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Governance and the Success of U.S. Community Banks, 1790-2010: Mutual Savings Banks, Local Commercial Banks, and the Merchants (National) Bank of New Bedford, Massachusetts

Robert E. Wright

Annual time series data show that from 1790 through 2010 only about one percent of U.S. commercial banks failed each year on average. Many community banks, including mutual savings banks and local commercial banks, provided valuable intermediation services for decades before failing or, more likely, merging. The key to community bank success was governance. Local long-term investors, like the stockholders of the Merchants Bank of New Bedford (later the Merchants National Bank), had both the incentive and the ability to elect effective board directors who carefully chose and monitored bank officers (presidents and cashiers) charged with producing steady dividends.

Most of the banks formed in the United States no longer exist. To date, over 22,000 have failed or otherwise closed, including some 3,250 since the formation of the Federal Deposit Insurance Corporation (FDIC) in

Robert E. Wright <robert.wright@augie.edu> is the Nef Family Chair of Political Economy at Augustana College, Sioux Falls, S.D.

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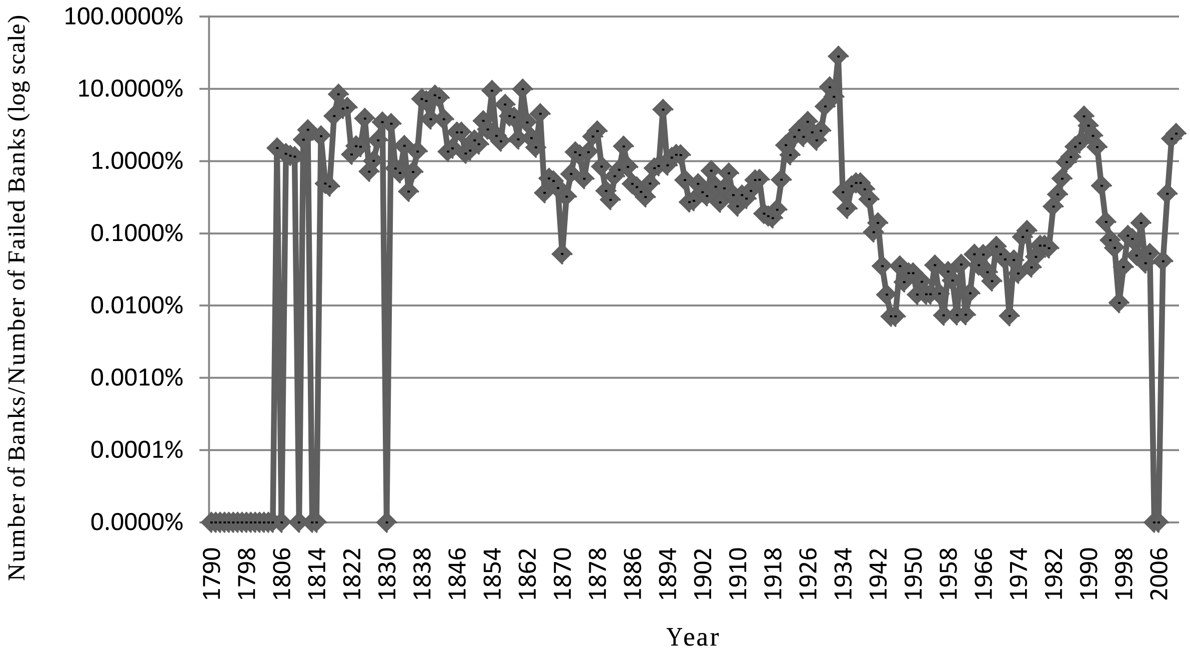
1934.[1] That may sound like a large number but, as Figure 1 shows, America's bank failure rate between 1790 and 2009 was usually quite low, a little over one percent per year on average (that is, in an average year one

Figure 1
Annual Bank Failure Rates in the United States, 1790-2010



Sources: Historical Statistics of the U.S., Cj251; *Banking and Monetary Statistics, 1914-1941*, 283; *FDIC Annual Report* (1934), 92; Federal Deposit Insurance Corporation, Failures and Assistance Transactions, Number of Institutions, 1934–2010, *FDIC Historical Statistics on Banking*; Federal Deposit Insurance Corporation, *Number of Institutions, Branches and Total Offices*; Warren E. Weber, "Count of Banks by State—Daily," http://www.minneapolisfed.org/research/economists/wewproj.cfm; Richard Grossman, "US Banking History, Civil War to World War II," in *EH.Net Encyclopedia*, ed. Robert Whaples, 16 March 2008; URL: http://eh.net/encyclopedia/article/grossman.banking.history.us.civil.war.wwii.

[1] Federal Deposit Insurance Corporation, Failures and Assistance Transactions, Number of Institutions, 1934-2010, FDIC Historical Statistics on Banking. http://www2.fdic.gov/hsob/help.asp, accessed on 5 July 2011.

out of every hundred banks in operation have failed.[2]) The majority of banks that exited did so by merging with other banks, not by going out of business.[3] From the Civil War until the advent of the FDIC, depositors in failed U.S. banks on average lost only $0.32 per year per $100 of deposits.[4]

That is not to argue that America has not witnessed some ugly bank failures. The first occurred in 1730 when a private banker fled South Carolina under controversial circumstances.[5] The first modern joint-stock commercial bank to go under was the Merrimack Bank of Newburyport, in 1805.[6] A few years later, the nation suffered its first banking scandal and the loss of several more institutions under the control of Andrew Dexter.[7] Other failures followed in the wake of the Panic of 1819, the Panic of 1837, and almost every other financial calamity to strike the nation since, including the Panic of 2008.

Some of those failed banks were merely badly run. Others were run by bad men. Many appear to have suffered from management that was to some extent both incompetent and venal and hence vulnerable to shocks that better governed institutions could withstand. The commercially inept Dexter, for instance, apparently started with good intentions, crossing the thin line into perdition only after suffering some speculative setbacks. Similarly, Barker Burnell, cashier of the Manufacturers' and Mechanics' Bank of Nantucket, may have gone rogue because his "very loose manner

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[2] Charles Calomiris, *U.S. Bank Deregulation in Historical Perspective* (New York, 2000); Charles Calomiris, "Bank Failures in Theory and History: The Great Depression and Other 'Contagious' Events," NBER Working Paper w13597 (Nov. 2007); Matthew Jaremski, "Free Banking: A Reassessment Using Bank-Level Data" (Ph.D. diss., Vanderbilt University, 2010); Paul Kupiec and Carlos Ramirez, "Bank Failures and the Cost of Systemic Risk: Evidence from 1900-1930," FDIC Center for Financial Research Working Paper, No. 2009-06 (April 2009); Richard Sylla, "Early American Banking: The Significance of the Corporate Form," *Business and Economic History* 14 (1985): 105-23; John R. Walter, "Depression-Era Bank Failures: The Great Contagion or the Great Shakeout?" *Federal Reserve Bank of Richmond Economic Quarterly* (Winter 2005): 39-54; Warren Weber, "Bank Liability Insurance Schemes before 1865," Federal Reserve Bank of Minneapolis Working Paper 679 (April 2010).

[3] Some bank mergers were of course undertaken because of financial difficulties at the acquired bank. In 1847, for example, the Farmers Bank of Virginia bought the troubled Bank of Potomac and used its remnant to establish a branch. Minutes of the Board of Directors of the Farmers Bank of Virginia, 1841-1853, Virginia Historical Society, Richmond, Va.

[4] *FDIC Annual Report* (1934), 75.

[5] *The Case of Sir Alexander Cuming, Bart., Truly Stated* (London, 1730).

[6] Warren Weber, "Early State Banks in the United States: How Many Were There and When Did They Exist?" Federal Reserve Bank of Minneapolis Working Paper 634 (Dec. 2005), 8.

[7] Jane Kamensky, *The Exchange Artist: A Tale of High-Flying Speculation and America's First Banking Collapse* (New York, 2008).

of doing business" led to losses.[8] A jury decided that he was not guilty of at least one of the counts of embezzlement against him, although he reportedly paid the failed bank's creditors some $40,000 to settle a civil suit.[9]

Evan Poultney, Reverdy Johnson, and the other men who drove the venerable Bank of Maryland into bankruptcy in 1835 also appear to have started off as bad bankers before ending up as bad men who incited one of antebellum Baltimore's worst riots.[10] They took excessive risks, like paying interest on deposits and running the bank with low levels of specie (gold and silver) reserves and capital, because they believed that, in the words of a recent chronicler, "a new era had arrived."[11] Like many other financial innovators throughout history, they convinced themselves and others that "this time is different."[12]

Like disasters, catastrophes, and wars, bank failures make good stories. Not all banks, however, were poorly managed. As Bray Hammond put it over half a century ago in his classic study of antebellum banking, "there were more banks that helped than hindered."[13] Most banks did not fail and most of those that did succumbed only after providing their customers (borrowers; depositors, noteholders, and other creditors; and investment clients) with valuable services for years or even decades. Luck was certainly a factor in their success, but more important was the quality of their governance. Banks were more likely to stay in business if their officers (presidents, cashiers, and later branch managers) were disciplined by depositors and stockholders, either directly by voting for trustees and directors or indirectly through deposit withdrawals or share sales.

Before the Great Depression, many of America's community banks, including mutual savings banks and smaller commercial banks like the Merchants Bank of New Bedford (later the Merchants National Bank of New Bedford), were well-governed businesses closely monitored by their

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[8] "The Trial of Barker Burnell," *Baltimore Sun*, 17 June 1847, p. 1.

[9] *Trial of Barker Burnell, Late Cashier of the M & M Bank, in Nantucket* (Boston, 1847).

[10] Of course the directors and officers of failed banks rarely took personal responsibility for wrongdoing but cast blame on each other. See, for example, the discussion in Bernard Christian Steiner, *Life of Reverdy Johnson* (Baltimore, Md., 1914), 11-15.

[11] Robert Shalhope, *The Baltimore Bank Riot: Political Upheaval in Antebellum Maryland* (Chicago, 2009), 31-37, quotation at 33.

[12] Carmen Reinhart and Kenneth Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton, N.J., 2009).

[13] Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (Princeton, N.J., 1957), 676.

depositors and stockholders. (Corporations owned mostly by distant or speculative stockholders, by contrast, tended to be much less stable.[14])

Mutual Savings Banks

Before the Civil War, U.S. state governments chartered over seven hundred savings banks, about 60 percent of which were organized as pure mutuals wholly owned by their depositors.[15] Whether mutual, joint stock, or hybrid (part mutual, part joint stock), savings banks issued relatively illiquid deposits that typically paid between 4 and 7 percent interest annually. Savings banks proved popular places to safe keep relatively small sums, especially among the urban poor, because they were "the safest and most profitable investment to which they can apply their small, and gradually accumulating sums."[16] By providing small investors with safe yields comparable to those earned by "the Wealthy and Capitalists," savings banks enticed many "mechanics, tradesmen, laborers, servants, and others living upon wages or labor, . . . to save."[17] Depositors in the New Orleans Savings Bank, for instance, included bakers, bar keepers, bricklayers, carpenters, clerks, coach makers, coopers, draymen, engineers, farmers, gardeners, joiners, laborers, marble polishers, millwrights, machinists, merchants, painters, peddlers, plasterers, printers, professors, sailors, school masters, ship carpenters, shoemakers, stevedores, storekeepers, turners, wood sellers, and upholsterers. Of the first 1,500 deposit accounts created at that bank, 251, or 16.73 percent, were owned by women. Of those depositors whose occupations were identified, the majority were laborers, sailors, draymen, or artisans/ mechanics (bricklayers, carpenters, painters, makers of shoes or other goods). A fair number were literate and potentially upwardly mobile clerks but many others, over 750 between 1827 and 1842, had to sign with their respective marks.[18]

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[14] J. C. Ayer, *Some of the Usages and Abuses in the Management of Our Manufacturing Corporations* (Lowell, Mass., 1863), 3, 23-24; Charles Huntington, *A History of Banking and Currency in Ohio before the Civil War* (Columbus, Ohio, 1915), 137-38; Robert E. Wright and Richard Sylla, "Corporate Governance and Stockholder/Stakeholder Activism in the United States, 1790-1860: New Data and Perspectives," in *Origins of Shareholder Advocacy*, ed. Jonathan Koppell (New York, 2011), 231-51.

