPARTMENT INCOME OF BANKS, MONTANA AND UNITED STATES SELECTED YEARS, 1946-1970

	1946	1951	1956	1960	1965	1970
Montana						
All Insured Commercial Banks ($000)	45	55	133	238	585	1,046
State Banks ($000)	17	31	84	178	273	700*
National Banks ($000)	28	26	49	60	272	346
National Banks as a Percentage of all Banks	62%	47%	37%	25%	46%	33%
United States						
All Insured Commercial Banks ($000,000)	140	192	321	502	689	1,132
State Banks ($000,000)	80	116	205	302	329	502
National Banks ($000,000)	60	191	116	200	360	630
National Banks as a Percentage of all Banks	43%	39%	36%	40%	52%	55%

Source: Derived from Comptroller of Currency, Annual Report, 1946-1970 (Washington D.C.: U.S. Government Printing Office); and F. J. Skufa, Senior Bank Examiner, Montana State Department of Business Regulation, Helena, Montana, Personal Interview, April 28, 1972.

FIGURE 4

GROWTH OF A MONTANA BANK TRUST DEPARTMENT
SELECTED YEARS 1954-1971



Source: Winchester Bank, Trust Department Report, Winchester, Kentucky, 1968, (unpublished study).

Total net earnings for state bank trust departments in 1971 is estimated at $103,000. Only estimated, net cost figures are available as small banks do not allocate costs or segregate fees. It is a generally accepted fact that most small trust departments do not break even, and the banks only want to perform a full service for established customers.[48] However, some small banks are now indicating that by offering trust services, they may be able to retain funds that might otherwise flow to larger banks.

Montana National Bank Trust Departments

In 1946, ten Montana national banks had been granted trust powers; of that number, eight were exercising fiduciary powers and maintained 47 individual accounts totaling $3.8 million in assets. Thirteen corporate accounts were also being administered and accounted for $2 million. Trust department income derived from these assets totaled $28,000 and accounted for 63 percent of Montana's commercial bank trust income (table 7). In this early year, Montana national banks accounted for only .05 percent of all United States national bank earnings.[49]

By 1951, Montana national bank trust departments had shown very little progress. The number of accounts maintained had increased by only six, and the income earned by the trust

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48. L. W. Alke, Interview, Helena, Montana, April 28, 1972.
49. Derived from Comptroller of Currency, Annual Report, 1946 (Washington, D.C.: U.S. Government Printing Office.

departments decreased by $2,000.[50] The next nine years saw steady growth in Montana's national bank trust departments. The 1960 figures show that the total number of trust accounts increased over six times, numbering 980. Assets of these accounts totaled $24 million.[51]

By 1965, one more national bank was excercising fiduciary powers, bringing the total to eleven. These banks maintained a total of $46 million in trust assets, composed of $3 million in employee benefit accounts and $43 million in living trusts and agencies.[52]

In examining the income of the national banks, it was found that Montana national banks are not as actively engaged in trust activity as those in most states. In 1965, Montana national banks contributed 36 percent of the state's trust department income. Nationally, 52 percent of all insured commercial bank trust department income was derived from national banks, while Idaho and Wyoming national banks contributed 89 percent and 95 percent respectively. Only three states had national banks contributing less income to their states total trust department income: Rhode Island, New York and Kentucky contributed 31 percent, 27 percent and 28 percent respectively.[53]

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50. Comptroller of Currency, Annual Report, 1951 (Washington, D.C.: U.S. Government Printing Office.
51. Comptroller of Currency, Annual Report, 1960 (Washington, D.C.: U.S. Government Printing Office.
52. Derived from Comptroller of Currency, Annual Report, 1965 (Washington D.C.: U.S. Government Printing Office, n.d.).
53. Ibid.

By year end 1971, fifteen national banks were empowered to administer trusts, however, only eleven were active in the field (table 8). These eleven banks administered 1,089 accounts with assets totaling over $81 million (table 9).

Two Montana national banks are administering five common funds. The Midland National Bank of Billings has four funds, comprised of two equity funds and two bond funds. The Great Falls National has one common fund. Both banks common fund assets total approximately $1 million.

Postwar Profitability of Montana Trust Departments

Trust department profitability has been the subject of much controversy among trust men. How profitability is measured is also the center of controversy. Presently it is the feeling of most trust men that gross earnings is about as good a standard as any. The consensus at the 49th midwinter Trust Conference was stated by a panel on the "Problems of Small Trust Departments."

