

ST LUKE BANK

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Let Us Put Our Money Together

THE FOUNDING of AMERICA'S FIRST BLACK BANKS



By: *Tim Todd*



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Foreword

The ability to borrow money on fair and appropriate terms can be especially important for families and individuals seeking to improve their living standards. Through borrowing, many Americans are able to finance an education, establish a business or purchase a home.

Ensuring equitable access to credit was one of the issues Congress sought to address when it established the Federal Reserve as our nation's central bank in 1913. Prior U.S. experience had included periods where credit flowed only among those who were already established. In other instances, there was chaos and widespread fraud, particularly during the so-called "wildcat banking" era. Consistent with the congressional concerns at the time of our founding, the Federal Reserve today maintains a close focus on issues of credit access in local communities.

Within this realm, community banks are a key mechanism for serving a wide range of borrowers. For a community under any definition – be it a rural town, an urban neighborhood or an ethnic population – these banks can serve as both the catalyst and the backbone for sustained growth. They are most often owned from within the community. As I have seen first-hand across the span of my more than 35 years in banking, these banks are usually in the best position to understand local conditions, needs and opportunities. They are the cornerstone.

Thus it is especially troubling that our nation has seen a continuing downward trend in the number of community banks. Within this decline, and even more concerning, has been the disproportionate reduction in the number of African American community banks. Since 2001, the number of African American banks has declined by more than half – a trend that is not reflective of what we have seen in other categories of minority depository institutions (MDIs).¹ Meanwhile, one out of every five African American households in the United States is unbanked – the highest rate among any race or ethnic designation reported by the FDIC.²

Overall, we know that MDIs are more likely than their peers to operate in neighborhoods with lower incomes and higher poverty rates than the national average.³ Additional research has shown that African American banks in particular may be located in areas where other banks are unlikely because other institutions view these communities as unprofitable.⁴ As a result, families and businesses without a local bank face the potential of falling victim to the exploitive practices of alternative financial services providers, such as payday lenders, when they need to borrow.

Efforts have been made on numerous fronts to address these issues, but progress has been slow. More needs to be done, but meaningful solutions have not yet become apparent.

At the Federal Reserve Bank of Kansas City, it has long been our view that those seeking to address the most pressing issues we face today might benefit from the insight of a historical perspective.

The earliest banks in the United States formed to meet a public demand for capital that in turn became the catalyst for our then-emerging national economy. For the first African American banks, it was not only about serving as a source of credit for businesses and consumers, but also about providing training opportunities and jobs for African Americans, supporting economic development and, importantly, pride. These banks played a significant role in the fight for economic independence and opportunity.

This volume focuses not only on these earliest efforts but also on the individuals involved. Some of their names will be well-known. It is our hope that in their work and experience might be found some beneficial insight as we seek ways to ensure the equitable access to financial services by all Americans.

A handwritten signature in black ink, reading "Esther L. George". The signature is written in a cursive, flowing style with a large initial 'E'.

Esther L. George
President and Chief Executive Officer
Federal Reserve Bank of Kansas City

Author's Note

Generally, books addressing the early history of African American banks have done so either within the larger construct of African American business history and economic development, or as a starting point to explore current issues related to financial services. Focused considerations of these early institutions and their founders have been relatively rare and somewhat scattered. This publication seeks to address this issue.

Efforts to establish America's first African American banks were an important part of the fight for equality beginning before the Civil War. While this is a tightly focused history on banking, there is a need for the reader to understand some issues that may not initially appear directly connected to financial services. However, while some of these issues are discussed it is also not possible within this format to give all a full consideration as it would overwhelm the exploration of banking.

Readers who are interested in a more detailed analysis of events and individuals described within are encouraged to explore the numerous works that served as source materials, which are noted. Many are of historical significance. Others published more recently are particularly insightful. All contributed significantly to this work.

A special thanks to Juliet E. K. Walker, Ph.D., founder/director of the Center of Black Business, History, Entrepreneurship and Technology at the University of Texas, for her assistance and contributions to this project.

Any errors or misinterpretations are the sole fault of the author.

About the author

Tim Todd is an executive writer with the Federal Reserve Bank of Kansas City. This is his seventh book on banking history.

BEFORE JANUARY 1, 1863*
*(EMANCIPATION)

“How very few are there ... that bestow one thought upon the benighted sons and daughters of Africa, who have enriched the soils of America with their tears and blood; few to promote their cause, none to encourage their talents. Under these circumstances, do not let our hearts be any longer discouraged; it is no use to murmur nor to repine, but let us promote ourselves and improve our own talents. And I am rejoiced to reflect that there are many able and talented ones among us whose names might be recorded on the bright annals of fame.”

- MARIA W. STEWART
1832¹

‘Imagine Himself in Similar Circumstances’²

Support for creating a black bank in the United States predates the Civil War by decades.

For black Americans living free in that era, a bank’s core function – the combining of a community’s resources, or savings, into a credit source for loans to individuals and businesses – could serve as a catalyst for economic development. Perhaps more important was the intangible benefit that such a high-profile development might have in the fight against slavery.

“(M)oney begets influence, and influence respectability,” abolitionist William Lloyd Garrison told audiences in a series of 1831 speeches.³ “Influence, wealth and character will certainly destroy those prejudices which now separate you from society.”

The road to the first bank, however, was much longer than early supporters would have hoped.

Some perspective on the scope of the challenge can be drawn from the life experiences of individuals such as Solomon Northup.

For modern audiences, Northup may be known because of the Academy Award-winning film “12 Years a Slave,” which was based on Northup’s published memoir. Born free, perhaps in 1807, Northup was kidnapped in 1841 and forced into slavery. That he survived to tell his story, he said, was the result of a \$400 chattel mortgage. Northup was nearly lynched by a white supervisor, but the plantation overseer stopped the hanging. Northup was human collateral on a loan taken out by the plantation’s owner. If Northup was killed, the plantation would lose a laborer but, apparently more troubling in the eyes of the overseer, the debt would also be lost.⁴

During the 18th and 19th centuries across the southern United States, slaves were the collateral for thousands of recorded mortgages. They served as security to fund the purchase of themselves or others, were mortgaged to finance the acquisition of land or goods, and were exchanged to offset outstanding debts.

All of this, of course, was generally done without the slave’s knowledge and certainly without any say in the matter. Northup was likely unaware that he had been used to secure a loan. Moses Grandy discovered he had been mortgaged only after delivering a letter to the creditor on Christmas morning relinquishing Grandy’s ownership to that man.⁵ A slave

woman named Fanny gave birth to two children after she had been mortgaged but before foreclosure. In the interim, the borrower had sold her. Eventually, the courts awarded Fanny and her children to the creditor.⁶

In a 2010 paper, historian Bonnie Martin calls the mortgage of human property “slavery’s invisible engine.” Her research found that in some Southern states, there were periods where slaves served as partial collateral for more than 80 percent of all loans. At one point, the percentage in Louisiana approached 90 percent.⁷ In modern-day terms, total amounts likely ranged into the hundreds of millions of dollars.⁸

The juxtaposition of Northrup and others versus the statement Garrison made more than a decade earlier is only one among the many incongruities of race in America during the pre-Civil War period. It also provides some insight into the intersection of the lives of black Americans during this period and the financial system, an area filled with its own logical fallacies.

In some cases, slaves were able to hire out their own time, thereby earning some amount of income, which, over time, could grow to a level sufficient for the slave to purchase their own freedom or that of family or friends. The more successful efforts in this regard were to be found in urban areas and by slaves with special skills.⁹

The mere existence of these events, with slaves engaged in a type of contract and able to accumulate property, in reality gave the slaves a degree of standing that was not permitted under the relevant laws. Setting the legal puzzle aside, from a financial standpoint, this was another opportunity for exploitation. In addition to the owner receiving an eventual payment from the slave in exchange for freedom, slave owners also took a significant portion of the earnings in exchange for allowing the work arrangement.

For example, Venture Smith, a slave in the 18th century, recounts his master taking two-thirds of the pay Smith received from one job in exchange “for the privilege” of working for pay. The rest, of course, would later be paid to the master in exchange for freedom.¹⁰ In the early 1800s, Free Frank McWorter, a Kentucky slave, mined niter and processed it into saltpeter used in making gunpowder. Frank was eventually able to purchase his wife’s freedom in 1817 and his own two years later. The purchase price for the couple was \$1,600, or more than \$25,000 in 2018. As with Venture Smith, Frank also paid far more to his owner – an

additional \$2,000, or nearly \$32,000 in 2018 – for the *opportunity* to work.* Frank was fortunate. The combination of nearby limestone mines, demand for gunpowder amid the War of 1812 and the westward flow of pioneers meant he was able to purchase freedom more quickly than other slaves who might work as long as 20 years before buying their freedom.

Stories such as Frank's may surprise some readers who are only generally familiar with this era of American history. It also helps to illustrate why a somewhat detailed understanding of slave-era America is a necessary framework for any thoughtful review of the first banks owned by and serving black Americans.

Across the period from 1790 through the Emancipation Proclamation freeing slaves in the rebel states in January 1863, between 8 percent and 14 percent of individuals with an African heritage living in the United States were considered "free" at any one time.¹¹ Slavery was not static. Rather, it might be somewhat comparable to the respiration of a terrible beast which inhales greatly when in need of energy. With slavery, these breaths related to social and economic forces.

The transatlantic slave trade began in the 16th century and expanded in the American colonies to address the labor demand for tobacco planting in the 1600s. Tobacco was an extremely valuable and labor-intensive crop. The source of that labor was found in indentured servants of both races. However, a series of legal restrictions that limited the rights of individuals of color – including both African and Native Americans – through the 1600s encouraged the exploitation of minorities. The Virginia Slaves Codes of 1705 institutionalized slavery within the colonies, drawing a firm distinction between the races, with whites considered servants while individuals of color were slaves and designated as real property.

While the colonial era saw an expansion of slavery, the period following the Revolutionary War and into the early 1800s might be considered something of a relaxation, or exhale. The somewhat reduced exploitation of slave labor was the result of three developments: the abolition of slavery in all Northern states; a significant number of manumissions by some Southern slave owners; and, in 1807, the approval of federal legislation banning the importation of slaves after 1808.¹² These events were influenced by two major forces: one social and the other economic.

Socially, there was the obvious inconsistency of the Declaration of Independence's

*McWorter eventually purchased the freedom of around 15 family members across the span of almost 40 years and founded the town of New Philadelphia, Ill. See: Walker, Juliet E. K., *Free Frank: A Black Pioneer on the Antebellum Frontier*, The University Press of Kentucky: Lexington, 1983. Also: <http://newphiladelphiaillinois.org/>

expressed ideals of “all men are created equal” versus the continuing exploitation and abuse of an entire race. In 1776, more than one out of every five Americans was black. Only 5 percent of them were free.¹³

Economically, a decline in tobacco prices in the late 1700s reduced the need for labor in tobacco-growing regions.¹⁴

The slight moderation in attitudes toward slavery, however, was brief in the Southern states.

Eli Whitney’s invention of the cotton gin in 1793 mechanized the textile industry and encouraged an increase in the production of another labor-intensive crop well-suited for Southern planters: cotton. Southerners, capitalizing on what was viewed as a favorable replacement for tobacco, exacted a horrific toll. Between 1800 and 1860, the number of slaves in the United States increased more than fourfold.¹⁵ Drawing in its massive breath, the institution of slavery summarily destroyed countless lives, creating within the United States a total population of 4 million slaves – or 13 percent of the entire national population of 31.4 million of all races on the eve of the Civil War. Within this population were 488,000 black individuals who were considered “free.” A little more than one-half, or about 258,000 lived in the South.^{16, 17, 18, †}

The designation of “free,” however, was very much relative. In most ways, it was a misuse of the word.

For example, a child born to a “free” mother and slave father would be considered “free” in the parlance of that period. This child’s life, however, might include precious little that resembles what any modern reader would consider to be actual “freedom.” As a child, an individual of this lineage might be “bound out” as an apprentice and sent far from the rest of their family to work under near-slave conditions.

These arrangements were in some ways comparable to those of other so-called “free” black Americans in the South during this period who agreed of their own accord to long-term contracts where they promised labor in return for little more than food, clothing and shelter. Some of these contracts ran as long as 20 years and resulted in conditions that “sometimes became indistinguishable from slavery itself,” although, from a legal perspective, these individuals were not considered slaves.¹⁹

Difficult conditions were not limited to the South. Even those able to break free, either

† Black was the most likely designation of any person of color during this period, so it would include individuals from Jamaica, Haiti or other areas in addition to individuals of a mixed racial heritage. However, that was not always the case.

through escape, manumission or managing to purchase their own freedom, likely found little enjoyable in the North. Some insight on conditions facing these individuals can be found in the diary of Fanny Kemble, a British actress who lived in Philadelphia. In the diary, Kemble writes about what she was witnessing in Northern states in the 1830s.

“They are not slaves indeed, but they are pariahs; debarred from all fellowship save with their own despised race – scorned by the lowest white ruffian in your streets, not tolerated as companions even by the foreign menials in your kitchen. They are free certainly, but they are also degraded, rejected, the offscum and the offscouring of the very dregs of your society; they are free from the chain, the white, the enforced task and unpaid toil of slavery; but they are no the less under a ban.”^{20, ‡}

The informal segregation Kemble describes was compounded by structural segregation in many areas and the always looming threat of for-profit bounty hunters that could appear without warning or, sometimes, without reason. Although the hunters operated under the guise of seeking runaway slaves, not all of their captives were fugitives. It was widely known that even those with families who had lived freely in the North for generations could be captured and taken to the South under the guise of being a runaway slave.

Some perspective on the overall environment resulting from this constant threat can be gained from the writings of Frederick Douglass, who recounts his experiences upon arriving in New York City as a 20-year-old runaway slave in 1838.

“(T)o understand it, one must needs experience it, or imagine himself in similar circumstances. Let him be a fugitive slave in a strange land – a land given up to be the hunting-ground for the slaveholder – whose inhabitants are legalized kidnappers – where he is every moment subjected to the terrible liability of being seized upon by his fellowmen, as the hideous crocodile seizes upon his prey,” Douglass wrote.²¹

There was also, of course, mob violence. Philadelphia, which had a relatively large black population, suffered at least a half-dozen major anti black riots in the period before the Civil War. These were in addition to numerous individual acts of violence including murder and the burning of homes, churches and schools.²² This activity in some areas started to become more frequent around the 1830s – a period that predated the creation of the first professional police forces in the United States by about a decade.²³ Among the more

‡ Kemble was the wife of wealthy Philadelphian Pierce Mease Butler, grandson of Pierce Butler, one of the largest slave owners in U.S. history. Kemble was apparently unaware of this at the time of the marriage and later demanded she be taken to the family’s Georgia plantation to view the conditions. Kemble eventually fled Butler with her children and returned to England.

significant events were three days of riots in New York City in 1834 that came in conjunction with the seventh anniversary of the end of slavery in New York State. During the riots, more than 60 buildings were gutted or destroyed that were connected with either free black individuals or white abolitionists, including six churches.²⁴

The physical risks were compounded by economic roadblocks that often led to lives of abject poverty for Americans barred from participating in the financial system.

Some economic understanding can be gained from the writing of Abram Harris, a prominent 1930s economist. Harris estimated total real and personal wealth of the free black population at the start of the Civil War to be “conservatively” \$50 million – or around \$1.4 billion in 2018.[§] This large number, however, can be misleading. Based on 500,000 free blacks living in the United States at this time, dividing the total wealth evenly – which it was not – would give each individual only \$100, the equivalent of around \$2,700 in modern amounts.

However, wealth discrepancies were significant. Some insight can be gained through an analysis of Pennsylvania data compiled in 1838 and 1847. The data shows that the richest 10 percent of black individuals held 70 percent of total black wealth, while the poorest half shared 5 percent of the wealth.²⁵ The combined value of real and personal property for 60 percent of black households during this period was \$60 or less.²⁶

Regarding the sources of that income, black business enterprises in North America were developed as early as the Colonial era in the services sector, transportation and, in some cases, small businesses.²⁷ These entrepreneurs had overcome substantial challenges to gain freedom, but faced additional hurdles in achieving any degree of economic success. By the mid-1850s, nearly 90 percent of the employed black population in New York City worked in unskilled jobs such as laborers, mariners, porters or, in the case of women, seamstresses and cooks.²⁸ These professions were also somewhat common among free populations in the South as well.²⁹

Harris’ research references individuals who paid taxes on real estate, meaning that they had achieved sufficient wealth to acquire property during the antebellum period. Because records did not always specify the race of the property owner, an accurate accounting is not possible, but Harris does note families living in both Northern and Southern states whose wealth ranged

§ All comparisons of dollar amounts in the 1800s to their modern-day equivalents utilize estimated 1800s Consumer Price Index data compiled from various sources by the Federal Reserve Bank of Minneapolis. For more information, see: <https://www.minneapolisfed.org/community/financial-and-economic-education/cpi-calculator-information/consumer-price-index-1800>

from owning small homes to those who had large farms or operated profitable businesses.

For example, in the North, New York City in the 1840s was home to numerous black-owned small businesses, service providers and a handful of well-known enterprises including at least two prominent restaurants in the financial district and six boarding houses.³⁰

In Cincinnati, a group of black men created The Iron Chest Company in the late 1830s, which engaged in real estate and constructed homes which were then rented to white families.³¹ It was one of the more sizable and successful black-owned ventures in a city where the minority population may have been more financially successful than in other locations, with the Ohio River creating job opportunities such as the demand for mechanical workers.³²

New Orleans, meanwhile, was home to reportedly the richest free mixed-race businesswoman in the South and certainly among the richest in the entire United States. Eulalie d' Mandeville Macarty owned a mercantile and dry goods store, but also purchased foreign goods that were sold throughout the South. Her total net worth was estimated at \$155,000 in the early 1800s, making her the equivalent of a modern-day millionaire.³³

Additionally, multiple newspaper accounts from the pre-War period indicate that there were black individuals with deposits in savings banks as early as 1819.³⁴ In 1834, the New York Savings Bank reportedly held deposits from 198 black individuals, or about 10 percent of the bank's total number of depositors.³⁵

However, while there were some businesses that were successful by any definition, they were the exception. In the words of historian Juliet E.K. Walker, author and editor of the *Encyclopedia of African American Business History*, “most antebellum black businesses remained marginal enterprises, earning minimal profits.”³⁶ Based on population data and other factors including the type of goods likely produced, she estimates that on the eve of the War, the North was home to around 2,500 small black businesses while the number may have been slightly higher in the South.³⁷

Overall, Harris notes that the number of black families who would have been considered wealthy under any measure during this period was “pitifully small.”

Business owners like Macarty were able to overcome a series of challenges that Harris identified facing black entrepreneurs during this era. One of the most significant was the legal landscape. A comprehensive list of all the legal restrictions confronting former slaves and free-born individuals in the various states as they sought to earn income would be lengthy and include such items as measures limiting property ownership, prohibitions

barring the crossing of state lines and restrictions against hosting a gathering of any size. These were in addition to curfews and requirements that “free” individuals must carry documentation to prove their status.^{38, 39} The combination of these issues meant that, although black entrepreneurs could achieve a degree of success serving the black community within an urban center, there were limits. An opportunity that offered too much potential could invite competition from white-owned businesses which would likely prove overwhelming.⁴⁰

Other challenges on Harris’ list include a lack of educational opportunity and significant competition from the burgeoning immigrant population – including a large number of Irish fleeing the potato famine of the 1840s who settled in U.S. cities.⁴¹

At the top of Harris’ list, however, was the “the greatest handicap ... The difficulty of obtaining capital and credit.”⁴²

The Earliest Lenders

For the United States, the years after gaining independence saw a nearly insatiable demand for credit among the former British colonists.

Established merchants – collectively the only group with the ability to provide capital in amounts sufficient for lending – were the first bankers. Many of these individuals, or their predecessors, had provided credit privately during the colonial era. Thus while the eventual creation of “banks” might technically have involved the formation of new entities, in terms of access to credit, these banks were simply a continuation of an existing process under improved conditions.⁴³ As a result, it is not surprising that the borrowers they served were often members of this same limited group.