[15] Richard E. Sylla and Robert E. Wright, "U.S. Corporate Development, 1801-1860," NSF Grant No. 0751577.

[16] John Dix, *Sketch of the Resources of the City of New York* (New York, 1827), 43; "A Citizen of Lowell," *Corporations and Operatives* (Lowell, Mass., 1843), 56.

[17] Constantine Rafinesque to Elijah F. Pennypacker, Chairman of the Committee on Banks, 18 Jan. 1836, Society Collection, Historical Society of Pennsylvania, Philadelphia, Pa.

[18] New Orleans Savings Bank Records, Louisiana Collection, New Orleans Public Library, New Orleans, La.

Similarly, depositors in the Bank for Savings in New York in 1820 included boot cleaners, coachmen, cartmen, chambermaids, nurses, students, laborers, waiters, and almost 150 domestic laborers. New York newspaper editor Mordecai M. Noah noted that the poor denizens of Manhattan often accumulated surprising sums. "Domestics" with "several hundred dollars" invested in the Bank for Savings were not uncommon as early as 1819.[19] A dollar here and there soon added up. In 1827, savings banks in New York held deposits of some $1.6 million, about 37 percent of the national total.[20] By 1830, New York City savings banks alone boasted of 14,774 depositors with $2,075,551 on deposit, $140.49 per deposit on average. The situation was similar in other cities, like Baltimore, where the Savings Bank of Baltimore periodically purged its depositor base of those not considered to be among the "frugal poor." That institution nevertheless still attracted a significant deposit base. As the *Baltimore Patriot* reported in 1829, the net number of depositors had increased by 201 in just a year. "We know not how to speak in sufficiently warm terms," the editor chortled, "in recommending the Savings Bank to the attention of the industrious and economical classes of the community."[21] In 1843, the Lowell Institution for Savings had 1,976 depositors, 978 of whom were "factory girls" with an average of about $100 each on deposit.[22]

Unscrupulous savings bank officers sometimes robbed their many poor, female, or illiterate depositors, but most antebellum savings banks were conservatively run by a board of trustees, the members of which took their fiduciary duties seriously and were accountable to depositors via board elections. Deposit growth slowed during the economically troubled late 1830s and early 1840s, when many shakier institutions failed, but proceeded apace thereafter.[23] By the 1850s, economic boosters mentioned savings banks in the same breathless breath as railroads and insurers.[24] By 1853, Massachusetts savings banks held deposits of over $23 million in some 117,000 accounts.[25] By 1860, New York savings banks held about

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[19] *New York National Advocate*, 7 July 1819.

[20] Office of the Comptroller of the Currency, *Annual Report of the Comptroller of the Currency . . . 1916* (Washington, D.C., 1917), 1: 85-86.

[21] *Baltimore Patriot*, 20 Jan. 1829.

[22] "A Citizen of Lowell," *Corporations and Operatives* (Lowell, Mass., 1843), 55.

[23] R. Daniel Wadhwani, "The Demise of Thomas Dyott: The Panic of 1837 and the Development of Personal Finance in the United States," Crisis and Consequence Conference, 5 Nov. 2010, Hagley Museum and Library, Wilmington, Del.

[24] Stephen N. Stockwell, *Argument of Hon. Chas. Theo. Russell in Behalf of the Boston and New York Central Railroad Co., Remonstrants* (Boston, 1854), 32.

[25] J. Smith Homans, ed. *Bankers' Magazine and Statistical Register* (July 1853), 718.

$150 million and about one in four New Yorkers had a savings bank account.[26]

Because of their relatively good record, savings banks became even larger and more important in the late nineteenth and early twentieth century.[27] Deposits topped $1 billion in 1884 and grew every year until 1933, the pit of the Depression, having reached almost $10 billion in 1932. The number of savings banks in operation swelled from 320 in 1865 to 666 a decade later before pulling back, very slowly, to 567 in 1934.[28] (After the Great Depression, the United States continued to domicile a large number of substantial mutual depository institutions. In the 1970s and 1980s, however, many of them demutualized [became joint stock companies] and/or failed.[29] Mutual savings banks are therefore no longer a major force in U.S. banking, but to some extent they have been replaced by mutual credit unions, of which there are currently over 7,700 serving some 91 million Americans.[30])

Savings banks were popular because they offered depositors important financial services that they could not easily or cheaply procure on their own. An investor with a small sum to invest could afford to buy shares in only a few corporations at most. By buying a savings bank deposit instead, she purchased a percentage of the bank's relatively broad, safe investment portfolio. (Counter-intuitively, it is safer to own small amounts of many relatively risky securities than to own large amounts of a few relatively safe securities. "There is one admirable rule," an investment guru noted in 1910, "and that is to put your eggs in as many baskets as possible."[31]) Also, the small investor gained from savings banks' scale and expertise. Savings

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[26] Alan Olmstead, "Investment Constraints and New York City Mutual Savings Bank Financing of Antebellum Development," *Journal of Economic History* 32 (Dec. 1972): 811-13.

[27] R. Daniel Wadhwani, "Banking from the Bottom Up: The Case of Migrant Savers at the Philadelphia Savings Fund Society during the Late Nineteenth Century," *Financial History Review* 9 (April 2002): 41-63; R. Daniel Wadhwani, "Citizen Savers: Family Economy, Financial Institutions, and Public Policy in the Nineteenth-Century Northeast," *Enterprise & Society* 4 (Dec. 2004): 617-24; R. Daniel Wadhwani, "Protecting Small Savers: The Political Economy of Economic Security," *Journal of Policy History* 18, no. 1 (2006): 126-45.

[28] *Annual Report of the Federal Deposit Insurance Corporation for the Year Ending Dec. 31, 1934* (Washington, D.C., 1935), 112-13.

[29] Savings institutions have gone through several periods of difficulty, most recently in the 1980s. An excellent study of their more recent history is David Mason, *From Buildings and Loans to Bail Outs: A History of the American Savings and Loan Industry, 1831-1995* (New York, 2004).

[30] On the demise of mutuals, see Robert E. Wright, "Thinking Beyond the Public Company," *McKinsey Quarterly* (Sept. 2010). On credit unions, see http://www.cuna.org/press/basicinfo.html, accessed 5 July 2011.

[31] Carl Snyder, "Railroad Stocks as Investments," *Annals of the American Academy of Political and Social Science* 35 (May 1910): 164-74.

banks could expend more total resources (time, money) evaluating investments than any single investor could do, but at a much lower total percentage of funds invested. For instance, it might cost an individual $5 to research the purchase of a $100 investment, a cost of 5 percent to the investor, while the savings bank could take a much closer look, spend $50 on its investigation, but invest $1 million, a cost of only .005 percent. Finally, savings banks had to make purchases or sales only when its *net* deposits changed significantly; individual investors had to enter the market whenever their *gross* cash position changed. A savings bank with a thousand depositors, in other words, did not have to trade assets as frequently as a thousand individual investors would have to have done. Mutual savings banks passed most of those savings on to depositors, thereby making their liabilities attractive in terms of both risk and return.

The following story from 1825 captured the importance of high return and low risk to savings bank depositors:

> Tom. -- I say, Jack, where can a body come athwart the Savings Bank, as they call it?
>
> Jack. -- Savings Bank, do you say? Faith, that's past my reckoning. What would they be at there, ship mate?
>
> Tom. -- Harkee Jack, as our Captain was paying us off, says he, Tom, what will you do with all this money? Says I, that's something more than I have thought about; but between sky larking and jolly boys, I'll soon be rid of it. Well, says the Captain, and how will you manage to make the pot boil when you are sick or old? Would not it be better for you to lay by whole or a part of the money, which you have earned by so much hard duty, to make yourself comfortable when you are on your beam ends. Aye sire, says I, but *if one gives it to our owners, ten chances in one but they break*. If we lend it to a mess-mate, or leave it with our landlady, it's all one, *we never get any good out of it*. True enough, Tom, says our Captain, but if you put it into the Savings Bank, you are sure of getting it again when wanted, and that too with interest.
>
> . . .
>
> Jack. -- Why, Tom, a body has something to work for now. *Money at interest, and as safe as a ship in dry dock*.[32]

The cost of relatively high, relatively safe returns was illiquidity. The New Orleans Savings Bank, for example, touted its ability to offer "the double advantage of Security and interest," but depositors in that bank could only withdraw funds only on the third Monday in February, May, August, and November, provided that they gave two weeks' notice of their intent, and desired to withdraw more than $5.[33] Many borrowers actually appreciated the illiquidity of their investments because it disciplined them; they could

[32] *Eastern Argus*, 9 Sept. 1825.

[33] New Orleans Savings Bank Records.

not withdraw their savings to meet transient needs. The advantage for the savings banks was that they did not have to maintain large, expensive cash reserves. In fact, savings banks typically outsourced the actual receipt and disbursement of deposits and the making of investments to commercial bank affiliates. From 1828 until 1840, for example, the Commercial Bank of Albany served as the correspondent of the Albany Savings Bank. That savings bank, as was common, conducted its business within its correspondent's offices, just as the New Haven Savings Bank rented a room in the New Haven Bank and the New Bedford Savings Institution had a close relationship with the Merchants Bank of New Bedford.[34]

Borrowers also liked savings banks, which typically invested in mortgages, bonds, and sometimes commercial loans. Although real estate mortgages were not as liquid as government bonds, they were arguably almost as safe and yielded a good 6 percent. Some savings banks specialized in them. Over 70 percent of the Seamen's Bank for Savings' portfolio was invested in mortgage loans in January 1837, for example.[35] Most savings banks made at least some mortgage loans, filling large gaps left in the mortgage market by individual lenders and trust companies.[36]

Over time, regulators allowed savings banks to invest in a wider range of assets, even call loans (overnight loans collateralized by equities) as well as in the equities themselves.[37] In 1826, for example, the Portsmouth Savings Bank owned $38,000 worth of bank stock, $12,430 worth of loans to the town of Portsmouth, $12,914.44 worth of loans to individuals collateralized with corporate equities, and $1,561.44 cash.[38] Similarly, in the 1830s the Middlesex Institution for Savings bought over fifty shares in the Concord Bank, which also attracted investment from the Lowell Institution for Savings.[39]

Many savings banks also invested in government infrastructure projects and non-government organizations. At one point, the Bank for Savings owned as much as 30 percent of the Erie Canal's bonds.[40] Later, it

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[34] Francis Kimball, *Faithfully Serving Community, State, and Nation for 125 Years* (Albany, N.Y., 1950?), 18; Theodore Woolsey, "The Old New Haven Bank," *Papers of the New Haven Colony Historical Society* (New Haven, 1914), 8: 327; Zephaniah Pease, *The Centenary of the Merchants National Bank* (New Bedford, Mass., 1925), 26, 31, 43.