> We all are well acquainted with the fact that there is no good unit of measurement of a trust department. The book value of assets can be very misleading, because many of us have practices that vary from state to state and even from bank to bank, as to how the assets are picked up, whether at nominal value or a dollar per share, or how. Actually, the number of assets on the books or the dollar value on the books doesn't mean very much. Perhaps the best measure in the final analysis is gross income earned by the trust department.[54]

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54. American Bankers Association, Trust Division, "Panel on Problems of Small Trust Department," Trust Bulletin (March 1968), p. 360.

TABLE 8

MONTANA NATIONAL BANKS WITH FULL TRUST POWERS

City and Banks	Deposits 1970 ($000)	Year Powers Granted
Anaconda, First National Bank	34,804	1965
Billings, First National Bank and Trust Co.	54,291	1918
Billings, Midland National Bank	70,794	1923
Bozeman, First National Bank	34,151	1918
Bozeman, Montana National Bank	8,188	1915
Butte, Miners Bank of Montana	14,656	1935
Dillon, First National Bank	8,726	1923
Glasgow, First Security Bank, NA	16,259	1963
Great Falls, First National Bank	72,325	1925
Great Falls, Great Falls National Bank	58,891	1916
Helena, First National Bank and Trust Co.	46,300	1931
Kalispell, Conrad National Bank	34,038	1970
Missoula, First National Bank	36,463	1921
Missoula, Western Montana National Bank	41,072	1919
Wibaux, First National Bank	5,817	1963

Source: U. S. Comptroller of Currency, Unpublished Data (Washington D.C., May 1972).

TABLE 9

NUMBER, ACCOUNTS AND TRUST ASSETS OF NATIONAL BANK TRUST DEPARTMENTS MONTANA, 1971

Trust Assets Size	Number of Banks	Number of Trust Accounts	Total Trust Assets ($000)
$20-$25 million	3[a]	730	63,000[f]
$5.5-$6.5 million	2[b]	120	12,200
$1.5-$2.5 million	3[c]	183	6,000
$300,000-$400,000	3[d]	56	1,065
Inactive	4[e]	--	-----

Source: Unpublished data obtained from Montana National Bank Trust Departments

[a]Midland National Bank (Billings), Great Falls National Bank (Great Falls), and First National Bank and Trust (Helena).

[b]First National Bank (Billings), and First National Bank (Bozeman).

[c]First National Bank (Missoula), First Security Bank NA (Glasgow), and Conrad National Bank (Kalispell).

[d]Miners Bank of Montana, NA (Butte), Montana National Bank (Bozeman), and First National (Wibaux).

[e]First National Bank (Anaconda), First National Bank (Dillon), First National Bank (Great Falls), and Western Montana National Bank (Missoula).

[f]Estimated figure. Midland National of Billings was reluctant to devulge exact figures and would only say that their trust assets were over $20 million.

Income growth of Montana commercial bank trust departments during the postwar period has been remarkable. From 1946 to 1969 Montana's trust department income increased over 2,000 percent. Nationally, trust income has increased only 721 percent while in both Idaho and Wyoming it has increased 761 and 572 percent, respectively (figure 5).