In the words of Thomas Willing, president of the Bank of North America, banking in the United States during this period was then “a pathless wilderness.”

“In this situation, we adopted the only safe method to avoid confusion. Educated as merchants, we resolved to pursue the road we were best acquainted with.”⁴⁴

In practice, this bias toward familiarity extended far beyond simple favoritism on credit requests from individual borrowers. It also meant that most banks offered credit on terms that were only viable for established merchant borrowers. For example, essentially all of the earliest U.S. banks were interested in only short-term lending – almost always extending credit for no longer than 60 days and, more often, for 45 days or less. Structurally, these short arrangements prevented borrowing by anyone who needed longer-term credit – most notably farmers, but also a significant number of artisans, early manufacturers and others seeking to become established.⁴⁵

There was too much demand – and too loud of a public outcry – for these arrangements to last. Over time, banks began to form and sought to serve some of these specific needs. In some cases, these banks were the result of state government initiatives, while others were taken on by groups of would-be borrowers who formed their own banks, including the Farmers Bank of Maryland, which opened in 1804, or the Farmers and Mechanics Bank of Philadelphia, which followed in 1809. An argument can be made that these banks and the many others that followed were pivotal in providing the foundation for the U.S. economy as it developed in the years that followed by making credit more widely available than it was in other countries during this period.⁴⁶

While these banks did significantly expand the availability of credit to a wider range of borrowers, they, of course, did not serve everyone. Many black Americans were unable to access financial services through these institutions. Harris did find that some were able, likely in cases where the banks were starved for deposits. This, however, would have been exceptionally rare.

“When it is remembered that a majority (of individuals) ... controlled only small sums of money and that the cost of carrying their deposits was relatively great, banks (also) had an economic reason for excluding them in many cases,” Harris wrote.⁴⁷

Black Americans would not legally be allowed to patronize the same banks as whites until the passage of the 14th Amendment in 1868. Thus it is not surprising that the earliest substantive sources of credit for minority borrowers developed informally and very similarly to what occurred with European immigrants during the colonial era.

Successful black entrepreneurs in the North and also, notably, New Orleans in the South, offered rudimentary financial services. These private lenders, including some who had access to established banks through a white intermediary or an accommodating banker, pre-date the Civil War by nearly 30 years in the historical record, going back to 1833 if not earlier. While it appears all of these credit providers were engaged in another business as their primary enterprise – most often as a merchant – some also did accept deposits, and, in turn, used the deposited funds as a source of credit for borrowers.⁴⁸ Notably, some of these lenders also counted among their debtors white borrowers who preferred to keep their financial standing hidden from white bankers.⁴⁹

A few of the records of this type of lending have survived. For example, William Johnson, a Mississippian known as the “Barber of Natchez,” made at least eight loans in 1836 with the largest of these at \$1,750, the equivalent of around \$40,000.^{50, 51}

Among the most prominent individuals to offer credit, and also donate heavily to a range of charities, was Thomy Lafon. The free-born child of a poor French father and a Haitian mother, Lafon was a New Orleans merchant who may have gotten his start in business selling cakes along the city’s wharves.⁵² By 1842, he had become a merchant and engaged in real estate and lending money “at advantageous rates of interest” prior to the War.^{53, 54}

“He soon accumulated a small fortune, which eventually found its way into numerous charitable institutions,” reads one early biography.⁵⁵ He established the Lafon Orphan Boys’ Asylum and the Home for Aged Colored Men and Women and gave sizable donations to

a lengthy list of causes and organizations including the American Anti-Slavery Society.⁵⁶ He was also significantly involved in the Underground Railroad and, in some accounts, is listed as one of its founders.⁵⁷ At the time of his death in 1893, his estate was valued at more than \$400,000.^{**}

Another private lender was Stephen Smith of Columbia, Pa., a former slave who purchased his freedom around the age of 20. Smith created a lumber business and later expanded into other ventures including real estate and lending. He was also wealthy enough to invest in stocks and bonds.⁵⁸ Smith's investments are particularly notable because he owned bank stock, and, according to many accounts, for a time Smith was the *largest* shareholder of Columbia Bank. This would have resulted in a structure at Columbia Bank where Smith – although legally barred from holding the position of bank president because of his race – would have been in the position to decide which white individual would be hired for the job and direct the activities of the person holding that job.⁵⁹

As might be predicted, Smith's prominence also increased the risks that he faced, which may have reached a height during riots in 1834 amid white fears over growing minority competition for jobs.⁶⁰

“The mob then proceeded to the office of Stephen Smith ... broke open the windows and doors, rifled the desk and scattered the papers along the pavement,” reads an account of one of at least two attacks on his office.⁶¹ “After attempting to upset the building they marched off, having gained ‘glory enough for one night.’”

During this period, he received a letter reading, “You must know that your presence is not agreeable, and the less you appear in the assembly of the whites the better it will be for your black hide, as there are great many in this place that would think your absence from it a benefit, as you are considered an injury to the real value of property in Columbia. You have [*sic*] better take the hint.”⁶²

In the 1840s Smith, who became a minister, left Columbia where he had been an agent on the Underground Railroad and moved with his wife to Philadelphia. There, they were heavily involved in founding the Home for Aged and Infirm Colored Persons.⁶³

While Smith's Columbia Bank holdings may have been unusual in terms of their size, he was not the only black owner of bank stock.⁶⁴ Among the others was Samuel Wilcox, a Cincinnati grocer.

^{**}Three schools in New Orleans have been named after Lafon, including one that was demolished in the aftermath of Hurricane Katrina. The first was burned to the ground along with several nearby homes of black families by a violent white mob during four days of riots in 1900.

“I have taken stock in banks so that there may be *one* colored man there to vote,” Wilcox said (*italics his own*).⁶⁵

Wilcox had worked as a cabin boy on a steam boat and began to earn money by trading between New Orleans and Cincinnati.

“I might have bought a farm and lived on my money, but I wished to show, if I could, that colored people could do something beside being barbers,” he said of his decision to open a grocery. “Many advised me not to try, and said nobody would buy groceries from a colored man. I said I would try the experiment. I built this house and store, fitted up the cellar for milk and butter, and have a manufactory of pickles.”

In addition to private lenders, another piece in the foundation of minority banking can be found in the institutions that were most accessible to black Americans in a segregated society. These were the ones established within the community and included churches, schools and particularly fraternal orders or so-called secret societies.⁶⁶

The first society on record was the Free African Union Society formed in 1780 in Newport, R.I., by Newport Gardner, whose other claim to fame is notoriety as the first black professional musician in the United States.⁶⁷ The Free African Union Society expanded into loans and encouraged savings, but it was originally formed to provide funds for use by the sick and poor and, perhaps most importantly, assist with burial costs.⁶⁸

As Walker explains, the African religious tradition mandates elaborate funeral ceremonies as a way of assuring the deceased has an appropriate afterlife. In addition to these concerns, black funerals in the South also served as the rare opportunity for individuals to gather without being closely monitored by whites.

“The funeral became one of the most important occasions in the social life of many black communities,” historian Ira Berlin wrote.⁶⁹ “Rather than a somber occasion, the funeral became a joyous event. Not only was the deceased escaping the oppression of this world, but he was providing another opportunity for blacks to gather away from whites. Whites could not help but notice the striking difference between these ceremonies and their own somber memorials.”

Burial societies that combined meager contributions from individuals who had either been able to hire out their time or gain income through selling goods or food were essential.⁷⁰ It was important that these societies remain secretive. White suspicions of any type of organization among the slaves could result in swift and severe punishment. As a result, relatively

little remains of the details of these organizations. However, Walker suggests that these societies may have existed as early as the late 1600s.

Over time, some of the societies expanded beyond paying for funeral services and related costs, became formalized and began to provide funds to help widows, orphans and the sick. Some of these groups evolved to become simple insurance providers, although others developed in ways that align more closely with a banking operation. For example, some mutual aid societies loaned funds to help members establish businesses.

A third model was essentially a rotating credit association, where each member contributes equally on a regular schedule and then takes a turn receiving an agreed-upon amount of the combined funds.^{71, 72} Notably, these types of associations continue to be utilized, primarily among poor populations, into the 21st century.⁷³

As economist Stefen Klonner has observed, these types of associations and agreements “flourish in economic settings where formal financial institutions fail to meet the needs of a very large fraction of the population.”⁷⁴

The number of these associations, at least the more formalized ones, grew rapidly in Northern communities in the early 1800s. There were at least 100 such organizations in Philadelphia by 1813.⁷⁵

It is difficult to overstate the prominence of the church during this period as both a source of spiritual support and as a cradle for burgeoning social initiatives – laying the groundwork for generations of church involvement in these and many similar issues for generations to come.

“In a world where they were shut out from so much else, African Americans found their churches were a source of mutual strength and spiritual fulfillment,” wrote historian Daniel Walker.⁷⁶ “In a world where black talent was undervalued, their churches provided scope for it. African Americans formed evangelical moral reform associations analogous to their white counterparts, to support temperance and suppress vice, but with the added urgency of a desire for the collective ‘uplift’ of the race as well as of individuals. Friend and foe alike recognized the free black churches as bastions of opposition to slavery and havens for those escaping from it.”

Thus, it is not surprising that what became known as the so-called “conventions movement” – the initiative that eventually fostered early bank discussions – started at a church.

Philadelphia's Bethel African Methodist Episcopal Church, known since 1953 as Mother Bethel African Methodist Episcopal Church, was the first AME church in the United States. Richard Allen, a circuit preacher and former slave who purchased his own freedom, founded the institution amid segregation at St. George's Methodist Episcopal Church.^{77, 78}

Mother Bethel's role in fighting for civil rights started almost immediately. A year after opening in a repurposed blacksmith shop in 1794, Allen and the congregants provided protection to 30 runaway Jamaican slaves in 1795.^{79, ††} The church was also heavily involved with the Underground Railroad.⁸⁰

The first of many conventions held across the northern United States was the result of calls for it by the abolitionist press, but much of the credit for the first meeting is given to Hezekiah Grice, a young Baltimore man.^{81, 82} Grice, who had worked previously with other abolitionists, proposed the meeting for a discussion regarding possible immigration to Canada – an idea others had been urging for some time.⁸³

Allen, after discussing Grice's suggestion with peers in other cities, led the coordination of the convention, which had 40 attendees from nine states. It was a landmark event. While a significant amount of discussion focused on the Canadian proposal, the session importantly set some groundwork for conferences to follow.⁸⁴ A total of more than 200 events were convened throughout the 1800s at both the state and national level that were attended by abolitionist leaders including writers, educators, clergy and others. Topics at these meetings, which were held under various names, included political and legal issues, discussions about educational and employment opportunities, and fundraising for projects such as schools, newspapers and other community endeavors.⁸⁵

While there was widespread agreement at these conventions on the problems facing black Americans, the transcripts reveal there were sometimes a range of opinions on the most appropriate path forward. As others have noted, over time there was a transition in the general views of most attendees. Initially, in the 1830s, the discussion at these conventions was more focused on a goal of assimilation within the white community. That view became more controversial as the years passed. By the 1850s, there was almost complete reversal from some of the early sessions, with more of a focus on adopting separatist policies.⁸⁶

It was near the middle of this time frame, as opinions began to shift on the path forward, that more vocal calls for the creation of a bank emerged.

At the October 1847 National Convention of Colored People and Their Friends in ^{††}The current building at 419 S. 6th St. in Philadelphia – the church's fourth home – was constructed in 1889, but remains on the site of the original facility.

Troy, N.Y., Thomas Van Rensselaer introduced a proposal to explore the creation of a black bank, calling for the creation of a committee to study the idea.^{87, ††}

Van Rensselaer, a former slave who had escaped from his captors, was a prominent New York abolitionist. He published a newspaper, *The Ram's Horn*, and operated a New York City restaurant, Temperance House.⁸⁸

According to the meeting's published proceedings, "Van Rensselaer spoke in favor of a banking institution originating among the colored people of the U. States, because at present they contribute to their own degradation by investing capital in the hands of their 'enemies.'"⁸⁹

The proposal was subject to a lengthy debate. There was some argument that the bank was not necessary. During the debate, Van Rensselaer appeared to adjust his proposal, saying that while the bank should be established "for the purpose of our own elevation ... it should not be exclusive," apparently meaning that he was willing to engage with white depositors and borrowers.⁹⁰

A resolution was adopted by the group, and a committee was created with Van Rensselaer as chair. There was some degree of public discussion of the idea, as evidenced by letters appearing in the black press during this period.

As one letter writer noted in touting the benefits of a savings bank: "Money in the possession of a colored man oft-times exerts a magical influence over the optical powers. A wealthy New England merchant once withheld civility from a colored Jamaica merchant, until he ascertained him to be worth two millions of dollars, when presto! Change, he asked for an introduction to the gentleman, exclaiming that he hated aristocratic distinctions."⁹¹

It appears little was made in the way of tangible progress in creating a bank. The idea next emerged at a March 18, 1851, meeting of the Colored Lay Convention at New York City's Shiloh Presbyterian Church. Originally created as the First Colored Presbyterian Church, the location has its own storied history. It was New York City's first black Presbyterian church and an important station for the Underground Railroad, assisting runaway slaves seeking to start new lives in the burgeoning metropolis. Located just north of New York's Five Points neighborhood, the church was home to pastors who were among the nation's most prominent abolitionists, including Samuel Cornish, a founder of the nation's first black newspaper, *Freedom's Journal*, and Theodor Wright, a founder of the American Anti-Slavery Society.⁹²

The 1851 session is one of the more prominent and well-known events in the history †† McCune Smith (discussed later in this section) was also in attendance at this meeting. There is no indication that he attempted to present his 1851 bank proposal as original to him.

of black financial services. At this convention, the idea of banking was raised by James McCune Smith, a man with a long list of accomplishments. Unable to gain admittance to an American university, Smith had studied in Scotland before returning to the United States as the nation's first black doctor. He was a leading abolitionist, a prolific writer, a well-known intellectual and also a key figure in the Underground Railroad.

At the Colored Lay Convention, Smith chaired a committee on the Social Condition of the People of Color. His report included a discussion of the risks faced in the city and proposed the creation of a new committee to explore the relocation of black families to rural areas. Once there, they could operate their own farms and businesses in an environment of safety and absent risks they faced in the city. In addition to this proposal, Smith also suggested steps for immediate action in the city with an eye toward saving families' money. His ideas included the combined bulk purchase of necessary items and goods, such as groceries. It was related to this where he also proposed the creation of a bank that would be owned entirely by black shareholders and would exclusively serve the black community.

"We must not regard this bank ... as an end; it is only a means to help out the more desirable ends of our advancement in the community or state to which we belong, and the larger end of advancing the interests of the community at the same time," Smith said.⁹³

As proposed, Smith called for a bank that was typical of the era: It would take deposits and lend through discounts against paper and on property mortgages. This type of lending was common in early banks with the amount of interest deducted up front from the value of the pledged collateral. But Smith's proposal also included some unique non-bank components as well – the institution would have the ability to purchase real estate and merchandise – thereby facilitating some of his cooperative purchasing ideas. He estimated that black savers currently had as much as \$50,000 in accounts held by established Wall Street banks, the equivalent of nearly \$1.5 million in 2018.⁹⁴ He wanted to move that money into a black bank.

Additionally, in the years that followed, a number of ideas were put forward for the creation of other types of institutions with some bank-like functions. At an 1855 convention in Philadelphia, there was a proposal to establish financial entities in the nation's large cities that would lend to hopeful entrepreneurs, generally self-employed individuals who would be engaged in a trade of some type.⁹⁵

"In short, organized banking for the safekeeping of money ... seemed almost the necessary evolution of the conditions at that time," historian Arnett G. Lindsay wrote in 1929.⁹⁶

None of these proposals made it beyond the planning stage.

FREEDMAN'S

“This bank is just what the freedmen need.”

- PRESIDENT ABRAHAM LINCOLN

March 3, 1865¹

“As (President Hayes) passed a large building on Pennsylvania Avenue he saw an old man in shabby attire sitting patiently on its steps. He remembered to have seen this man every morning as he drove in town, and thought the present a good opportunity to discover his business. ‘May I ask the name of this building?’ said the President kindly.

‘It is called the Department of Justice,’ the man said bitterly. ‘I suppose because it is built upon the ruins of a fraud – the Freedman’s Bank.’”

- FICTIONALIZED ACCOUNT OF PRESIDENT RUTHERFORD
B. HAYES TRAVELING THROUGH WASHINGTON, D.C.

Published Summer 1877²

A Savings Bank

That no black banks were established before the Civil War is not surprising.

While black depositors with money in Wall Street banks may have received ample discussion during the 1851 convention, getting those depositors to move the money out of established institutions and into a new and untested bank was asking much. It could also probably go without saying that a bank was a relatively low priority among the issues facing America's black community. Much of the convention discussion focused on abolition, education, property ownership, voting rights and other issues.

“After emancipation there would come questions of labor, wage and political power,” wrote legendary activist W.E.B. Du Bois.³ “But now, first, must be demanded that ordinary human freedom and recognition of essential manhood which slavery blasphemously denied.”

The number of individuals who were in positions where they could lead any of these initiatives was exceptionally small. Even a brief review of the history from this period finds the names of the same individuals and organizations appearing time and again regardless of the topic. For example, during the same 1847 meeting where Van Rensselaer called for an exploratory committee on banking, one of the most substantial discussions was a debate on the idea of creating a national press. Van Rensselaer was also a key figure in that discussion along with Douglass and McCune Smith – who each had other businesses and activities.

The road to the creation of what would become known as the Freedman's Bank begins with soldiers. Long before the Civil War, black soldiers fought for the United States, dating literally to the “shot heard round the world” with fighters at Lexington, Concord and Bunker Hill. At one point, black soldiers made up as much as 12 percent of the Continental Army under the command of Gen. George Washington.⁴ They also fought in the War of 1812 despite their involvement being technically illegal under a 1792 federal law that restricted them from bearing arms. At the start of the Civil War, the Lincoln administration believed that the appearance of armed black soldiers in battle might provide reason for border states to abandon the Union.⁵ The restrictions were later removed, and approximately 180,000 black men – 130,000 of them former slaves – joined the Union effort starting in 1862, accounting for about 10 percent of total Union forces. The soldiers were paid for their service – for some, it was the first time they had ever been compensated.

The pay, of course, raised questions about how to handle the money. Soldiers, both black and white, could identify a portion of their salaries for an allotment that would be distributed to family members, or they could ask the government to hold funds for the soldiers' use later. In the latter case, rather than the government acting as a bank, savings banks were created for soldier deposits.

The first prominent institution of this type for black soldiers was the Free Labor Bank in New Orleans. The institution was created by the appropriately named Gen. Nathaniel P. Banks in February 1864 as a part of General Orders Number 23, a sweeping proclamation that covered everything from specific pay rates to direction on creating school and police districts.⁶ The Free Labor Bank held accounts for not only the several thousand black soldiers under Banks' command, but also for "free men of color" who owned property in New Orleans and former slaves who were now being paid for continuing to work on plantations seized by Union troops.^{7, 8} Similar institutions were soon established by Gen. Benjamin Butler in Norfolk, Va., and by Gen. Rufus Saxton in Beaufort Beach, S.C.^{§§}

At the end of the War, these institutions collectively held a significant amount of unclaimed funds, including the modern-day equivalent of millions of dollars at the bank in Beaufort Beach, the result of soldiers who had mustered out without claiming the funds or soldiers who had died in battle with no information on their next of kin.⁹

Around the time that Butler and Saxton were creating their institutions, Anson M. Sperry, an Army paymaster, was involved in discussions about handling black soldier deposits and the possibility of transitioning military banks to a more permanent structure after the War ended.^{10, 11} During this same period, Rev. John W. Alvord, a Congregational preacher who had served as an attaché to Gen. William Tecumseh Sherman during the War, was also considering the issue. On Jan. 27, 1865, Alvord convened a meeting of 22 business leaders and philanthropists at the National Exchange Bank in New York City to talk about the process of creating a bank.¹²

"In the winter of 1864 when on a tour South, I found that the military bank established by Gen. R. Saxton was doing excellent service, but still there were large sums of (money) ... in the hands of officers who might or might not return it to heirs in case the soldier fell in the field," Alvord later recalled.¹³ "At Hilton Head an officer showed me a trunk in which he had \$75,000 of such money and promised to have it deposited in a savings bank

§§ All three generals were Massachusetts natives. Banks and Butler were both politicians, although Butler had served in his state's militia. Saxton, a staunch abolitionist, was a West Point graduate who received the Medal of Honor for his service defending Harpers Ferry.

if permanently chartered by the proper authority. I came North full of the idea and called together gentlemen in New York who agreed to take hold of the enterprise.”