[35] Alan Olmstead, "Investment Constraints and New York City Mutual Savings Bank Financing of Antebellum Development," *Journal of Economic History* 32 (Dec. 1972): 811-40.

[36] Olmstead, "Investment Constraints," 836; Diary of Henry Van Der Lyn, 1: 245, New-York Historical Society, New York, N.Y.

[37] Olmstead, "Investment Constraints," 810-40.

[38] *New Hampshire Gazette*, 8 Aug. 1826.

[39] John A. Patterson, "Ten and One-Half Years of Commercial Banking in a New England Country Town: Concord, Massachusetts, 1832-1842" (unpublished MS, Old Sturbridge Village, 1971), 19-20.

[40] Olmstead, "Investment Constraints," 817, 824.

fronted much of the money New York City needed to build the Croton reservoir and aqueduct and to keep the city's fire insurance companies afloat after the disastrous fire of 1835.[41] Similarly, the Richmond Savings Institution made long-term "accommodation" loans to the unincorporated not-for-profit Hollywood Cemetery Company, supplying it with as much as $8,400 at one point in 1851.[42]

Some savings banks inevitably failed but few mutual or chartered joint-stock ones did so, at least not spectacularly.[43] Some, like the New Orleans Savings Bank (NOSB), eventually paid depositors in full, with interest. Chartered on March 17, 1827, the NOSB sought to encourage "in the community habits of industry . . . by receiving and investing in Stock . . . or in some other productive manner, such small sums of money as may be saved from the earnings of tradesmen, mechanics, labourers, servants and others, throughout the State."[44] At first, the NOSB fulfilled its mission admirably. Between its opening on April 26, 1827, and February 21, 1828, that bank received, from "forty six different depositors," $8,618 in deposits, $7,200 of which it invested in the stock of the Bank of Louisiana. That was only the beginning. On February 18, 1836, the trustees exclaimed "that the Savings Bank is in a prosperous and improving condition and accomplishing the philanthropic objects contemplated by the Legislatures in its incorporation." On January 31, 1842, 556 different persons had almost $140,000 invested in the NOSB, an average deposit of just under $250. The largest deposit was $2,607, the smallest less than a dollar. The median deposit was $127.10.

That summer, however, the NOSB found it impossible to raise the cash it needed to meet the large net deposit outflows that occurred during one of the many aftershocks of the panics of 1837 and 1839. Deposits plummeted from $137,236.18 in early 1842 to just $87,040.05 a year later. "The extraordinary difficulties which at this time prevail throughout the Community," the Trustees wrote on June 4, 1842, "have put an entire stop to the punctual collection of the mortgage and other notes, in which the Trustees of this Institution have invested its funds."[45]

The NOSB stopped taking deposits in June 1842 in order to concentrate its efforts on making collections. Most of the debts were eventually made good, so depositors lost nothing but the use of a portion of their funds for several years. By January 1844, the bank owed depositors only $55,232.19, and a year after that only $37,513.71. By June 1847, the NOSB had repaid, with 8 percent interest, all but $26,588.18 worth of its deposit liabilities. It paid down the deposit balance to near

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[41] Ibid., 828-29.

[42] Hollywood Cemetery Minute Books, 1847-1868, 175, 179, 192, Virginia Historical Society, Richmond, Va.

[43] Dyott's doomed bank, for example, was unincorporated.

[44] New Orleans Savings Bank Records.

[45] Ibid.

zero by December 1, 1855, again with interest, after alerting remaining depositors by newspaper advertisement in May that it stood ready to redeem its remaining obligations. The NOSB was able to wind up its affairs honorably by reinvesting collected debts in commercial bank and insurance equities and by reducing salaries and other expenses. Although not an ideal ending, the bank did provide what it promised, namely, safe and remunerative returns. What it withheld from depositors was liquidity. Indeed, the NOSB forbade depositors to sell their claims against it.

Community Commercial Banks

Whereas savings banks catered to those seeking good, safe returns, commercial banks attracted investors who wanted safe, liquid assets. Before 1861, U.S. states chartered over 1,500 commercial banks by special act of incorporation and another 900 plus under general incorporation laws. [46] The federal government also chartered two, both called the Bank of the United States, and unincorporated private bankers numbered more than 1,100.[47] After the Civil War, with the national and many state governments chartering new banks in earnest and the West opening up rapidly, the number of U.S. commercial banks swelled, topping out at over 30,000 in the early 1920s.[48] Even today, after decades during which exits (mergers and failures, mostly in two waves in the 1980s and 2000s) exceeded new charters by a wide margin, America is home to over 6,000 commercial banks (see Fig. 2).[49] Throughout history and to the present day, the vast majority of U.S. banks have been small, local affairs with no or (after 1918) just a few branches.[50]

Like savings banks, commercial banks proliferated because they provided some portion of the populace with necessary financial services at a good price. Specifically, they provided entrepreneurs with short-term financing and depositors and noteholders with highly liquid cash assets (checking deposits and bank notes) that were often the functional equivalent of money (gold and silver).[51] Notes and most deposits did not

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[46] Sylla and Wright, "U.S. Corporate Development"; Weber, "Count of Banks by State—Daily."

[47] Sylla, "Early American Banking," 117; Richard Sylla, "Forgotten Men of Money: Private Bankers in Early U.S. History," *Journal of Economic History* 36 (March 1976): 173-88.

[48] Board of Governors of the Federal Reserve System, *All Bank Statistics, 1895-1955* (Washington, D.C.), 37; URL: http://fraser.stlouisfed.org/publications/allbkstat/issue/62/download/186/us.pdf.

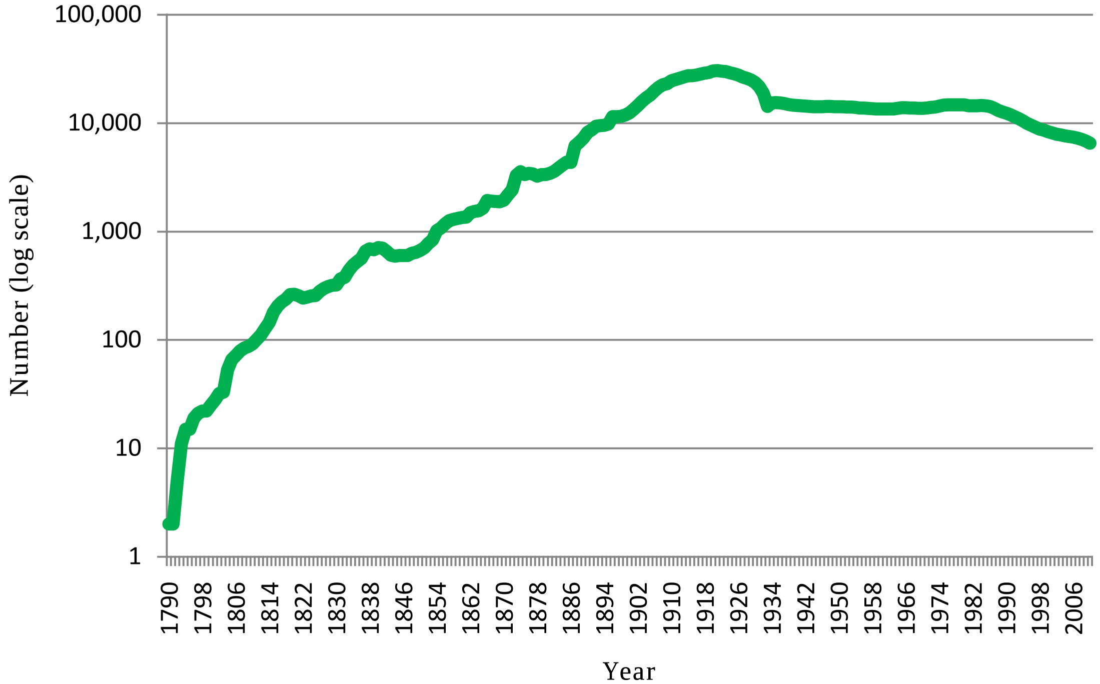
[49] URL: http://www.fdic.gov/bank/statistical/stats/2010mar/fdic.pdf.

[50] Nicholas B. Wainwright, *History of the Philadelphia National Bank: A Century and a Half of Philadelphia Banking, 1803-1953* (Philadelphia, 1953), 188.

[51] For details, see Howard Bodenhorn, *A History of Banking in Antebellum America: Financial Markets and Economic Development in an Era of Nation-*

Figure 2

Number of Banks in the United States, 1790-2010



Source: See Figure 1 sources.

pay interest but they were generally safe and made it much easier to transact business.[52] "The want of cash," a New Yorker noted in 1812, "reduces the people to the most inconvenient barters" in unbanked areas.[53] "Commerce when confined to the mere exchange of one commodity for

Building (New York, 2000), 45-58; Robert E. Wright, *Origins of Commercial Banking in America, 1750-1800* (Lanham, Md., 2001), 111-37.

[52] I have examined the extant records of about a dozen banks and literally scores of personal bankbooks (like modern checking account registers) and do not recall seeing any interest being credited to depositors. I have, though, seen scattered comments about some early banks paying interest on sizable time deposits. See, for example, Directors' Minutes, Bank of Philadelphia, 30 June, 5 Sept. 1831, Historical Society of Pennsylvania; Patterson, "Ten and One-Half Years," 45-46, and Caleb Cushing, *Speeches Delivered in the House of Representatives of Massachusetts, on the Subject of the Currency and Public Deposites* (Salem, Mass., 1834), 19.

[53] A Citizen of New York, *Remarks on that Part of the Speech of His Excellency the Governor to the Legislature of the State of New York Relative to the Banking System* (1812), 5.

another," contemporaries knew, "is extremely slow in its operations and limited in its beneficial effects."[54]

By the end of the 1790s, the notes and deposits of chartered banks constituted the bulk of the U.S. money supply, though specie and chits or shinplasters (the bearer liabilities of non-banks) also circulated to a degree that varied over time and space.[55] "No man locks up his money or buries it these days," a contemporary observed; "no sooner a bank is established in any place, than all the cash disappears from circulation. It is taken to the bank as a deposit, and for safety, as well as to obtain favours from the bankers, even the revenue of the general government is lodged in the banks." According to the same writer, by 1818 only one dollar in specie circulated for every $1,000 in banknotes.[56]

To maintain the liquidity of their liabilities, commercial banks had to manage their assets carefully. If they could not pay specie to liability holders they were considered insolvent and could be shut down if "run" upon by panicky noteholders and depositors. To reduce those risks, commercial banks held primary reserves of specie and also bought government bonds and corporate equities as so-called secondary reserves, assets that produced income but could be sold for gold or silver quickly and cheaply. Early banks typically kept from 1 to 10 percent of their assets in the form of government bonds.[57] "Let it not escape notice," Thomas Law wrote in 1826, "that several of our most solid banks, keep [government bonds] in preference to specie, to a certain amount, relying upon its convertibility into cash, and retaining it because it yields an interest and diminishes their dead capital in the precious metals."[58] The Bank of New York, for example, owned over $1 million of U.S. 6 percent and deferred bonds in 1799.[59] In 1815, the New Haven Bank owned shares in the City

[54] *Report of the Committee on Banks and Insurance Companies on the Several Petitions Presented to the Senate, Praying Acts of Incorporation with Banking Privileges* (Albany, N.Y., 1826), 8.

[55] A Citizen, *An Appeal to the Public on the Conduct of the Banks in the City of New York* (New York, 1815), 5-7; *An Inquiry Into the Causes of the Present State of the Circulating Medium of the United States* (Philadelphia, 1815), 8-9, 35; Albert Gallatin, *Considerations of the Currency and Banking System of the United States* (Philadelphia, 1831), 28, 40; Walter B. Smith and Arthur Cole, *Fluctuations in American Business, 1790-1860* (New York, 1935), 5, 27.

