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Secret bank records shine light on 1920s boom and bust

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In the summer of 1926, bank failures in southeast Florida sent depositors running to claim their deposits. Most came away with little or nothing. This scene was in West Palm Beach.

The real estate market decline and the subprime mortgage meltdown have claimed victims big and small, from the mammoth Citigroup and Bradenton's Coast Bank to families' equity in their homes.

It all has a familiar ring to a Tallahassee lawyer and historian named Raymond Vickers.

Vickers studied the Florida land boom and bust of the 1920s, and came up with a different story from the one told for decades by historians.

"Fraud and abuse" by banking insiders wrecked the economy then, he says, and he suspects that the same thing happened during the recent rise and fall of real estate, as well as during the savings and loan debacle in the 1980s.

Greed is the common denominator in the standard 1920s boom histories and Vickers' revision, but he says the problem was much deeper than that. It was a violation of trust on the part of bankers and developers that often was criminal in scope, he wrote in "Panic in Paradise" (University of Alabama Press, 1994), which Florida Southern College history professor James M. Denham hails as one of the five best books written on Florida history in the past two decades.

After analyzing previously secret bank-examination records, Vickers wrote that unscrupulous bankers created a financial climate in which the South Florida boom could flourish. Specifically, bankers were in bed with real estate developers, while bank regulators, including Florida comptroller Ernest Amos, were kept quiet with unsecured personal loans. Amos, who was later indicted, actually trumpeted the health of the banks when he knew they were in deep trouble.

"It was the reason for the real estate collapse," said Vickers, a banking attorney who was Florida's top appointed bank and securities regulator in the 1970s, and who earned his doctorate in history from Florida State University in 1990. "Fraud and insider abuse was the reason, and the reason for the current collapse is fraud and insider abuse. I don't think anyone has focused on that."

In the historical community, Vickers has his supporters and detractors. One of the detractors, University of Dayton economics historian Larry Schweikart, says Vickers' premise is wrong because business ethics were different in the 1920s than they are today, and that it was common for businessmen to start banks to fund their ventures. "Insider deals were the lifeblood of banks well into the post-depression era, when it was then considered to be a bad thing," Schweikart said.

But in claiming that the bankers "looted" the banks for personal gain, Vickers scoffs at Schweikart's argument. "Thou shalt not steal," he reminds, is not a new concept.

What history books say

Maybe you've read about the 1920s Florida boom, in the many picture books by popular Sarasota author Jeff LaHurd, or the 1984 classic "Fifty Feet in Paradise," by David Nolan. Vickers wouldn't dispute much of their accounts.

Yes, Florida real estate soared in value after World War I as Americans became wealthier and more mobile than ever, and marketers and advertisers became more adept at selling slices of "paradise." "It's June in Miami!" proclaimed the billboard that Miami Beach developer Carl Fisher hung in New York's Times Square in the winter of 1920.

In the profit-mad America of the Roaring Twenties, millions came to explore and invest. Hundreds of thousands stayed, as the boom, which started in Dade County, spread up both coasts and even caused the creation of new subdivisions in the state's interior.

"Florida became Florida in the 1920s," said Gary Mormino, a professor of Florida studies at the University of South Florida's St. Petersburg campus. "That is, the Florida that we recognize today and despise or love, the fast-paced Florida, the romantic, exotic Florida, symbolized by the tempo of Miami Beach and the decadence of Palm Beach and the architectural wonders of Sarasota -- that's all a '20s phenomenon."

Easy credit and stories of fast profits by everyday people brought an influx of investors and speculators to Florida. They traded binders (documents that reserved for 30 days a piece of property for a small deposit and were easily resold) and deeds for building lots, many of them underwater or undeveloped, it turned out. But it was a house of cards, a "classic speculative bubble," leveled by deadly hurricanes in 1926 and '28, negative publicity back North, and a transportation crisis in the winter of 1925-26 that kept building materials out of the state when they were needed the most.

"It was the parable of the eternal sucker ... who makes all booms and is always caught in them," wrote Burton Rascoe in the foreword to the 1932 book "Boom in Florida" -- a remarkably candid account because its Miami-based author, T.H. Weigall, lived through it.

