



Hoyt Sherman

MAJOR HOYT SHERMAN.

ANNALS OF IOWA.

VOL. V, No. 1.

DES MOINES, IOWA, APRIL, 1901.

3D SERIES.

EARLY BANKING IN IOWA.

BY MAJOR HOYT SHERMAN.*

In the early fifties of the last century, business of all kinds was conducted in the then frontier State of Iowa in a very different manner from what it now is. At the time referred to, drawing a line from McGregor, Clayton county, on the northeast border of the State, southwestwardly to Center-ville, the capital of the "Hairy Nation," three-fourths of the population of the State lived east of that line. All west and northwest was the boundless and almost unexplored prairie, through which the streams, fringed with groves of timber, flowed toward the Mississippi and Missouri rivers. Stretched along these streams, and keeping under the friendly shelter of the groves, were the homes of the few enterprising pioneers, who were all hoping, and patiently waiting, for the "good time coming," when they would have neighbors,

*Maj. Hoyt Sherman was born at Lancaster, Ohio, Nov. 1, 1827, the youngest brother of General William T. and Hon. John Sherman. Until he was eighteen years of age his time was divided between school and printing office. He came west in the spring of 1848 and settled in Des Moines, where he has since resided. The following year he was admitted to the bar. Alert, active and obliging, his services were in demand in various public capacities in the early days of the future capital city. He held the offices of school fund commissioner, clerk of the district court and post-master, resigning the latter place in 1853. In 1854 he became the head of the widely known banking house of Hoyt Sherman & Co. When the law of 1858 went into effect he took a prominent part in organizing the old State Bank of Iowa, which fills such an important place in our financial history, serving also as cashier of the Des Moines branch. Early in the civil war he was appointed paymaster, with the rank of Major, in which capacity he served three years. On retiring from the army he engaged for a time in mercantile pursuits. He was also one of the founders and long the general manager of the Equitable Life Insurance Company of Iowa. He has been active in general charitable work, and for many years was at the head of the Associated Charities of Des Moines. His recollections of Iowa and Western banking will be concluded in our next number.—EDITOR OF THE ANNALS.

schools, churches, roads, and all the usual comforts of a western civilization. There were no railroads in those days, no telegraphs, no telephones, no pools or differentials, or traffic managers, or railroad commissioners, or any other of the complicated machinery of modern transportation. All freight to towns on the Mississippi river was transported by steamboats, and to the counties back of the river by the old familiar two-horse team, or the equally familiar, though slower, three and four yokes of oxen. There was no surplus product of any kind to market, as everything raised by the settler in excess of his own simple wants was required by the new comer, until he had time to raise his own crop. The keeper of the general store had his bank account in an old stocking, or hair trunk, and as he was about the only man who had money, it was, of course, decidedly poor picking for the regular banker of those days. They were few in number, and were all located in the river towns. Their names were: Charles Parsons, of Keokuk; Coolbaugh & Brooks, of Burlington; Green & Stone, of Muscatine; Cook & Sergeant, of Davenport; W. J. Barney & Co., and Langworthy Bros., of Dubuque.

One of the leading transactions of the banker of that day, in fact the leading one over-riding all others in number and profit, was that of "entering land on time;" that is, purchasing from the government a tract of land, previously selected by the settler or speculator, at the regular rate of \$1.25 per acre, and selling it to him on one year's credit, at \$1.75 an acre; that meant *forty per cent. interest*. From two and one-half to three per cent. per month was the current rate of interest, but in transactions of this character forty per cent. was paid, because it figured out even change, and because the customer could stand it. That rate of interest obtained for several years in the central and western parts of the State, and could be safely paid by land dealers. It was only occasionally that a regular bank discount was applied for at that rate of interest, and then while the customer received

very little money on his discount, he had an abundance of sympathy.

