

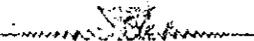
REPORT

OF THE

BANK COMMISSIONERS.

MAY SESSION, 1840.

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REPORT.

To the Honorable General Assembly of the State of Connecticut, to be holden at New Haven on the first Wednesday of May, 1840.

The Bank Commissioners, pursuant to law, respectfully submit the following Report :

One of the Commissioners appointed by the late Legislature having declined the appointment, the undersigned were not authorized to enter upon their official duties until the month of September last, at which time we addressed circulars to the Cashiers of the several Banks of this State, requiring them to transmit to us a statement of the condition of their respective Banks at the close of each succeeding month. We considered this measure indispensable to the appropriate discharge of our duties, and although we could not urge the legal obligation of the Banks to conform to it, it was offered as an alternative for more frequent personal examinations than had been made by our predecessors. Those reports have been made to us, from September to April inclusive, and although not with equal punctuality, nor without occasional personal application, they have been furnished by every Bank, for the whole period, without exception.

Owing to the extensive distrust which appeared to exist as to the condition of the Jewett City Bank, and the management of its concerns, our attention was early called to an investigation of its affairs. On the 9th of September we met at the banking house, and entered upon a strict examination, to ascertain the present and prospective condition of this institution. The acting President (the Cashier being absent,) afforded us every aid and facility in his power, in the prosecution of our investigation, not only by the submission of all the books and papers of the Bank to our inspection, but by such verbal information and ex-

planations as were required of him. By this examination it appeared that the capital stock of the Bank consisted of 1000 shares, on each of which \$40 had been paid in: That on or previous to the 25th day of July last, two individuals, resident in the State of New-York, had contracted for the purchase of a majority of the shares of the capital stock, including all those held by the President and by at least four of the other Directors of the Bank: That on the 25th day of July, 480 of these shares were transferred on the books of the Bank to the purchasers aforesaid and others, and subsequently 145 shares more, making 625 shares out of 1000 of which the stock consisted: That on the same day, (25th July,) the Board of Directors discounted paper for one of the purchasers to the amount of \$10,000, including his own note secured by pledge of the stock that day transferred to him; a majority of this Board of Directors, including the President, being composed of the same individuals, who, on that and the day immediately succeeding, resigned their seats at the Board, as having ceased to be stockholders. On the 26th of July, at a meeting of the Directors, the President (J. S. Gladding) and the Cashier (John Johnson) tendered the resignation of their respective offices, which was accepted: Lawson G. Hoyt was appointed Cashier, and a committee named to arrange with the Cashier elect for his salary and requisite bonds. On the 14th of August, at a meeting of the Directors, John Johnson was chosen a Director and President of the Bank: on the same day paper was discounted for the other purchaser to the amount of \$10,000, and on the 4th of September for the further sum of \$8000, making \$18,000 for which this individual, being a Director, was indebted to the Bank, on notes and bills discounted for his benefit, although prohibited by the laws of this State from being or acting as a Director when his indebtedness should exceed the amount of \$11,400. It appeared that the paper discounted for the two purchasers, for their individual benefit, from the 25th of July to the 4th of September inclusive, amounted to \$29,231 68, being nearly three-fourths of the capital stock of the Bank, and \$4000 more than the par value of the stock by them purchased. On the 10th day of September, the Cashier had not given bonds as required by law, although more than thirty days had transpired since he had been appointed,

nor had his compensation been stipulated, although he had entered upon the duties of his appointment. It did not appear that John Johnson, then elected and acting as President of the Bank, was a stockholder in the institution at the time of his election, nor that any stock had since been purchased by or transferred to him on the books of the Bank. Three of the Directors of the Bank were indebted to it, including the loans before mentioned, for an amount exceeding its actual capital. The notes of the Bank in circulation, although far short of the amount authorized by law, were comparatively excessive. The circulation of the Bank was,

On the last Saturday of March, 1839,	\$19,300
On the 10th of September, 1839,	40,634

It was claimed, however, that \$3000 included in the latter sum, was in the hands of the Cashier, and would be returned to the institution.

