

## CHAPTER XVII

Banking—Monopolies discouraged—Government supervision—Growth of banking—State banks and charters—Agricultural banks—Opportunities available—Increases of capital—Bank of Jalisco—Descuento Español—Chinese Bank—French capital in Mexico—American Bank—Banco Internacional é Hipotecario—Banco Agricola é Hipotecario—Clearing-house—Continental shareholders—Combined statement of chartered banks to February 1907.

I HAVE on previous occasions referred to the fact that the Mexican Government is sternly opposed to monopolies of any kind or in any guise. They have been tried over and over again, both with and without Government aid; but always with the selfsame result—failure. The nearest approach to any monopoly in Mexico is the Mexican Light and Power Co., a huge Canadian enterprise of which the management is at times deemed somewhat autocratic; but the services rendered to the public being unmistakeably good, little is thought about any lack of competition.

An instance of the Government's good intentions in breaking down and keeping down any growth of monopolies is found in the banking laws. Here we have measures expressly designed to afford the whole country absolutely free banking outside of the Federal District, in which the most important chartered banks of the Republic are located. The same policy which directs the pitting of one railway against another is favoured in establishing one bank against another, rivalry and honest competition being freely encouraged; and thus the growth of industries is fostered. New banks are continually being established, but it is certain that no others will receive Government charters, the Finance Minister, M. Limantour, having arrived at the conclusion that there are now sufficient of these—thirty-four in number—for all practical purposes, as, indeed, is the case.

The Banking Laws deal with three kinds of banks—the Banks of Issue, the Banks of Mortgages and the Banks of Agriculture. The underlying principles of the laws are two-fold, Government supervision and banking freedom both in regard to organisation and management. While at first glance the two conditions may appear to be incompatible, in truth they are perfectly harmonious. Banks of issue and discount have been established in all the States and Territories of the Republic, with the exception of the Federal District, where the concessions of existing banks have been and will be respected. The banks of issue and discount are the only ones authorised to issue bills payable at sight or to bearer. The rules and regulations covering these issues are as follows:—

(a) The issue of notes must never be in excess of three times the capital stock actually paid up, nor may it—plus the sum total of deposits payable on demand or at more than three days' call—be more than twice the holdings of the bank in specie and in gold and silver bullion.

(b) Loan and discount transactions must not be entered upon for a longer period than six months, nor with fewer than two responsible signatures, unless a collateral security be provided.

(c) No transaction secured by mortgage can be entered upon.

These simple but complete provisions eliminate to a great extent the dangers which usually attend operations on the part of banks of issue, while affording these institutions every opportunity to carry out the usual demands of commerce and industry. With more particular reference to the principle preventing the banks from tying-up their capital for lengthy periods, it may be observed that whenever banks of issue have become insolvent, whether in countries where the system of banking monopoly prevails or where the institutions may be founded without restriction as to number or capital, such catastrophes have almost invariably been occasioned by the fact that Governments or individuals have owed them money for long periods, either by virtue of the original terms of the loan or because the borrowers were unable to pay within the stipulated time. As in the case of some of the South and Central American State Governments—and in one particular

case at least, within my knowledge, of a Federal Government—when they are unable to repay the amount of their borrowings, the Governments do not hesitate to release the lending banks from their obligations to redeem their note issues on demand, which therefore become legal tender. The Mexican Banking Laws have sought to avoid these pitfalls and subterfuges, and insist upon the carrying-on of honest finance. They have laid down sensible and strict regulations based upon scientific principles to regulate the circulation, and have taken every precaution incumbent upon them to see that the redemption of notes proceeds unhindered. In order to prevent the undue multiplication of banks of issue, the laws grant exemption from taxation only to those institutions which were first established in each of the States and the Federal Territories.

A little more than a dozen years ago the number of banking institutions did not exceed three, the oldest of which had been established in 1864. Even this was practically but a branch of a British banking firm having correspondents in the various Latin-American countries. For nearly twenty years this bank had the field to itself, but in 1882 the National Bank (Banco Nacional de Mexico) was founded. Then, up to the end of 1889, the number of banks was limited to six. In 1893 there were three Banks in Mexico City and eight others in various portions of the Republic, distributed among the twenty-seven States and three Territories—clearly insufficient. The Mexicans, however, were a long time being educated to the use of a bank, and even the wealthiest among them preferred to hoard their savings and capital in strong-rooms of their own to entrusting them to strange keeping. It was equally difficult to popularise cheques. *Vales*, or bills, were in circulation among merchants and their customers, but silver was the principal medium employed, for this the people had understood all their lives, and loved the handling of the heavy, clumsy, but easily countable *pésos*. Banks now exist in every single State of the Republic, and in many of them several competitive institutions are to be found.