Back from the river towns a few enterprising men and firms called themselves bankers, because it helped them in the purchase of land warrants in the eastern cities, and looked well on their printed letter-heads. Their principal business, however, was "entering land on time," and buying government land for non-resident investors and speculators. A business call on them, at that time, for a New York draft or a discount would have been received with a stare of astonishment, or treated as a feeble joke. Many of these same men, a few years later, became legitimate bankers by gradual development from their land business, and thus were the founders of prosperous and well established banks in existence today. Those were the days, too, of Jacksonian principles in Iowa, for we had no banks of issue. The circulating medium was of many varieties—in gold, American coin, English sovereigns, French twenty-franc pieces, and an occasional Spanish doubloon. In silver, Spanish milled dollars and quarters, Mexican dollars, and French five-franc pieces—the latter very plenty and current for ninety-five cents. In paper money, principally notes of the State Bank of Ohio, Indiana and Bank of Missouri; all solid and well founded in public confidence. Besides these a small quantity of eastern bank notes were in limited circulation, but were looked upon with suspicion because so far away from the place of issue. The United States land offices were the busy places, where large money transactions were made in the purchase of government lands; and as only American coin would be received there in payment for the public domain, those offices absorbed all the supply; and in fact at times the premium for American gold became so great it was a decidedly profitable business for bankers to deal in it as a kind of merchandise. Emigrants and speculators from the far eastern states, attracted by the marvelous and but little exaggerated stories of the rich and bountiful soil to be

bought of the government at a nominal price, would come out with drafts on New York, Boston or Philadelphia banks, (fearing to assume the risk of carrying large sums in coin,) and exchange their drafts at a heavy discount for gold with which to make their purchases of the government, the price then of the richest and most productive land in the world, in an excellent climate, and in a State with a promise of a marvelous growth, being only \$1.25 per acre; the added discount to convert their drafts or eastern bank notes into coin was the merest trifle to them, while it gave to the bankers an important source of profit. These bankers not only realized the premiums on the sale of gold coin, but the drafts or eastern bank notes were in the best possible shape for use in renewing their supply of coin, and in making the exchange called for by their mercantile customers.

While the Mississippi and Ohio rivers were the only arteries of commerce through the great central west, nearly all the purchases by merchants for local markets were made in Cincinnati and St. Louis; and the notes of the western banks named were used by the bankers to keep up their accounts and furnish exchange to customers. The above recited branches of business, short lines of legitimate discount, and an occasional speculative flyer, constituted the current transactions of the banking houses above named.

While these houses were plodding along in a quiet, conservative way, a marvelous change was going on in the "back counties." The numerous land agencies, of which nearly every little county seat had one or more, were passing through a transition state from mere agents for the sale of land warrants and entry of lands, into full-fledged banking houses, with very crude ideas of what constituted banking; but with a realizing knowledge that their occupation of entering lands was gone, they started in with a calm assurance of success, and adopted practices that set at defiance every known law or usage of banking. The sale of exchange, care of deposits, discounts and collections, all afforded too little

business in themselves to furnish even a modest living, and their time was pieced out by acting as a real estate agent, a conveyancer, practicing law, serving as justice of the peace, a notary public, keeping a general store, or other branch of trade or profession, according to the taste of the individual banker, or the needs of trade. Tradition has it that in one case the striped pole of the barber was placed alongside the sign of the banker, both professions being represented by one individual, who could thus give his customers literally "a double shave." So that the profession of banker in those early days covered almost every other calling or occupation by which a scanty living could be eked out.

But while this large class of newly fledged bankers were putting themselves in shape for future operations, events were occurring in other States that tended to make their path in business anything but rosy, and which for the time being completely revolutionized all past experience with the circulating medium of the country. The States of Indiana, Illinois and Wisconsin inaugurated the system of free banking, granting to private corporations the privilege of issuing bank notes to circulate as money, based only on the security of a deposit of state bonds with a state official. It was literally "*free banking*," everything relating to the organization of a bank of issue being of the simplest character. The corporation could be formed by two or more individuals, by signing a few printed blanks, involving little or no expense;—no inquiry into the standing or character of the men behind the enterprise—(a convict was as good a subject to incorporate as the honest and tried citizen). The location could as well be an obscure cross-roads village of one hundred inhabitants, as a city of large commercial importance—in fact, the more obscure the town, and the more inaccessible and remote from ordinary routes of travel, the greater the difficulty of returning notes to it for redemption, and therefore, in point of fact, the more desirable location in the judgment of the promoters of the enterprise. All ordinary