With this exhibition of the affairs of the Bank before us, we could not avoid an apprehension of danger to the public, as well as to such of the stockholders as had not been parties to the arrangement, from a continuance of the operations of the institution, under the existing direction, without either President or Cashier, authorized by the law of the State to act as such. We therefore forthwith represented the condition of the Bank to the attorney of the State for New London county, who preferred his complaint to the Superior Court, then in session at New London, praying for an injunction against further proceeding of the Bank in their business, &c., as provided by statute. A citation was issued by the court, and served, requiring the President, Directors and Cashier, to appear on a day therein named, to show cause, &c., in due form of law. Before further proceedings were had under this complaint, satisfactory evidence was produced to the Bank Commissioners, that the loans made on and after the 25th of July, amounting in the whole to \$29,231 68, had been refunded in cash or collaterally secured to the Bank, and ample means thereby provided for the redemption of the entire circulation of the Bank; that on the 20th September at a meeting of the resident Directors of the Bank, the offices of President and Cashier having been declared vacant, William F. Clark was chosen President of the Bank, and John Johnson, Cashier; both being

qualified according to law, and, in our opinion, entitled to the confidence of the public, of which notice was given to the attorney of the State, who, thereupon, with the approbation of the Bank Commissioners, discontinued further prosecution of his complaint.

The condition of this Bank on the 10th September, and at the close of that and of each succeeding month, is exhibited in the following statement compiled from their monthly reports:

1839.	Immediate liabilities.	Resources immediately available.
Sept. 10,	\$41,302 38	\$11,128 97
30,	20,382 32	9,204 50
Oct. 30,	23,666 32	3,954 54
Nov. 30,	23,316 67	3,847 28
Dec. 31,	19,987 22	4,162 95
1840.		
Jan. 28,	20,542 99	5,650 51
Feb. 25,	12,316 76	3,575 98
Mar. 30,	20,057 78	6,886 27

By this statement it will appear that the circulation of the Bank has not at any time since September been excessive, when compared with its ordinary circulation; yet the resources immediately available, have generally appeared inadequate to sustain the operations of the Bank without embarrassment.

The ability of this institution, as well as of other Banks, to meet their engagements, depending rather upon the solvency and punctuality of their debtors, than upon the amount of cash funds on hand, we have not doubted that this Bank has at all times, since September last, held convertible assets, exclusive of its resources immediately available, more than sufficient in amount to meet its liabilities to bill holders and depositors.

On the 21st February we again visited this Bank. The annual election of Directors had been held since our last examination, and we found that essential changes had been made in its organization and condition. Ebenezer Hoskins, of Auburn, in the State of New York, had been elected and was now acting as President of the Bank; loans had been made on paper, objectionable, in our opinion, both in quality and amount; yet the Bank had not contravened any of the provisions of our statutes, nor could we aver that the public were in danger of being defrauded

by its operations. Whatever we might have determined under other circumstances, we did not consider ourselves at liberty to exercise a discretion not authorized by the statute, in which our powers are strictly defined and limited. The Commissioners believe that the resident Directors of this Bank are rather nominal than vigilant and interested managers of its concerns, and that the actual control of the institution is in the hands of non-resident and irresponsible proprietors, who employed no capital in its acquisition; nor do they consult the interest or accommodation of the vicinity, in its use. It rests, with the General Assembly to determine whether any further action in the premises is necessary or expedient; if so, they have the power to prescribe and to apply the appropriate remedy.