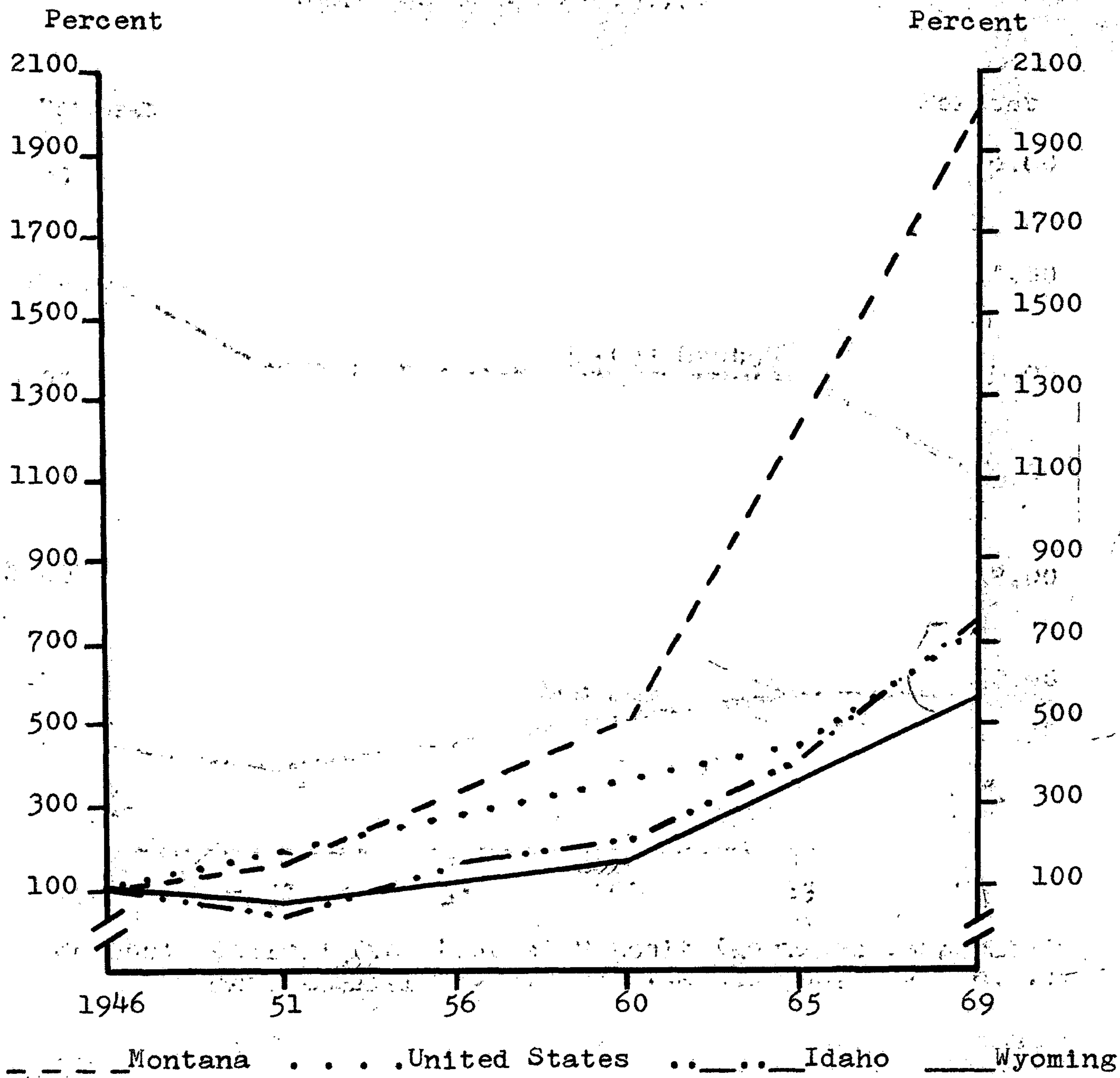
Montana trust department income has also been increasing as a percentage of current operating income. In 1946, Montana trust departments contributed less than .05 percent of the state's total commercial bank current income. Since then this figure has increased to slightly less than 1 percent. Nationally trust departments have contributed far more to their banks' operating earnings. In 1946, all United States bank trust departments contributed nearly 5 percent of total current operating income. However, since 1946, these trust departments have not kept pace with other earnings categories and by 1970, were only contributing 3.26 percent to the total (figure 6).

Montana's trust department income totaled $926,000 in 1969. The largest share of this income, $573,000, was contributed by banks with deposits in the $25-$50 million range. The next largest income share, $278,000, came from the $50-$100 million class. Nationally, the largest holders of trust income are banks with deposits of $1 billion or more (table 10).

By deposit category, Montana banks with deposits of $25-$50 million had the largest trust income accounting for 2 percent