barriers that prudent legislators build around great privileges of that character, to protect the public from loss and imposition, were in this case omitted; and any individual, man or woman, who could muster up money or credit enough to get hold of \$25,000 of Arkansas, Mississippi or other depreciated state bonds, could start up a shin-plaster mill, and deluge the public with the miserable stuff; even residence at the location of the so-called bank not being required of its proprietor. The first move of the projectors of these wild-cat institutions, after getting their bank notes ready, was to find a locality in which to circulate them remote from the point of issue, so that their return for redemption should be as tedious and difficult as possible. Iowa was an excellent field for these fellows to operate in. It had but meager facilities for handling bank notes through express companies; banking machinery for the return of this worthless stuff was not as well organized as in older communities; and besides, all money was scarce and in great demand; and a number of bankers yielded to the temptation held out to them by these free bank operators, and took their currency for circulation in their respective neighborhoods. Some of the inducements held out to bankers to handle this stuff were, either the use of it three or six months without interest, or as a loan in larger sums and for a longer time at a nominal rate of interest, the consideration on the part of the borrower being the guarantee to give it a good circulation—that is, to scatter it out so that it would not return to point of issue for redemption in a long time; or if any of it did by chance go in, to pay cost of its redemption. A few of the banks organized under this system were legitimate concerns, and the notes issued by them well secured and of par value; but the greater number were essentially wild-cat in character, located at inaccessible points; and in fact the value of the circulation depended entirely on the worth of the state bonds deposited as security, which were mostly those of southern states, some of very questionable value because of repudiation in the past, and all



A COUNTERFEIT \$10 BILL OF THE STATE BANK OF INDIANA.

In the early '50s, before the "panic of 1857," all reputable banks of general circulation had their notes counterfeited by dishonest men, skilful in some one branch of steel plate engraving. The above, "bogus" \$10 bill of the State Bank of Indiana, is a fair sample of that kind of work, the true character of which was quickly detected when it came into the hands of a skilful bank cashier or teller; but as long as it was kept away from banks, and in the hands of farmers, mechanics and others not experienced in handling bank notes, was readily passed from hand to hand as genuine paper money.

subject to fluctuation in price in the eastern markets, as about the only demand for them was as a basis on which to found these paper mills.

This kind of bank notes formed the bulk of the circulating medium in Iowa for several years, and one of the difficult problems to be solved by the fresh, inexperienced bankers of those days, who had to receive this kind of money from their customers, was how to keep it circulating so that it would not die or fail on their hands. To add still further to the complication, some of our own bankers, acting perhaps on the theory of self-defense, applied to an easy-going legislature of the then territory of Nebraska for bank charters, with privilege of issuing circulating notes, and those issues were based on personal credit alone—not even going through the form of security deposited with state officials—and were shoved out freely to a good natured public, who in turn shoved it over to their fresh bankers for safe keeping, and return in something better. It was a queer mess of stuff that floated around as money in that early day, and the banker who handled it had to keep himself posted, not only as to its quotable mark in the *Bank-Note Reporter*, but it was also necessary to know what particular state bonds were deposited for its redemption, and their market value, which was an uncertain and fluctuating figure. There was but one good feature about the stuff as I recall it. The counterfeiter of bank notes was active and skillful in those days, but he was too shrewd to waste time in trying to counterfeit it—its probable existence was too ephemeral, and there was just a suspicion that the counterfeit might be more valuable than the genuine.

To illustrate how the bank note deposits were assorted and treated by the bankers at that interesting period, I copy literally the labels on the several compartments in an old currency tray, in which the notes were assorted as they came in, and from which the checks were paid. These labels were: Eastern Penn., N. Y. and New England, in one compart-

ment; Ohio, Indiana and Missouri, in another; then Va., Md. and Ky.; in another Ill. and Wis., and lastly, Western Mixed.

The first named notes were choice par funds, rating next to gold, and they were shipped to New York for exchange purposes. The next two (O., Ind., Mo., Va., Md. and Ky.) were "bankable funds," so-called, and graded as among the safest of bank notes. "Illinois and Wisconsin" took in the few legitimate free banks in those states, located principally in Chicago and Milwaukee; but the last label was more comprehensive than all the others put together. It included "rag tag and bob-tail," everything not comprehended under the other labels but resembling a bank note. "Western Mixed" was the dignified and formal name for it. Its pet names were "stump-tail," "red-horse," "wild-cat," "brindle-pup," and many others of like endearing character. The vigilant banker watched that pile of currency closer than the others. Its increase in quantity caused much anxious concern—and its decrease corresponding elation. As the close of the business day approached, if the supply was large, he prayed inwardly for checks to come in for payment; and if he could close up with that part of his tray empty, his sleep that night would be calm and peaceful. That kind of money reversed the usual order of things in the mind of a banker—a large balance, instead of being a source of satisfaction, was a very disagreeable menace.