On the day of October, the Banks of Philadelphia suspended specie payments; controlling an immense amount of Bank capital, and intimately associated, as were these Banks with the monetary concerns of our country, their suspension, after having by an extraordinary measure of finance, drawn a large amount of funds from New York and New England, could not fail to produce general alarm and distrust, and to impair, if not destroy the confidence of the public in the integrity and stability of our Banking corporations. This event was immediately followed by the suspension of nearly every Bank in the States, South and West of Pennsylvania, to which may be added those of Rhode Island. The conflict incident to the determination, on the part of the Banks of New York and of New England, to maintain specie payments during a suspension by all others, was necessarily severe, and produced as has been observed by competent authority, a state "of pecuniary distress, more intense, more general, and more embarrassing than any that had before occurred in our country." Its effects were severely felt by the Banks of Connecticut in the return of their notes in circulation for redemption, with a rapidity unprecedented, while their resources were essentially diminished by the retention of their funds in the suspended Banks, as well as by the urgency of the claims of their debtors for indulgence. The following statement shows the amount of loans, circulation, and specie of all the Banks of Connecticut, as exhibited by their monthly reports made up to the close of each month, from September to January inclusive:

	Loans.	Circulation.	Spacers.
September 30,	\$11,199,878	\$3,821,291	\$458,733
October "	10,345,044	2,551,203	515,193
November "	9,803,703	2,025,840	481,697
December "	9,602,362	1,872,793	470,693
January "	9,596,582	1,886,140	484,433

By this exhibit it appears that \$1,270,088, or nearly one third of the entire circulation had been returned to the Banks within thirty days after the suspension of the Philadelphia Banks.

The process of reduction in the circulation continued until December, when it had reached its lowest point, being less than one half of the amount of circulation in September. This contraction of the ordinary currency of our community, accompanied by a necessary curtailment of Bank accommodations, pressed heavily on all classes of our citizens, and the Banks, although suffering under the pressure of their own liabilities, were held responsible for the pecuniary embarrassments of the community. Under these adverse circumstances our Banks have sustained their credit, and consequent ability for future usefulness.

In the months of January, February, and March, we visited the several Banks in this State, in conformity to the provisions of the statute, to ascertain by personal examination and inquiry whether they had been and were managed according to law. The severe ordeal through which they had so recently passed, had proved their present solvency, and the monthly exhibits of their condition had indicated their current operations and the general character of their management. Our inquiry, therefore, at the Banks was principally directed to such of their operations as are regulated by law. The law having prescribed limits to the personal liabilities of Directors, and the concurrent opinions of our official predecessors justifying our belief that most of the cases of Bank insolvency which had occurred in New England might justly be charged to the excessive appropriation of the capital of those institutions by the Directors to their own use, we made this a subject of strict investigation. A statement is annexed to this report, shewing the amount of indebtedness of the Directors of the several Banks, at different periods of the past year; the amount of the capital stock, and of loans and discounts of the Banks respectively, including those to Directors; and the amount

to which the liabilities of Directors may be extended under the present law. This statement is restricted to the indebtedness of Directors "personally and individually, on notes and bills discounted for their benefit."

In the Report of Bank Commissioners made in 1838, the liabilities of the Directors of the Banks of this State, are thus stated:

	Sept. 1, 1834.	Sept. 1, 1835.	Sept. 1, 1836.	Sept. 1, 1837.
As maker,	\$782,322	\$1,047,161	\$1,176,594	\$1,013,810
As endorser,	827,209	1,114,209	1,431,385	1,069,407
	1,609,531	2,161,370	2,607,979	2,083,217

In the report of 1839, the indebtedness of Directors of all the Banks excepting the Hartford, Phoenix, Connecticut River, Merchants' and Bridgeport Banks is stated to have been in August, 1839, \$719,773; by the statement now submitted it appears that the indebtedness of the Directors of all the Banks, was on

October 30th, 1839,	\$636,816
January 30th, 1840,	538,684

Being a fraction over 6 per cent. of the amount of loans and discounts at those dates respectively. But although the aggregate of the liabilities of Directors may be unexceptionable in amount, it may appear that in case of individual Banks, as well as of individual Directors, the amount of such liability is excessive when compared with the amount of capital of such Bank, or with the amount of loans to others than Directors, and yet not have reached the prescribed limits to such liability.