Alvord’s group adopted his plan to charter an institution. Initially, they planned to seek a charter from the state of New York but became convinced they could gain congressional approval, so they sought the national charter instead.^{14, 15} The result of their efforts: A bill to incorporate the Freedman’s Savings and Trust Company was introduced on Feb. 13, 1865 – relatively late in the congressional calendar. With only minor modification, the bill was approved on the next-to-last day of the session, March 3.

The quick and smooth approval process is striking and perhaps should have been a warning sign of things to come. While it is certainly understandable that members of Congress would be eager to act in support of the free slave population, the issue of a nationally chartered financial institution had already been a contentious one in U.S. history. Two previous banks that received congressional charters – the First Bank of the United States in 1791 and the Second in 1816 – were unable to gain the public’s support and neither lasted beyond their initial 20-year charter. Famously, the Second Bank became embroiled in the so-called “Bank War,” a political battle levied by President Andrew Jackson and his populist base that led to the institution’s demise. After the expiration of the Second Bank’s charter in 1836, bank chartering was left entirely to the province of state governments until the 1860s.

Freedman’s was going to be an exception. While it did illicit a few questions, none were substantive enough to derail the initiative. In the words of Sen. Charles Sumner, a Massachusetts Republican who chaired the Senate Committee on Slavery and Freedmen, the savings bank charter was not extraordinary and its “object is simple charity.”¹⁶

President Lincoln signed the legislation creating the bank along with a separate bill creating the Bureau of Refugees, Freedmen and Abandoned Lands – the “Freedmen’s Bureau” – later the same day.

The Bureau was a separate initiative with its own legislative history dating back to 1863 and the American Freedman’s Inquiry Commission. To some degree, this longer schedule reflected the scope of the Bureau’s work. Across the South, in border states and in Washington D.C., the Bureau had a seemingly infinite list of responsibilities ranging from providing provisions and clothing to operating hospitals and schools, reuniting families legalizing marriages and innumerable other functions. These services were provided not only to the 4 million newly freed slaves, but poor individuals of all races in war-torn areas. A few numbers can provide some perspective on the scale of its work: In the Freedmen’s

Bureau's first 15 months, 13 million rations were issued. ^{***} More than 1,600 schools were created over the Bureau's five-year existence, and 500,000 patients received medical care.¹⁷

The Bureau and the saving bank were independent of one another with their own governance structures. ^{†††} The Bureau was a government agency in the Department of War and under the leadership of Gen. Oliver Otis Howard, a Civil War veteran who lost his right arm at the Battle of Seven Pines in 1862. The savings bank, meanwhile, was legally a private corporation under the oversight of a 50-member Board of Trustees, a group of white males including virtually everyone who had been at Alvord's meeting.

The bank trustees selected New York banker William A. Booth to serve as president, a position for which he received an annual salary of \$1,000, an amount equal to around \$16,000 in 2018. Its headquarters opened in April 1865, at 87 Cedar Street in New York City, a location that is today about a block southeast of the 9/11 Memorial.^{18, 19}

The bank was quickly in business. The first deposits were received in May. Shortly thereafter, Sperry, who had been working on the military bank proposal, scrapped his project and instead turned his attention to securing the unclaimed deposits at the existing military banks for Freedman's Savings. In June, Freedman's received the deposits from Butler's Norfolk bank, and in December, Saxton's bank in South Carolina became a Freedman's branch office with its unclaimed deposits sent to New York.²⁰ The Free Labor Bank joined in January 1866.

Although the savings bank was a private corporation, it was not totally free of government oversight. Congress retained the right to investigate its books at any time. Under the charter, at least two-thirds of deposits had to be invested in U.S. securities, which included not only treasuries, but also stocks and bonds, while the remainder was held for any immediate needs. The savings bank could pay a maximum of 7 percent interest to depositors, although it is likely this lofty goal was never reached, as it appears the rate never rose above 6 percent.²¹

Growth was rapid.

"The institution proceeded at once to collect deposits," wrote a contemporary of Alvord's. ²² "Its emissaries went with hasty step into every quarter where the colored people lived and urged them to save their money and deposit it for safekeeping with the Freedman's Savings and Trust Company."

^{***} A ration in this instance was enough to feed one individual for one week.

^{†††} Officially, the two organizations also had different names. The Bureau was "Freedmen's" with an *e*, while the savings bank used "Freedman's" with an *a*. This distinction, however, was often not reflected in contemporary accounts of the entities.

Sperry, who officially joined the Freedman's Savings staff in September 1865, traveled with the Army to the Mexican border, accepting some \$120,000 for soldier accounts along the way. Alvord, meanwhile, ventured into the formerly Confederate states in an official capacity as the savings bank's corresponding secretary. Between the April 1865 opening and the end of January 1866, a total of 12 branches were open for business with Alvord involved in establishing nearly all of them.²³

Some insight to Alvord's work during his travels can be found in a letter by Rev. Nelson G. Merry of Nashville, Tenn. that was published in various newspapers in 1874. Merry, who was one of several ministers serving on various Freedman's Savings advisory councils, organized an 1871 meeting at his church that was attended by about 700 individuals.

"I sometimes preach, but now I will talk to you about banks," Alvord told the group.

"You ask me, is the bank safe? I'll ask you, is Uncle Sam safe?"

(Many voices – "Yes he is safe." Another voice – "Can the bank break?")

"I'll answer you by asking can you break Uncle Sam?"

(Cries of – "No! No!")

"Then you can never break this bank. You can break Uncle Sam just as soon as you can break this bank. Every dollar of this bank is invested in United States bonds. I took a look over her bonds just before I left Washington."²⁴

By the end of 1866, there were a total of 20 branch locations, including one in New York City, near the corner of what is now Bleecker Street and Broadway.^{25, 26}

"The building occupied was built for a dwelling house, but has been neatly and tastefully arranged for banking purposes," reads a newspaper account of the opening day.²⁷ "Notwithstanding the inclemency of the weather the bank was thronged from 10 o'clock in the morning until late in the evening with colored people of both sexes. Many white persons called also, to wish success to the enterprise. Among the latter were several prominent business men, and gentlemen connected with more pretentious banking institutions downtown."

The New York City branch received nearly \$3,000 in deposits on its opening day, in amounts from a dollar up. System wide, deposits received by March 1866 totaled a little more than \$300,000 but topped \$1.3 million the following fiscal year ending March 1867 and reached nearly \$2 million the next.²⁸

“They came to (the) doors bringing their hoarded parcels of money, which were carried often in bundles of paper, rags and old stockings,” reads one later account.²⁹ “One man brought \$700 in gold which he had kept concealed for 12 years.”

A deposit of this size, however, was an exception. Generally, most deposits were minimal with more than 40 percent of all savings accounts never rising above a maximum of about \$50.³⁰

Eventually, there were 37 branches across the United States. Virtually all were in the South with the only exception being those in the national financial hubs of New York City and Philadelphia.

Alvord’s role with the savings bank was complicated and reflected an inevitable – and what must be viewed as a partly *intentional* – blurring of lines between the separate entities operating under a Freedman’s/Freedmen’s banner. Because Alvord had been heavily involved with education in Ohio prior to the War, he was a reasonable choice to serve as an educational inspector for the Freedmen’s Bureau.³¹ As a result, Alvord moved across the South in an official capacity for both the Bureau and the savings bank. The combination produced obvious efficiencies, especially considering that the Bureau was underfunded and understaffed for the task at hand, but also one that fostered confusion and led many to believe – incorrectly – that the savings bank was an agency of the Bureau. This was further complicated by the fact that Bureau offices were used without charge by savings bank personnel wearing government-issued uniforms and some Bureau employees actively solicited savings bank deposits.³²

Historian Walter Fleming wrote that this muddled relationship was done to make the savings bank more attractive to potential depositors.

“The plan of the Bank was good enough (on its own) but the effect of its connection with the Bureau was to make the depositors believe that they were dealing with the United States government, and there is no doubt that in order to increase the Bank’s business and extend the system this belief was intentionally fostered,” he wrote.³³

There were reports that Alvord explained the savings bank to some black soldiers not as an optional institution where they *could* deposit savings, but as a direct order from Gen. Howard that they *had to* make deposits.³⁴

The blurring of Alvord’s role is apparent in status-report letters that Alvord wrote to Howard during his travels. Although many of these letters are primarily about his educational

responsibilities and the title under his signature is his Bureau title, updates on the status of individual bank branches and details about his efforts to increase deposits appear regularly in the correspondence.

For example, during a stop in Augusta, Ga., he writes about “an enthusiastic meeting in one of the churches (where) the subjects of education, savings bank and general prosperity of the Freedmen were the themes.”³⁵

Perhaps more troubling is an early letter from Alvord to Howard written in 1866. In it Alvord himself appears to be among those confused about the relationship between the privately held savings bank and the government-entity Bureau when he references to Howard “the Savings and Trust company ... chartered by Congress last winter and *placed under your advisement* (emphasis added).”³⁶

Alvord’s dual standing was far from an isolated case of overlap between the two entities. Later, Howard eventually joined the savings bank board, becoming one of several individuals serving in an oversight capacity for both entities. Additionally, many of these same individuals also served together on various other boards including religious organizations, schools and Howard University, the institution named for Gen. Howard. This group collectively became known as the “Freedmen’s Bureau Ring.” New York Congressman Fernando Wood, a pro-South Democrat, accused Howard of leading the ring to secure Republican political gains in areas of the South and personal profit.³⁷ The accusation was one of 15 that Wood made against Howard, prompting a three-month congressional investigation which cleared Howard of the charges.³⁸

Abusing The Trust

A fundamental definition of banking was attributed to U.S. Comptroller of the Currency John Jay Knox in a posthumously published volume:

“The business of banking, in its widest sense, is to collect in banks or masses the capital of a community, that which either is money or can readily be turned into money, and upon the capital so collected to build up, by proper management and machinery, a credit which will extend and enlarge the usefulness to the community of its actual moneyed capital.”

This was not, however, the mission of the Freedman’s Savings.³⁹

In an examination of banking and the racial wealth gap published in 2017, author Mehra Baradaran describes the Freedman’s Bank as “counterfeit capitalism from its inception,” with an echo of Knox’s definition.⁴⁰

“The whole point of banking is to collect money to put into productive use through lending,” Baradaran wrote. “Yet the Freedman’s Bank was purposefully set up as a savings bank, a teaching institution, rooted in a paternalistic and condescending mission of instructing blacks in the ways of thrift and capitalism. But the bank left out the most important part of capitalism – the part where capital is able to grow and multiply through credit.”⁴¹

Paternalism filled the Freedman’s Savings printed materials and was likely similarly abundant in meetings with potential depositors held in homes and churches across the South. Efforts to teach the ways of thrift and capitalism were not unusual for U.S. savings banks during this period. It was also not unusual for savings bank circulars and materials to similarly proclaim the benefits of morality, the need for temperance and the importance of education.⁴² However, even within this landscape, the savings bank’s materials stand out.

One example was a childish rhyme that appeared on the savings bank’s pamphlets and on the back of at least some passbooks:

*’Tis little by little the bee fills her cell;
And little by little a man sinks a well;
’Tis little by little a bird builds her nest;
By littles a forest in verdure is drest;
’Tis little by little an ocean is filled;
And little by little a city we build;*

*'Tis little by little an ant gets her store;
Every little we add to a little makes more;
Step by step we walk miles, and we sew stitch by stitch;
Word by word we read books, cent by cent we grow rich.⁴³*

A circular from the Richmond, Va. branch, meanwhile, offered depositors a list of reasons “why you should all put money in the Savings Bank” that is similarly condescending. Its proclaimed benefits of an account included:

- “It teaches you the value of money, and prevents you from spending it foolishly;”
- “(B)ecause it is conducted entirely by your best friends, and it is hoped you will, ere long, help to conduct it yourselves;”
- “It gives you more character. As soon as you become worth a little money or property everyone begins to respect you and ask your advice.”⁴⁴

The category of institutions known as mutual savings banks originated in Europe but began to appear in the United States, especially in Northern states, during the early 1800s. They were designed primarily to serve poor individuals. An early study described the banks as “the resort not only of the indigent poor, whose meager savings they had been instituted primarily to preserve and protect, but of industrious and thrifty toilers.”⁴⁵

These were not “banks” under the Knox definition. Generally, they did not provide significant amounts of credit to businesses nor individuals. Instead, they invested in extremely safe securities with a focus on generating a stable and consistent level of income. The earnings were then shared with the depositors who were the institution’s actual legal owners.

One indicator of the desire to pursue simple investment strategies: Some mutual savings banks implemented policies that paid large-account holders a smaller share of the earnings. The idea behind this type of measure was that it discouraged the involvement of large investors who were seen as favoring more aggressive – i.e. higher risk – strategies.⁴⁶

This type of bank – what Baradaran refers to as a “heavily advertised piggy bank” – was what Alvord sought to develop with his initial plan.⁴⁷

“I always wanted to have a simple savings bank, kept closely and carefully for the custody of those for whom I originated it,” Alvord said.⁴⁸ “I can swear to that very strongly. I know what I meant ... and I know how I struggled to keep it so.”

For a couple of years, the savings bank met Alvord's goals.

Then things began to change.

The control of the so-called Freedmen's Bureau Ring, which Howard had claimed was composed of "individuals who are and have long been earnest workers for the benefit of their fellow men," was forced aside. In its place emerged what became known as the "Washington cabal."^{49, 50} This group was able to take control in part by exploiting the structure of the Board of Trustees.

Creating a massive 50-member savings bank board may have been an attempt by Congress to illustrate broad support for the institution. Those who drew the conclusion that the long list of names would result in a well-run bank were horribly misled. A later report revealed that some of the listed trustees had no involvement with the institution whatsoever – some said they had never even agreed to be involved. Others were only minimally engaged or may have attended few meetings.⁵¹ None were paid and, as with other savings banks, because the Bank was "owned" by depositors, they did not have any type of ownership stake. Other than moral imperative, there was no incentive, financial or otherwise, for their involvement. Directors could be removed if they did not attend meetings, thus the Washington cabal was able to take control through this provision and another allowing for the election of a new trustee based on only 10 affirmative votes.⁵² With the cabal then firmly in charge, the institution's entire character changed.

In 1868, the savings bank headquarters moved from New York City to Washington, D.C. Howard later suggested this move was part of an overall effort to bring more coordination between the savings bank and the Bureau.⁵³ The same year, Alvord, who had been promoted to vice president of the savings bank a few years earlier, was named president. The title, however, was perhaps more fiction than reality when it came to operations. Trustee Henry D. Cooke, had led action that had made the president's position a ceremonial role with little in the way of actual responsibility. Much of this was accomplished through a complete remaking of the process used to make investment decisions.

Under the original Bank structure, these decisions were under the control of the Board of Trustees. By design, a quorum – which was defined as nine trustees as long as one was either the president or vice president – could take action on buying or selling any security as long as seven voted in agreement. Related to this, part of the president's job was serving as custodian of the actual securities.

Cooke changed all of this. The president's voting rights were stripped and all invest-

ment decisions were placed under the control of a five-member Finance Committee which sometimes took action with formal agreement from only two of its members.^{54, 55} Additionally, the custody of the securities was placed in the hands of the savings bank actuary, first D.L. Eaton and, later, his nephew G.W. Stickney.

As a result, the president became a goodwill ambassador, who traveled across the South seeking to increase deposits and possibly open branches.⁵⁶ This may have been fine with Alvord because around this same time, his responsibilities on behalf of the Freedmen's Bureau expanded. He became superintendent over all of the Bureau's numerous educational initiatives – a massive responsibility in its own right. The result of all of this was that the Bank's day-to-day leadership coalesced firmly around Cooke sometime around 1870.

Cooke, sometimes referred to as H.D., was well-established in both the political and financial worlds. Only in his mid-40s at the time, Cooke was already a partner in his brother's prestigious firm, Philadelphia-based Jay Cooke & Co.; president of First National Bank of Washington, D.C., one of the nation's first nationally chartered banks; and soon to be named the first territorial governor of the District of Columbia.

Even absent these accomplishments, the Cooke name carried prestige. Jay Cooke was among the first of what was then a new breed in America: the private investment banker. Jay had been a key financier of the Union effort during the Civil War, selling government bonds and earning substantial profits for his firm in the process. To some, Jay was considered to be "the most trusted banker in the United States."⁵⁷ In terms of who would be well-suited to run a bank, the Cooke family was no doubt viewed as superior to Alvord, who had no finance or banking experience prior to Freedman's.

Shortly after Henry Cooke took greater control of the savings bank, William S. Huntington launched a lobbying effort on Capitol Hill to loosen investment restrictions in the savings bank charter. Huntington's involvement here is beyond questionable. In addition to being a savings bank trustee, Huntington also served with Cooke on the Finance Committee. Most concerning, especially given the events that later resulted in the savings bank's failure, Huntington was also employed under Cooke as cashier at First National Bank.

Huntington's reason for wanting to loosen the restrictions, and a view that was supported by others, was based on the expectation that yields on government securities would soon drift lower. In such an environment, it might prove difficult to maintain interest income at levels that Freedman's depositors had been accustomed to earning.⁵⁸

As the proposal made its way around congressional halls, Howard was among those

urging the change.

“At the time this system was incorporated, the public debt furnished, and for a long time continued to furnish, a convenient, profitable and secure investment for all the deposits,” Howard wrote.⁵⁹ “At first, owing to the very few who had money to deposit, this afforded sufficient latitude to cover any and all increase which might occur. But the growth and successful operation of this system during the past five years, I think, will justify us in the conclusion that a much wider latitude should be given, affording equal security and much larger profits to depositors.”

Supporters believed the savings bank needed to be able to invest in mortgages and other higher-risk securities to match “the same footing with other banking institutions chartered in the different states.”⁶⁰ In some areas of the South, interest rates paid to depositors at the time had reportedly climbed as high as 9 percent.⁶¹

For some perspective on this proposed change, it is important to understand that state-chartered banks under the regulation of their individual states could engage in a variety of activities and behaviors, thus the higher rates potentially earned by savers in some locales. Federally chartered national banks, however, were severely restricted in their ability to invest in exactly the types of securities that Cooke and Huntington wanted to purchase. However, Freedman’s Bank existed entirely within a regulatory loophole where national bank restrictions did not apply. The only rules it had to abide by were those specifically dictated to it by Congress. Thus, it could invest in any type of security as long as Congress approved.

And Congress did approve the charter change with relatively little debate. There was no opposition in the House and only one outspoken critic in the Senate – Sen. Simon Cameron, Lincoln’s first War Secretary and, especially relevant for this discussion, a successful, although unsavory, businessman who had been involved in banking before turning to politics.

Cameron told his congressional colleagues that expanding the investment restrictions “will in the end probably destroy the institution.