The relations existing between the banker and his customers were of a more personal and friendly character than now—communities were smaller and individuals were brought closely together socially, as well as in business matters, and there was a feeling of mutual interest between them, and of satisfaction in evidences of business prosperity, and as well pleasant family relations. The banker anticipated the probable needs of his customer, and was prepared to extend all required accommodations in the limits of safety. And on the other hand the same thoughtful consideration governed the actions of the customer. If his business re-

quired the accumulation of a large balance with his banker, to meet some payment or other emergency at a particular date, he would make it convenient to give timely notice when the money would be called for, and whether in exchange, coin or currency. It occurred many times in the experience of bankers in those days that the balance of any one of several depositors, subject to sight check, exceeded the total cash of all kinds in the bank; but the banker lost no sleep over that contingency, knowing very well that he would get advance notice of any unusual call for money, and have plenty of time to meet it. All that could truthfully be said of the general average bank depositor, but there were exceptions in this as well as in all other general rules. The depositor who wanted to overdraw a few hundreds—who wished to be supplied with exchange in sums to suit him without premium—who wanted collections against him held over for a few days—was around to make the banker's life weary with those and many other little requests of like character, with which the public is familiar.

The literature of the profession, at least as far as the West was concerned, was confined to the monthly publication of bank note reporters and counterfeit detectors, the principal one of which, and in fact the standard authority, was *Thompson's Bank-Note Reporter*, published in Wall street, New York City. Each monthly issue was closely scanned for items of interest connected with the business, new banks and their officers, others in liquidation, with the varying discounts on their notes, and especial attention was given to the description of new counterfeits, of which each issue had a number. The body of the work contained titles of banks of issue of each state, arranged alphabetically, and following the title of bank and name of president and cashier, came a list of counterfeits against the different denominations of bills of that bank, and in some cases this list was a very long one, describing dangerous issues of every size from Ones up to Fifties, and in many cases the bogus imitation resembled

so closely the genuine, that the bank was compelled to call in all notes of that denomination and issue others on a new plate. *The Reporter* was always a familiar feature of the banking office, and placed within easy reach of the teller for frequent reference.

It was in the furnishings and fittings of the banking office, that the contrast between then and now was more marked than in any other respect. The office was generally in a cheap and ordinary one-story frame structure of slight construction. Inside, a modest pine or black-walnut counter fenced the bank proper from the outside public. A cheap standing desk and a table of like quality, with a big coal stove and one or two chairs, comprised the furniture behind the counter. There were no elaborate plate-glass or wire screens, or other elegancies of the modern banking house, nor private rooms in which to withdraw and hold business conferences—those had to be attended to by retiring to the corner of the office most remote from the counter. There was a necessity for dispensing with side rooms, screens and other arrangements for privacy; every official connected with the office had varied duties to perform which required easy and convenient access to all parts of the room. In some cases the proprietor of a bank in a growing town was not only its president and cashier, but also teller, bookkeeper and janitor, with an occasional spell of carrying in the coal. Banking hours were nominally kept, and they included more time than is the present practice, but were not so closely observed. It was not an uncommon thing for a banker to “close up” and go to his midday meal, and occasionally he closed up to go out and “take a drink” with a customer; but it can be truthfully said to the credit of the profession that there was very little dissipation among them as a class. In describing the inside furnishing of the office one very important article was omitted. That was the safe—the gorgeously painted and decorated sheet-iron safe—in which the treasures of the bank were nightly stored. All the modern appliances



THE AGRICULTURAL BANK OF TENNESSEE.

Above are fair copies of the one and five dollar issues of the Agricultural Bank of Tennessee, a bank which in the years 1853-'57, took its place in the long list of so-called banks of issue, created to furnish a circulating medium in the West and Northwest, far from the actual location of the bank and with no other security for the redemption of its notes than the individual credit of its promoter. It was classed as "wild-cat," "stump-tail" and similar phrases then familiar throughout the West. The first storm of financial reverses in 1857 swept it out of existence.

of time-locks, chilled iron and steel plates, and ingenious combinations were lacking then; but the treasure and trusts were given in charge of that wonderful box, which would offer no more resistance to the modern burglar than if constructed of pine. The simple but unbounded confidence with which the banker in those primitive times nightly placed all his treasure in that safe, located in a cheap, pine shanty, and retired to his "peaceful couch," was the very sublimity of faith. It needed only a visit to a neighboring blacksmith shop for a cold chisel, or to a carpenter shop for even a hatchet, as the only tools necessary for the enterprising burglar to force the outer door or window, then cut through the thin sheet-iron outer casing of the formidable safe, then the plaster filling and slight wooden interior work, and all the coveted treasures were within his reach; but fortunately the bank burglar of those days did not follow the advice of Mr. Greeley to "go west," perhaps because he had a suspicion that it would prove too "poor picking."