But most histories of the boom were written before "Panic in Paradise." These texts don't mention banking and banks, except as victims of the real estate crash, because Florida bank records were sealed by Amos after his indictment, and kept secret until Vickers fought to get access to them. Now, records of solvent banks are kept secret in perpetuity, said Vickers, who has represented more than a hundred banks in his legal career, while the records of banks that fail are locked away for 50 years. Vickers had a hard time getting access, six decades after the fact, to the records of Florida banks that failed in '26 (he succeeded by threatening to sue and marshaling support among historians and the media), and could not get Georgia's records at all.

Armed with the secret bank records, Vickers wrote, "Heretofore, the banking calamity (of 1926) has been blamed on the collapse of the Florida land boom. It was believed that a precipitate drop in real estate values created a regional recession that caused the unprecedented number of bank failures. Previous studies have not analyzed the cause of each bank failure, and thus bankers and their regulators have not been regarded as the primary problem. ...

"Using government documents, which stayed secret for sixty-three years, I have determined why so many banks failed in Florida during the 1920s. The sad story told by these records is that insiders looted the banks they pledged to protect. They tried to get rich by wildly speculating with depositors' money, and when their schemes failed, so did their banks."

Vickers shows that from early in the 1920s, bankers were in control, particularly J.R. Anthony and W.D. Manley, who headed a chain of banks in Florida and Georgia; they were key figures in the wheeling and dealing. Bank officials partnered with developers, such as Coral Gables founder George Merrick. Meanwhile, bank regulators were given unsecured personal loans by the bankers in an attempt to keep them talking up the health of the economy and looking the other way when examiners' reports showed shady dealings, Vickers wrote. And political support was plentiful. At one time, all five Miami city commissioners were bankers.

"This linkage between bankers, promoters and politics led to a reckless expansion of the economy, which inflated real estate values to irrational levels," Vickers wrote.

Formula for deception

In a review of Vickers' book for the Business Library Review, Auburn University Prof. David Whitten, now retired, summed up the scheme:

"The developer and his partners secured a charter for a state (and sometimes federal) bank. Obstacles to chartering were overcome by bringing powerful politicians into the company. Once established, the developers drew off depositors' money in unsecured personal loans for themselves, supporting politicians, and bank regulators. These loans were rarely repaid.

"Bank officials raised funds for the development project by selling their bank shares in the project, then repurchasing the shares at original price if the market value had increased, but otherwise leaving the shares with the institution. It was not unusual to leave the bank with paper that represented nothing, for the funds were invested in an ancillary company that either had no assets or had liabilities vastly outweighing its assets.

"When a bank or development company faced receivership, the bandit operators diverted anything of value to another bank or company they owned, leaving in its place worthless paper. Bank examiners reported insolvent banks to their superiors (regulators) without effect. Insolvent banks operated for years, financial time bombs waiting to detonate."

At the middle of much of it, Vickers wrote, was Addison Mizner, who created the Mediterranean Revival style of architecture that is still popular in Sarasota and elsewhere in the state, but also floated his Boca Raton dream development on a sea of "worthless paper." When he went bankrupt, his creditors received a tenth of a cent on the dollar (an engineering firm that was owed $30,764 walked out of court with $30.76).

Mizner's personal culpability is refuted in the biography "Boca Rococo," written by Caroline Seebohm and published in 2001. She says Mizner may have known about wrongdoings, but he was the artist and creative spirit of the Mizner Development Corp. and couldn't tell one side of a ledger from the other. But could the same be said of his swindling brother Wilson? (See sidebar.)

Sarasota's banks

Vickers' book, which apparently had a limited impact among historians when it came out, is subtitled "Florida's Banking Crash of 1926." It is no secret that many banks crashed as the real estate boom went bust, but it was believed that they failed because of it. In fact, they were the cause, wrote Vickers.

Although Vickers said he did not see a single case of bank failure that was not linked to fraud and abuse by the bankers, it cannot be said that all banks were crooked in Florida. And, not all of them failed in 1926. Three of Sarasota's banks didn't fail until 1928, with depositors recovering from 18 to 42 cents on the dollar. In 1933, the Ringling Bank and Trust Co. went into voluntary liquidation, with Edith Ringling, widow of the founder, Charles Ringling, nobly reimbursing depositors in full ($250,000) out of her own funds.

But such virtue was rare among the bankers Vickers studied.

Next week: Raymond Vickers calls for an end to bank secrecy.

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