If the present law is intended to operate practically as a restraint upon Directors generally, it would appear essential that it should at least restrict their indebtedness, collectively, to the amount of the capital stock of their respective Banks; but, as appears by the annexed statement, this is not the necessary operation of the law, in those Banks where such restriction is most required, that is in those of comparatively small capital. If instead of a specified amount, the indebtedness of Directors were restricted to a specified proportion of the capital stock, as is the rule in some other States, the apparent object of the present law would with more certainty be attained.

By the first section of the act, entitled "An Act relative to Incorporated Banks," the Banks of this State are authorized "to issue Post Notes payable to order, and at a time subsequent to issuing the same." None of the Banks of this State have issued any of this description of paper within the last three years, nor do their officers, so far as we have ascertained their views, estimate the privilege as of any value to their institutions. At the time when the act referred to was enacted, this description of notes was required for public accommodation as affording a safer medium of remittance, by mail or otherwise, than bank notes payable to bearer on demand. But the mischievous uses to which Post Notes have been applied at a more recent period by banks of other States in substituting them for current circulation, and in forcing immense issues on the market as a means of extending their own credit under the pretext of affording relief to the commercial community, have brought this description of paper into general disrepute, and demonstrated the impolicy of allowing Banks to issue any notes as a currency, not payable on demand. The repeal of the section referred to, appears expedient, if not necessary to secure the public against the possible abuse of the privilege it confers upon Banks.

The practice of making loans to stockholders on pledge of their stock, is common to most of the Banks of this State, and we are not convinced, that any valid objection to the measure can be urged, when restricted by the sound discretion of competent Directors. But when this description of loans are extended to a moiety of the capital stock, and are the means by which the borrowers are enabled to control the operations of the Bank, to the prejudice of the minority, who may be the actual proprietors of the capital employed, the practice becomes justly reprehensible and requires a corrective; and although we would not interfere with the undoubted right of the Directors of a Bank to determine the quality and measure of security for its loans, we would not allow the nominal stockholders of an institution, to decide the election of its Directors and perpetuate to themselves the control of its operations and its funds. The prohibition of stockholders from voting at an election of Directors on stock actually pledged to the Bank, or on stock held in trust for others, will do much toward reform in the management of the few Banks

where such reform might be salutary, and will obviate the prominent objection to loans on pledges of stock.

Investments in the depreciated paper of banks of other States have been made to some extent, by a few of the Banks during the past year, and we refer to it as an operation, if not unlawful, yet of questionable propriety. These banks purchased the Post Notes of two of the Philadelphia Banks to an amount exceeding \$360,000, between the months of March and October last, inclusive, at a discount varying from 6 1-2 to 18 per cent. per annum. This discount, as claimed, was made up of interest at the rate of 6 per cent. per annum, and the residue taken as exchange on Philadelphia. The embarrassment resulting from the refusal of the Banks issuing these Post Notes to pay them at maturity in available funds, has probably furnished the best corrective for the procedure, and we do not apprehend a recurrence of similar investments. The purchase and sale of the notes of other Banks, after such Banks had actually suspended specie payments, had been charged against our Banks, which induced us to make it a subject of special inquiry. In four or five Banks, we found that this had been done to an inconsiderable extent, and it was generally justified as a measure of relief to their debtors as well as to others in the vicinity of those Banks, where such notes were extensively or almost exclusively circulated, during the period of suspension of the Banks of Rhode Island. The effect of such a system of money changing, instead of relieving the community of a spurious or depreciated currency, is rather, to establish it. It is not only mischievous in its consequences, but inconsistent with the legitimate business of Banks, and has a direct tendency to bring those institutions into disrepute.

