Finance and Economics Discussion Series

Federal Reserve Board, Washington, D.C.
ISSN 1936-2854 (Print)
ISSN 2767-3898 (Online)

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2025-064

Please cite this paper as:
Carlson, Mark (2025). "The Banking Panic in New Mexico in 1924 and the Response of the Federal Reserve," Finance and Economics Discussion Series 2025-064. Washington: Board of Governors of the Federal Reserve System, https://doi.org/10.17016/FEDS.2025.064.

The Banking Panic in New Mexico in 1924

and the Response of the Federal Reserve

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August 11, 2025

Abstract

There was a banking panic in New Mexico in early 1924 when about one-fourth of the banks in the state closed temporarily or permanently amid widespread runs. The Federal Reserve used both high profile and behind the scenes operations to calm the panic. This paper provides a history of this episode and explores how conspicuous and inconspicuous aspects of the Federal Reserve's response interacted to bolster confidence in the banking system.

Keywords: Banking Panic, New Mexico, Federal Reserve, Lender of Last Resort

JEL Classification: G01, N21

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[†]Evan Carlson provided valuable research assistance. I thank Jonathan Rose and David Wheelock for valuable comments. The views expressed in this paper are solely the responsibility of the author and should not be interpreted as reflecting the views of the Board of Governors of the Federal Reserve System, or other members of its staff.

1 Introduction

Between October 1923 and February 1924 about twenty-five percent of the banks in New Mexico closed their doors. Entire counties lost access to banking facilities. While the condition of the banking sector was challenged by poor economic fundamentals, this was also a situation in which observers described an accelerating loss of confidence in the banks, numerous bank runs, and widespread deposit withdrawals. In short, a panic. The Federal Reserve responded to provide support to the banking system and contributed to the restoration of financial stability.

This article describes the regional panic and the Federal Reserve response which are not well known. The narrative itself is useful and adds to our understanding of economic conditions and the financial instability of the early 1920s. This article also details the Federal Reserve's action to stop the panic. There are useful lessons from the Federal Reserve's response in that it had both conspicuous and inconspicuous aspects. The most high profile part of this response was a dramatic airlift of a large amount of cash to a panic-stricken area at the peak of the episode. That action was followed by a series of statements by public officials to the media pointing to ongoing support by the Federal Reserve. Demonstrating that liquidity support was ongoing was key to boosting confidence. There were also low-profile actions by the Federal Reserve to promote stability. These actions took the form of a number of sizable discount window loans made without publicity to support banks; these banks were not under observable pressure so the inconspicuous provision of support was key to not undermining confidence in them and to giving them time to resolve their problems. Keeping additional banks from closing in the challenging environment was also likely important for stabilizing the situation. Hence this episode sheds light on how the role of publicity in responding to a banking panic.

This paper is organized as follows. Section 2 provides some background on the economic and banking environment in New Mexico. A short description of the onset of the panic is in Section 3. Section 4 discusses the response of the Federal Reserve including both its public actions and behind-the-scenes actions. Section 5 concludes.

2 Background

Conditions in New Mexico generally evolved similarly to conditions elsewhere in the agricultural regions of the United States. The troubles in the early 1920s were part of the collapse of an agricultural and banking boom that had accompanied the wartime activity around World War I. A drought in New Mexico made the deterioration in agricultural activity particularly severe.

2.1 Conditions in New Mexico

One of the main agricultural commodities in New Mexico at this time was cattle. Around the time of World War I, prices of cattle had surged (along with the prices of many other agricultural commodities). In response, ranchers expanded their operations and often borrowed to do so. However, agricultural prices dropped back after the war ended. The price of cattle fell from a peak of over $16 per hundred pounds in 1919 to $7 dollars in 1922; prices recovered slightly in the next couple years but remained well below their wartime peaks. Consequently, ranchers that had borrowed with the expectation that the high prices would continue for years faced significant challenges in repaying their borrowings.

In addition to the fall in cattle prices, there was a low-grade but persistent drought for much of the state during the early 1920s. In 1923, a Federal Reserve official visited the area and described the depressing situation as follows: "The ranges have dried up, and in many places the cattle are literally starving to death. The only present hope to save the herds in New Mexico is to move the cattle clear out of the State where grass can be found...[However] the New Mexican cattle are under quarantine and must be dipped [treated for disease] before they can be transported into Arizona...many cattle which they desire to move are in such poor condition the they would suffer considerable mortality if they attempt to dip them (Reordan 1922)."