This article has already reached such great length that I can only briefly recall some events connected with the wide-sweeping and disastrous "panic of 1857," with its long train of failures and disasters. The Ohio Life and Trust Company, whose principal office was in Cincinnati, established a branch office in New York City. This soon became the main office as far as business was concerned, and was the representative and depository of nearly all the leading banks in Ohio, Indiana and other western states. August 24th of that year the New York branch, without premonition of weakness or danger, closed its doors. As described in the papers of the day, the failure acted like a clap of thunder in a clear sky. Contrary to the predictions of well-informed men that its failure would not affect others, or even affect the parent bank at Cincinnati, prominent houses and chartered banks all over the central and western states closed their doors, and after developments showed them to be rotten and bankrupt. The parent Trust Company, at Cincinnati, was then re-

garded as one of the most substantial banking institutions in the West. In July, 1857, it paid a semi-annual dividend of $4\frac{1}{2}$ per cent.; its stock the day before the failure was quoted at $99\frac{3}{4}$; in September it sold at 15, and soon dropped out of sight. Several Iowa bankers of considerable prominence were forced to close their doors and withdraw from business, but the most serious results to this State and its banking interests, grew out of the decided depreciation of State stocks which formed the basis of free banks of issue.

The methods of banking and facilities for conducting business, as they existed a little less than a half century ago, were far different from the present order of things; then the currency consisted of notes issued by banks, chartered by State legislatures or under a State system of banking (and each individual State had its own peculiar system), and a little national coin. The systems and kinds of currency numbered perhaps twenty-five in all; contrasting with our present system of one or at most two forms of circulating notes, both based upon and solid as credit of the national government itself. Then, for means of communication between business centers we had the old-fashioned stage-coach, with a few short and incomplete lines of railroad; now lightning trains on our well-equipped roads, and perfect express, telegraph and telephone service. Then the methods of exchange, keeping books, safe-keeping of money and valuables, were all cumbersome, primitive and expensive; now everything that modern skill and ingenuity can throw around the conduct of the business is brought into use. Then the banker and his customer were known to each other but a few months or years—no long acquaintance to build up personal or firm credit and friendship, upon which real security rests; now the banker is brought into contact with men and firms whose long business history for probity and fair dealing have laid a foundation for credit as substantial and safe as the highest order of collateral. Bankers of the present day, whose busi-

ness experience is limited to the last score of years, can hardly imagine or realize the difficulties encountered, the risks assumed, and unknown in this later period, which confronted the banker of nearly half a century ago, and were part of his daily experience. Looking at the past with modern eyes, it is only wonderful that any of the first generation of bankers sailed safely through the breakers and wrecks of worthless currency, dishonest borrowers, and insecure methods for the safe keeping of the treasures placed in their charge.

While great differences existed between the manner of conducting the business in all its varied branches then and now, that difference does not extend to the personal character of the banker. The successful banker, now as then, represents in his profession the highest order of citizenship—honesty, probity, truthfulness, correct habits, public spirit and that dignity and simplicity of character that insures perfect confidence and respect.

DES MOINES, IOWA, MARCH 1, 1901.

AN ACTIVE "BUSINESS PLACE."—It is stated that at the city of Keokuk, Iowa, since the commencement of the present season, 8,000,000 feet of lumber, 2,000,000 shingles, and 4,000,000 laths, have been used. The calculations are that the consumption will reach 25,000,000 feet of lumber, and 20,000,000 laths. The business, so far this season, has doubled that of the last. Thirteen hundred carpenters find constant employment in the carpenter shops of the city; brick kilns keep a hive of nine hundred men as busy as bees, and there are thirty brick kilns which have already manufactured and sold 60,000,000 bricks. The amount will reach 60,000,000 for the season, all of which will be used.—*Quasqueton (Iowa) Guardian, October 1, 1857.*

Copyright of Annals of Iowa is the property of State of Iowa, by & through the State Historical Society of Iowa and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.