The undersigned after a careful observation of the course of business of the Banks of this State during the term of our service, have been confirmed in the opinion that our system of banking is on the whole as unexceptionable as any that has been devised. It will not be claimed that it is without defects; many of these have been faithfully exhibited by our predecessors, and we have referred to such as our investigation has exposed. The interest and safety of the public require that palpable defects should be provided for by occasional legislation; but experimental legislation for the regulation of Banks, whether adopted as a measure of political expediency, in acquiescence with the prejudices of some

portion of the community, or based upon some of the novel theories and speculations which have characterized our times, may be productive of greater evils than such as are incident to the system as it is.

The best security to the public against the abuse of the powers and privileges conferred upon these institutions must be found in the integrity and ability of those individuals who have the immediate control of their operations. By holding these individuals strictly accountable for the management of the Banks under their direction; requiring them to furnish statements of the condition of their affairs at short intervals; and by a faithful execution of the existing laws made for their government,—such Banks as are worthy of public confidence will be sustained, and others cease to be tolerated.

WILLIAM MATHER, JR., }
GURDON TRUMBULL, } *Bank Com'rs.*

New Haven, May, 1840.

STATEMENT of the capital stock, loans, and debts due by Directors of the several Banks on the 30th October, 1839, and 30th January, 1840, and of the amount of indebtedness allowed by law to the Directors collectively of the several Banks.

BANKS.	Capital Stock DOLLS.	October 30, 1839.		January 30, 1840.		Indebtedness of Directors allowed by law. DOLLS.
		Loans DOLLS.	Due by Directors. DOLLS.	Loans DOLLS.	Due by Directors. DOLLS.	
Hartford,	1,118,000	1,470,268	19,334	1,360,461	25,000	141,200
Phoenix,	1,233,100	1,630,651	4,000	1,486,963	5,800	231,800
Farmers and Mechanics',	516,300	646,115	43,410	604,021	39,193	187,700
Connecticut River,	250,000	233,184	38,003	224,480	12,481	98,950
Exchange,	400,000	537,171	40,180	497,262	51,447	149,320
New Haven,	364,800	427,711	3,000	385,794	2,050	107,700
New Haven County,	501,000	561,006	12,021	508,072	11,000	137,650
Mechanics',	473,050	383,445	11,611	341,840	12,115	123,000
City,	500,000	471,043	48,197	433,405	15,932	181,220
Meriden,	150,000	159,359	6,119	130,980	6,324	91,000
New London,	152,623	170,576	13,420	161,660	21,108	135,625
Union,	100,000	124,538	16,780	108,284	16,865	167,000
Whaling,	153,550	143,339	31,640	148,673	25,605	122,925
Norwich,	210,000	289,932	16,000	263,332	16,000	170,300
Thames,	309,500	218,511	28,175	297,454	27,270	111,000
Quinebaug,	500,000	606,453	147,000	405,241	145,500	197,500
Merchants',	155,250	203,441	10,315	191,877	9,129	151,200
Stonington,	56,700	107,514	23,800	86,329	17,889	133,300
Mystic,	50,000	79,124	16,050	60,183	14,433	143,400
Jewett City,	40,000	58,826	20,615	55,009	19,275	103,400
Connecticut,	269,240	229,235	14,780	310,198	23,469	176,500
Fairfield County,	176,940	196,323	2,400	160,309	2,400	
Bridgeport,	177,720	202,227	100	176,784	150	113,000
Stamford,	89,250	122,826	10,888	108,946	0,807	116,778
Windham County,	104,700	116,924	10,498	103,913	10,858	150,000
Windham,	59,090	99,507	2,085	91,295	1,398	109,250
Thompson,	80,000	90,123	3,000	83,146	8,805	113,000
Middletown,	419,300	458,556	7,000	445,942	8,300	125,450
Middlesex County,	219,400	281,561	5,500	240,199	4,463	146,900
East Haddam,	64,000	99,931	28,276	89,138	23,626	145,800
Tolland County,	75,000	155,594	1,614	126,381	1,987	92,000
	8,867,530	10,345,044	636,816	9,596,582	583,684	