“It is a principle which ought not go into any banking institution at all. It is endangering the depositors of the funds, the small depositors especially. They are in the hands of persons entirely irresponsible, except the responsibility given by their character. They will be led probably into speculations; and if this money is once invested in real estate it will be very difficult to get it back. My experience has been that whenever institutions of this kind have invested their money in real estate they have gone to destruction.”⁶²

Cameron eventually tossed up his hands and stopped arguing against the loosening

amid pressure from not only the bank but also depositors who had written him letters about their desire for higher yields. As a result, by late spring 1870, the previously conservatively managed portfolio could expand into other activities.⁶³

To anyone knowledgeable about the history of banking, particularly the catalysts of bank failures in the United States, it is apparent that the eventual collapse of Freedman's Savings and Trust was by this point almost an inevitable event.

There had been very little congressional engagement in the charter approval process and even less in the way of federal oversight once it became operational. While it might be excessive to say that Freedman's Savings was "unsupervised," that term is also fairly accurate in terms of any type of review by professionally trained bank examiners.⁶⁴ The establishment of the Office of the Comptroller of the Currency (OCC) in 1863 gave that agency responsibility for examining nationally chartered banks in the United States, but the OCC did not have that role with Freedman's Savings, which was instead subject only to Congressional supervision.

The lack of thoughtful discussion from anyone other than Cameron about relaxing the investment limitations was another indication of Congress' limits in its understanding of financial matters and/or its interest in the savings bank. Had Congress been even slightly more attentive, someone might have thought to question the idea that a conservative bank needed to pay interest rates competitive with other institutions. By law, Freedman's Savings had restrictions against paying more than 6 percent interest. This was, at its heart, designed to be the "heavily advertised piggy bank" that Baradaran described, not an investment bank seeking to generate higher returns than competing institutions. By loosening the restrictions, Congress had entirely remade the savings bank. However, even worse, it was a transition that was unbeknown to most if not all of its depositors, many of whom were poor and in no position to engage in high-risk investments.

Meanwhile, as these events unfolded, the total amount of deposits in bank coffers continued to grow. Nearly \$3.7 million in deposits was received in fiscal year 1869, followed by \$5.4 million in deposits in 1870, \$7.4 million in 1871 and more than \$11.2 million in 1872.⁶⁵ While the savings bank still had a large number of small depositors, it was also attracting deposits from a number of associations, community organizations and institutions including the St. Elizabeth Home for Colored Children and the Francis Xavier Church's Orphan Aid Society.⁶⁶

In 1869, Freedman's Savings constructed a new headquarters building in Washington,

D.C. The structure stood more than four stories tall and was located northeast of the White House along Pennsylvania Avenue on the corner facing Lafayette Square. Its appearance was not bank-like in the traditional sense. Absent were the powerful columns and granite stone used in many 1800s-era banks including the federally chartered Second Bank of the United States in Philadelphia. Instead, the Freedman's Savings building had a mansard roof with windows peeking out from beneath awnings. From a design perspective, the building was perhaps more suggestive of a large townhome and not a financial institution of that era. Further separating it from a traditional bank design, Freedman's was clad in dark, red-tinged Seneca sandstone.⁶⁷ This same material can be seen in older buildings in modern D.C. including, notably, the Smithsonian Castle that still stands today.⁶⁸ The building cost \$260,000, the equivalent of nearly \$5 million in 2018.^{69, 70}

In the later words of Frederick Douglass, they "erected on one of the most desirable and expensive sites in the national capital, one of the most costly and splendid buildings of the time, finished on the inside with black walnut and furnished with marble counters and all modern improvements."⁷¹

While an impressive headquarters building and the ever-increasing deposits may have suggested an institution that was growing stronger, from inside the potential scope of the damage was expanding.

With the collapse coming on the horizon, it is interesting to see how Sperry's view of the headquarters differed dramatically from the impression the structure made on Douglass, who was unaware of the problems.

"(I)t was an illegal and unjustifiable extravagance," Sperry said later. "In other words, I damned it from its foundation stone up. I have nothing to say of the motives of the men who built it. I date from that the decadence of the Bank. The outlay in the way of books and some current expenses was greater than it ought to have been."⁷²

Anything approaching a comprehensive list of the abuses, oversights and errors that contributed to the savings bank's eventual failure and were later discovered is impossible to make in a succinct fashion.

It is difficult to determine where to even begin a review.

First, note that the quality of operations and the financial condition of the branch locations varied widely.

Generally, the New York City, Baltimore, Richmond and Norfolk branches were well-run.

They were also among the largest in terms of deposits. The others were a mixed bag. Some were very small – four had less than \$20,000 in deposits at the time of Freedman’s failure. About half the branches were not able to meet their expenses. Branch employees often did not follow orders either out of negligence, disobedience, fraud or, in too many instances, a lack of education.^{73, 74} Many simply did not understand their jobs. The Atlanta branch cashier was arrested for embezzlement.⁷⁵ There were numerous problems with bookkeeping including the overpayment of interest and inaccurate recording of transactions to the point that in some instances it was difficult to determine from the branch books if funds had been deposited, withdrawn or loaned. The Jacksonville branch had \$22,000 in deposits with \$92,600 in outstanding loans including \$21,343 to a business that was in receivership. It was not especially uncommon at some branches to have transaction entries with decimal points off by two places – thus multiplying or dividing the amount of a deposit or withdrawal by 100.⁷⁶ As a result, books were often unbalanced, sometimes by hundreds of dollars. Three branches even had a substantial number of white depositors, a clear violation of the institution’s intent.^{77, 78}

Sperry, who in 1871 became a Freedman’s Savings inspector – one of only two the institution had at any one time – later recounted his experience examining one branch to a Senate panel.⁷⁹

“You could not settle the cash any night,” Sperry said.⁸⁰ “Sometimes they were from \$5,000 to five cents one way, and sometimes they were the other way. Everybody felt like going out and having a special oyster supper if the thing came out even.”

At headquarters, meanwhile, fraud of another degree was being practiced creating its own long list of abuses.

As one later review described it:

“The management of the Bank by the finance committee was management by H.D. Cooke, and management by H.D. Cooke meant the Freedman’s Bank was virtually controlled by Jay Cooke and Company from 1870 to 1873.”⁸¹

Finance Committee meetings were sometimes held in H.D. Cooke’s First National offices.⁸² Some of First National’s bad or speculative loans were unloaded to Freedman’s in addition to paper related to the Cookes’ speculative ventures.⁸³ Jay Cooke and Co. obtained one loan for \$500,000, the equivalent of nearly \$9.5 million in 2018, and paid 5 percent interest – or 100 basis points less than the bank was paying to its depositors at that time. The Actuary Eaton began making loans based on his own judgement, only gaining Finance

Committee approval after the fact.

Alvord later described his problems in trying to gain some insight about what was going on with the Finance Committee while he was savings bank president.

“They were to have met every Monday at 12 o’clock. I was always on the ground, but the members of the committee were not. Some out door business, as it was said, would prevent Mr. Cooke from coming, and I would go home and come to the bank the next Monday; but it was only occasionally that I succeeded in getting into an actual session of the Finance Committee.

There were, undoubtedly, sometimes a majority of the Committee that acted, if you please, on the street.”⁸⁴

As described by Lewis Clephane, vice president and a member of the Finance Committee:

We left (it) very much to the Actuary to examine into. We were very apt to take (Eaton’s) representation of things. Of course, he was there under pay to do these things and examine into them and I know that I was very apt to take his assertions, as I had every confidence in the man.⁸⁵

One sign of Clephane’s limited engagement: Under oath he was unable to explain the Finance Committee’s quorum requirements.⁸⁶

The savings bank was generally uninterested in lending deposits into the black community. Instead, it provided loans for a number of high-risk schemes, often related to the business interests of its trustees. Among them, a complex loan to the Seneca Sandstone Company, provider of the stone for the headquarters, that, for a time, was controlled by Cooke and Huntington. The deal involved loans, worthless mortgage bonds and an outside firm that allowed its name to be used as part of an effort to lend the transaction an appearance of legitimacy. A House committee later concluded that the arrangement “so gross a fraud and conspiracy to defraud that ... every one of the survivors in the transaction, viz, Henry D. Cooke, Lewis Clephane (and others) should be indicted, tried and punished to the extent of the law.”⁸⁷

There were also loans to individual savings bank officials and other complex personal arrangements. Among them, one involving Huntington that seems, on reflection, needlessly complex and circuitous. To get the rent on his residence reduced, Huntington purportedly loaned his landlord more than \$13,000 from First National Bank. When the notes became

due, Huntington had them transferred to the savings bank. Eventually, when efforts were made to retire the notes, it was not clear how much money, if any, the landlord had ever received from the original First National loan.

As Stickney explained of Huntington: “(H)e was in the habit when he wanted anything, to get it. If he wanted to have anything done, it was done.”⁸⁸

Panic and Collapse

With the financial machinations of Freedman's savings bank officials eating away at the the institution's stability, its eventual collapse became inevitable, lacking only a catalyst to drive it into failure. One emerged in the form of a figurative and literal runaway train.

The railroads of the mid- to late-1800s were a technological revolution that remade the United States, perhaps as much or even more than the Internet in the late 1990s and early 2000s. Between 1865 and 1873, more than 36,000 miles of track were built – enough to connect Boston and San Francisco *11 times*.⁸⁹ The iron tracks promised a complete reinvention of the American economic landscape. Shorter relative distances between communities changed business, industry and agriculture. And, as was the case with the so-called dot-com stocks, railroads offered an opportunity that some investors found hard to resist. Capital stock in rail firms rose from \$756 million in 1867 to nearly \$2 trillion in 1873, while bonded debt of U.S. railroads rose from \$416 million to also reach nearly \$2 trillion over the same span.⁹⁰

For rail financing, the needs of the rail companies and the growing number of U.S. investment firms seemed like a perfect – or perfectly dangerous – match. Constructing rail lines, building engines and equipping railcars was extremely costly. While banks could loan to businesses and manufacturers, legal constraints left them without the capacity to do the type of heavy lifting necessary to handle large corporate bond issues. Meanwhile, with the government wrapping up the repayment of debts from the Civil War, firms like Jay Cooke & Co. were looking for new places to invest.⁹¹

For Jay Cooke, the specific opportunity was the Northern Pacific Railroad. Chartered in 1864, the rail line was charged with linking the Great Lakes to the Puget Sound in the Pacific Northwest, spanning more than 1,700 miles. Land sales, which had been intended as the funding mechanism, had fallen short of paying for the project. Jay Cooke's firm stepped in and became involved in financing Northern Pacific Railroad bonds in 1870, around the same time that his brother Henry was taking control of Freedman's Savings.

European investors had played an important, albeit supporting, role to U.S. investors in funding the U.S. rail boom. When a financial panic swept across Europe, investors there unloaded their U.S. holdings. The resulting downward pressure on the U.S. market, especially railroad-related issues, was compounded by a recent history of scandal at rail lines; a general

over-exposure to rail investments by many firms; and tightening monetary conditions with the Coinage Act of 1873 ending bimetallism in the United States, which had allowed legal tender of both gold and silver, and placing the nation on the gold standard.

Officials at Jay Cooke & Co. recognized that their firm, viewed by many outsiders as one of the world's strongest, was in an increasingly precarious position. On Sept. 18, 1873, that position turned untenable. The firm announced it was suspending payment.

Newspaper reports detailed the environment on the New York Stock Exchange trading floor as a whispered rumor of Cooke's possible failure became a verified fact:

A brief silence followed the news and then an uproar such as scarcely filled the exchange since it was built. Messengers fled every way with the story of ruin, and down came the stock all along the line.

A legion of brokers whose margins were swallowed up in an instant swarmed into the exchange to save themselves by sudden sales, which with every moment sent prices further down. The struggle and crush, the desperate fighting of buyers and sellers, the triumph of the short interest and the panic of the bulls made the tossing and surging room a pandemonium.⁹²

Some of the men who were ruined swore, some of them wept, some went out of the street without saying a word; others talked of the trouble in a jovial way and went about trying to borrow money from friends.⁹³

(At the New York Stock Exchange) failures of different banking and brokerage houses were announced ... and news of these came so rapidly that each dealer was afraid to trust his neighbor. ... As fast as the failures were announced the news was carried out into the street by brokers, and in spite of a cold, drenching rain, hundreds of people gathered about the offices of fallen reputation and gazed curiously through the windows, trying to form some conception of the way in which the broken brokers were behaving.⁹⁴

The New York Stock Exchange closed the following Monday and did not reopen for 10 days – the first such event in its history. Jittery traders, unwilling to await the market's reopen, conducted business on street corners where they bought and sold securities.⁹⁵

In Washington, D.C., the First National Bank locked its doors hours after Cooke & Co. closed. In the days that followed, banks nationwide suspended payment. At least 100 failed.⁹⁶

Perhaps unexpectedly, amid the spreading financial chaos, at least one newspaper account painted a somewhat brighter – albeit very temporary – picture of Freedman’s.

The savings bank “proved to be in a very fortunate position ... it had only a collection account with the First National and its balance there was less than \$1,000. It had no account with Jay Cooke & Co. and has but \$400 in Northern Pacific Railroad bonds. There was only a trifling disturbance at that bank this afternoon, and at a meeting of the Board of Trustees steps were taken to meet all demands.”⁹⁷

This, of course, was hardly the story as far as Freedman’s was concerned. Not only was it caught in the fray, the Cooke connection meant conditions were far worse than most would have thought possible.

Despite the early optimistic report, Freedman’s did see multiple depositor runs. Later, an associate of Alvord’s described the scene:

I ... saw around the building of the bank on Pennsylvania Avenue a throng of anxious depositors very dense and so large as to extend across the avenue in front of the building. They were men, women and children, each pressing the other, striving for an early opportunity to present his claim at the counter.⁹⁸

Freedman’s, like other financial institutions during this period, began requiring depositors to give 60 days’ notice on withdrawals. To meet withdrawal demand, the savings bank was forced to sell its most valuable securities but was left holding onto the now virtually worthless railroad bonds – many of which had been offloaded to the savings bank over the years by the Cookes to keep their other entities stable.

Henry Cooke was soon out of the picture at Freedman’s.^{###} The trustees turned to Frederick Douglass with a plea that he serve as president, believing that his high esteem, particularly in the black community, would save the institution. Douglass, who had no banking experience, was leery, but was convinced that he may have been the only individual capable of bringing trust back to the wavering institution.⁹⁹ He was named president in March 1874 and took the helm knowing little – perhaps nothing – about the savings bank’s actual financial condition. Alvord, whom Douglass was officially replacing as president, reportedly assured

^{###} Although Cooke later claimed he resigned from the Freedman’s Board in 1872, that resignation was not accepted and made final for more than a year.

Douglass of the savings bank's strength before he fled to become president of the infamous Seneca Sandstone Company.⁹⁹

For Douglass, unaware that the institution was well into free fall, the first thoughts were those of accomplishment.

"I could not help but reflect on the contrast between Frederick the slave boy, running about Col. Lloyd's with only a tow linen shirt to cover him and Frederick – the president of a bank," he later recalled.¹⁰⁰

In contrast to the reflective and proud Douglass, there were other savings bank employees who had been fighting to try to keep the institution viable. By the time the new president arrived, there had been at least three efforts by savings bank staff members appealing in secret for a congressional investigation. Sperry said he tried twice to get Congress involved, and a branch employee sent a letter to a member of Congress urging action.^{101, 102} It appears none of these efforts prompted an immediate response. Instead, the first detailed look into Freedman's came when Congress, months ahead of the panic in January 1873, ordered Comptroller Knox to examine the three national savings banks in the District of Columbia, of which Freedman's was one. Knox appointed Charles Meigs, a national bank examiner from New York City, to the task.¹⁰³

Knox wrote in the resulting report to Congress that Freedman's trustees and officers had violated the Act that created the institution in a number of ways, ranging from the character of some investments through the creation of branches, including the purchase of real estate for branch offices and the construction of those facilities. These issues, however, Knox felt could be addressed, many legislatively. For example, on the branch issue, while the Act had made no provision for branches, the comptroller believed they were necessary for the institution to succeed in its mission. Although he had concerns, Knox believed the institution could be stabilized with new legislation and some additional restrictions.¹⁰⁴

However, Meigs' report does hint at some of the deeper problems. For example, the footprint of the headquarters building accounted for less than one-third of a prime half-acre lot in Washington, D.C. According to Meigs, Freedman's trustees had plans for the property

⁹⁹ Alvord claimed in congressional testimony that he took the job with Seneca Sandstone to try to resolve the company's outstanding financial issues with Freedman's. It is impossible to make any judgement on this claim. The firm failed in 1876, although the quarry continued to operate under other owners until 1901. Source: Testimony Taken Before the Select Committee of Investigation of the Freedman's Savings and Trust Company, p. 53, as included within the Index to Reports of Committees of the House of Representatives for the First Session of the Forty-Fourth Congress, Government Printing Office, Washington, D.C., 1876.

well beyond banking. The headquarters, he wrote, was designed “with reference to being ultimately capable of forming a part of a large hotel that (would) cover the entire property, and in an elegant and substantial manner.”¹⁰⁵ As it turned out, within the existing and impressive structure, the actual savings bank used only half of the building’s first floor. Most of the rest of the building was being leased to tenants at below-market rates.

A year later, a follow-up examination by Meigs and others, now on the back side of the financial crisis, found the savings bank had continued to deteriorate into insolvency as an already-struggling institution was overwhelmed by the panic.¹⁰⁶

Despite these documented findings prior to his arrival, Douglass was led to believe any problems the institution faced were merely temporary setbacks that could be remedied. To address what he thought was a short-term difficulty, Douglass loaned the bank \$10,000 of his own money that he believed would help stabilize the situation. Only after six weeks on the job was he able to uncover details about the savings bank’s insolvency. He contacted the Senate finance committee. Once it became clear it was too late for legislative options – and for an unlikely plan Sperry had been working on behind the scenes whereby the branches would have become individual state banks – the process of liquidation began.^{107, 108}

When the bank officially ceased operations on June 28, 1874, it owed nearly \$3 million to more than 61,000 depositors. In its Washington vault there was \$400 worth of government securities and about \$32,000 in cash held in total by the various branch offices.¹⁰⁹

“The fact is, and all investigation shows it, that I was married to a corpse,” Douglass later wrote.¹¹⁰ “The fine building was there with its marble counters and black walnut finishings, the affable and agile clerks and the discreet and comely colored cashier; but the life, which was the money, was gone, and I found that I had been placed there with the hope that by ‘some drugs, some charms, some conjuration, or some mighty magic,’ I would bring it back.”

Assessing The Fallout

Perhaps the most famous, if not the most oft-quoted, comment about the impact of the collapse of Freedman's Savings on the nation's black population came from Du Bois, equating the damage as being worse to the savings of former slaves than another decade of slavery. He wrote:

With the prestige of the government back of it, and a directing board of unusual respectability and national reputation, this banking institution had made a remarkable start in the development of that thrift among black folk which slavery had kept them from knowing. Then in one sad day came the crash — all the hard-earned dollars of the freedmen disappeared; but that was the least of the loss — all the faith in saving went too, and much of the faith in men; and that was a loss that a Nation which today sneers at Negro shiftlessness has never yet made good. Not even ten additional years of slavery could have done so much to throttle the thrift of the freedmen as the mismanagement and bankruptcy of the series of savings banks (branches) chartered by the Nation for their especial aid.¹¹¹

In assessing this comment, it is important to understand what Du Bois actually said versus how the remark is sometimes interpreted. First, it appears that Du Bois' comment is sometimes taken out of context. He is not suggesting the failure was as bad as or worse than an additional decade of slavery but speaking specifically on *the impact on the thrift* of former slaves. Here, depending on the individual circumstances, it seems likely that to some individuals the impact could have actually been worse.

It is also important to place Du Bois' remark in the time frame during which it was made. It was not the immediate aftermath of the failure, but 30 years later. Over those intervening years, the failure would somehow transform in the public mind from truth of the actual event – a fraud perpetrated by the savings bank's white leadership and a failure of congressional oversight – into a disaster caused by black bankers. This cloud continued to hover over black banking efforts for generations to come.

Trying to accurately quantify the financial impact on depositors is difficult and perhaps

somewhat pointless. To some degree, in this case the data appears more likely to foster misperceptions about the savings bank than increase understanding of the ramifications.