[56] Seventy-Six, *Cause of, and Cure For Hard Times* (New York, 1818), 18, 43, 46.

[57] Howard Bodenhorn, "Banking and the Integration of Antebellum American Financial Markets, 1815-1859" (Ph.D. diss., Rutgers University, 1990), 51-53; Henry Ashmead, *History of the Delaware County National Bank* (Chester, Pa., 1914), 45-46.

[58] Thomas Law, *Considerations Tending to Render the Policy Questionable of Plans for Liquidating, Within the Next Four Years, the Six Per Cent. Stocks of the United States* (Washington, D.C., 1826), 9.

[59] "List of Balances from Ledger Commencing April 9th 1798 and ending May 13th 1799," Bank of New York Archives, Bank of New York, New York, N.Y.

Bank of New York, New York City bonds, and U.S. Treasuries.[60] Some banks even made equity investments in risky concerns like manufacturers. In 1848, for example, the Bank of Lancaster bought $74,000 of shares of the Conestoga Steam Mill Company. (Other local banks kicked in an additional $40,000 or so. Unfortunately, the manufacturer was bankrupt by 1851.)[61]

Commercial banks were best suited to providing local businesses with much needed short-term loans. In the late 1830s and early 1840s, for instance, Concord Bank made about 1,700 loans totaling $450,000 a year, only 80 of which were collateralized with land.[62] Early banks were very good at financing mercantile transactions and providing operating capital for manufacturers "to enable them to buy their stock [inputs], and to sell their manufactured articles when the markets are most favourable. Without bank accommodations," a commentator noted in 1811, "they must often be compelled to buy dear and sell cheap."[63] Country banks also lent to farmers, especially bigger, commercial farmers with mixed farms who needed short-term loans because they also engaged in light manufacturing like smithing, shoemaking, wrighting, and milling.[64]

Banks made loans to borrowers much more cheaply than individuals could. First, borrowers knew where to go to seek funds, greatly reducing search costs. Second, banks, as loan specialists, were better than most private lenders at making lending decisions. In other words, banks specialized in reducing information asymmetry, in differentiating good risks from bad ones. They also took advantage of economies of scale in the creation and enforcement of loan contracts.[65]

To help manage their specie reserves, banks typically lent for short periods, usually fewer than 120 days, and staggered loans so that some were always coming due. If specie reserves seemed excessive, bankers made new loans. If reserves seemed adequate, bankers loaned the sums coming due again, often to the same borrowers. After the *Chesapeake* incident in 1807, for example, banks in Virginia for some months did

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60 Woolsey, "Old New Haven Bank," 321.

61 Paul Peel, "History of the Lancaster Bank: 1814-1856," *Journal of the Lancaster County Historical Society* (Spring 1962), 78, 80.

62 Patterson, "Ten and One-Half Years," 51-52, 54.

63 Jonas Platt, *Mr. Platt's Speech on the Bill for Establishing the Western District Bank* (1811).

64 Patterson, "Ten and One-Half Years," 7-8.

65 Robert E. Wright, *The Wealth of Nations Rediscovered: Integration and Expansion in American Financial Markets, 1780-1850* (New York, 2001), 26-42, which is based on an extensive sampling of early bank records like the Day Book of the Towanda Bank, 1841-1842, Am 993, Historical Society of Pennsylvania.

"nothing except renewing paper" until the war scare abated.[66] If gold and silver levels seemed too low, bankers refused to make new loans or to extend old ones until sufficient specie (and other current funds like bills of exchange) flowed back into the bank.

Another reason that banks became so numerous was that until well into the twentieth century most of them were unit banks (in other words, they had no branches). Some banks, like the Delaware County Bank, did not want any branches, believing that they created a "small benefit" for a few customers at a high cost to the institution and most stockholders.[67] Others found it impossible or cost prohibitive to obtain regulatory approval for branches, because many legislators believed that banks should "be fairly and equally distributed among our principal commercial towns" and that their locations should not be left to the business decisions of distant stockholders. Some people even considered bank branches "bastard offspring" whose "profits and prosperity" were beholden to distant cities and not to local interests. Branch directors and officers "may strut with all the mock dignity of puppets," it was said, "but the master wire-men keep behind the curtain." Other critics argued that branches were designed to accept deposits from locals to fund loans elsewhere and were a means of draining local economies of specie.[68]

The inability of existing banks to branch allowed new banks to arise solely to increase the geographical coverage of banking services. The Bank of the Northern Liberties, for example, based its charter pitch to the Pennsylvania legislature on the fact that all of Philadelphia's banks were located on or to the south of Chestnut Street, so many people residing north of the city, especially farmers, had to travel two or more miles to bank, an inconvenient distance then (and today, but for different reasons).[69]

Location was an important consideration because it largely determined the nature of the bank's loan portfolio. For example, the founders of the Farmers Bank of Bucks County set up in Hulmeville because, in the words of the bank's chronicler, it "was the seat of extensive mills." Within a decade, however, that bank relocated to Bristol, a larger and more commercial town, at the behest of two-thirds of the stockholders.[70]

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[66] Richard Blow to Buchanan & Pollock, 15 July 1807, and to Messrs. Blow & Scammel, 16 Dec. 1807, Richard Blow Letterbook, 254-57, Virginia Historical Society, Richmond, Va.

[67] Ashmead, *History of the Delaware County National Bank*, 62-63.

[68] Platt, *Mr. Platt's Speech*.

[69] Lemuel Simon, *A Century of the National Bank of the Northern Liberties of Philadelphia, Pennsylvania* (Philadelphia, 1910), 9.

[70] Charles Scott, *Farmers National Bank of Bucks County: A Century's Record, 1814-191*4 (Bristol, Pa., 1914), 8, 25.

Contemporaries believed that demand for loans was more or less fixed, so they thought that new banks within a given region competed ferociously with existing ones. Early on, relations between banks operating in the same city were usually quite testy.[71] The desire of borrowers and depositors to reside near their banks, however, meant that a multiplicity of banks did not ensure a high degree of competition. In fact, bank dividends were generally quite high, often exceeding 6 percent per year on average, reflecting the fact that, outside of the major seaboard cities, few banks faced much direct competition.[72] Stakeholders also took their quasi-monopoly rents in the form of a quiet existence. The Phoenix Bank of Hartford, for example, enjoyed "uninterrupted . . . harmony . . . for many years . . . the several parties [directors, cashier, and employees] operating, without interference, quietly and pleasantly, in their respective spheres of duty."[73] Such was "the golden charm" of local market power.[74]

Finally, banks also proliferated because they were thought to stimulate economic development by supplying the economy with convenient forms of money and businesses with loans. Progress was possible in areas devoid of their services, but many contemporaries believed that "the general progress of the country was extremely slow" before their appearance.[75] "What would be the effect upon Society if no credit should be given in trade?" asked Silas Felton of his fellow "Social Enquirers," a group of friends who met in 1802 and 1803 to discuss the matters of the day. Six of the nine decided the effect would be "detrimental."[76] "The more we reflect on the banking system," an observer noted in 1812, "the more we believe that upon the right establishment of banks, depends the prosperity of trade and the equable course of circulation; and that once established, they become the indisputable support of private, mercantile and public credit."[77] "Their utility to the commerce and beneficial influence in promoting the prosperity of this country," another writer claimed, "must be apparent to the most superficial observer."[78] "A Bank, when conducted

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[71] See, for example, *A Statement of the Correspondence Between the Banks in the City of New York* (New York, 1805); A Citizen of New York, *Remarks on that Part of the Speech of His Excellency the Governor to the Legislature of the State of New York Relative to the Banking System* (1812), 5-7.

[72] A Citizen, *An Appeal to the Public*; Gallatin, *Considerations of the Currency and Banking System*, 84.

[73] Charles Sigourney, *To the Stockholders of the Phoenix Bank* (Hartford, Conn., 1837), 2.

[74] Seventy-Six, *Cause of, and Cure For Hard Times*, 23.

[75] Gallatin, *Considerations of the Currency and Banking System*, 68.

[76] As quoted in J. M. Opal, *Beyond the Farm: National Ambitions in Rural New England* (Philadelphia, 2008), 147.

[77] A Citizen of New York, *Remarks on that Part of the Speech of His Excellency the Governor*, 4.

[78] *Report of the Committee*, 11.

upon proper principles, is undoubtedly a useful institution," explained another contemporary, "inasmuch as it affords great facilities for the transaction of business and supplies to the enterprising, whose credit is good, the deficiency of capital, which is necessary for the successful prosecution of their plans."[79]

Contemporaries also often attributed the development of specific towns or regions to the establishment of banks. "Among the causes that contributed to the growth and prosperity of Buffalo," a chronicler reminisced in 1862, "was the establishment in the year 1829 of a Branch of the Bank of the United States." The Buffalo branch, it was said, "did a very large, safe and profitable business, furnishing exchange on all parts of the United States at a very low rate, affording great benefits to the travelers and merchants by freely giving its own notes for all others eastern or western, discounting very readily paper at four months as well as that at shorter dates." Upon its closing in 1835, it had not even $500 of bad debts on its books.[80] Banks could also help communities to change specialization in the face of economic shocks. For example, community banks like the Merchants helped New Bedford, Massachusetts, change its focus from whaling to textile manufacturing.[81]

Cause for Pause

None of this is to argue that U.S. commercial and savings banks were perfect or that they were universally adored. Many were skeptical of the efficacy of commercial banks. "The idea held out was, that such a Bank would prove extensively beneficial to Agriculture and Commerce, and be of general utility to the northern and western parts of the state," critics of one early bank charter application noted, but such claims were mere "pretences" designed to win over legislators.[82]

Bankers encouraged the notion that banks were crucial cogs in the engine of development, but their rhetoric sometimes backfired, especially during and after financial panics. Few would have disagreed with the claim that "banks are engines calculated to do much good if well managed, much evil if badly administered," yet borrowers and even the general population

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[79] As quoted in Patterson, "Ten and One-Half Years," 16.

[80] Joseph Saltar, "Among the Causes that Contributed to the Growth and Prosperity of Buffalo," July 1862, William Beatty Rochester Papers, University of Rochester, Rochester, N.Y.

[81] Pease, *Centenary of the Merchants National Bank*, 86-87; "One Hundred Years of Banking in New Bedford," *Bankers' Magazine* (Dec. 1925), 1,019; "Hand-in-Hand with Two Great Industries," *Bankers' Magazine* (Oct. 1925), 532.

[82] Samuel String and James Van Ingen, *A View of Certain Proceedings in the Two Houses of the Legislature, Respecting the Incorporation of the New State Bank* (Albany, N.Y., 1803), 5.

pressured bankers into erring on the side of imprudence.[83] Banks in Maryland, for example, were castigated for cutting their discounts from $16.4 million to just $2.5 million after the panics of 1837 and 1839, and even minor retrenchments could bring howls of discontent.[84] The slightest reduction in discounts, one writer claimed in 1805, could cause distress as the "CHAIN OF CREDIT will soon be stretched to its utmost bearing."[85] Especially during boom times, many Americans considered credit something akin to a necessity or a God-given right and often accused seemingly over-cautious bankers of engaging in political or other types of favoritism.[86] That was easy to do, as bankers had to reject many loan applications if they wished to remain in business. Some contemporaries realized that "the natural operation of a bank is to lend money to those persons who are best known to its directors," but others professed not to understand why bankers were wary of strangers.[87] (Other critics complained that borrowers threw lavish parties to trick bank directors into believing that they were creditworthy. Even if the sham was transparent, they noted, the entertainments served as a sort of bribe offered in the form of fine wine, music, and women.[88]) The potentially most pernicious form of favoritism was insider lending, the practice of lending primarily to directors, officers, major stockholders and their friends, families, and business associates, because it could be used to expropriate resources from outsiders, including minority stockholders, depositors, and noteholders. Insider lending was not widely practiced in most parts of the country, however, and where it was, as in eastern New England, it was not generally used for fraudulent purposes but rather to finance networks of manufacturers.[89]

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[83] *Speech of Mr. Keating in the House of Representatives of Pennsylvania* (Harrisburg, Pa., 1834), 35.