There is no doubt that this condition of things has come about mainly on account of the enterprise of Americans, in

whose hands many of the most successful banks are to-day. It is they who have introduced modern methods of accounting, and adopted an entirely new system of commercial trading.

There are at present five Chartered Banks in the City of Mexico, two of which are banks of issue, and over sixty State banks for the rest of the Republic, including branches of the principal City institutions, such as the Banco Nacional and the Banco de Londres y Mexico. Of the twenty-seven States, twenty-three have banks located within their boundaries, and these have branches in several adjoining States. Whereas probably \$500,000 represented the amount of the deposits a decade ago, to-day the combined deposits of the banks, native and foreign, exceed \$55,000,000 (*Mex.*), of which some \$25,000,000, or more, may be said to be American. The only British bank is the International and Mortgage Bank of Mexico (Banco Internacional y Hipotecario), although at one time the Bank of London and Mexico (Banco de Londres y Mexico) was under British control, but has since passed into the hands of some very capable French owners. The total circulation of all the banks may be put at \$180,000,000 (*Mex.*), which is largely issued on the basis of capitalisation of about \$186,000,000. It would take a bold prophet to foretell, or even to hint at, the figures during the next ten years, more especially when the expansion of the Republic's internal as well as its foreign commerce is taken into consideration.

Of the advantages accruing to most countries from a sufficiency of well-conducted Agricultural banks, it is almost superfluous to write. In our own country, I believe that one of the greatest—if not the principal—of the causes for the continued depression in agriculture is the extreme difficulty which our farmers find in financing their holdings. The same was found in Egypt, before an intelligent and enterprising Government consented to assist the agricultural classes in the only practical manner possible, namely by establishing, or at least encouraging, agricultural banks. Other nations have found such institutions not only a great factor in the prosperity of their peoples, but indispensable to it. In Mexico, as in most other places, the prevalent banking system, while it serves to secure credit to the average trader, is insufficient to supply the wants of agriculture for several

reasons—among others, because loans are generally needed for a considerable length of time, on occasions extending over some years, depending greatly upon the nature of the crops—cotton, sugar, tobacco, coffee, etc., etc., and thus incurring exceptional risks; because the planter as a rule has no security to offer, such as bankers demand or care to recognise; and because the borrower's capital and resources are all sunk in the property itself. Agricultural banks are only legitimate so long as they do not press the borrower too much, or act as usurers and oppressors. While no bank could well stand the strain of lending money for several years upon a risky business, such as agriculture undoubtedly is, judicious selection and moderate advances are seldom found to be misplaced or unproductive. Worked upon the Raffeisen System, agricultural banks have proved eminently successful on the Continent of Europe; why therefore should a somewhat similar attempt conducted with a due regard to the purely local conditions not prove successful here or elsewhere? Agricultural banks are not necessarily competitors with other banks, but, on the contrary, often bring them additional business by breaking new ground which the ordinary banker would otherwise not reach. Moreover, at the present time the ordinary banking houses are doing as much business as they can possibly cope with, and have neither the desire nor the necessity to go outside the ordinary channels. Agricultural banks as carried on in Europe are little else than co-operative societies, and strictly limited in number of members, all of whom are intimately acquainted with each other, and are thus enabled to do a very much safer kind of business, lending money where the ordinary bank would never venture to do so. In Mexico the same conditions could not be expected to exist, since the majority of the borrowers would be poor, but none the less honest and industrious, people, whose "co-operation" could only be confined to a faithful observance of the conditions under which the advances are made, and a recognition of the fact that in agriculture one cannot expect to obtain credit as easily as in trades where no such element of uncertainty exists.