The most easily measurable metric – the amount of dollars and cents that were lost per account holder – may also be the one most likely to mislead. It may be smaller than what is assumed by those with only a general knowledge of the institution.

At the time of Freedman's failure, Census data suggests there were well over 5 million black Americans.¹¹² At Freedman's peak, there were more than 70,000 deposit accounts and 61,000 at the time of failure – a number equal to a little more than 1 percent of the African American population of the United States at the time. In aggregate, without adjustments for accounts held by the few white depositors in violation of the charter, the \$3 million in total deposits equates to about \$66 million in modern dollars or around \$1,000 per account on average.

However, an "average" account is almost impossible to identify. Some records have been lost over time, including all of the account histories from some branches. There were numerous Freedman's accounts held by associations, fraternal organizations, businesses and other groups, some established long before the Bank itself. These accounts, built and held outside of the financial system for years in some instances, could be sizable. Additionally, there were also some large accounts held by wealthy individuals. Conversely, there were numerous accounts that were small – amounts of between \$8 and \$10 – equal to \$220 today.¹¹³ Some accounts held only a few dollars.

In terms of the eventual recovery of what was lost, the amounts could also vary widely. Overall, it was a process spanning nearly a decade. No depositor was made whole.

Unless there was some case of unknown fraud with the distributions, the largest possible recovery by a depositor was 62 percent of their account's value at the time of the suspension. The funds were distributed as five dividends with the first, equating to 20 percent of deposited amounts, issued in November 1875. It was followed by payments in 1878 (10 percent of deposits), 1880 (10 percent), 1882 (15 percent) and 1883 (7 percent).¹¹⁴

Over time, the number of claimants declined. The first dividend was sent to nearly 30,000 depositors while the final went to fewer than 19,000.

The drop reflects not only natural attrition in the original depositor population, but also a reduction in the number of those who continued to take the necessary steps to receive the payments, such as maintaining a mailing address. Some of this was likely unintentional. Future distributions were not guaranteed, so those receiving the first payment had every

reason to assume there would be no additional forthcoming payments and would have had no reason to maintain contact.

There is no question that many depositors – probably more than one-half of all 61,000 – received nothing at all. Most of these were individuals with small accounts – generally less than \$10. In some instances, the accounts were so small as to not merit the payment of postage to offset the amount that would have been received.¹¹⁵ Some depositors, rather than wait for the resolution of the institution, sold their accounts – sometimes for a fraction of their stated value – to speculators who, in turn, could use the bank books to seek payment from the commissioners handling the savings bank’s resolution.¹¹⁶ Finally, as might be expected, there was also the ever-present fraud with con artists purporting to be Freedman’s representatives and convincing some depositors to relinquish deposit books in return for payments that would soon be distributed. Sort of a “the check is in the mail” promise. Those fictional payments, of course, never arrived in the hands of the actual depositors but instead went to those who took fraudulent ownership of the deposit books.¹¹⁷

Also significant in this is keeping in mind that nearly all Freedman’s 37 branch offices were south of the Mason-Dixon line, with the only exceptions being New York City and Philadelphia. Twenty-five of the branches were in or below North Carolina and Tennessee. The geographic distribution lends credence to a statement by Rev. Merry shortly after the failure that the savings bank’s collapse had taken with it one-quarter of the savings of blacks in the South. His view was based on the number of depositors within his congregation.¹¹⁸

As an institution for newly freed slaves, Freedman’s Savings & Trust was often responsible for the first money any of its depositors had earned in exchange for labor in their entire lives. Thus, while the amounts might have been small from an economic perspective, the value to the account holders was likely far greater than the amount of goods or services that could be purchased with those dollars.

“Shortly after freedom there were many things started in the South which worked to the Negro’s injury in business, notably among them, in our town, a Freedman’s bank or bureau,” North Carolina grocer J.W. Pullen later recalled.¹¹⁹ “When it was established, every Negro who had a dollar put it in the bank – every one. They rushed ... to the bank.”

Although surviving records from 29 of the branch offices continue to be an extremely valuable resource for historians and genealogists, anecdotal information about the impact that Freedman’s failure had on individual depositors is not as extensive. While depositors

met to consider their options in several cities after the collapse, newspaper reporting during the period was generally of a very basic “just the facts” style with the reporter acting as the voice of authority without seeking supporting details from those who lost their savings.

Still, some insight can be gained from letters written to government officials and Freedman’s commissioners, as well as bank records and media accounts. It is, without question, tragic.

“He had almost starved himself and his family in his effort to get rich. Every dollar was swept away, and he gave up the game and died of a broken heart,” reads a *Washington Post* account about the impact of the savings bank’s failure on one depositor.¹²⁰ “The wreck and ruin that followed the cyclone of the failure could not be described in a library full of volumes.”

At a gathering in a Brooklyn, N.Y. church, “several instances of suffering . . . on account of the failure were related. One person rose in the meeting and said that he had denied himself shoes and clothing and had saved \$1,200, and now when he went to the bank for his money the door was shut and the only thing he could see was a gilded lie painted on the door – ‘Trust Company Investments in U.S. Securities and Real Estate Only.’”¹²¹

More far reaching and long lasting was the loss of trust and confidence. It is nearly impossible to make any reasonable argument against the view that the depositors were horribly misled about the security of the institution. In some instances, the deception may have been unintentionally done by individuals with good intentions – for example, it is certainly possible that Alvord, with no banking background, actually believed that there was a government guarantee – but the behavior was widespread well beyond Alvord and continued for years. Even standing at the site of the former headquarters in Washington, D.C., decades later, one would think it obvious that an entity at the location would be a part of the government. The impact of these assurances likely influenced depositor behavior. One example supporting this view involves the branch in Savannah, Ga. While there had been substantial and widespread media coverage – and general turmoil throughout the U.S. financial system – the Savannah branch still retained on its books at closing nearly 90 percent of the deposits it held six months earlier. This is stunning considering bank runs then underway nationwide at institutions of all sizes.

H.M. Turner, pastor of St. Philip’s Church in Savannah, was among the victims.

“When the order to enforce the 60-days rule was received in April, every dollar (Turner’s) family had in the world was in the bank, and it was there now,” read a newspaper account.¹²²

“In the face and under the pressure of this disaster, they must not lose sight of the necessity and the idea to save money, for as a class, they were poor, houseless and landless; they must not sit down and in weakness grieve over this failure, but must bestir themselves, be up and doing and do something.”

In Nashville, Rev. Merry, who had welcomed Alvord into his church only a few years earlier to solicit deposits, wrote a public letter that was essentially an apology for his role in touting Freedman’s safety and stability. The preacher said that he “fell into bad hands,” and had been misled. He wrote:

The managers of this institution have taken advantage of us and our ignorance. The parent bank in Washington would regularly send out agents to the branches in the various Southern cities to hold public meetings in churches and there urge upon us the advantages of the Bank as a suitable and safe place for our money. These agents would tell the people that the general government was bound for every dollar, and that the bank was perfectly safe. At the same time, they would invite pastors to use their influence in behalf of the bank. I, for once, did use my influence in behalf of the Bank because I thought it to be a safe place for the savings of the colored people. I did everything to encourage economy, as well as education, morality, industry and Christianity.

Mr. Alvord is a preacher, and I am one also, I want the world and all mankind to know that I have now found out that Rev. J.W. Alvord stood up in my pulpit and *told a lie*, thereby fooling many and increasing the confidence of all present in the bank. Unless he repents to this sin, (which is a great sin), *hell will be his home.* (italics his own)¹²³

All of this was made even worse by the inability to come up with a means of fully indemnifying all depositors. The Federal Deposit Insurance Corporation, which affords protection to depositors after a bank failure, was not created for another 50 years. Although a financial response from the government to cover a bank failure might have been considered unusual for the 1800s, these were clearly extenuating circumstances.

Pointing toward the implied government guarantee and lackadaisical federal oversight, a number of groups and individuals called for a government appropriation to Freedman’s depositors. Among those demanding action were some state legislatures; individuals involved

in the savings bank's creation and operation, including Douglass and Howard; multiple Comptrollers of the Currency, including Knox and his successors; and, later, Presidents Cleveland, McKinley, Roosevelt and Taft, thereby extending the plea up to the eve of World War I.¹²⁴

Amid these cries, there were investigations conducted by committees in both chambers of Congress. In the House, a panel was chaired in 1876 by Beverly Browne Douglas, a former Confederate military officer from Virginia. While in the Senate, an 1880 select committee charged with the investigation was chaired by Mississippi's Blanche K. Bruce, a former slave who became the first black American to serve a full term in the U.S. Senate. Their conclusions largely aligned in terms of what happened to foster the failure. Additionally, there were even numerous legislative initiatives put forward that would have indemnified depositors, but none were able to gain necessary approval from both chambers in the same year. These efforts eventually turned into something of a sad annual folly until the early 1900s – essentially the time by which many of the depositors were dead. And with them died much of the initiative behind any type of government appropriation.

It did not, however, completely end the efforts. In 1911, a group of several hundred depositors and heirs of depositors crowded into the Capitol building. A newspaper account described the crowd as “clasping time-worn and musty deposit books in their hands as they crowded Statuary Hall.”¹²⁵ As late as 1915, at least one depositor, a woman named Lizzie Allen in Chicago, was able to receive a check for a portion of her account, although the amount is unclear.¹²⁶ Written requests from former depositors, meanwhile, continued to arrive in Washington, D.C., until at least 1921.¹²⁷ For some perspective on the later legislative efforts, had the government decided to make an appropriation after the final dividend in 1883, it would have cost something less than \$1.5 million, depending upon the number of surviving and identifiable depositors who received the funds. The amount is the equivalent of around \$40 million today.

The reimbursement question raises with it the intertwined issue of accountability. If the government was not at fault, at least not in the view of a majority of both chambers when it came to paying off the tab, then who was and what punishment was appropriate?

While there was substantial outrage among lawmakers – and the expected angry public pronouncements – those chiefly responsible for the failure were left unpunished by the legal system.

During an appearance before a congressional panel, Sperry talked about the legal chal-

lenges he encountered while working for the bank in 1873, which prompted his first plea to Congress for an investigation. It hinted at the problems that might be encountered in trying to bring savings bank officials to justice for any crimes they may have committed.

“(I) discovered that, under its existing charter, (the savings bank) could be robbed almost with impunity. I was advised that the institution had no status in the state courts. It had no criminal status in the United States court under its charter and when we were about to undertake criminal prosecution of (a borrower) who had defaulted on us, it was quite evident that we would be thrown out of court.”¹²⁸

In addition to the lack of legal standing, the charter contained no penalties for misbehavior by Freedman’s savings bank officials, instead viewing the trustees as serving more of a philanthropic role than one entailing true fiduciary responsibilities. This is obviously unheard of for a bank.

That view was reflected in a final report published after the House investigation:

Freedmen’s Savings “if not originally conceived in fraud ... degenerated into a monstrous swindle and justifies a suspicion that it was almost from the start merely a scheme of selfishness under the guise of philanthropy.”¹²⁹

Finally, by the time the Senate hearings had concluded in 1880, most of the key figures involved with fraudulent activities at the savings bank’s headquarters were dead. Eaton, the actuary under Cooke, and Huntington, Cooke’s associate at First National who had lobbied Congress for the charter change, both died in 1873.^{130, 131} Alvord, who was described in one account as “incompetent but in all probability honest,” died while visiting family in Colorado as the Senate investigation was underway.¹³² Henry Cooke, although alive at the time the panel completed its work, died the following year of liver failure after essentially blaming the machinations of the financial market for the collapse. Any punishment for them would have to come in the hereafter.

The headquarters building, meanwhile, outlasted them all, although it too did not stand the test of time. It was initially leased by the federal government for office space and finally purchased for \$250,000 in 1882 for use by the Department of Justice – well below the \$325,000 sought by Freedman’s commissioners and thus another slight to depositors who would have shared in that money.^{133, 134} It was one of the final transactions of the savings bank’s liquidation, which also had included the sale of various branch office properties. In 1899, the headquarters building, which had by this time become dilapidated and unsafe, was leveled. Today, the location is home to the U.S. Treasury Annex, which was renamed

the Freedman's Bank Building in 2016.

A year after Freedman's failure, Frederick Douglass gave a Fourth of July speech in Washington, D.C.'s Hillside neighborhood. In his comments, Douglass urged black Americans to break free of white paternalism – “the colored race is capable of living more than a life of dependence, and can think and speak for itself.”¹³⁵

His remarks reflected a prominent theme of activists during the period and related to numerous issues, but in reading Douglass' words, the connection to the savings bank and those who had abused it is apparent:

All we ask is a fair field to work in and the white man to leave us alone. We have been injured more than we have been helped by men who have professed to be our friends. They are lawyers without clients, ministers, broken down ministers without churches, wandering teachers without schools. They are great beggars. They have the gift of begging down to nicety. They are great at getting out circulars. They scatter them broadcast over the land as leaves before Autumnal gales. If you are worth anything they will find out where you live, and if you never got a letter before, you will get one now. Fellow-citizens, we must stop these men from begging for us. They misrepresent us and cause the country to look upon us as a poor and helpless people. They say 'Please give something to help educate the poor black people; but do, I pray, pay it to me.' And if it's \$100, it is reduced to about 100 cents when it gets to the 'poor black people.' We do not want, we will not have, these second-rate men begging for us. We protest against it.

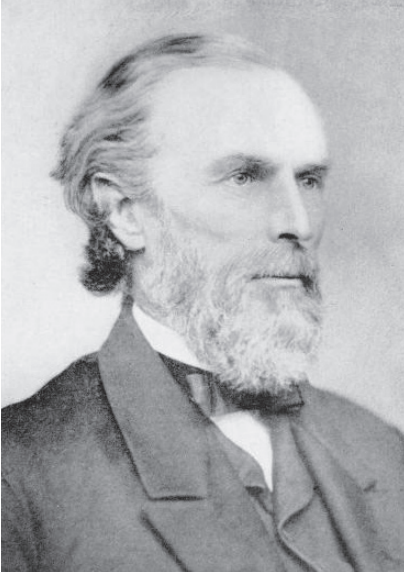
We have had a Freedman's savings institute, but we don't want any more. Our white friends told us that if we had cents, to bring them to them and they could take care of them; and if we had dollars or hundreds or thousands, also to bring them to them. They told us they had a goose and a golden egg. Yes, we put our millions there, but where are they now? The men who went into that bank a few years ago poor men are now domiciled in beautiful homes and drive their fine turn-outs. It makes me feel badly to think how we have been robbed. Just enough honest men have been put into the bank to ensure its success. But while they put in two sound apples, they slipped in five or six speckled ones, and were sure to turn the speckles down.

We propose to cut loose from all invidious class institutions and to part company

with all those wandering mendicants who have followed us simply for paltry gain, and we now bid an affectionate farewell to all these plunderers, and in the future if we need a Moses we will find him in our own tribes.¹³⁶



After opening in New York City and later moving to Washington, D.C., in 1869 construction was completed on a new headquarters building for Freedman's Savings. The structure, located northeast of the White House – “one of the most desirable and expensive sites in the national capital,” Frederick Douglass later said. Inside, the building featured black walnut woodwork and marble countertops.



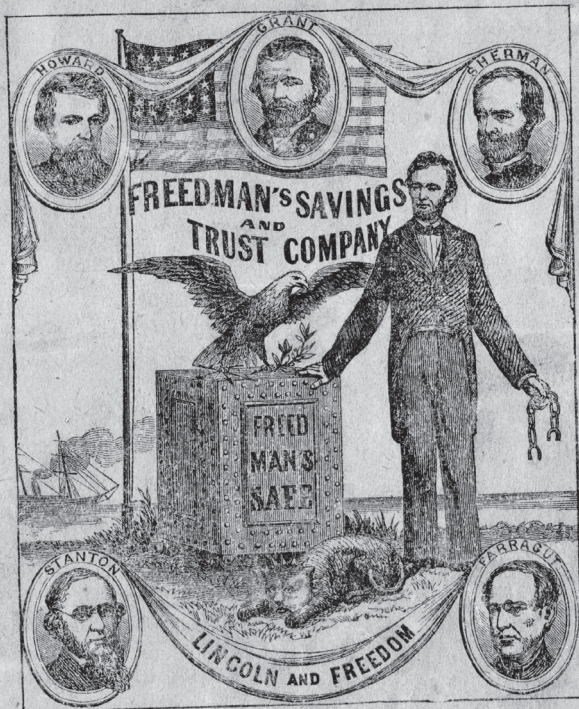
Rev. John W. Alvord, a Congregationalist preacher with no banking background, played a central role in not only establishing Freedman's Savings, but in convincing many would-be depositors who later lost their money that the institution was financially sound. He eventually became bank president, but had little involvement in actually overseeing the institution.

Anson Sperry had been working on a proposal for a military bank but abandoned that initiative to focus his attention on launching Freedman's Savings. As a Freedman's Savings inspector, he pled with Congress to investigate and take legislative action as the institution's financial condition worsened. Behind the scenes, he tried to develop a plan that would have saved some of the branches as newly-chartered state banks but was unsuccessful.



DEPOSIT BOOK.

No. 836
Charleston S. C.



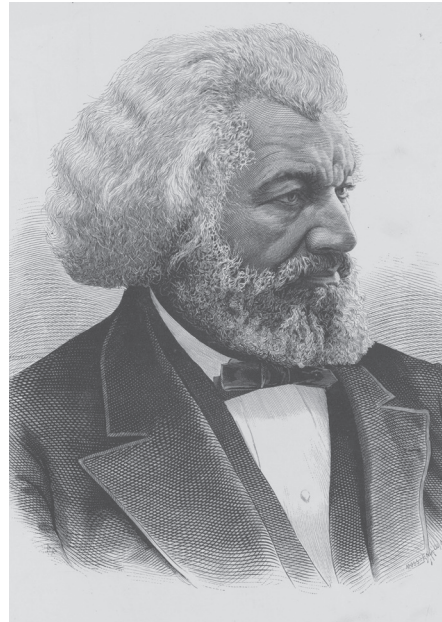
Keep this Book in good order.
Do not fold or roll it up.
Give immediate Notice, if lost.

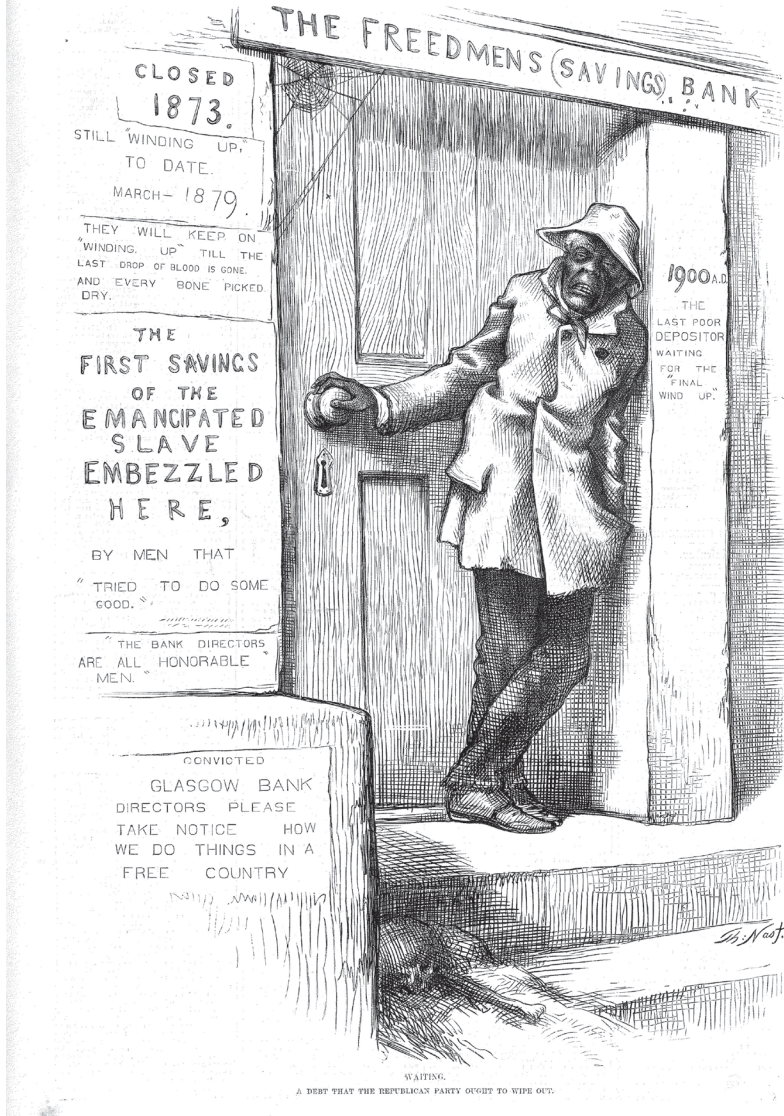
Although Freedman's Savings deposits were not guaranteed, many depositors were led to believe otherwise and some Savings employees may have even been unclear about the government's role in the institution. The bank's published materials, including deposit books, clearly used popular Civil War figures and imagery to suggest a degree of safety that the bank did not provide.