[84] Stuart Bruchey and Eleanor Bruchey, *Money and Banking in Maryland: A Brief History of Commercial Banking in the Old Line State* (Baltimore, Md., 1996), 24.

[85] *A Statement of the Correspondence Between the Banks in the City of New York* (New York, 1805), 26.

[86] Woolsey, "Old New Haven Bank," 323.

[87] *An Inquiry Into the Causes of the Present State of the Circulating Medium of the United States* (Philadelphia, 1815), 49-50.

[88] Littleton Teackle, *An Address to the Members of the Legislature of Maryland, Concerning the Establishment of a Loan Office for the Benefit of the Landowners of the State* (Annapolis, Md., 1817), 9.

[89] Naomi Lamoreaux, *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (New York, 1996); Naomi Lamoreaux and Christopher Glaisek, "Vehicles of Privilege or Mobility? Banks in Providence, Rhode Island, during the Age of Jackson" *Business History Review* 65 (Autumn 1991): 502-27; Bodenhorn, "Banking and the Integration of Antebellum American Financial Markets," 27-28; Robert E. Wright, "Bank Ownership Patterns in New York and Pennsylvania, 1781-1831," *Business History*

Although widespread unit banking virtually mandated close ties between banks and their communities, large numbers of small banks were often destabilizing. As one observer noted, "the example of Pennsylvania has clearly shown, that the calamities inflicted by the failures of country banks, established in unfit places, or for want of experience, improperly administered, have been still more fatal to the inhabitants of the districts in which they were situated, than to the state at large."[90] The massive bank panics of the Great Depression have also been clearly tied to unit banking, as places with branching systems, like California and Canada, emerged from the era's recurring bank crises relatively unscathed. All else constant, small banks are less able to withstand economic shocks than larger ones.[91]

The existence of numerous, fully autonomous little banks at times combined with a dearth of banking-specific education and training to create competency deficits. Experience was key to good management and had to be rented when it could not be hired. The president of the Farmers Bank of Bucks County, for example, personally paid Caleb P. Iddings, a consultant recommended by Bank of the United States president Nicholas Biddle, to visit the bank, straighten out its tangled books, and teach the officers and staff how to run the institution.[92] The staff was apparently incompetent enough to pay out specie twice for the same notes.[93] Other early country bankers were also of dubious competence.[94] For example, Frederick J. Hinkson, cashier of the Bank of Delaware County and a tanner, was apparently much more adept at the latter occupation than the former. He finally resigned in August 1853 in order to devote more time to his tannery.[95]

Some big Southern banks with branches used experienced personnel from one branch to monitor and train those at another. In 1820, for

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Review 73 (Spring 1999): 40-60; Paul Lockard, "Banks, Insider Lending, and Industries of the Connecticut River Valley of Massachusetts, 1813-1860" (Ph.D. diss., University of Massachusetts, 2000); Ta-Chen Wang, "Courts, Banks, and Credit Markets in Early American Development" (Ph.D. diss., Stanford University, 2006).

[90] Gallatin, *Considerations of the Currency and Banking System*, 69.

[91] Ben Bernanke, *Essays on the Great Depression* (Princeton, N.J., 2000), 95.

[92] Scott, *Farmers National Bank*, 30.

[93] Ibid., 40-41. The story claims that the officers burned the notes, but only partially. Workmen discovered them and sold them to locals who claimed they were partially burned in their fireplaces, etc. Only after the number of such requests became suspicious did they start to check the notes' numbers and dates against the note redemption ledger and discover the fraud. The story may be apocryphal, however, as a remarkably similar one was told by the historian of the Merchants Bank of New Bedford, Mass. Pease, *Centenary of the Merchants National Bank*, 23.

[94] Ashmead, *History of the Delaware County National Bank*, 30.

[95] Ibid., 55.

example, the Farmers Bank of Virginia instructed one of its cashiers to "to go to Petersburg and make a full examination into the said conduct, as well as into the manner in which the books of the Branch are kept; and into the manner in which the Cashier and other Officers perform their respective duties; and report the result to this Board as soon as practicable." But problems persisted: an accountant who did not do his job, a first teller with sticky fingers, and some clerks who accidentally paid out $1,200 in checks twice. At the same time, the bank was forced to write down over $200,000 in bad loans and slash its dividends.[96] The bank recovered only to suffer another near miss two decades later, when directors discovered that a cashier had committed a "gross irregularity" by granting discounts to himself.[97]

Cashiers were the linchpins of most banks, the "first financial officer" in the words of one antebellum bank president.[98] Although cashiers held tremendous power, a strong president and board could keep them honest and in check by paying them well, not allowing them to engage in outside speculations, and monitoring by giving their subordinates incentives to report anything untoward. "What we want in a Cashier," one bank president explained, "is a man of good education, sound judgment, and conciliating manners, who has had experience of pecuniary operations, and will obey the Directors." Although cashiers (and their subordinates) were almost always bonded, some inevitably absconded.[99] In 1850, for instance, the cashier of the Savannah Banking Company took flight but was later apprehended.[100] What is surprising, however, is that so few cashiers and tellers engaged in embezzlement or other forms of thievery.[101] In 1885, for example, the cashier of the Pacific National Bank of Nantucket was forced to resign after overdrawing his account $8,000. Tellingly, however, a local noted that "no greater commotion has been created in Nantucket since the failure of the Manufacturers' Bank [Barker Burnell, mentioned above] in 1846," almost forty years earlier.[102]

Another complaint was that savings and commercial banks did not typically lend to the poorest Americans. Savings banks were eager to obtain the poor's deposits but few were interested in helping the poor to

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[96] Minutes of the Board of Directors of the Farmers Bank of Virginia, 1820-1827, Virginia Historical Society, Richmond, Va.

[97] Minutes of the Board of Directors of the Farmers Bank of Virginia, 1841-1853.

[98] Shepherd Knapp, *Letter to the Stockholders of the Mechanics' Bank from Shepherd Knapp, in Reply to the Defence of Francis W. Edmonds, Their Late Cashier* (New York, 1855), 5.

[99] Sigourney, *To the Stockholders of the Phoenix Bank*, 4, 8, 12, 14-15, 41.

[100] "Count Bodisco," Brattleboro, Vt. *Weekly Eagle,* 6 May 1850, p. 2.

[101] Howard Bodenhorn, *State Banking in Early America: A New Economic History* (New York, 2002).

[102] "Thieving Cashiers," *Macon Telegraph,* 20 Jan. 1885, p. 1.

finance micro-businesses.[103] Most such lending was done by individuals, including Benjamin Franklin, who thought so highly of the business that he established two micro lending facilities in his will.[104] Municipalities also considered making small loans to micro-businesses, largely to reduce the fiscal burden of caring for the poor and unemployed. "Besides the absolute Poor, who *must be* supported," one commentator argued, "there are frequently many other Citizens in streightned circumstances, who from the want of small sums are exposed to great difficulties and sometimes to suit at law for trifling debts, whereby they often suffer the loss of more than double the sum in which they are indebted." The solution, some believed, was to set up a sort of government pawnshop to lend for short periods small sums (between $2 and $50) to tradesmen and other micro-businessmen with their trade inventories posted as collateral.[105] Private pawnbrokers were unknown in some places until the early nineteenth century, when they arose in "obscurity and with little notice, till they have spread like a mal-area over the morals of the community." In Philadelphia in one year alone over 180,000 pledges were made, of articles of dress, clocks and watches, silver sets, jewelry, and even Bibles.[106] Some brokerage firms also operated note "shaving" operations that lent small to moderate sums at usurious rates.[107]

Some states established loan offices that lent considerable sums collateralized by real estate as several colonial governments had done and as most commercial banks were forbidden to do.[108] Missouri even allowed its loan office to issue "certificates" that bore a striking resemblance to colonial bills of credit but which attempted to sidestep the Constitution's ban by being payable only for taxes, government fees, and ferry passage. It also allowed 2 percent interest per year on the bills, which it lent to farmers at 6 percent. Counterfeiting and bad loans soon created headaches that made most of the era's banks look well-run, if not pristine. The slow abolition of the ill-fated institution began in November 1822, just eighteen months after its inception. In May 1824, the U.S. Supreme Court held the bills unconstitutional and in a later decision discharged the borrowers from their debts to the state, which nevertheless continued to receive the

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[103] Wilbur Plummer, "Consumer Credit in Colonial Philadelphia," *Pennsylvania Magazine of History and Biography* 66 (Oct. 1942): 385-409.

[104] Bruce Yenawine (edited by Michele Costello), *Benjamin Franklin and the Invention of Microfinance* (London, 2010).

[105] "A Plan for the Support of the Poor, and for the Relief of the Necessitous," Miers Fisher Papers, 1790?, Historical Society of Pennsylvania, Philadelphia, Pa.

[106] John F. Watson, *Annals of Philadelphia: Being a Collection of Memoirs, Anecdotes and Incidents of the City and Its Inhabitants* (Philadelphia, 1830), 218-19.

[107] J. David Lehman, "Explaining Hard Times: Political Economy and the Panic of 1819 in Philadelphia" (Ph.D. diss., UCLA, 1992), 166-67.

[108] Lehman, "Explaining Hard Times," 359-60; Teackle, *An Address*, 7.

certificates for taxes.[109] New York and several other states also ran loan offices in the late eighteenth and early nineteenth century but later preferred chartering for-profit mortgage lenders instead.[110]

Banks were also chastised for not issuing enough notes, especially low denomination ones. Many states forbade banks to issue notes for less than one and sometimes for less than five dollars, presumably to prevent banknotes from driving small denomination silver and copper coins out of circulation.[111] But small coins could and did disappear for other reasons. Following financial panics, for example, small denomination coins (except sometimes for some clipped small change of Spanish origin called levies and fips) disappeared into hoards or ships.[112] Banks issued tokens when and where they could, but where they were constrained from doing so other issuers appeared to fill the void.[113] Municipalities often found it expedient, if technically unconstitutional, to issue small notes ranging in value from a few cents to a few dollars. Issuance helped the municipalities to make payments in the face of tax revenue shortfalls, and their notes were probably generally superior to those issued by retailers, including hotels, oyster-sellers, and barbers (some payable in shaves and haircuts).[114] Some more reputable issuers made their notes payable at local banks that could or would not issue fractional notes themselves but individuals who tried to issue too many notes were often scorned.[115] In Maryland in 1786, for example, people raised an "opposition . . . in the most open and violent manner" to an Annapolis merchant who circulated "through the state the notes of a house of which he is a partner, to an amazing amount," even though at the time the "want of a circulating medium" could "no longer be denied; it is a truth."[116]

Non-bank corporations, especially those like bridges and turnpikes that needed to make change, also stepped into the monetary void. According to one critic of the practice, "the land stank, so numerous was the fry."[117] In New Jersey, a lot of the stink came from the New Hope Delaware

[109] Albert J. McCulloch, *The Loan Office Experiment in Missouri, 1821-1836* (Columbia, Mo., 1914).