While these details are specific to cattle, the drought conditions would have affected other livestock and crop conditions. With prices having fallen and conditions proving terrible for the agricultural sector of New Mexico, the farmers and ranchers were in dire straits. They struggled to repay their borrowing and farm bankruptcies surged.[1]

2.2 The banking system in New Mexico

The banking system in New Mexico had been expanding rapidly in the decades preceding the panic. The number of banks increased from just 14 in 1900 to a peak of 126 in 1921 (Figure 1). Loans on banks' books increased from $3.7 million to $51.6 million. Part of that growth reflected an increase in the population of

[1]The surge in farm bankruptcies was widespread across the United States. See Alston (1983) for a detailed discussion.

the state, which roughly doubled from 190,000 to 360,000 between 1900 and 1920. But it also reflected a boom in banking associated with the surge in agricultural prices and the demand for credit as farmers sought to boost production.[2] Most of these new banks received their charters from the state government rather than the national government as the capital required to start a state-chartered bank was a fair bit lower than to start a national banks (White 1983). Correspondingly, the growth of equity capital did not keep pace with the growth in bank assets and the average leverage of banks in the system increased. Banks with national charters were required to become members of the Federal Reserve system while state banks had a choice; most state banks chose not to become members. Overall, about half of the banks in New Mexico were Federal Reserve System members.

The banking system was highly connected to the agricultural sector. A contemporary observer of the New Mexico banking system, Popejoy (1931), reported that much of the lending of the banks was to ranchers and farmers—he estimates roughly 70 percent of the loans for a typical bank—with the cattle or crops typically serving as collateral for the loans. As farmers faced challenges in repaying their loans, due to the drought and the fall in agricultural prices, problem assets increased on banks' books. Moreover, as Popejoy further notes, agricultural loans tended to be illiquid and unable to be called early. Thus if the banks experienced withdrawals, they faced challenges monetizing many of their assets. Some agricultural loans could be rediscounted with other banks but that depended on those banks having spare liquidity. Members of the Federal Reserve system would be able to borrow from the discount window using agricultural loans as collateral (depending on the maturity of the loan and its purpose)[3]; though, as noted above, many banks in New Mexico were not Federal Reserve members.

The greater leverage in the system meant that banks had become increasingly vulnerable to shocks. There was a modest decline in the number of banks in 1922 and 1923 as a number of banks closed their doors. Higher leverage also meant that there was less protection for depositors in the event that the bank failed. Popejoy (1931) reports that depositor losses were substantial in the early 1920s. The prospect of losses would have made depositors extra attentive to the condition of their bank and more likely to withdraw if they had concerns about losses.

[2] Similar developments occurred across the United States. See, for example, Rajan and Ramcharan (2015) and Jaremski and Wheelock (2020).

[3] Consistent with the real bills doctrine, loans most clearly eligible for rediscount at the Federal Reserve were those related to transactions involved in trade, such as for shipping agricultural goods to processing facilities. See Hackley (1973) for details on what sorts of loans could be rediscounted.

3 How the Panic Unfolded

The troubles in the banking system started slowly with a few banks closing in early 1923 and slowly grew in severity over the course of the year. Starting in August, there were roughly two banks closures each month until the end of the year. There was an acceleration of the crisis right around year-end. Three banks closed in the last three days of the year. Thirteen banks closed in January 1924 with newspapers reporting runs or heavy deposit withdrawals at many of these banks. Bank closures occurred in almost every part of the state, as is evident in Figure 2. In one particularly severe instance, all three banks in Silver City closed in a single day and the fourth bank in the county closed at the same time.