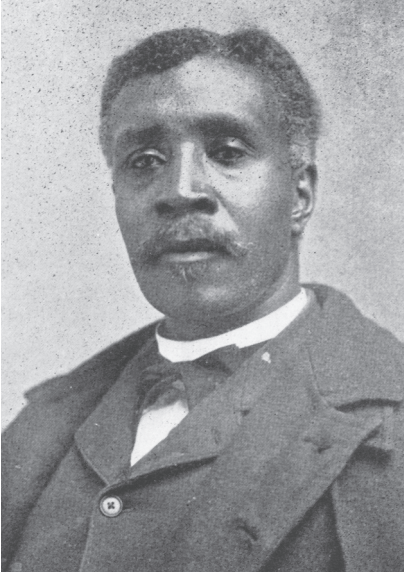
Henry Cooke, brother of financier Jay Cooke, was expected to bring prestige and experienced management to Freedman's Savings. Instead, he drove the bank to failure as it took on increasing financial risk and the Cookes began to offload bad investments from their First National Bank onto the Freedman's books.

Frederick Douglass was finally convinced to take over as Freedman's president by trustees who believed his strong reputation offered the best chance of saving the failing institution. The bank's true condition, however, was not shared with Douglass who soon discovered he "was married to a corpse."

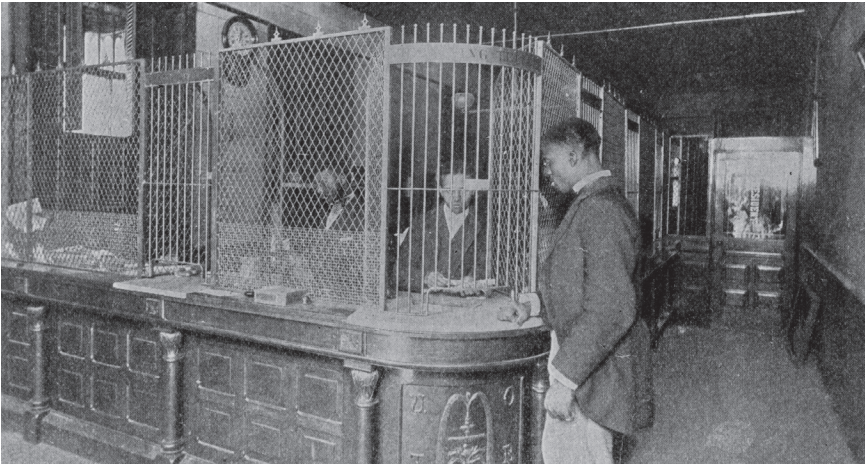




The suffering of many Freedman's depositors was illustrated by Harper's Weekly in 1879. Although the text in the illustration suggested the "final wind up" to the last depositor would not come for another 21 years in 1900, the artist's attempt at satire was far too conservative. At least one depositor received a Freedman's check as late as 1915 and formal requests on behalf of former depositors continued until at least 1921. None were made whole.



William Washington Browne was a former slave who led the establishment of the United Order of True Reformers, a black fraternal beneficiary organization that assisted its members financially in times of sickness and provided funds for burial costs. After problems were encountered in finding a safe place to deposit funds, the True Reformers established a bank, with Browne serving as president.



The Savings Bank of the Grand Fountain, United Order of True Reformers operated out of the first floor of a three-story building the Order constructed in 1891. The building, which was also home to the Order's headquarters, was on the edge of the Jackson Ward area of Richmond, Va. — a neighborhood that soon became known as the birthplace of black capitalism.

Bank Established in 1888.
Capital \$50,000.

Capital Savings Bank, 609 F Street, N. W.

Deposits received from 10 cents upward.
Interest allowed on \$5.00 and above.
Treasurers of Churches, Associations and other Organizations
can deposit funds with this Bank and receive INTEREST.
The money is always subject to check without notice.
Collections meet with prompt attention.
A General Exchange and Banking Business Done.
Bank Open from 9 A. M. to 4.30 P. M.



DIRECTORS:

John R. Lynch,
Leonard C. Bailey,
Whitefield McKinlay,
Henry E. Baker,
John A. Pierre,
Wyatt Archer,
Wm. A. Warfield,
Jerome A. Johnson,
Howard H. Williams,
James T. Bradford,
W. S. Montgomery,
Robt. Williams,
A. W. Tancil,
Robt. H. Terrell.

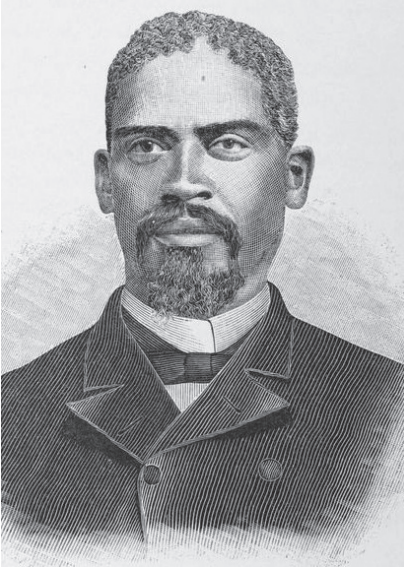
OFFICERS:

JOHN R. LYNCH,	-	-	-	-	President.
JEROME A. JOHNSON,	-	-	-	-	Vice President.
LEONARD C. BAILEY,	-	-	-	-	Treasurer.
ROBERT H. TERRELL,	-	-	-	-	Secretary.
DOUGLASS B. McCARY,	-	-	-	-	Cashier.

Capital Savings Bank in Washington, D.C. became the first black bank in the United States when it opened in October 1888. Fear that the nation's political landscape might be reverting to a pre-war racial environment prompted the bank's creation as well as the establishment of a number of black-owned businesses. The moves were seen as offering a degree of protection against any efforts to restrict freedoms.

Milton Holland, the mixed-race son of a Texas slave owner, helped to lead the creation of Capital Savings Bank. Holland received the Congressional Medal of Honor for his valor during the Civil War but was denied a promotion because of his race. In addition to his role with the bank, Holland earned a law degree from Howard University and established one of the nation's first minority-owned insurance firms.





William R. Pettiford reversed the financial fortunes of the 16th Street Baptist Church in Birmingham, Ala. before turning his focus to banking. Pettiford and the bank's employees learned about the business of banking, including such aspects as bookkeeping, through somewhat informal training that Pettiford arranged through the city's white financial institutions.



When the Alabama Penny Savings Bank in Birmingham, Ala. opened in 1890 it did not have a state charter, could not pay its staff and accepted deposits on a table. By century's end, it was a successful state bank, had weathered a major financial panic, was conducting business in a far more appropriate setting and had created an innovative program to increase home ownership among its customers.



The leadership of the Independent Order of St. Luke, the parent organization for the St. Luke Penny Savings Bank, outside the St. Luke building in Richmond, Va. The bank was a key entity under the St. Luke banner which also eventually included a retail store, printing press and a weekly newspaper.

Maggie Lena Walker's leadership brought success to both the Independent Order of St. Luke and the St. Luke Penny Savings Bank. As the first black female bank president in the United States, Walker became something of a celebrity and is today the most well-known among the nation's earliest black bankers.





The U.S. Treasury Annex Building, which stands on the former Freedman's Bank site, was renamed during a 2016 ceremony. The event featured Alden McDonald, president and CEO of Liberty Bank & Trust Co.; Brodi Fontenot, then assistant Treasury secretary; Jack Lew, then Treasury secretary; and Andrew Young, longtime activist and former Atlanta mayor, U.S. ambassador and congressman.

THE BANKS

“We mean to encourage ... people to get homes and means upon which they may independently subsist.”

- M.E. GERST
UNITED ORDER OF TRUE REFORMERS CONVENTION DELEGATE
1891^f

Reconstruction's End / Banking's Beginning

Lost amid all the rubble of the Freedman's collapse is the fact the institution did benefit many individuals during its operation. By one estimate, \$54 million was saved by depositors, allowing them to purchase farms, equipment, businesses, homes and education that may not have otherwise been possible.²

Additionally, anecdotal reports indicate that the private providers of credit and capital that were in business before the Civil War continued those operations. Near the South Carolina coast around Beaufort Beach, as many as 80 former slaves were able to secure financing to purchase homes and house lots in 1865.³ In Virginia, Joseph E. Farrar and other civic leaders joined to form the Virginia Home Building Fund and Loan Association in 1868 to finance home construction.⁴

These types of activities, however, remained to some degree exceptional. Perhaps more likely were those who leveraged the lack of options available to black borrowers to charge them exploitive interest rates for loans. These loan sharks became known in some areas as "10 percenters," charging 10 percent interest every 30 days.⁵

More broadly, the nation's black population made comparatively little progress in attaining economic equality in the years after the War.

There were essentially no established professionals in the former Confederacy. Ministers, generally the highest attainable professional job, were forced to find additional work to supplement the limited income they received from a population of exceptionally poor parishioners. Artisans producing a range of household items and other goods made up about a quarter of employed black workers in most Southern communities. Despite their skills, income was limited by strong competition from the increasing amount of manufactured goods. Unable to access capital, many individuals were forced into jobs with minimal startup costs such as barber, blacksmith or shoe maker.⁶

Additionally damaging to employment opportunities, and individual liberties, were the laws that became known as "Black Codes," which were adopted in many areas and fostered the continuance of a slave-like plantation labor structure. Du Bois described the Codes as "slavery in daily toil."⁷ Among various laws, an individual convicted of vagrancy

– which was so broadly defined that it could include someone who “misspends what they earn” – risked sentencing to involuntary plantation labor.⁸ This wrangling of the law for racist purposes was in addition to tenant farming and sharecropping arrangements that many former slaves were forced into out of economic despair. These agreements essentially recreated slavery under a new name.

“Sharecropping, while a more subtle form of dominance than slavery, yielded similar patterns of control and subservience. The sharecropper typically paid the landowner one-half of his crop as rent; the landowner provided housing, fuel, animals, tools, seed – and close supervision. The cost of fertilizer was deducted from the crop. The landlord weighed and marketed the (crop) and kept all sales and financial records. Food, clothing, and household needs were obtained by the sharecropper, usually on credit at high interest rates.

“Sharecropping was not a stepping stone to advancement.”⁹

The white landowners, meanwhile, often manipulated the financial accounts to ensure that any payments to the tenant farmers remained well below their cost of living.¹⁰ In some instances, the actual cost of an item sold to a sharecropper could double its actual price.¹¹

Former slaves who were paid an actual wage earned less after the War than the few paid slaves received before the conflict. In addition to the lower pay, these workers, unlike slaves, also had higher individual costs since they also had to pay their own expenses, which had previously been a liability of their owners in the slave structure.¹²

That white landowners could exploit black workers in this way was partially a result of the federal government’s decision not to redistribute Southern plantation lands under a program known as “40 acres and a mule,” which would have provided them with land to start their own farms. A field order issued by Gen. Sherman late in the War called for setting aside lands for former slaves as a type of repayment for their labor. Under a widely held perception, “40 acres and a mule” would be awarded in either late 1865 or early 1866. Any government support for these initiatives, however, evaporated quickly, and the land was not forthcoming. It is hard not to view this issue as something of an antecedent to the later implied government protection most Freedman’s Savings depositors had expected.

Without access to land or capital, unskilled workers were forced to either enter a sharecropping-type agreement or try to find work as a laborer. The market for these low-skill jobs included competition from immigrants as well as American-born white workers who were becoming increasingly organized.¹³

Overall, the number of black businesses in the United States did not exceed pre-War levels until years after emancipation.¹⁴ By 1873, black Americans owned only 4,000 businesses – up from 2,000 a decade earlier. Conversely, over the same period, the number of farms operated by black Americans soared from 15,000 to 175,000 – a result of the growing number of individuals who had been able to save enough money to purchase a farm or demonstrate enough skill to convince a lender they were not a dangerous credit risk.

Black entrepreneurship remained a difficult path after the War. In the War-devastated South, access to capital was a problem even for well-established white business owners as they tried to recover and, in some cases, rebuild. It was a more formidable problem for former slaves who, even when they were able to overcome prejudice, held neither valuable collateral nor a record of past business ventures which they could reference to soothe nervous lenders.¹⁵ Still, some former slaves were able to achieve success. Among the first known successes of the post-War period in the South was James Tate, who established an Atlanta grocery in 1866 that became the cornerstone of a real estate business. Others were known to have followed his path to success.¹⁶ Records also indicate that some black-owned businesses were successful in obtaining business contracts from the government and also white-owned firms in the private sector.¹⁷

In the North, the end of slavery had little impact on entrepreneurship and, by some measures, conditions actually turned more difficult for those seeking to engage independently in business. Increasing industrialization during the War had reduced opportunities for the low-skill jobs that some had used to gain an economic foothold – a development that was “destined to crush the small capitalist.”^{18, 19} Meanwhile, some Northerners moved into the post-War South. These individuals were motivated by a variety of factors including carpet-baggers seeking to leverage their skills for financial or political gain, as well as individuals seeking to reunite with families they’d been forced to abandon. This exodus fostered a decline in some Northern communities, further limiting the economic opportunities and potential customer base of those who stayed.²⁰

Also hampering economic growth in this period was, of course, the crisis that had fostered the Freedman’s Savings collapse and created general economic turmoil. Six weeks after the collapse of Jay Cooke & Co., an article in the *Daily Cleveland Herald* painted a bleak and accurate picture of the economic fallout:

The effects of the panic are beginning to be felt with great severity where all such blows eventually fall – on the working classes. Every mail from the Eastern States brings accounts of manufactories running on short time, mills stopped, railroad enterprises suspended, the price of labor reduced and workmen discharged by the hundred or by the thousand.²¹

The Panic of 1873 was the beginning of a crisis that would eventually consume the financial system, the national economy and, some believe, serve as the catalyst for a global depression.²² In the United States, a six-year depression, known today as the Long Depression, saw some 18,000 businesses fail, including 89 railroads – the veritable engines of the collapse.²³ While economic data from the period can be spotty, reports indicate that unemployment during the winter of 1873-74 in New York City hit 25 percent and may have been as high as 30 percent the following winter.²⁴ Although these numbers were recorded at a time when seasonality was a significant component of working life, the decline was an unprecedented event for Americans.

As Richard White explains in his extensive history of this period, unemployment prior to the 1873 crisis had generally been viewed as a lack of initiative on the part of the individual – someone who lost a job in the city could head to the country and begin to farm. Industrialization, including the construction of the railroads, had changed that. Many previously independently engaged individuals, such as small farmers, had become employees of a larger entity, and when that entity failed, workers were left in unfamiliar territory.²⁵

“Probably never in the history of the country has there been a time when so many of the working classes, skilled and unskilled, have been moving from place to place seeking employment that was not to be had – never certainly for so long,” concluded one 1875 government analysis.²⁶

The financial crisis was one in a series of matters – including Southern resentment at the War’s outcome and the failures of President Ulysses S. Grant’s administration – that led to the Redeemer movement, an effort by Southerners to end Reconstruction.²⁷ In 1874, Republicans, who had controlled both chambers of Congress, lost 93 seats and their majority in the House of Representatives – one of the largest such swings in U.S. history. In the Senate, where state legislatures elected senators, Republicans lost nine of 25 seats that were up for election. Although Reconstruction continued after the election, its erosion on the path toward its eventual failure was developing.

The actual end came later through the Compromise of 1877, which resolved the disputed 1876 presidential election. Under the informal agreement, House Democrats, who were now in the majority, allowed Republican Rutherford B. Hayes to become president in exchange for the removal of remaining federal troops from the South, thereby allowing the Redeemers to assume greater control. Hayes had lost the popular vote to Democrat Samuel Tilden and also held fewer electoral votes. However, there remained a sufficient number of unresolved votes to tilt the election to either side. Under the compromise, Democrats agreed to award the Electoral College votes to Hayes.

Reconstruction's end was summarized in what may be the most well-known of many prominent statements made by Du Bois: "The slave went free; stood a brief moment in the sun; then moved back again toward slavery."²⁸

Savings Bank of The Grand Fountain,

UNITED ORDER OF TRUE REFORMERS

By the time of the Freedman's demise, a range of mutual benefit organizations, churches and schools had been forming among the free population for decades. In the South, the organization of social and support organizations was found in religion, often underground or through the work of white churches. After the War, former slaves sought to form a more structured religious environment of their own, and one of the first steps was joining their limited resources to fund the building, or in some cases the rebuilding, of numerous churches.

Although the church already had a prominent role, its expansion throughout the post-War South was encouraged by waves of Northern missionaries who had followed Union forces. For slaves, themes of redemption and comfort amid struggle were understandably powerful.²⁹ Churches were “the first social institution fully controlled by black men in America,” and they experienced significant growth after the War, particularly among the more active denominations.³⁰ The African Methodist Episcopal Church, which had been located primarily in the Northeast and Midwest before the War, grew from around 20,000 members in 1856 to 75,000 in 1866 and 400,000 in 1880. Meanwhile, the number of African American Baptists grew from 150,000 in 1850 to 500,000 in 1870.^{31, 32}

Church development was at the forefront of an expansion in increasing formalized social structures among former slaves in the South. Countless societies and associations were formed, including some by white organizations. In many cases, these spin off organizations were founded only when the parent organization faced substantial pressure to desegregate. And, once founded, the relationship between the black and white organizations in most cases came to an end. That was the case in the early 1870s when a lodge of the Independent Order of Good Templars, a temperance organization founded more than 20 years earlier, funded the creation of the United Order of True Reformers – an entirely separate African American entity that did not operate under the Good Templars banner. The founding

organization said its view was that “philanthropy as well as self-interest, demands that we, claiming to be the superior race, should do all in our power to bring up the colored race to a higher appreciation of its moral and religious obligations.”³³

The creation followed an effort by three black men to establish a Good Templars lodge in Alabama where there had been particularly strong resistance to desegregation.³⁴ William Washington Browne, who led the newly formed organization, later recalled the appeal he made for establishing a lodge in Alabama during a Good Templars meeting in Kentucky.

“(W)e wanted a charter from the Good Templars because they had a name, which organization is extended through all the countries of Europe and all the states of America,” Browne said.³⁵ “It was for all nations; it worked well until it struck Kentucky and the South. The moment it struck the Southland, trouble arose. Negroes and white people do not associate together in this country; by the provisions in their schools and training around their firesides, they are separate.”

The Kentucky meeting turned bitter. Browne, against the advice of a counterpart who told him he was a fool, expressed his frustration to Good Templars leadership.

“You are willing for us to have a separate organization, but are not willing for us to come with you,” he said.³⁶ “Our race is strong, and by the God of Heaven, I will pull her through.”

Although Browne was young, only in his early 20s at the time of the Kentucky meeting, his spirit had been forged, like many former slaves, through a lifetime’s worth of experiences.