[110] String and Van Ingen, *A View of Certain Proceedings in the Two House of the Legislature*, 14.

[111] Bruchey and Bruchey, *Money and Banking in Maryland*, 25.

[112] Simon, *A Century of the National Bank*, 17-18.

[113] Scott, *Farmers National Bank*, 16, 19; Ashmead, *History of the Delaware County National Bank*, 22.

[114] Frederick Marryat, *A Diary in America: With Remarks on Its Institutions* (New York, 1962), 29.

[115] Scott, *Farmers National Bank*, 19.

[116] "Money! Money! Money!" *Maryland Journal*, 4 July 1786.

[117] John Muscalus, *Pennsylvania Borough and City Script* (Bridgeport, Pa., 1975); Lehman, "Explaining Hard Times," 154-59, 177-78; Seventy-Six, *Cause of, and Cure For Hard Times*, 50-51, 56-57.

Bridge Company.[118] Manufacturers sometimes issued notes too. The Vermont Glass Factory, for example, issued notes after the failure of the Vermont State Bank in late 1812. The notes were actually engraved bearer drafts drawn on the factory's account with the Farmers' Bank in Troy, New York. Despite the seigniorage profits it earned on the notes, the factory did not survive the War of 1812.[119]

Ironically, banks also stood accused of granting too much credit and issuing too many notes. When banknotes "flood[ed] the country . . . far beyond what commercial credit would have effected," then banks became "a curse instead of a blessing."[120] Some thought it best to restrict banknote issuance to "none but chartered companies" so that they would be established only in "commercial places" and kept in the hands of "men skilled in commercial affairs, and having their interests intimately blended with the commercial business and prosperity of the country."[121] The Merchants Bank of New Bedford, Massachusetts, was led by able men with the same general interests as those of the community they served. The stockholders saw to that.

The Merchants (National) Bank of New Bedford

Archival evidence shows that the Merchants Bank of New Bedford, later the Merchants National Bank, was ably led for most of its existence and did not prey on its noteholders, depositors, borrowers, or minority shareholders.[122] Because of its high-quality governance, the bank remained loyal to its community and its community to it, even during the travails of the Civil War, both World Wars, the Industrial Revolution, umpteen financial panics, thirty-two recessions, and, most impressively of all, the Great Depression.[123]

Massachusetts first chartered the bank in June 1825 with an authorized capital of $150,000 and a sunset of October 1831. The charter limited the bank's note issuance to its "capital stock actually paid in" and

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[118] Wilbur Dreikorn, "The History and Development of Banking in New Jersey" (M.A. Thesis, Rutgers University, 1949), 42.

[119] Terrence Harper, *Historical Account of Vermont Paper Currency and Banks* (n.p., n.d.), 10-11.

[120] *Report of the Committee*, 16.

[121] Ibid.

[122] Clearly, the bank's own published history cannot be relied upon for this verdict as banks are notorious for commissioning self-serving histories with titles like *Faithfully Serving Community, State, and Nation for 125 Years*. Francis Kimball, *Albany: National Commercial Bank and Trust Company of Albany* (1950).

[123] By the NBER's count (26 for 1857 through 1961) plus the six dips in real per capita income thought to have occurred between 1825 and 1857. http://www.nber.org/cycles.html; http://www.measuringworth.org/datasets/usgdp/, both accessed 5 July 2011.

authorized the examination of the bank's account books and vaults by any committee appointed by the legislature.[124] The bank began operation in September 1825. In February 1828, the government amended the charter to allow the bank to raise an additional $100,000 in capital.[125] In a March 1831 addendum, the bank was allowed to increase its capital an additional $150,000 and to remain in operation under the 1829 "act to regulate banks and banking."[126] Massachusetts extended its charter again in 1849, this time to 1870.[127] In May 1851, the bank received approval to increase its capital another $200,000, to $600,000.[128] In February 1865 it became a national bank and retained its same capital (but gained an option to increase it to $1.5 million), president, and cashier but added national to its name.[129] The U.S. Treasury designated the Merchants National Bank of New Bedford (hereafter MNB or "the bank") a federal depository in June 1865.[130] Its legal status remained virtually unchanged for the next century. The bank managed to avoid several early merger waves, but in December 1966 the Boston-based bank holding company Baystate received the Federal Reserve's permission to acquire a controlling interest in it through an exchange of stock. Investment bank First Boston helped to consummate the arrangement in 1967.[131]

One component of the bank's success was its adroit balance sheet management. In 1852 and 1853, for example, the bank's reserve ratio (specie divided by its notes in circulation plus deposits) averaged a paltry 1.82 percent, well below the median 9.49 percent held by the states' other thirty-five major banks in early 1853. As Figure 3 shows, after its early

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[124] "An Act to Incorporate the President, Directors, and Company of the Merchants' Bank of New Bedford," *Massachusetts Session Laws* (1825), chap. 37, pps. 61-65.

[125] "An Act in Addition to 'An Incorporate the President, Directors, and Company of the Merchants' Bank of New Bedford'," *Massachusetts Session Laws* (1828), chap. 42, pps. 649-50.

[126] "An Act in Addition to 'An Incorporate the President, Directors, and Company of the Merchants' Bank of New Bedford'," *Massachusetts Sessions Laws* (1831), chap. 104, pps. 647-48.

[127] "An Act in Relation to the Renewal of Bank Charters," *Massachusetts Sessions Laws* (1849), chap. 217, pp. 157-61.

[128] "An Act to Increase the Capital Stock of the Merchants Bank in New Bedford," *Massachusetts Sessions Laws* (1851), chap. 228.

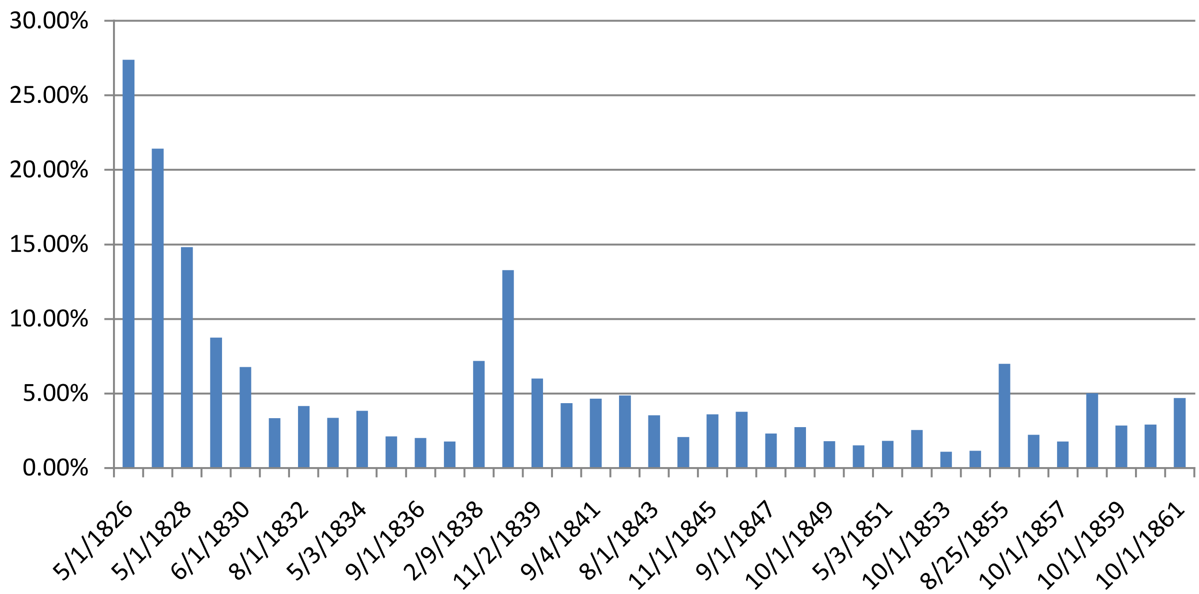
[129] "Bank Items," *Banker's Magazine and Statistical Register* (March 1865), 755.

[130] "Financial Affairs," *Philadelphia Inquirer*, 27 June 1865, p. 2.

[131] Wainwright, *History of the Philadelphia National Bank*, 180-200; Lucy Newton, "The Birth of Joint-Stock Banking: England and New England Compared," *Business History Review* 84 (Spring 2010): 53-78; "Baystate to Bid to Buy 80% of Stock of Bank In New Bedford, Mass.," *Wall Street Journal*, 29 June 1966, p. 15; "Baystate to Bid"; "Baystate Corp. Gets Approval to Acquire Bank in Massachusetts," *Wall Street Journal*, 22 Dec. 1966, p. 5; *The First Boston Corporation Annual Report* (1967), 19.

years the bank kept little specie on hand, and less than most other Massachusetts banks, except during tumultuous periods like the late 1830s.[132] By maintaining low reserve levels during good times, the bank was able to purchase more interest-bearing assets without endangering its existence. Its capital ratio (capital divided by its notes and deposits) in 1852-1853 averaged 110 percent, just below the 114 percent average and 112 percent median of the other state banks.[133]

Figure 3
Merchant Bank of New Bedford's Reserve Ratio



Source: Records of Merchants Bank/Merchants National Bank, 1825-1939, Old Dartmouth Historical Society, New Bedford Whaling Museum Research Library, New Bedford, Mass.

The key to the MNB's strategy was to increase reserve levels before panics or other shocks endangered its solvency, just as it did at the outset

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132 Roger Stuart White, "State Regulation of Commercial Banks, 1781-1843," (Ph.D. diss., University of Illinois, Urbana-Champaign, 1971), 76.

133 Selected Merchants' Bank balances are available from Warren Weber. Data on the other banks is from J. Smith Homans, ed., *Bankers' Magazine and Statistical Register* (July 1853), 718. The analysis is limited to Massachusetts banks because they were generally smaller, more conservative, and more localized than banks elsewhere, particularly outside of New England. Bodenhorn, *A History of Banking in Antebellum America*, 32-35.

of the Great Depression when its balance sheet was very conservative compared to Massachusetts' other 151 active banks. On December 31, 1929, the MNB's capital to asset ratio stood at 29.81 percent, well above the average (13.22 percent) and median (14.38 percent) of the state's other banks. It also maintained above average (36.03 vs. 32.78 percent) total reserves to assets, probably because it held much less actual cash (9.35 percent of assets) than the average (16.52 percent) and median (11.28 percent) banks. Importantly, the MNB was also large enough to weather the long downturn. Although located in the periphery and dwarfed by big Boston banks, the MNB was much larger than most other Massachusetts community banks. The MNB's almost $4.5 million in capital was the ninth largest in the state, and its $15 million in total assets made it the state's fourteenth largest. Its total assets placed it somewhat above the state average of total assets, $12 million, and well above the median of total assets, a mere $2.6 million.[134]

Conservative lending practices ensured that the bank's crucial loan portfolio was of high quality. Over the years the bank suffered from some large, high-profile defaults. In 1858, Lawrence, Stone and Company failed owing the bank $38,449.[135] Railroad magnate H. A. Blood went bankrupt in 1877 when indebted to the bank $90,000.[136] A. E. Bosworth of Falls River discounted his note for $22,250 at the bank before absconding to California in 1888, leaving behind his "aged mother, who had perfect faith in him." Although she reportedly "loved him devotedly," she sold her furniture and moved to a "distant city" in the hope of having "fewer reminders of her son's guilt."[137] In 1899, William Brownell went down owing the bank $20,000.[138] Clark & Cole failed in 1910 with $22,000 of promissory notes discounted at the bank left unpaid.[139] Overall, however, the bank made mostly good loans by concentrating on the short-term borrowing needs of substantial southern Massachusetts businesses and individuals.[140]

The bank started discounting notes in September 1825. By June 1826, it had discounted a thousand of them.[141] The average note matured in a

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[134] United States, Office of the Comptroller of the Currency, *Individual Statements of National Banks*, Massachusetts (1929), 80-84.