I explore the relative condition of the banks that closed during the panic using data from the Rand McNally Banker's Directory for July 1923. While only limited data are available on the balance sheets of the banks, I am able to get some sense of their relative condition.[4] Three balance sheet ratios are especially useful. The ratio of liquid assets, including cash and due from banks, relative to deposits provides an indication about the ability of the bank to meet withdrawals. The net worth of the bank is based on the paid-up capital, a book value measure based on the value of the stock when it was initially offered, and the surplus and undivided profits of the banks, which reflected retained earnings. Measures of bank condition related to solvency are the ratio of net worth relative to assets, an inverse of its leverage, and the ratio of retained earnings to net worth provides an indication of the quality of the bank's capital. I am also able to calculate the change in deposits between what was reported in the January 1923 and the July 1923 editions of the Banker's Directory. Deposit outflows might indicate emerging depositor concerns. These measures have been used elsewhere in the literature as indicators of bank condition (see, for instance, Calomiris and Mason (1997) and Carlson and Rose (2015)). In addition to these indicators, I also compare the size of the banks that closed or remained open. Total assets was not reported in the Banker's Directors, but the sum of capital, surplus and undivided profits, deposits, and miscellaneous liabilities provides a rough estimate.

The balance sheet measures for banks that closed and that remained open are reported in Table 1. As shown in line one, banks that closed tended to be less liquid than those that remained open. That less liquid banks were more vulnerable is consistent with the narrative that bank runs and deposit withdrawals featured

[4]Using data from this source allows data for the state banks to be included along with data from national banks. While more extensive balance sheet data is available for national banks from the Annual Report of the Comptroller of the Currency, slightly more than half of the banks in New Mexico were state banks so their inclusion is vital.

importantly in this episode. The evidence on capital condition is more more mixed. Banks that closed had slightly higher ratios of net worth to assets, although banks that remained open tended to have more of their net worth consist of retained earnings. The finding that the banks that closed were not obviously or universally in worse condition overall is consistent with some statements by observers that the panic, once it had begun, swept up troubled and healthy banks alike (Murray 1924). There are not economically meaningful differences in the changes in deposits from January to July across these groups of banks.

Interestingly, closed during this episode were slightly larger than the banks that remained open, although the difference is not statistically significant. (This is still true if the size comparison is based on medians rather than the means which indicates that it was not just a few outliers driving the size result.) This is an unusual pattern. Typically in stress events the smaller banks were more likely to close (see, for instance, Calomiris and Mason (2003)).

4 The Federal Reserve Response

The Federal Reserve responded to stop the panic and to support financial stability. As whether the banks closed or remained open is associated with their liquidity condition, support from the Federal Reserve was likely to have been quit important. The discussion here focuses on the actions of the Federal Reserve bank of Dallas. The banks in the southern two-thirds of the state, including the financial center of Albuquerque, and larger cities such as Carlsbad, are located in the Eleventh Federal Reserve district. The upper part of the state, including Santa Fe, are located in the Tenth District (Kansas City). To the extent that Kansas City took additional actions, the descriptions here may understate the response of the Federal Reserve. A timeline of bank closures, and the most high profile Federal Reserve intervention, is provided in Figure 3.

4.1 High profile support

The financial center of Albuquerque was stressed amid the acceleration of the panic in January 1924. The large banks in this town had correspondent relationships with, and held the deposits of, many banks in the state. That put pressure on the Albuquerque banks to provide liquidity to other banks in New Mexico. Two of the five banks in Albuquerque were forced to close in mid-January. The closure of a third bank, the quite prominent Citizens National Bank, on February 6 prompted a run on the two remaining banks, the First

National Bank and the First Savings Bank. A Federal Reserve official onsite reported that the bank lobbies "were crowded to the limit (Weiss 1924)" with depositors seeking to withdraw. The *Albuquerque Journal* (1924) reported that "Throughout the day, from the hour of opening of the bank until the usual hour of closing came, tellers were busily having out money to anxious depositors (Feb. 6, 1924, p.1)." Withdrawals from the First National and First Savings reached about $400,000 in a single day, about five percent of the banks' deposits (Weiss 1924).

The closure of all banks in Albuquerque would almost certainly have been a major blow to confidence among depositors throughout the state in the health of the banks. and the Federal Reserve responded swiftly and dramatically.[5] A critical part of this response was an airlift of cash on the day of the run in order to stop it. A branch of the Reserve Bank was located in El Paso, near the Fort Bliss army base. The Army allowed the Federal Reserve to use one of its planes to fly a half million dollars of currency to Albuquerque to provide immediate assistance to the banks there. Moreover, this cash delivery was provided in an extremely high profile manner. The *Albuquerque Journal* (1924) describes the scene as follows: "The crowd in the bank [the First National] lobby gave a cheer when, at 2 o'clock in the afternoon, Chief of Police Galusha and Sheriff Felipe Zamora, with a squad of policemen and deputies sheriffs armed with shotguns cleared a path through which two army officers walked, carrying sacks containing $500,000 in currency. The army men had flown from El Paso in an airplane, bringing the money in the record time of two hours (February 6, page 1)."