Some alterations to capital or to name take place from time to time in regard to some of the State Banks. Thus, the

Banco de Saltillo has lately changed its name to the "Compañía Bancaria de Saltillo, S.A.," while the Banco Mercantil de Yucatán, towards the end of last year, raised its capital from \$6,000,000 to \$8,000,000. Previously to this, for the year 1905, of the 32 banks established in the Republic, 9 increased their capital during the 12 months, and in every case the new emission of shares was made at a price well above par. I give below in parallel columns the number of new shares issued, the price at which they were sold, and the amounts realised:

National	...	...	\$6,000,000.00	\$340.00	\$20,400,000.00
London and Mexico	...	...	6,500,000.00	195.00	12,675,000.00
Central	...	...	11,000,000.00	120.00	13,200,000.00
State of Mexico	...	...	1,500,000.00	115.00	1,725,000.00
Guanajuato	...	...	2,000,000.00	110.00	2,200,000.00
Hidalgo	...	...	500,000.00	115.00	575,000.00
Jalisco	...	...	3,000,000.00	115.00	3,450,000.00
Mercantile of Yucatán	...	...	2,000,000.00	150.00	3,000,000.00
Sonora	...	...	500,000.00	134.10	670,950.00
Totals	...	...	\$33,000,000.00		\$57,895,950.00

The last few months of 1906 were disturbed by adverse rumours regarding the condition of the Banco de Jalisco, concerning which grave rumours were in circulation. Following upon the announcement, made in July 1905, that the Bank intended to increase its capital stock from \$3,000,000 to \$6,000,000, at which time the shares were quoted at \$162, continual dissatisfaction had prevailed, which culminated towards the end of last year in the rumours to which I have referred. The stock fell to \$108, principally owing to the bank not paying any dividend for the last six months of the year. That there had been some foundation for the adverse rumours was proved by the fact that the bank had lost \$350,000 upon its year's trading. The chief Bank Inspector of the Treasury Department reported that the doubtful accounts reached \$800,000. It is satisfactory to be able to say, however, that since then the Bank's position has become much sounder, and to-day it is doing a much safer business.

The Banco Mercantil de Cananea, S.A., has increased its capital to \$120,000, and at the same time has altered its name

to the "Mercantil Banking Co. of Cananea, S.A." The Descuento Español has greatly enlarged its scope of late, its main object being to loan money on merchandise at short terms. Its capital of \$9,000,000 earns 10 per cent., and it recently made a new issue of shares at a premium of 25 per cent., all the surplus being devoted to a reserve and provision fund. Besides the Banco Aleman, the Germans have established a second institution known as the Banco Germanico de la America del Sud, and it promises to do well. The Mercantile Bank, an American institution, does an immense exchange business; in one week, for instance, the bank sold over \$300,000 worth of exchange on New York alone. The American Bank, which carries on business without a Government charter, is another successful institution, which may be gauged from the fact that while in 1903 the total operations were little over \$3,325,172, leaving nett profits of \$80,859, in 1905 the balance amounted to \$5,539,596, leaving nett profits of \$322,875.

The American Bank, early in the present year, acquired the control and estates of the Compañia Bancaria de Obras y Bienes Raices, at the same time raising its capital to \$10,600,000.

French capital in Mexico is attracting much attention, there being already two chartered banks controlled by Paris. French money is largely represented both in the Nacional and the Londres y Mexico, in the proportion of from \$16,000,000 to \$18,000,000 in the first, out of a total capital of \$26,000,000; and fully \$14,000,000 in the second, out of \$21,500,000. A large block of Banco Central shares are also held in Paris. A new French bank with a capital of \$30,000,000 of exclusively French capital, and with a strictly French organisation, is about to be (or has just been) established in Mexico City, one of its principal branches being to facilitate loans on agricultural holdings, on a basis of 5 per cent. interest.

That banking in Mexico has not been uniformly successful is proved by the collapse of the Catholic Bank and the International Bank and Trust Co. of America, the failure of which latter was connected with the collapse of a New York institution as far back as 1903. The creditors of the latter concern have



SENOR DON FRANCISCO GONZALEZ DE COSIO, GOVERNOR OF QUERETARO.



SENOR INGENIERO DON JOSÉ M. ESPINOSA Y CUEVAS, GOVERNOR OF SAN LUIS POTOSI.



SENOR DON TEODORO A. DEHESA, GOVERNOR OF VERACRUZ.