[135] "Meeting of the Creditors of Lawrence, Stone & Co.," *New York Herald*, 6 Feb. 1858, p. 1.

[136] "A Heavy Failure," *Cincinnati Daily Gazette*, 12 June 1877, p. 2.

[137] "Fall River's Last Defaulter," *Massachusetts Ploughman and New England Journal of Agriculture*, 20 Oct. 1888, p. 4.

[138] "New Bedford Man Fails," *New York Times*, 30 Nov. 1899.

[139] "Clark & Co. File Schedules," *Boston Journal*, 29 Jan. 1910, p. 8.

[140] Newton, "Birth of Joint-Stock Banking," 41-43.

[141] A few pages in Discount Book 138, Records of Merchants Bank/Merchants National Bank, 1825-1939, Old Dartmouth Historical Society, New Bedford

little over 68 days, the median (and mode) in 63. The average note discounted was for $619.99 and the median for $350. Some 10 percent of the loans (108) were for $100 or less. Almost 87 percent of the loans (867) were for $1,000 or less. The largest was for just over $13,000 and the smallest for $50. The average and median APR was 6.31 percent, but the bank considered its interest rate just 6 percent, because it calculated the interest rate by multiplying the face value of the discounted note by .06, then divided by 360 over the number of days to maturity, a common practice in that era.

A century later, little had changed except the economy was bigger and the dollar weaker, $1.78 being needed to purchase what $1 would have purchased in 1825.[142] In the first half of 1923, the bank made over four thousand discount loans totaling over $8.8 million. The going interest rate was 6 percent (mode and median) but numerous discounts made at 5 or 5.5 percent drove the average rate charged to about 5.8 percent. Loan maturity averaged 93.5 days, the median was 92, and the mode 122. The average loan size was $2,180 and the median $710. The bank lent $100,000 to one borrower on three occasions but also discounted three notes for just $15. Almost 400 loans (9.79 percent) were for less than $101, and over 2,500 (62.39 percent) were for less than $1,001. Only 172 loans (4.24 percent) were for $10,000 or more, though because of their large size those loans totaled $3.7 million or about 42 percent of the total lent.[143]

Unlike some banks in eastern New England, the MNB was not the creature of a small group of industrialists.[144] From 1858 to 1860, the bank lent to over three thousand different economic entities (individuals, unincorporated businesses, corporations, and governments), including major merchants, whalers, and manufacturers like Wamsutta Mills and Pacific Mills. The bank also made loans to railroads, including some in the Midwest. It also lent to local savings banks and governments, particularly those of New Bedford and nearby Fall River. Overall, its lending pattern was quite typical of other antebellum banks—largely a reflection of the local economy with perhaps some specialization by economic sector or affinity group.[145] (Some borrowers received many more discounts than others did, but that is to be expected and did not decrease the bank's

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Whaling Museum Research Library, New Bedford, Mass., are stuck together and hence could not be examined.

[142]Lawrence H. Officer and Samuel H. Williamson, "Purchasing Power of Money in the United States from 1774 to 2010," MeasuringWorth.com. URL: http://www.measuringworth.com/ppowerus/; accessed 9 March 2011.

[143] Loans 968, Records of Merchants Bank/Merchants National Bank.

[144] Lamoreaux, *Insider Lending*.

[145] Bodenhorn, *A History of Banking in Antebellum America*, 84-118; Wright, *Origins of Commercial Banking*, 111-37; Robert E. Wright, *Hamilton Unbound: Finance and the Creation of the American Republic* (Westport, Conn., 2002), 131-34, 173-90.

economic usefulness. The success of microfinance in recent decades suggests that even a handful of small loans can play an important role in lifting individuals out of poverty.[146])

The story for the last few years of the nineteenth century is similar, though the bank by then lent to only about two thousand different entities. In addition to shrinking, its borrower base shifted somewhat away from mercantile partnerships and toward single women and married couples. Moreover, while the surnames of many borrowers remained the same as in the late antebellum period, by 1900 Portuguese and other immigrant names also appear as borrowers. The bank by 1900 lent to a wider range of businesses than in 1860, likely a reflection of the region's increasingly diversified economy.[147] In addition to the local mills, governments, and savings institutions it had traditionally lent to, the bank discounted the notes of various copper, dry dock, fertilizer, glass, ice, print, salt, and other light manufacturing companies. It also had a surprising number of business borrowers from other states, but did not lend to nearly as many Midwestern railroads as it had forty years earlier.

Few quotations of the bank's stock have been discovered, but those that have been found are typically above par, suggesting that market participants thought highly of the bank and its ability to sustain good dividends. In the early 1870s, for example, Harvard owned five shares in the bank and estimated their worth at $650, or $30 above par each.[148] In forty-eight sampled years between 1826 and 1909, the bank paid average annual dividends just shy of 7.5 percent. It rarely missed a semiannual payment and periodically made substantial extra payments to share-holders. Moreover, most of its down periods were the result of bank panics and recessions, like those associated with the late 1830s and early 1840s, that also hurt the profitability of many other banks.[149]

The bank's conservative balance sheet, quality loan portfolio, and good dividend record were directly attributable to the quality of its directors, presidents, and cashiers. The institution was not completely free from scandal. In 1912, William M. Wood, one of its directors and the president of the American Woollen Company and several other companies composing the so called "wool trust," was arrested for "conspiring to distribute dynamite" in an attempt to discredit labor unions striking against his mills. The wealthy Wood denied all wrongdoing but the international coverage of his arrest surely embarrassed the bank, as did

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146 Muhammad Yunus, *Banker to the Poor: Micro-Lending and the Battle Against World Poverty* (New York, 2003).

147 Seymour Wolfbein, *The Decline of a Cotton Textile City: A Study of New Bedford* (New York, 1944); Zephaniah Pease, *History of New Bedford* (New York, 1918).

148 *Forty Sixth Annual Report of the President of Harvard College, 1870-1871* (Cambridge, Mass., 1872), 11, 80.

149 Wainwright, *History of the Philadelphia National Bank*, 74-91.

stories of Wood's extravagance, such as paying his bail with $1,000 bills and admitting that he did not know how many automobiles he owned.[150]

Nevertheless, most of the bank's directors, presidents, and cashiers were, like the leaders of other successful New England banks, above reproach and extremely accomplished.[151] Cashier James B. Congdon, for example, was by 1851 "considered one of the most efficient of the practical bankers" in Massachusetts. His pamphlet on a pending banking bill was republished and called a "valuable contribution to the banking literature of the country" by *Bankers' Magazine*. In the pamphlet, Congdon advocated safe banking practices, including higher bank capitalization, and argued in favor of increased competition among banks.[152] He served as the bank's cashier from its inception in 1825 until his resignation in 1858 at age 55.[153] He was called as an expert witness in a suspected forgery case and was also one of the founders and leaders of a large group of bankers dedicated to the suppression of counterfeiting.[154]

After Congdon left the bank, his replacement, P. C. Howland, continued his work in the anti-counterfeiting association, undoubtedly because the bank was often victimized by counterfeiters.[155] In just two months in 1829, for example, the bank turned away nineteen counterfeit $1s, $2s, $5s, and $10s.[156] The bank also expended resources to try to minimize the counterfeiting of its own notes, which decreased demand for the bank's notes and thereby reduced its profits. In 1865, for example, an editor advised readers to avoid all $5 notes of the MNB, because "it is almost impossible to distinguish the genuine from the spurious."[157]

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[150] "Head of Wool Trust Held in Dynamite Plot," *Belleville News Democrat*, 31 Aug. 1912, p. 5; "Massachusetts Labour Troubles: A Sensational Development," *London Financial Times*, 31 Aug. 1912, p. 5; "Pay Envelopes with $100,000 a Year in Them," *Portland Oreganian*, 7 Sept. 1913, p. 4.

[151] Newton, "Birth of Joint-Stock Banking," 33-35.

[152] James B. Congdon, "The Banking System of Massachusetts," *Bankers' Magazine and Statistical Register* (June 1851), 995ff.

[153] "Deaths," *New England Historical and Genealogical Record* (Oct. 1880), 34.

[154] Sylvia Ann Howland, "The Howland Will Case," *American Law Register* 38 (Sept. 1890): 562-81; "Detection of Counterfeiters," *Boston Daily Atlas*, 17 June 1852, p. 2; "Detection of Counterfeiters," *The Bankers' Magazine and Statistical Register* (July 1852), 81; "On the Prevention of Counterfeiting," *The Bankers' Magazine and Statistical Register* (March 1855), 705; "Association for the Detection of Counterfeiters," *Boston Daily Atlas*, 13 Feb. 1857, p. 2.

[155] "Association of Banks," *Boston Daily Advertiser*, 14 Feb. 1862, p. 1; "Association of Banks for the Suppression of Counterfeiting," *Boston Daily Advertiser*, 12 Feb. 1864, p. 1. The best general history of banknote counterfeiting is Stephen Mihm, *A Nation of Counterfeiters: Capitalists, Con Men, and the Making the United States* (Cambridge, Mass., 2007).

[156] Settlement of Cash, 1829-1831, Records of Merchants Bank/Merchants National Bank.

[157] *Maine Farmer*, 16 Feb. 1865, p. 2.

Another editor tagged the same notes as "dangerous."[158] In 1876, counterfeits of the bank's $5 bills in circulation in Norwich were so exact that they could be detected only by closely examining "the right knee of the figure of Columbia on the reverse, which is slightly out of proportion, the curve not corresponding with that on the genuine bill."[159] Treasury officials called those notes "the best imitation in existence" and found them in circulation in 141 different places.[160] They therefore called in all the bank's notes of that denomination so that they could be destroyed.[161]

In 1878, the "newest and most dangerous of all counterfeit national bank notes brought to this country, by emigrants," appeared, $100 bills of the Second National Bank of Wilkes Barre and the same denomination MNB notes.[162] The counterfeits were not perfect, but they were good enough to fool the European bankers who certified them genuine when they exchanged the notes for the gold of America-bound immigrants.[163] Some counterfeits were good enough to trick the bank itself. In the early 1880s, infamous outlaw Billy the Kid and his gang regularly passed counterfeit versions of the MNB's notes that were so well executed that the bank itself often accepted them.[164]

The bank's anti-counterfeiting efforts were successful, but only temporarily. Over the years, many counterfeiters of the bank's notes were discovered, only to be soon replaced by new criminals.[165] Some were little

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[158] "Financial Affairs," *Philadelphia Inquirer,* 26 April 1865, p. 3.

[159] "Counterfeit Bills," *Middletown Daily Constitution,* 11 July 1876, p. 3.

[160] *New Hampshire Patriot,* 5 April 1876, p. 3; "Counterfeit Money," *Cincinnati Daily Gazette,* 12 Dec. 1878, p. 5.

[161] "Items of State News," *Lowell Daily Citizen and News,* 30 March 1876, p. 2.

[162] "Miscellaneous Telegrams," *Cincinnati Commercial Tribune,* 7 May 1878, p. 2; "Commercial Brevities," *New Orleans Times,* 7 June 1878, p. 2; "Examine Your Loose Change," *Cincinnati Daily Gazette,* 8 March 1880, p. 1.