A local newspaper also described the potential for further support to the Albuquerque banks. In particular, it reported that the Reserve Bank was sending another half million dollars in currency that was due to arrive the next day and that another million was available if needed. Those details about future availability of funds suggest that a Federal Reserve official, or perhaps a bank official that had been talking to the Federal Reserve, had talked to the newspaper reporter. In addition, the newspaper provided a comment on the solvency of the banks when it reported that "As it is a known fact that the Federal Reserve system does not advance money except on good security, the arrival of the large sum from the El Paso branch...was a demonstration to the people in the lobby that the bank's resources were almost inexhaustible (*Albuquerque Journal* 1924)." The reference to good security implied that the assets of the banks were good and that

[5]Moreover, just two weeks before, the Federal Reserve had provided emergency support in a public fashion to the City National Bank of El Paso, a key correspondent for banks in New Mexico (see Carlson 2025). News of that intervention would also have reinforced the perception that the Federal Reserve was providing active support.

the bank was in a relatively strong position. These actions were successful in ending the runs on the First National and First Savings banks.

Even after the dramatic events in Albuquerque, the Federal Reserve remained in the news in ways that likely provided support to stability of the banking sector. I searched the Newspapers.com database for mentions of the Federal Reserve around the time of the Albuquerque intervention. Several news stories from around the state mention support being provided by the Federal Reserve. For example, in Santa Fe it was reported that the First National Bank of Albuquerque had received a message from the Federal Reserve indicating that, in addition to the money already sent, it stood "ready to send a million more or any amount required and *will support your institution with all the funds necessary* [italics added] (*Santa Fe New Mexican* (1924) Feb.8 1924)." In Alamogordo, in an article titled "President Coolidge Has Promised Relief for New Mexico Farmers," there was a statement the Federal Reserve, the War Finance Corporation, and the Treasury department were considering how to provide support to bankers in New Mexico and in the Northwest part of the United States (*Alamogordo Daily News* (1924), Feb. 14, 1924, p.1). In Lordsburg, in the Southwestern part of the state, the newspaper quoted US Senator Jones in saying that "The Federal reserve board is taking vigorous action. I am authorized to say that it is determined to protect the situation (*Lordsburg Liberal* (1924), Feb. 14, 1924, p.1)." There may have been other news stories as well, just in newspapers not covered in the databases available.

These statements all point to ongoing support. While these were not direct statements by the Federal Reserve, they reference statements made by the Federal Reserve and/or cite statements by credible public officials about the support that the Federal Reserve would provide. As such these statements would likely have bolstered depositor confidence, especially shortly following the demonstration of support provided by actions in Albuquerque.

Conducting high profile actions was likely quite important since, as noted above, only about half of the banks in New Mexico were members of the Federal Reserve and thus were ineligible to receive direct liquidity support.[6] The demonstration of broad and substantial support for the banking sector would have been important to convince depositors of all banks that sufficient liquidity was available to their bank regardless of whether or not that bank was a member of the Federal Reserve System.

[6]At this time only banks that were members of the Federal Reserve system had access to the discount window.

4.2 Low profile support

The closing of a bank may provide a signal to depositors regarding the severity of a shock and indicate to them that they should be attentive to the condition of other banks (Calomiris and Khan 1991). A larger number of bank closures may then provide a signal that the shock is substantial. That dynamic could mean that news about rising bank failures could trigger contagious withdrawals. In that case, provision of liquidity by a lender of last resort to keep banks from closing can be key to maintaining calm.

Reports from the Federal Reserve Bank of Dallas indicate that, by March 1924, discount window lending in New Mexico had fallen to less than half of the level in September 1923. That is true even if the closing banks are excluded from the calculation. The reduction in lending is a sign of easing pressures on the banking system.