SENOR DON GUILLERMO DE LANDA Y ESCANDON, GOVERNOR OF THE FEDERAL DISTRICT OF MEXICO.



SENOR CORONEL DON MIGUEL AHUMADA, GOVERNOR OF JALISCO.



SENOR LIC DON ESTABAN FERNANDEZ, GOVERNOR OF DURANGO.

REPRESENTATIVE GOVERNORS OF MEXICO.—I.

so far only received 25 per cent., but it is hoped that a further distribution of a like amount may be made eventually.

The advent of the Bank of Montreal towards the middle of last year created a great deal of interest, especially among British circles, the idea being to replace the services of the Banco de Londres y Mexico, which had formerly been under British control. The huge capital and resources of the Montreal institution render it of great importance in Mexican foreign commercial circles. The Bank of Montreal in its statement for the half year ended April 30th, shows net profits of \$982,858, and, after the payment of dividends, a balance of \$422,689 was carried forward. The general statement shows deposits, bearing interest, of \$97,627,703 compared with \$99,059,070 at the end of the last fiscal year, and deposits not bearing interest at \$33,253,427 compared with \$30,842,380 at the end of last year. The current loans stand at \$104,522,334 against \$101,814,453 at the end of last year. The call loans in Great Britain and the United States stand at \$27,025,937 compared with \$29,784,242 at the end of last year.

The Chinese residents have a bank of their own, with headquarters in Mexico City, and branches in New York and Hongkong. The capital is \$1,000,000 (£100,000), but the business it does is not strictly banking, being more of a sale and barter character. Apparently, however, it suffices for the needs of the numerous Chinese residents. There was also an attempt, I do not know whether made with success, to establish a bank for the *Grañ Liga Mexicana*, who are the Socialists of the Republic. It might be a good thing if it were established, since the Mexican Government would then have a certain amount of control over the funds of that society, which has of late given it a great deal of anxiety, and put it to great trouble and expense in looking after some of its members.

Mr. H. L. Perkins has been instrumental in organising the London Commercial Banking Co., S.A., to operate in Mexico City with a capital of \$1,000,000, the bank engaging in a general business, as well as financing railway construction and other projects. Mr. Perkins is President of the Railway Consolidated Construction Co. of London, New York and Kansas City, and is also President of the new Bank.

The Banco Internacional é Hipotecario de Mexico, S.A., stands very high in well-reputed bank circles. It is one of the thirty-four chartered banks of the Republic, and carries on the usual banking business, allowing interest at the rate of 3 per cent. upon daily balances exceeding \$1,000, and 4 per cent. upon deposits over six months. The bonds stand well with the European markets, being, as they are, guaranteed by first mortgage on real estate worth double their face value. This institution, with the Banco Agricola é Hipotecario (Agricultural and Mortgage Bank) makes it part of its business to loan out money upon landed securities. Undoubtedly there is a call, as I have said, for some such institution conducted upon similar lines. During the past two or three years a large number of International Mortgage Bank bonds, and the bonds of the Agricultural and Mortgage Bank, have been sold in Europe for investment, since they offer a perfectly safe return of 6 per cent. A very large amount of these securities are held by the clergy of Mexico, a sufficient indication of their stability. Additionally, according to Mexican law, these bonds are deemed Trust Securities, and are held on behalf of orphans and wards.

Early in January 1906, eleven of the leading banks and six prominent private banking firms of Mexico City established a Clearing House. The banks included in the association are the Banco Nacional, Banco de Londres y Mexico, Banco Central, Banco Agricola é Hipotecario, the Banco Internacional é Hipotecario de Mexico, the American Bank, the German Transatlantic Bank, the Descuento Español, the International Banking Corporation, the Mexico Banking Co., and Messrs. Hugo Scherer, Junior, and Co., as well as the important financial houses of Lavie et Cie; Sommer, Hermann and Co., Ibañez and Prieto; Bermejillo and Co.; and H. Scherer and Co. The establishment of this clearing-house naturally tends to simplify the transaction of business, and acts as a salutary check on the status of a great variety of institutions of credit. The necessity of such an institution was long felt, and its advent was greeted with satisfaction by business and commercial people throughout the Republic.