Born into slavery in 1849 in Habersham County, Georgia, Browne was portrayed by one biographer as a fearless child who played with snakes.³⁷ He was sold to a Tennessee man, perhaps when he was as young as 8 years old, and was there when the Civil War began. After a confrontation with his owner, he was sold to a family in Mississippi while in his early teens. Browne was one of three boys who escaped in hopes of joining Union forces.³⁸ While his companions were accepted, they rejected Browne because of his dark complexion.³⁹ He found work with a family, but fled when they threatened to return him to his previous master. He stowed away on a boat and ended up in Illinois where he enlisted with Union forces and gained an education. After the War, he returned to the South at around the age of 20 to see his ill mother and became a teacher before focusing on the issue of temperance and speaking out aggressively against the rise of such organizations as the Klan.^{40, 41}

That Browne would feel so strongly about issues of temperance and morality might

puzzle those in later generations. Both of these themes, however, were prominent components of numerous fraternal associations, benevolent societies and other groups since well before the War. Many abolitionist speakers saw issues of temperance and morality as particularly important in the fight for equality.

“Form yourselves into temperance societies,” Maria W. Stewart, the first African American woman to make public lectures, told an audience during an 1833 speech in Boston.⁴² “There are temperate men among you; then why will you any longer neglect to strive, by your example, to suppress vice in all its abhorrent forms? You have been told repeatedly of the glorious results arising from temperance, and can you bear to see the whites arising in honor and respectability without endeavoring to grasp after that honor and respectability also?”

After the War, the importance of temperance took on a slightly different purpose. At a time of the black codes and widespread institutional racism, public drunkenness provided white authorities with an excuse to arrest a black man and sentence him to a chain gang.

The True Reformers organization, which was later called “probably the most remarkable (African American) organization in the country,” was established as a fraternal beneficiary institution with member dues creating a mutual benefit fund – it was essentially a sickness and burial insurance provider. Members could obtain sick benefits of between \$1.50 and \$2.50 per week with death benefits of between \$75 and \$125.⁴³ Across its first 20 years, the organization paid out more than \$2 million in claims to its members and expanded into a number of other businesses.⁴⁴ It was one of a nearly endless list of groups ranging from fraternal associations and benevolent societies through special-interest clubs.⁴⁵ By the 1870s, 400 such organizations were based in Richmond, Va., alone.⁴⁶ They offered members an opportunity for fellowship and entertainment, but also served important social roles. They assisted with burial costs, provided necessary care and funds in time of illness and offered other vital resources that were difficult for individuals to obtain.

As Harris wrote in his economic history, “As these societies increased in size and number there was a corresponding increase in their capital, their investments, and in subsidiary business developed by them. The increasing financial resources led to the organization of banks as depositories.”⁴⁷

Browne spent considerable time seeking to address economic issues. He believed convict chain gangs not only abused the prisoners, but they also drove down the wages paid to all unskilled workers. This is because convicts could be leased from the state and used as labor

for far less cost than employers might have to pay other workers. During an 1877 speech in Alabama, Browne pegged the cost of this wage pressure at more than \$500,000 annually for unskilled workers. Later, in the same speech, he touted the potential benefits of saving and pooling their resources, suggesting it could be used to purchase land.⁴⁸

Around this time, Browne made his first attempt at establishing a bank. Over a period of two years, he had secured more than \$100,000 in commitments in Alabama to fund the initiative, but he was unable to secure a charter from the state. Browne blamed racism, which likely combined with some fairly stringent chartering regulations to end his initiative.⁴⁹

Browne's eventual success in creating a bank came in Virginia and was born out of necessity. In 1887, a True Reformers Fountain (or what in other organizations would be considered a lodge or chapter) was established in Charlotte County, Va. The group had 66 members and, after dues were collected, the Fountain's treasurer placed the collected funds – about \$100 – in the safe of a white storekeeper.⁵⁰

While the merchant may have taken responsibility of the funds, he also informed his white neighbors of the activity. The history of the Jim Crow-era South includes numerous examples of white racists fighting the formation of organizations within the black community.⁵¹ In the case of the Charlotte County True Reformers formation, racial tensions were heightened in the aftermath of a nearby lynching.⁵² This appears to have been the May 1886 mob hanging of Dick Walker, in connection with a reported assault of a white girl. Newspaper accounts suggest Walker was likely far from the site of the reported attack. ****

Facing pressure to disband, one of the Fountain's organizers, W.H. Grant, wrote to Browne asking for assistance.⁵³ Grant suggested the creation of a bank as a possible solution for the Fountain, with initial discussions focused on the idea of creating a bank only for the organization's use. Soon, the scope was expanded. The organization gained the help of attorney Giles Beecher Jackson, a former slave who was the first African American certified to argue before the Virginia Supreme Court of Appeals, to write the bank's charter.⁵⁴

The Virginia General Assembly approved the charter of the Savings Bank of the Grand Fountain, United Order of True Reformers on March 2, 1888, with provisions allowing it to conduct general banking business. Many accounts of this event argue that the approval

**** Walker's lynching was reported by numerous newspapers including *The (Raleigh, N.C.) News and Observer*, May 7, 1886. While Walker was identified by the girl and another witness as the perpetrator, he was on foot at the time of the attack and was captured soon after the event 20 miles or more from the site of the reported incident.

by lawmakers came because many thought the initiative was either a joke or highly unlikely to succeed.

The bank opened for business on April 3, 1889, in Browne's home at 105 W. Jackson Street in Richmond. The bank's directors had selected Browne as president, although much of the work in preparing for opening was handled by bank Cashier Reuben Thomas Hill.

Hill was born into slavery north of Richmond. His father was sold when Reuben was only 6 years old, leaving the boy in the care of a mother who may have been in frail health. Like others, Hill was largely self-educated, teaching himself to read. After the War, he worked as a laborer and held a number of other low-skill jobs, including some in Washington, D.C., before putting himself through school at the Richmond Institute while in his early 20s. He established his own business selling books and stationery in the early 1880s, attracting Browne's attention. Hill was among those with whom Browne discussed the bank proposal. Early on, Browne convinced Hill to serve as cashier, with Hill agreeing to take the post apparently believing that the plan had little chance for success. Soon, he left his business and was at work for the bank full time.⁵⁵ On opening day, Hill and the Bank's clerk, a woman named M.E. Burrell, received \$1,200 in deposits. Nearly \$10,000 deposits were received during its first three months in operation.⁵⁶

Due in part to the bank's success, the organization in 1891 built a large three-story headquarters for both the bank and the organization on the northwest side of Second Street between Leigh and Jackson streets on the edge of Richmond's Jackson Ward – an area that would soon become known as the birthplace of black capitalism. The building's third floor was an auditorium with seating for around 900 that hosted a number of public events.⁵⁷ On the facility's opening day, the bank had what they called a "money-stone laying," where deposits were encouraged at the new location. The event included a parade on Second Street.

"It is said we had a Negro Bank under the head of the Freedman's Bank. We never had such a bank because all the owners and managers were white ...," Browne said.⁵⁸ "The depositors were black men; the white men owned the bank and the black men the name. The Bank which we have is a black man's bank, and all the officers are black. We started out with love, truth, mercy, wisdom, brains and finance. These are our weapons."

Capital Savings Bank

While the True Reformers was the first black bank chartered, it was not the first in business – a designation which was won on Oct. 17, 1888, when the Capital Savings Bank in Washington, D.C., opened.

Capital Savings' history dates to the establishment of the closely aligned Industrial Building and Savings Company, which organized in May 1885 with Frederick Douglass as its first president.^{59, 60, ††††} The forbearer institution was somewhat similar to a bank in that it accepted savings deposits, but rather than broadly providing credit, it instead invested primarily in mortgage lending. Within its first four years, Industrial Building and Savings helped to finance 60 homes in the District.⁶¹

According to an account by Andrew Franklin Hilyer, a prominent Washington, D.C., attorney who was heavily involved in helping establish black businesses in the late 1800s, the catalyst behind the Building and Savings' creation was the 1884 presidential election. Grover Cleveland's narrow victory over James Blaine was decided after Cleveland, New York's governor, won that state's 36 electors by a margin of around 1,000 votes out of more than 1.1 million cast in the state. It meant that a Democrat had won the White House for the first time since James Buchanan's election in 1856. Democrats also retained their congressional majority in 1884. These results raised concerns among black Americans about the potential loss of freedoms, particularly in the South, which Cleveland carried in the election and where Democrats held the congressional seats.⁶²

The *Chicago Daily Tribune* described the post-election environment as “something like a reign of terror” in the South.

“(T)he immediate effect will be deplorable, especially on the fears of the people,” Douglass told a Washington, D.C. reporter after the election results were final.

“They remember that the Democratic Party at the South waged war upon the Union to perpetuate their enslavement, and that (the) Party North and South opposed their liberation; that it has repeatedly declared the acts by which the Negro was made a citizen and a voter unconstitutional, revolutionary and void, and consequently think their liberty in danger from the accession of that party to power.”⁶³

According to Hilyer, the fear prompted urgency by some to create new institutions

†††† This institution should not be confused with the Industrial Bank of Washington formed in 1934.

and businesses which they hoped would act as a bulwark against efforts to restrict freedom and opportunity.

“Many meetings were held where the question discussed was ‘What shall we do to be saved?’

“‘Form co-operative companies and go into business!’ was the answer,” Hilyer wrote.⁶⁴

A wave of black-owned businesses then began to emerge, ranging from grocers to steamboat companies and other firms that Hilyer said “gave expression to the longings of the people for a larger share in the businesses of the community.”⁶⁵

A Building and Savings Company circular reflected the recurring self-sufficiency theme that provided the foundation for many of these ventures:

We saw that we were putting many thousands of dollars into the financial institutions of this city, thereby contributing largely to the support of its business houses. But we were not represented in the management of this business, or in the clerical force, nor in any fiduciary capacity. In short, as things were, we had not opportunity to learn the art of business. There was need also of an institution for savings that would reach the poorer classes of colored people, teach them the importance of being industrious, of seeking steady employment, of saving their money and getting homes, giving them an opportunity to pay for their homes in small installments, and teach the importance of fostering and building up strong business interests among ourselves.⁶⁶

Once the Building and Savings was established, creating a bank was “the next logical step.” Hilyer wrote.⁶⁷

The bank initiative was formulated in early October 1888 during an evening meeting of eight black community leaders at the home of Henry P. Montgomery, a well-known educator in the District.⁶⁸

According to Hilyer, the meeting followed a statement “made on the floor of the U.S. Senate by a prominent Senator that with all their boasted progress, the colored race had not a single bank official to its credit.

“This remark was the immediate spur to several gentlemen who believed that the stigma of racial incapacity was unjust and who resolved to start a bank if possible.”⁶⁹

The group acted quickly, essentially establishing the bank immediately as an unincorporated joint stock company.

“They carefully weighed the arguments for and against (establishing a bank), and being filled with a purpose to do something, they decided then and there to do it,” said Henry Baker, who served as bank secretary.⁷⁰ “One of the number present happened to know of a suitable place that could be secured at once for business. We agreed to rent the place and we assessed ourselves for money enough on the spot to pay a month’s rent in advance. We had a place then, but no business. We hadn’t a single dollar of stock sold or subscribed for, no deposits, no books, no tender of cash from any source, no offices, no clerks – in short, no anything but one month’s rent and one year’s pluck.”

The initiative was led by Milton M. Holland and Leonard C. Bailey, two men who had been especially active in urging the creation of black institutions after the 1884 election and who had already carved their own places in American history.⁷¹

Holland, who was born in Texas on Aug. 1, 1844, was the mixed-race son of Bird Holland, a white slave owner, and a slave owned by Bird’s half-brother Spearman Holland.⁷² Bird sent the boy to school in Ohio at around age 7.⁷³ The younger Holland later joined the 11th Ohio Militia Infantry at age 18. Enlisting as a private, he rose to the rank of regimental sergeant major, the highest rank possible for an enlisted soldier, and received the Congressional Medal of Honor for taking command of his regiment during a battle at Chaffin’s Farm, Va., in September 1864 where all of the white officers were either killed or wounded.⁷⁴

“(W)ith a courage that knew no bounds, the men stood like granite figures,” reads a later account.⁷⁵ “They routed the enemy.”

Holland was one of 16 black soldiers who received the Congressional Medal of Honor during the Civil War, but a promotion to captain, which had been ordered by Gen. Benjamin Butler after the events at Chaffin’s Farm, was rejected by the War Department because of race.⁷⁶ After the War, Holland moved to Washington where he worked at the U.S. Treasury and earned a law degree from Howard University. He later established one of the nation’s first black-owned insurance firms.⁷⁷

Bailey was born to a free but poor family in 1825. His father died when Bailey was still a child, perhaps as young as 8, leaving Bailey’s mother to fend for her four children. Bailey went to work at age 12, earning \$3 per month and board, before later becoming a journeyman barber.⁷⁸ He opened his own shop and eventually expanded to own several barbershops across the District.⁷⁹ He was also a well-known inventor who patented a design for a folding bed, a rapid-stamping machine used by the U.S. Post Office, and a truss and

bandage system he created in 1884 that was used by the military for hernias and was perhaps his most well-known creation.^{80, 81} His national prominence was reflected in his being among the honorary pallbearers at Douglass' funeral in 1895.⁸²

Bailey, according to a later newspaper article, was “a man of ideals and with the courage of his convictions, the energy, push, pluck and honesty which he has put into business practice has won the commendation of both races. His name is a household word and stands for honest and business integrity.”⁸³

With \$6,000 in capital, and only \$500 in its cash drawer, the Capital Savings Bank opened for business in rented office space near the National Portrait Gallery with Bailey as president.^{84, 85, ###} The bank received \$117,000 in deposits its first year and nearly \$250,000 its second.⁸⁶ Over its first four years, its deposits totaled about \$2 million.⁸⁷ Among its depositors were, notably, Douglass, as well as a number of whites.⁸⁸

Eventually, the institution moved a couple of blocks to the east, purchasing a building at 609 F Street Northwest – the location that would later become the site of the Verizon Center, home to the city's NBA and NHL franchises.

Bank Secretary Baker talked with a reporter about the bank's success near its five-year anniversary:

“What we have accomplished in these brief years has been accomplished in the face of greater opposition that we have any reason to expect will confront us again,” he said.⁸⁹ “Nothing succeeds like success, and having shown what is possible of accomplishment in this direction, we confidently look forward to greater success in the future.”

^{###} Note that some accounts list Bailey as the first treasurer. However, it appears this was a later position.

Alabama Penny Savings Bank

A year after opening the True Reformers bank in Richmond, Browne was back in Alabama, perhaps hoping to use his Virginia success as a catalyst to overcome the roadblocks that had thwarted his bank plan there a decade earlier. But when he arrived, he discovered Rev. William Reuben Pettiford, an old acquaintance, not only was considering such a plan but also held views that aligned with his own on the issues of temperance and thrift.

Pettiford said he began thinking about the need for a bank after riding an electric railcar through the western Birmingham suburb of Ensley on payday and noticing a woman drinking whiskey – a waste of money in Pettiford's view.^{90, 91}

“It was at that time that the thought came to me that there should be some sort of business which should take care of the money . . . and that such an institution would enable me, as a minister, to instruct them in the ways in which they might better dispose their earnings,” he said.⁹²

Like others who established the earliest black banks, Pettiford overcame a lifetime of challenges. Although he was born to free parents in North Carolina, Pettiford's childhood included almost no formal education. When he was very young in the 1850s, his father convinced a local teacher to offer classes to the boy and a few other children on weekends. Those lessons, however, came to a halt when Pettiford was around 10 and his father moved the family to a farm. While his younger siblings went to school, Pettiford was put to work on the farm. Until his family later took in a teacher as a boarder who offered him private lessons, Pettiford's only academic exposure was what he could glean from his younger siblings at the end of his workday.⁹³

“To hear my younger brothers and sisters reciting their lessons, they appeared to know so much more than I did – made me feel very bad, so much so, that I said to myself, ‘If ever I get an opportunity, I will know something.’”⁹⁴

He eventually worked low-skill jobs, including one near War's end where he was paid in worthless Confederate currency and another at a tobacco firm, before winding up in Alabama where he had initially hoped to join the railroad. Instead, he took a farm job and, through his own diligence, was able to pay for seven years of school, earning a degree from

Lincoln Normal School, the predecessor to Alabama State University.

He became a teacher and took a position at Selma University where for a year he was also the school's general financial agent. While there, he also enrolled in theological classes. He soon turned to the ministry and became pastor at a church in Union Springs, Ala. In 1883, he accepted the pastorate of the 16th Street Baptist Church in Birmingham – the first black church in that city – partly at Booker T. Washington's urging.⁹⁵ At the time, the congregation was meeting in a storage room and in debt financially. Pettiford reversed the church's fortunes and oversaw the construction of a new church building at the corner of 16th Street and 6th Avenue in 1884. That building was replaced by another in 1911. It was this structure that was the site of a bombing by Klan members on Sept. 15, 1963. The attack killed four young girls attending Sunday school and injured more than 20.^{96, 97}

Birmingham, with nearby deposits of iron ore, coal and limestone had the ingredients to become a post-War hotspot in the South. The necessary components for making steel and pig iron led to the construction of blast furnaces, which in turn brought factories and many jobs. In the year prior to Birmingham's 1871 founding in Jefferson County, Ala., the county's population stood at 12,345, up a tepid 5.1 percent from a decade earlier. By 1880, the county had 23,272 residents, and by 1890, there were 88,501, with growth continuing in the years that followed.⁹⁸

While Birmingham's jobs were open to all races, many were filled by black workers. The black share of the area's population jumped from around 10 percent prior to the city's founding to 43 percent in 1890.⁹⁹

These workers in low-paying jobs were the people that Pettiford wanted to help.

"From the time he had accepted the pastorate at the 16th Street Baptist Church, Pettiford had been sensitive to the plight of the people of his race. Waves of blacks had migrated to Birmingham during its emergence as a boomtown in 1871 in search of employment, and although they received only meager wages for their labor, they often squandered those monies that briefly lined their pockets. Pettiford had noticed his people were being denied their due rights in matters of property transfers, loans and so forth, and so he took corrective action. The Bank emerged as a Bank for the people, where they could deposit their savings confidently."¹⁰⁰

After considering and rejecting the idea of establishing a True Reformers branch, Pettiford, with the help of a local association focused on encouraging black-owned businesses,

scheduled a series of meetings over a period of about three months in Birmingham and nearby communities in the summer of 1890 to discuss the possibility of a bank.¹⁰¹ These sessions appear to have been a combination of trying to attract possible investors while also educating potential depositors on the value of thrift.¹⁰²

“It is my opinion that 90 percent of our depositors never carried an account with any bank before the establishment of our institution,” Pettiford later said.¹⁰³ “Our work is that of reaching out and touching a class of people that has not heretofore been reached by any other banks. We are changing the wasteful expenditure of their money in such a way as to make its use profitable to themselves and a good to the community.”

Brief newspaper accounts of these meetings offer little detail on the sessions but report only that Pettiford was creating an institution with \$50,000 in capital stock to serve the black community.¹⁰⁴ By late summer 1890, Pettiford was planning for – and believed he was on schedule for – an October opening. A building had been identified and leased for three years at \$30 a month, a vault was being constructed and furniture was on order. However, he still had two issues to resolve, either one of which could derail the plan.

One related to the very nature of his endeavor: Creating the first black bank in the Deep South meant it was impossible to find employees with banking experience.