However, there were six banks for which discount window l.ending increased. On average, between September 1923 and March 1924, these banks saw their discount window loans outstanding increase by about 50 percent. The size of these discount window loans was quite substantial as outstanding amounts in March amounted to, on average, over 80 percent of the net worth of the banks (up from around 55 percent in September). These banks may have needed the additional funds from the Federal Reserve as they experienced relatively sizeable deposit outflows. According to data available from Rand McNally, between the January 1924 and July 1924 these banks saw deposits decline by over 10 percent on average. That is a fairly steep decline in just six months and that might well have been a challenge for these banks to accommodate without support from the Federal Reserve.[7] For comparison, deposits were about flat on average for other Federal Reserve member banks in the part of New Mexico in 11th Federal Reserve District banks that remained open.

The fact that these banks received quiet support is notable. While the declines in deposits they experienced may indicate some depositor unease, there was no mention in the newspapers about concerns regarding these banks or of runs on these banks. It is possible that had it been known that these banks needed support, that deposit outflows could have been larger. Federal Reserve officials reported that in some instances, "Member banks hesitate to rediscount with us for fear that the knowledge that they are increasing their borrowing may cause them serious trouble (Rich 1924)." That suggests that obvious support, in the

[7] Information on deposits at the time the banks received the loans from the Federal Reserve is not known.

absence of observable stress, might have created greater problems for these banks. Instead, quiet support may have enabled these banks to avoid suspension and thus promoted (or at least prevented further erosion of) confidence.

4.3 Aftermath

Following the Federal Reserve's intervention, bank runs and closures slowed sharply. There were a couple more closure at the end of February and again in March, but these events did not prompt additional runs. Given the severe solvency issues noted above, it is not surprising that bank closures continued to some degree.

More indicative of the improved level of confidence, several closed banks were able to find investors willing to provide new equity support and were reorganized and reopened. Investors are only likely to be willing to open the bank if they are comfortable that business prospects are reasonable. These re-openings occurred in larger cities such as Albuquerque and Carlsbad as well as in more modestly sized cities such as Alamogordo and Silver City. That several cites throughout the state saw reorganizations also suggests that the restoration of confidence was broad-based.

5 Conclusion

A regional banking panic occurred in New Mexico in early 1924. The Federal Reserve responded with high profile support to institutions that were clearly under pressure; offered further statements of broad, but non-specific, support to the banking system; and provided behind the scenes support to other institutions. Conducting operations with different levels of observability was key to successfully ending the panic.

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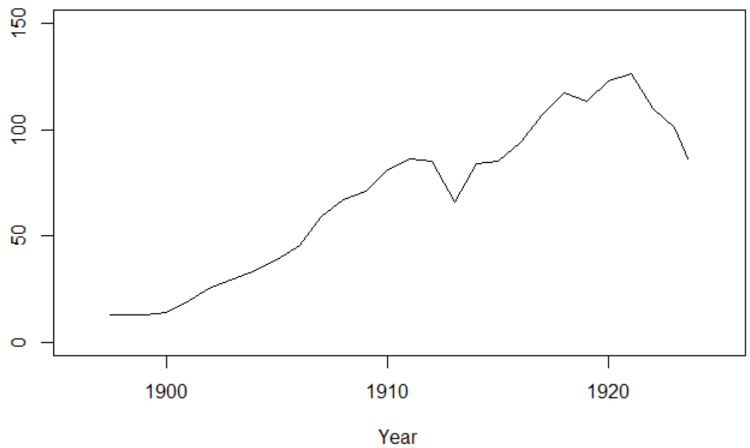
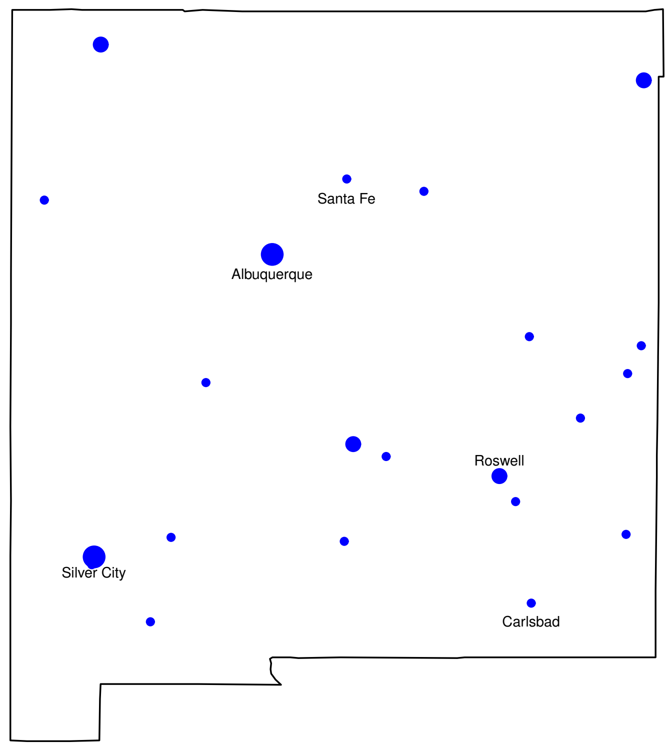
Figure 1: Number of banks in New Mexico