An evidence of the great prosperity of banks in the Republic of Mexico is found in the fact that last year the two principal

institutions of Mexico City, namely the Banco Nacional and the Banco de Londres y Mexico, remitted to Europe over \$4,000,000 in payment of dividends to their Continental shareholders. The capital stock of the different banks generally doing business in the City of Mexico increased during the twelve months referred to from \$111,350,000 to \$122,600,000, and, looking at the fact that out of the above-mentioned capital the amount uncalled on June 30th, 1905, was \$6,146,162, as against \$17,700,658 for the same period of the previous year, the real increase of the banks' capital was \$12,804,496 for the whole of the fiscal year. As to the reserves, these amounted to \$27,463,752 as against \$22,012,823, or an increase of no less than \$5,450,928, an amount which, large as it is, will be exceeded in the future. Of recent times there has been a large increase in the holdings of shares taken by Paris firms from the Banco Central. This satisfactory state of affairs is the outcome partially of the monetary reform, introduced in the month of May 1905 and partially due to the greatly-increased amount of business. This has been felt more particularly in the larger cities, where principally exports and manufactures are carried on, such, for instance, as Monterey, Guadalajara, Saltillo, Chihuahua, etc., etc. The bank business of the Republic is conducted upon a very safe and conservative basis, the banks being controlled by a Government Inspector, one such official being appointed to each bank having the privilege to issue notes.

#### COMBINED STATEMENTS OF ALL CHARTERED BANKS.

The combined statements of the thirty-four chartered banks in the Republic at the close of business September 29th, 1906, was as follows, including the six city banks:

#### COMBINED ASSETS.

##### Cash holdings:

In gold	...	...	...	...	...	\$41,862,003.00
In silver	...	...	...	...	...	27,084,427.34
In notes	...	...	...	...	...	5,768,102.00
Total combined cash holdings	...	...	...	...	...	\$74,714,532.34

Deposits ... ..	\$4,577,908.47
Short-time loans ... ..	1,200,438.69
Bills discounted ... ..	189,084,565.05
Loans on collaterals ... ..	101,228,214.08
Loans on mortgages ... ..	22,445,729.31
Other loans ... ..	2,661,590.31
Investments ... ..	23,421,704.50
Debtor accounts ... ..	236,123,560.11
Bank premises ... ..	6,240,985.51
Uncalled capital ... ..	7,700,000.00
Total combined assets ... ..	\$669,399,228.32

## COMBINED LIABILITIES.

Combined capital ... ..	\$158,100,000.00
Reserve and prev. funds ... ..	53,903,668.21
Notes in circulation ... ..	94,861,543.00
Bonds in circulation ... ..	17,790,600.00
Deposits on demand ... ..	40,153,691.67
Deposits on time ... ..	28,776,952.97
Creditor accounts ... ..	275,812,772.47
Total combined liabilities ... ..	\$669,399,228.32

While these remarkable figures represent the amount of the turnover handled by the thirty-four chartered banks in the Republic for the month of September 1906, for the month of February 1907 the total was \$685,410,996.98.

## CHAPTER XVIII

Banco Nacional—Directorate and management—Banco de Londres y Mexico—Former proprietors—Changes and increases of capital—United States Banking Co.—Career of President George I. Ham—Mexican Bank of Commerce and Industry—Career of Mr. James Walker—Mexico City Banking Co.—Some minor banks—Private banks—Table showing capitals, issues, dividends and present prices of the leading banks of the Republic.

THE Banco Nacional, or National Bank of Mexico, may be regarded as one of the foremost institutions of its kind in the world. Established in 1881, at a time when the finances of the country were in anything but a prosperous condition, and when banking in Mexico was only understood in regard to the most elementary stages, the Nacional found its career anything but an easy one. The first three years of its existence were not conspicuous by reason of success; and the contract under which it had been formed was considerably modified in 1884, when permission was granted to combine with the Mercantile Mexican, the name of the institution being changed to the "National Bank of Mexico." In conjunction with the Banco de Londres y Mexico, the Nacional shares the exclusive privilege of issuing bank-notes, or bills on demand, in the Federal District, and although this privilege is also granted to the banks established in the different States of the Republic, the latter are not permitted officially to establish redemption agencies for their notes in the capital, and it will be a long time before the Bills of the State Banks occupy the same position in the public confidence as those issued in the capital, although they are now circulating more freely than they did.

The Board of Directors controlling the Banco Nacional is made up of some of the most distinguished financial and