FIGURE 5

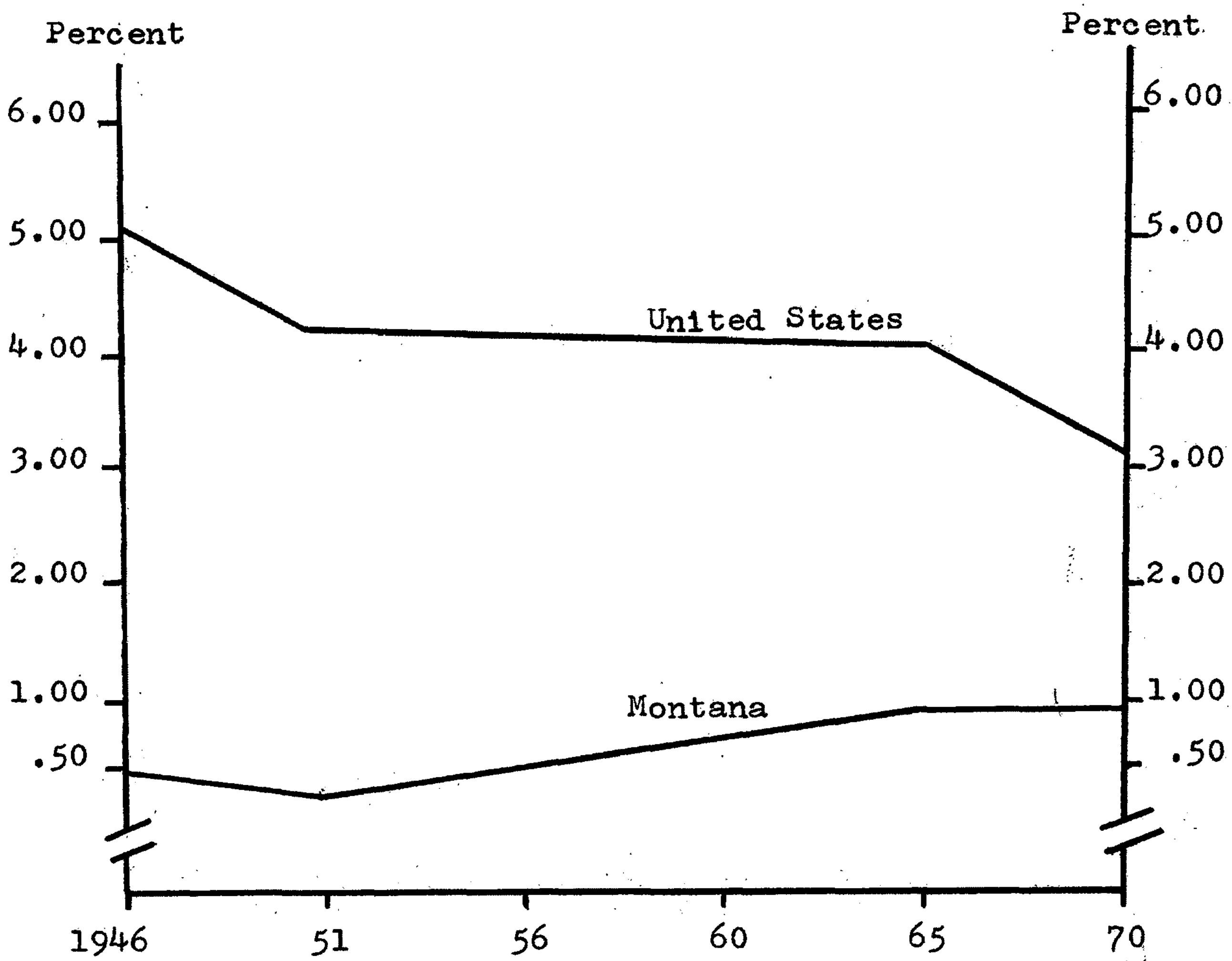
PERCENT INCREASE IN TRUST INCOME OF INSURED COMMERCIAL BANKS
MONTANA, WYOMING, IDAHO, AND UNITED STATES
Selected Years 1946-1969



Source: Derived from Federal Deposit Insurance Corporation, Annual Report, 1947-1969 (Washington, D.C., n.d.).

FIGURE 6

TRUST DEPARTMENT INCOME AS A PERCENTAGE OF CURRENT OPERATING INCOME MONTANA AND UNITED STATES Selected Years 1946-1970



Source: Derived from Federal Deposit Insurance Corporation, Annual Report, 1947-1970 (Washington, D.C., n.d.).

TABLE 10

TRUST INCOME OF INSURED COMMERCIAL BANKS
MONTANA AND UNITED STATES, 1969
BY SIZE OF DEPOSITS

Deposit Size ($000,000)	Montana	United States	Montana	United States
	Trust Income		Trust Income as a Percentage Current Operating Income	
Under 1	0	1	--	0.01
1-2	0	4	--	--
2-5	2	425	0.02	0.07
5-10	62	2,409	0.03	0.15
10-25	14	16,839	0.06	0.53
25-50	573	33,497	2.00	1.33
50-100	278	43,093	1.50	1.94
100-500	--	217,588	--	3.72
500-1,000	--	147,555	--	4.97
1,000 or more	--	560,419	--	4.85

Source: Federal Deposit Insurance Corporation, Annual Report 1969 (Washington D.C., n.d.), table 117, p. 283; and Ninth Federal Reserve District, "Summary of Income and Dividends, Based on Report of Condition for December, 1969," unpublished data (Helena, Montana).

of the classes' total operating income. Nationally the $1 billion and over class had trust income that accounted for 4.85 percent of that class's operating income (table 10).

Although Montana's total income is modest compared to that of larger states, it has been growing in recent years. As a basis of further comparison, table 11 shows the changes (in index form) in population, total deposits, total operating income and trust income for Montana, Idaho, Wyoming and the United States. It can be easily ascertained that Montana's population, deposits and total earnings are competitive with those of the other two states and the United States, while its trust income has grown far more than that of the United States, Idaho or Wyoming.