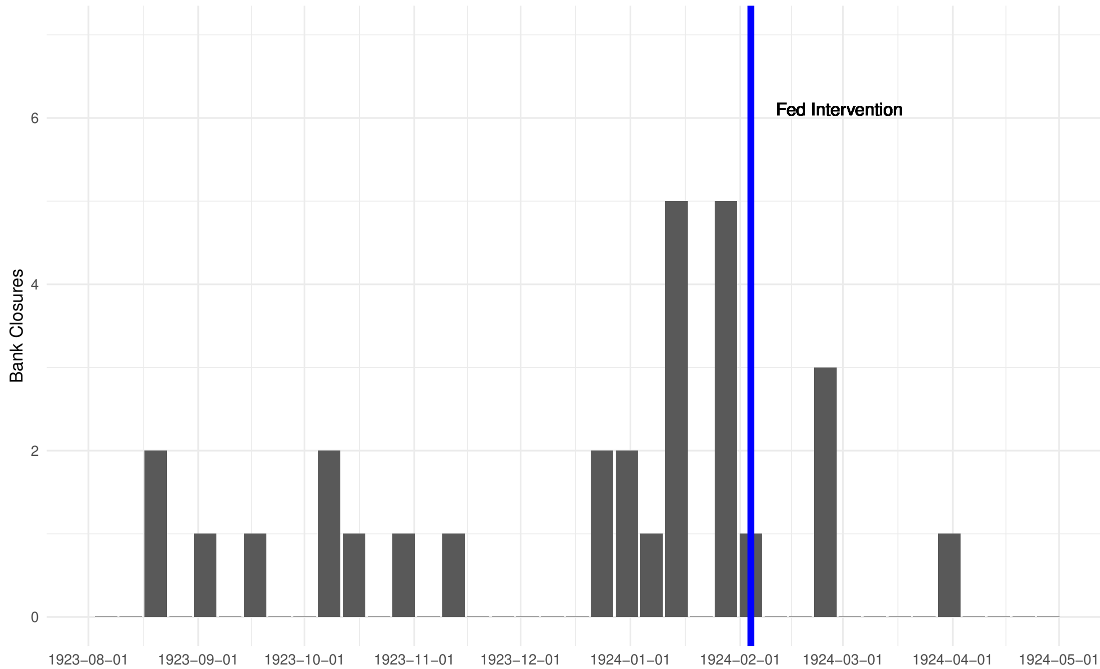
Note. Data are from *All Bank Statistics, United States 1896-1955* (1959).

Figure 2: Locations of bank closures in New Mexico



Note. Locations of banks the closed in New Mexico in between August 1923 and May 1924. Larger dots indicate that multiple banks closed in these locations.

Figure 3: Timeline of bank closures



Note. Data are weekly.

Table 1: Comparison of Banks in New Mexico

	Banks that closed			*Banks staying open*			T-stat
	N	*Mean*	*Std. Dev.*	*N*	*Mean*	*Std. Dev.*	
Cash to deposits	30	22.1	9.9	81	31.8	45.7	1.80
Equity to assets	30	31	17.5	81	24.6	15.9	-1.77
Surplus to equity	30	16.6	9.6	81	19.7	9.6	1.50
Change in deposits	30	-5.7	11.6	81	-2.4	19.5	1.07
Assets ($ estimate)	30	727,184	662,249	81	528,041	960,711	1.22

Note. Based on data from the Rand McNally Bankers Directory. The T-statistic is based on a test for a difference between the mean balance sheet measure for closed and open banks.