[163] "Dangerous Counterfeit," *Cincinnati Daily Gazette,* 7 May 1878, p. 8; "Exporting Counterfeit Notes," *Cincinnati Daily Gazette,* 24 Aug. 1878, p. 6.

[164] Julie Carter, "Counterfeit Bank Note Rewrites Chapter of Billy the Kid," *Las Cruces Sun News,* 16 July 2010.

[165] "A Couple of Rogues," *Philadelphia Public Ledger,* 31 Aug. 1841, p. 2; "Look Out for Counterfeits," *Baltimore Sun,* 18 Dec. 1846, p. 1; "Counterfeits," *Baltimore Sun,* 6 March 1856, p. 4; "Various Items," *Lowell Daily Citizen and News,* 15 Nov. 1864, p. 2; "Seizure at the Carson House," *New York Times,* 28 June 1865, p. 2; *New Hampshire Patriot,* 4 Oct. 1865, p. 2; "Bogus Bills–Counterfeiters Arrested," *San Francisco Bulletin,* 24 March 1876, p. 2; "An Alleged Counterfeiter Arrested," *Montpelier Argus and Patriot,* 6 April 1876, p. 3; "News of the Day," *Lowell Daily Citizen and News,* 14 April 1876, p. 2; "Items of General News," *Maine Farmer,* 8 April 1876, p. 2; "Counterfeiters Arrested," *Wheeling Register,* 1 July 1876, p. 1; "A Counterfeiting Ring Broken," *Boston Daily Advertiser,* 22 July 1876, p. 4; "Counterfeit National Bank Bills," *Chicago Pomeroy's Democrat,* 10 Feb. 1877, p. 3; "A Prolific Counterfeiter," *New Haven*

more than nuisances. In 1846, for example, a story circulated that a New Bedford blacksmith named Whitney and his wife raised $1 bills of the bank to $5, $10, and $20 before allegedly passing them onto unsuspecting retailers in Brooklyn.[166] Similarly, in 1864 two men were apprehended trying to foist "the poorest counterfeits" that local authorities had ever seen upon retailers.[167] Others, however, were major threats to the MNB. In 1885, for example, a set of counterfeit $5s of the bank were considered among "the finest counterfeits" then in circulation.[168]

Some unscrupulous people also tried to defraud the bank by forging or kiting checks. Few succeeded. In 1831, for example, three boys tried to cash a fake $50 check but were easily discovered and apprehended.[169] A more serious attempt to cash a fraudulent $3,000 check drawn on a local whaling firm in 1855 was also thwarted.[170] In 1891, John Doane forged notes to defraud local banks some $15,000, but it was reported that the MNB suffered only $500 of the loss.[171]

The MNB also showed a high degree of competency thwarting robberies. One evening in 1841, for example, a thief stole Congdon's bank keys from his home. Even with the keys, however, the would-be bank robber could not open the vault, because the bank had purposely purchased a "peculiar" one that could be opened only by someone "acquainted" with its unusual mechanisms. After realizing his keys were missing, Congdon surprised the rogue and managed to tear away part of his jacket as he fled. That evidence was later used to apprehend and convict the perpetrator.[172]

In 1889, a newspaper editor described the bank as "the most successful institution of the kind in the city," while paying homage to another of its leaders, long-time director and president Jonathan Bourne, a grocer turned whaler turned financier.[173] In 1925, *Bankers' Magazine* described the bank's directors as "some of the most prominent business

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Register, 14 Dec. 1878, p. 1; "Counterfeiters Arrested," *Cincinnati Daily Gazette,* 25 Oct. 1880, p. 1; "Miscellaneous," *Worcester Daily Spy*, 16 March 1883, p. 1.

166 "Counterfeiters," *National Police Gazette,* 5 Dec. 1846, p. 101; "Traders Look Out," *New York Daily Tribune,* 8 Dec. 1846, p. 1.

167 "Arrest of Counterfeiters," *Lowell Daily Citizens and News,* 8 Dec. 1864, p. 2.

168 "Counterfeits," *Bankers' Magazine and Statistical Register* (June 1885), 956.

169 "New Bedford," *Boston Daily Courier,* 24 Feb. 1831, p. 2.

170 *Boston Daily Atlas,* 19 Feb. 1855, p. 1.

171 "Forgeries in New Bedford," *Boston Journal,* 30 June 1891, p. 1.

172 "Attempt to Rob the Merchants' Bank of New Bedford," *Albany Evening Journal,* 8 Dec. 1841, p. 2; *Amherst Farmers' Cabinet*, 10 Dec. 1841, p. 2; *Salem Gazette,* 10 Dec. 1841, p. 3; *New York Spectator,* 11 Dec. 1841, p. 1.

173 "Hon. Jonathan Bourne," *Worcester Daily Spy,* 9 Aug. 1889, p. 1.

and professional men of the city" and had high praise for the institution's president, Edmund H. Leland, and its cashier, James H. Coffin.[174]

The high quality of the bank's leadership is directly attributable to the stockholders who elected them. In the nineteenth and early twentieth century, stockholders in many companies used their voting rights to exert considerable influence over the conduct of their institutions. That changed at some large corporations in the late nineteenth and early twentieth century but remained true at many smaller institutions, including community banks like MNB.[175] Like other successful New England banks, the bank's stockholders were typically local, from southern New England if not New Bedford proper, and most were long-term investors as well as borrowers and depositors.[176] Between the bank's founding in 1826 and 1848, for example, the number of stockholders in any one year ranged from 107 in 1828 to 162 in 1836. During the twelve years analyzed, 346 different entities owned between one and one thousand shares. Their average holding period was 9.35 years, the average number of shares they held was 24.90, and the median shareholding was 10. Similarly, between October 1880 and October 1892, 776 different entities, including 343 women and 26 institutions (primarily banks, churches, and schools), owned between 1 and 1,111 shares in the Bank. The average holding period for all stockholders was 14.3 semiannual dividend cycles, the median 14, and the mode 25 cycles (or the full twelve years). The average number of shares owned was 19.52 and the median 9.21. Women and institutional investors actually owned more shares on average than individual male shareholders did.[177] (See Figure 4 for a photographic sample of the original records used to calculate the data.)

In other words, the bank's stock turned over very slowly and much of it was held by long-term investors who had incentives to monitor the bank's operations carefully. If the bank failed, they would lose their deposits and access to loans as well as their shareholdings, and the subsequent disruption to the local economy could also have imposed considerable indirect costs upon them.

Conclusion

The U.S. banking system has had a long and tumultuous history and has recently been in pretty poor shape. It would be a mistake, however, to conclude that most banks were badly governed or poorly managed. To date, banks have provided Americans with over two million bank-years

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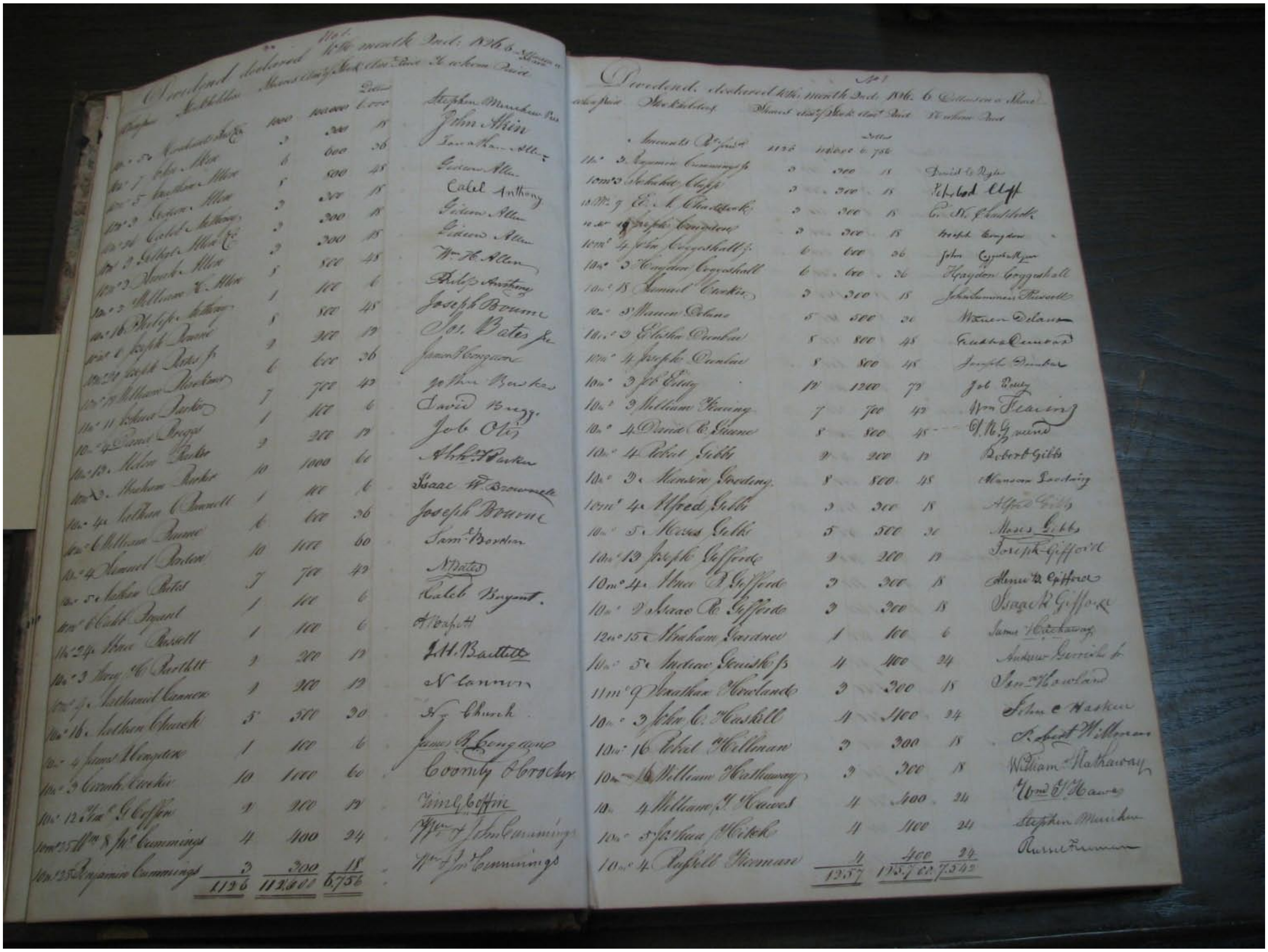
174 "One Hundred Years of Banking in New Bedford," *Bankers' Magazine* (Dec. 1925), 1,019.

175 Adolf Berle and Gardiner Means, *The Modern Corporation and Private Property* (New Brunswick, N.J., 1991).

176 Newton, "Birth of Joint-Stock Banking," 36-37.

177 Stockholder Ledgers, Records of Merchants Bank/Merchants National Bank.

Figure 4



Source: Records of Merchants Bank/Merchants National Bank, 1825-1939. Courtesy of the New Bedford Whaling Museum.

(the sum of banks in operation each year, 1790-2009) of financial services, the most important of which were loans and media of exchange (notes and deposits). Some banks failed, but most exit activity has taken the form of mergers. The banking system has been criticized on various grounds but usually unjustly. It is now clear to most observers, for example, that banks should not be encouraged to lend to the very poor or on dubious collateral. Over-emphasizing the negative aspects of America's banking experience risks obscuring the contributions that tens of thousands of institutions, many of them community banks like the Merchants Bank of New Bedford, have made to individuals, businesses, governments, and the overall economy. The key to maximizing the number of good banks and minimizing the number of bad ones is to improve the governance of financial institutions by encouraging stockholders to monitor directors and officers closely.