Of course, this is caused, in part, by the very low trust income recorded in 1946. In that year Montana's commercial bank trust departments earned $28,000 in income and ranked forty-six among the 48 states. At that time, this figure ranked ahead of only South Dakota and North Dakota. Since 1946, Montana has surpassed six more states to be ranked forty-third among 50 states in 1969. Seven states falling behind Montana are Alaska, Idaho, New Hampshire, North Dakota, South Dakota, Vermont and Wyoming.

TABLE 11

SELECTED MEASURES OF COMPARISON OF INSURED COMMERCIAL BANKS
MONTANA, IDAHO, WYOMING AND UNITED STATES
SELECTED YEARS 1946-1969
(INDEXES, 1946=100)

	1946	1956	1960	1965	1969
Population					
Montana	100	119	137	142	140
Idaho	100	123	138	136	141
Wyoming	100	120	128	131	128
United States	100	121	131	141	147
Total Deposits					
Montana	100	127	171	231	308
Idaho	100	130	152	210	289
Wyoming	100	150	184	243	324
United States	100	167	194	241	318
Total Current Operating Income					
Montana	100	298	427	626	1020
Idaho	100	282	441	673	1574
Wyoming	100	280	415	634	1085
United States	100	245	396	587	1075
Trust Department Income					
Montana	100	296	528	1300	2057
Idaho	100	157	240	496	761
Wyoming	100	120	205	480	572
United States	100	230	328	492	729

Source: Derived from Federal Deposit Insurance Corporation, Annual Report 1946-1969 (Washington, D.C., n.d.); idem., Asset Liabilities and Capital Accounts: Commercial and Mutual Savings Banks, 1946-1970 (Washington, D.C., n.d.).

CHAPTER VI

CONCLUDING OBSERVATIONS

In order to evaluate Montana trust departments, a generally accepted standard of measurement--assets and earnings--must be used. In 1968, a trust bankers' panel at the 49th midwinter trust conference agreed:

> A small department is one with assets under $10 million; the medium trust department was $10 to $100 million; and of course, anything over $100 million would be considered large.[55]

By this standard Montana has only six medium size trust departments; the remaining twenty-five are below the $10 million mark. Interestingly enough, of the nation's 3,300 trust departments, 2,300 of them had assets of less than $4 million.[56]

The federal reserve bank of New York uses earnings to classify trust departments, with the conclusion: "If you gross under $100,000, you are a small trust department."[57] By these terms, Montana has six trust departments that would not be ranked in the "small" class. In 1970, one Montana trust department earned over $400,000, the other five ranged from $101,000 to $120,000.

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55. American Bankers Association, "Panel on Problems of Small Trust Departments," p. 360.
56. *Ibid.*
57. *Ibid.*

Trust departments in the larger Montana cities offer the full range of trust services. Of Montana's 31 bank trust departments, at least sixteen can perform all or most of the services discussed in Chapter IV, and another six are performing the more important ones.

Many would think that Montana trust departments primarily administer farm and ranch property, such is not the case. The largest share of the state's trust assets are invested in stocks and bonds. Furthermore, trust departments seldom receive appointments as executors under wills of farmers and ranchers.

Montana trust departments are more similar to big city trust departments than most people expect. Officers in the state's large trust departments think that to retain the large accounts, services offered must be comparable to those offered elsewhere. Investment records must also be competitive; it is not difficult for potential customers to check common trust fund performance against mutual funds or published reports of out-of-state trust departments.

How does Montana trust business differ from that of the larger metropolitan areas? First, Montana does not have a large number of corporate accounts, such as those swelling trust assets of big city banks. For instance, a survey of ten New York City banks showed the largest contributor to earnings was the stock transfer fee, which averaged 27.3 percent of the ten banks' trust income. This type of trust activity is practically nonexistent in Montana banks. The few large corporations in the state have eastern headquarters, and the smaller local companies do not need trust service as they do not issue securities.

Most Montana trust bankers believe the personalized services they offer are the most important difference between Montana banks and large city trust banks. In the trust business confidence is an important factor and, in smaller communities, bank officers usually become more involved and follow through with the services they provide.

Branch banking, which has been an important factor in the expansion of trust business in several western states, is prohibited in Montana. This has hampered the growth of the trust business, because frequently a banker in a small community will not recommend trust services to his customers lest he lose a commercial account.

Finally, and basically, Montana's economy is such that there are fewer multimillion dollar accounts from which to draw trust business. This, therefore, leads to smaller trusts and estates and less trust income and discourages smaller banks from initiating trust operations.

Gradually as urbanization, wealth, and complexity of tax laws increase, trust activity in less densely populated states will become more and more important.

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