Pettiford, with his work stabilizing the 16th Street Baptist Church and prior to that at Selma University, along with his prominent name in the local community and leadership for the initiative, was the obvious choice for president. Beyond that, early staff hires included Cashier B.H. Hudson, who was perhaps more well-known as the first black school teacher in Birmingham. Prior to joining the bank, Hudson had been operating a grocery store, which gave him business experience. Meanwhile, the vice president was a former local bartender whose primary qualifications may have been “a reputation for honesty and ... the confidence of the population generally.”¹⁰⁵

Pettiford, showing an ingenuity echoing the informal schooling arranged by his father, reached an arrangement with Steiner Brothers Bank and other local white financial institutions whereby those institutions would educate the bank’s staff on bookkeeping, administrative policies and other procedures.^{106, 107, 108}

The other major challenge still facing Pettiford was raising capital. Like the staffing problem, this was an issue borne of the bank’s pioneering mission. Pettiford was seeking to serve a community that lived almost entirely on the basis of available cash on hand. The people did not have the wherewithal to invest. Without turning to the white community,

Pettiford faced what could have been an insurmountable roadblock. Alabama bank-chartering laws required \$25,000 in paid-in capital with another \$25,000 subscribed. As the bank's planned opening drew near, Pettiford had been able to secure only around \$2,000 in cash.¹⁰⁹ Rather than cancel or delay, he opened the Penny Savings Bank as a private entity without a state charter on Oct. 15, 1890.

"So determined were we to push our cause, and our faith in our efforts was so strong, that we made preparations as if we had a large capital of cash and experience on hand," Pettiford somewhat humorously recounted years later.¹¹⁰ "We leased a building for three years at \$30 per month and had a full set of books printed, the price of which led us to see that we were getting into deep water."

The Bank received \$555 in deposits on the first day, which were taken on a small table since a counter had not yet been built.¹¹¹

"This closed the first day's work in the business and the third bank in the United States owned and controlled by Negroes was in operation," Pettiford said.¹¹² "We were visited that day by many friends who dropped in to see what we were doing and to extend their sympathy. When they saw our earnestness in our endeavor, in a very short time it brought their money as well as their sympathy."

The following day, the bank made its first loan: a woman borrowed \$10 for 30 days with 50 cents interest.¹¹³ Pettiford and the rest of the staff worked without pay until the institution could afford their salaries. Incorporation was finally achieved for what became known as the Alabama Penny Savings Bank in 1895.¹¹⁴

The Bank was particularly focused on providing credit for homeownership.

"It has been the constant aim and policy of our Bank, through its officers, to teach and encourage our people not only to save their earnings, but to make wise investments as well," Pettiford said years later.¹¹⁵ "By this means it has been possible to stimulate a wholesome desire among our people to become property owners and substantial citizens."

Among those who would later receive loans from the bank was A.G. Gaston. While a young man, Gaston received a \$200 loan from the bank to purchase a small piece of land.¹¹⁶ The purchase was among the first tentative steps for Gaston who would rise to become one of the most substantial and well-known businessmen in the American South. In the early 1960s, his A.G. Gaston Motel was an "epicenter of Birmingham's civil rights protests and demonstrations," and was used by Dr. Martin Luther King Jr. When King was arrested with other protestors in the city, Gaston paid the \$160,000 bond for King's release.¹¹⁷

Crisis and The Business of Banking

The United States banking sector grew rapidly after the Civil War. Between 1865 and 1890, the number of state- and nationally chartered banks more than tripled, from 1,643 to 5,734, with more than 2,000 of those banks opening after 1885.¹¹⁸ Because these numbers do not reflect private banks, such as Alabama Penny Savings during this period, the actual number of banking institutions was somewhat higher.

The climb was not without its stumbles. The late 1800s was a period of numerous financial panics, including both regional events and those with a national impact. More than 80 banks failed during the 1873 crisis and its aftermath, more than 100 failed in the years around the Panic of 1884, and 108 failed in and around the Panic of 1890.¹¹⁹ Given the era's regulatory landscape, the lack of deposit insurance and no central bank, it was virtually assured that the stability of America's first three black banks, like all other banks, would be tested.

The post-War U.S. economy was one in growth and transition, bolstered by continuing railroad expansion and industrial development. Although agriculture's share of the labor force remained above 60 percent in the South, the majority of workers elsewhere in the country were increasingly engaged in manufacturing or other lines of work by 1890. By that time, U.S. productivity was among the highest in the world. This visible strength, however, obscured developing strains. By 1892, U.S. building construction had peaked and its decline began to expand across the economy, reducing demand for construction materials, other raw materials and commodities, with a more general decline in business activity.¹²⁰

As author Richard White described it in his history of Reconstruction and the Gilded Age, "The economy had grown so large and so complicated that American farmers, bankers and businessmen were unable to fully comprehend it."¹²¹

Conditions in Europe had begun to turn increasingly tenuous. There, Europeans witnessed an 1889 French recession and a financial panic in England with a suspension by Baring Brothers & Co. The massive London investment bank suffered amid collapse of its Argentinian investments and turmoil in the U.S. railroads.

Meanwhile, the United States remained in the midst of what was essentially a drawn-out

vacillation over an appropriate monetary standard. In 1873, the government demonetized silver and put the United States on the gold standard for determining the value of currency. The move tightened monetary conditions amid limited supply of the precious metal. The decision not only infuriated Western silver mining communities where silver demand was important economically, but it also angered borrowers who preferred silver, which, because of its wider availability, was a more stimulative, and thus a potentially inflationary, monetary standard. Lenders, particularly large East Coast banks, favored gold and the more likely price stability because it meant their loans would be repaid with dollars of a similar value when compared against the time of the loan. The potential inflationary pressure from silver meant that the loans would be repaid with dollars of less value than the dollars that had been lent earlier.

As the national debate continued, the government increased silver buying under the Sherman Silver Purchase Act of 1890. This move fostered expectations that bimetallism – and related inflationary pressures – was on the horizon. In response, U.S. investors flocked to gold, following a still-common investment strategy used in times of instability. Simultaneously, this same action frightened already-jittery Europeans who had invested substantial amounts of their gold-based currencies in the U.S. expansion, particularly the railroads. As a result, these overseas investors began to withdraw from the U.S. market. With gold reserves shrinking, and the failure of two major firms – the Philadelphia and Reading Railroad in February 1893, followed by National Cordage Company, a rope and twine firm, in May of that year – the United States found itself in the midst of a financial panic by late spring.

“Crowds gathered around the trading posts of active stocks, swung their arms and yelled themselves hoarse in attempts to sell, and brokers and messengers ran as if Satan was after them,” reads one newspaper account of market trading on May 4, 1893. “Nobody thought of walking, and the gravity of the situation was accented by the pale, anxious faces of the struggling brokers.”¹²²

That same day, prominent American financier Henry Clews recast Thomas Paine’s famous remark from more than a century earlier for a newspaper reporter: “There are times that big men’s souls – as well as their pockets – are tried.”¹²³

The crisis prompted the first substantial bank runs in the United States outside of the money center of New York City.¹²⁴ Newspaper accounts from the spring and summer of 1893 offer some insight on the unfolding panic across the United States.

“It began when the doors opened this morning,” reads one newspaper account about

events in Lansing, Mich.¹²⁵ “A large crowd of depositors and curiosity seekers fairly besieged the bank. The run was caused by a feeling prevalent around town that the bank was not too strong.”

The lobby of Chicago’s State Bank of Commerce “was filled with an excited crowd of men and women who tore and crushed to get within the glass doors. At 12:30 o’clock an iron-barred express wagon containing several bags of gold was hurriedly driven up to the building and the money carried in by stalwart watchmen and placed upon the counters,” reads a June newspaper account.¹²⁶ “This, however, did not allay the apprehensions of those outside and for a while the crush was intensified.”

“No such scene was ever witnessed here as that of this morning shortly after 10 o’clock when the banks were supposed to open their doors for business,” reads a July 18 story about an event in Denver.¹²⁷ “The failure of three savings banks yesterday had greatly excited the masses and at the hour of opening today the streets were crowded with anxious depositors. The 11 clearing house banks, all located within four blocks of each other, were surrounded and far into the street the crowd gathered until officers and special police were called out to clear the way for traffic.”

Nationally, more than 500 banks failed between 1893 and 1895, and more than one out of every 25 suspended payment at some point.^{128, 129}

In its 1893 report, the Office of the Comptroller of the Currency called the runs an “unprecedented demand on the part of depositors for money.” The demand “caused a sudden contraction of ... (money) already employed for business wants, prevented the making of new loans and rendered it hazardous on the part of the banks to grant renewals of credit already extended.”¹³⁰

As a result, the United States was thrust into an economic downturn that still ranks among the worst in national history.

The National Bureau of Economic Research estimates the United States was in a contraction prior the panic, starting in January 1893 and continuing through June 1894. After a respite, the nation was back into a recession in December 1895 that lasted until June 1897. Detailed unemployment data from the era is not available, but it is generally believed the U.S. jobless rate exceeded 10 percent for as long as six years. By some estimates, unemployment may have topped 18 percent in 1894 and was likely at least 12 percent as more than 15,000 businesses failed nationwide.¹³¹

The True Reformers, Capital Savings and Penny Savings banks all weathered the storm.

In Richmond, the Savings Bank of the Grand Fountain, United Order of True Reformers was reportedly the only bank that continued normal operations throughout the panic. Each of the city's other financial institutions, at a minimum, took some type of action to reduce their activities, such as suspending payment, refusing to honor checks or declining to pay full value on checks.¹³²

“Amid the crash of banks, the hush of the manufacturers’ hammers, their wheels, cogs and belts, your Savings Bank moves gloriously on, while none dare molest her or make her afraid,” wrote True Reformers Bank Cashier Hill.¹³³ “She has paid every check presented to her, while others have dropped their heads, drooped their wings and failed, having their very life choked out of them. Believe me, not a bank in this city, and not many others in this state, are cashing depositors’ checks.”

The Bank also provided money to the city's school district when the worst of the crisis hit Richmond's banks. According to a newspaper article published at the time, the organization cashed a check that was used to issue school janitors their salary in currency in September 1893.¹³⁴

“When I called the bank ... I was informed by the teller that the institution had never stopped to pay out currency for checks, and that its own checks had been readily accepted everywhere,” a reporter wrote.¹³⁵

In Washington, the Capital Savings Bank “stood the strain of the panic ... without asking a quarter from anyone, paying every obligation on demand.”¹³⁶ This statement might be perceived as somewhat misleading, although technically accurate. Although the institution may not have sought outside assistance, at a time when its condition was particularly perilous, Bailey used his personal credit at another bank to obtain “a large sum.” That money was, in turn, used to support Capital Savings and, as Hilyer described it, “make secure an enterprise whose failure would have affected the commercial integrity of a whole race” in the District.¹³⁷

In Alabama, Penny Savings was among many Birmingham institutions that saw turmoil after the apparent failure of that city's First National Bank in August 1893. First National, which had more depositors than any other bank in the state, had been suffering what was essentially a slow-motion run with numerous small depositors closing their accounts over a period of days.¹³⁸ The institution was essentially forced into failure when its ongoing demand for cash was compounded by another institution withdrawing from its agreements

with the local clearinghouse – the mechanism through which payments moved among banks.¹³⁹

In the aftermath, the pressure became much more immediate at other Alabama banks. Washington, who had become a friend of Pettiford's, later recounted the events at Penny Savings.

“They crowded to the colored bank demanding their money, but such was the confidence in its officers that their word that the bank was all right persuaded the people not to withdraw their money.”¹⁴⁰

Washington's account may have underplayed the stress placed on the financial institution during this period. It appears Pettiford at some point sought and received a degree of assistance from Steiner Brothers Bank, one of the same institutions that had helped to educate his staff a few years earlier.¹⁴¹

Pettiford later pointed to the event as an important moment in proving his institution's stability.

“One of the lessons (learned from) the panic was that we should prepare for war in time of peace,” Pettiford said.¹⁴² “This is an old saying, but a very helpful one especially with bankers. Another lesson learned was that, in many respects, confidence is the equivalent of money. Being able to survive the panic was a good investment for us. It gave us the confidence of the people that, perhaps, we (would) not have gained in any other way.”

By the late 1800s, the issue of black homeownership had a long and discouraging history. Since before the Civil War, many black leaders stressed widespread homeownership as an essential step toward equality, and yet for many, it was an impossible step to take. Each time this goal appeared to draw closer, it would inevitably move yet further away. For example, almost as soon as the concept of “40 acres and a mule” began to form, the proposal collapsed. Freedman's Savings, in its myriad promotional materials, enticed would-be depositors with visions of saving to buy a home, but then the bank failed in an explosion of fraud and corruption that swallowed with it depositor savings, making homeownership even more difficult.

Real property ownership was also one of the components of Washington's philosophy on black advancement. As Baradaran notes, Washington believed wealth and property were necessary elements for blacks to gain the respect of whites, which would later lead to increased influence and finally voting rights.¹⁴³

Not all of the era's civil rights figures agreed. Washington's most well-known contemporary from this era was Du Bois, who favored a more militant approach to economic and social parity with whites. Generally, many of his opinions were the opposite of Washington's views. Whereas Washington believed vocational education was the route to economic growth, Du Bois supported liberal education led by what he called the "Talented Tenth," or the 10 percent who were the intellectual elite. Where Washington talked about a separate black society, most famously in his well-known "Atlanta Compromise" speech, Du Bois sought immediate integration. When it came to Washington's strategy of property ownership leading to voting rights, Du Bois believed that voting rights had to come first.

"(Washington) is striving nobly to make Negro artisans (into) business men and property owners; but it is utterly impossible, under modern competitive methods, for workingmen and property owners to defend their rights and exist without the right of suffrage," Du Bois wrote.¹⁴⁴

While black property ownership had increased in the years ahead of the establishment of all three banks – according to one estimate, blacks owned 8 million acres by 1890, up from 3 million in 1875 – there was still far to go.¹⁴⁵ Here, the banks had a particularly important responsibility.

Among the three institutions, it appears Alabama Penny Savings may have been the most innovative in addressing the issue. Their approach was reflective of the bank's overall philosophy, which Pettiford later explained:

Some time ago I was asked how we succeeded in getting so many of the laboring people interested sufficiently to open accounts with us. My answer was that, being thoroughly interested in our people, we went to them, not simply to get their money, but to get them as well. We labored to convince the listeners to our addresses, which have been continued throughout 15 years of our work, that we were interested in their education, in their being good husbands and good wives, in their being good laborers, both public and domestic, and that they should succeed by accumulating something. We make the money matters, as related to the bank, incidental instead of making it the main object. We have succeeded in a large degree in convincing the people of our district that the bank was thoroughly interested in their welfare and that it stood more as an opportunity for them than for the bankers.¹⁴⁶

To promote homeownership and under Pettiford's leadership, the bank was extensively engaged in buying large parcels of real estate to divide into smaller lots upon which small homes could be constructed.¹⁴⁷ Related to this, the bank utilized what was then an unconventional loan structure allowing for smaller down payments and lower interest rates over longer periods than other banks. This design, which was utilized in the Gaston loan, was successful for the bank financially and in helping to increase homeownership.¹⁴⁸

Speaking at the National Negro Business League's first meeting in 1900, Pettiford explained that his bank had "many times come to the rescue of persons of my race who had so managed their homes as to have them at the mercy of some building and loan company or other money sharks. So the Negro bank stands as a mighty wall protecting our people from the impositions of unscrupulous men."¹⁴⁹

True Reformers Savings' activities during this period are less clear, in part because the records from its earliest days are no longer available. What is known is that between 1900 and 1903, it was heavily involved in mortgages. Reflecting its original primary purpose, the bank was a key source of funding for a number of the broader organization's initiatives including retail stores, a hotel, a newspaper, a planned retirement home for senior citizens and the establishment of a farm near Richmond, Va., with a community model somewhat similar to the Alabama Penny Savings real estate initiative.^{*****}

Little remains to assess Capital Savings' lending activity or community engagement, although it was likely significant. At the time of the bank's creation, Washington, D.C., was home to an "army of salaried colored men and women, officials, clerks, messengers, teachers, and a still larger army of honest wage earners who drew every month in salaries tens of thousands of dollars."¹⁵⁰ As might be expected, most of the depositors were government workers.¹⁵¹ By 1897, the bank had nearly \$1.5 million in discounts and loans outstanding.¹⁵²

***** Neither the retirement home nor the community, which was to be known as Brownsville, was successfully developed.

An Era's End

In the late 19th and early 20th centuries, most banks were not long-lived institutions. This was particularly true with the smaller banks, which tended to operate from five to eight years before either failing or being acquired by a larger bank.¹⁵³ Recognizing this, it is particularly noteworthy the average lifespan of the first three black banks was around 20 years.

The shortest-lived was the Capital Savings Bank. Under its original articles of agreement, the institution was scheduled to terminate after 20 years in operation. It nearly made it that long, suspending operations after 14 years in November 1902 and failing under a court order in 1903.¹⁵⁴ Without comprehensive records, it is somewhat difficult to gain an accurate perspective on its failure. Bank officials said the bank's depositors included a large number of teachers and the bank was thus subject to significant seasonal withdrawals during the summer months when teachers were not paid. The withdrawal pressure usually moderated during the fall as deposits recovered, but that was not the case in 1902 when the bank endured what Secretary Robert Terrell called "a quiet run."¹⁵⁵

The bank's receivers cited a degree of mismanagement – the bank had accepted worthless insurance policies as security against some loans, and there was borrowing by bank officers. Several of the officers responded to the accusations with denials or lengthy defenses they hoped would justify their actions. For one example, the receivers reported that Bailey owed the bank around \$2,700. Bailey offset some of that amount by turning over the title to a real estate holding, while arguing the bank was in debt to him nearly \$4,000 in unpaid compensation.¹⁵⁶ As might be expected, there was significant litigation among numerous involved parties.

"The Capital Savings Bank receivers are still throwing raw meat into the animals' cage," one reporter wrote in the midst of the turmoil.¹⁵⁷ "The effect is apparent. Explanations are beginning to fly thick and furious."

At its end, the bank had 1,400 depositors with \$83,000 in deposits and \$67,000 loans. In terms of deposits, the number is well below what had been reported earlier in the institution's history. One unattributed newspaper account from 1900 said at that time, the bank was only involved in about 15 percent of Washington, D.C.'s black banking business, suggesting there may have been a decline for some time.¹⁵⁸

"There is every reason to believe that this Bank could have continued to operate

acceptably if the top officials had not borrowed so heavily and if the Bank had watched its loan policy more carefully to ensure that loans were made on sound and negotiable securities,” reads a later analysis.¹⁵⁹

Although the True Reformers Savings Bank did not fail until 1910, there is some indication that the seeds of its decline began to take root around the time Browne took leave from the organization for medical reasons in 1897. He died later the same year after refusing an arm amputation to address a tumor.

Through a combination of “personal magnetism, drive and ego,” Browne was the catalyst of an organization that became “the largest, and ostensibly, most successful black business concern in America.”¹⁶⁰ In his absence, things changed in tangible ways. For the Bank, those changes meant that some of the internal rules were relaxed. Meanwhile, leadership, rather than resting primarily in the hands of a dynamic and focused individual, was transitioned to a committee.¹⁶¹

The United Order of True Reformer’s expansion continued apace after Browne’s death, with activity in 24 states by 1900 and regional Western headquarters established in St. Louis.¹⁶² Meanwhile, although the bank had many individual depositors, from its inception the bank’s primary role as a provider of financial services was in serving the fraternal association and its various chapters. As a result, banking decisions were sometimes made based on the organization’s goals or the immediate needs of a subsidiary affiliate and not what was in the best interest of the bank as a financial institution. The Order essentially financed itself, borrowing from the bank and not repaying the loans in many cases.¹⁶³ All of this became apparent in 1910 when the state of Virginia bolstered the regulation and examination of state banks by the Virginia Corporation Commission.¹⁶⁴ As a result of the more stringent regulatory environment, at least 13 state-chartered banks in Virginia were liquidated, closed or merged into another institution.¹⁶⁵

In the case of True Reformers, as later described by its receivers, “The Order wrecked the Bank.”¹⁶⁶

At the time of failure, the bank had few commercial loans to individuals. The largest debtor was the Reformers Mercantile and Industrial Association with the Order and other individual Order businesses also heavily in debt.¹⁶⁷ Meanwhile, the bank itself held title to real estate in at least 14 cities, much of it highly overvalued.

Additionally, some bank officials were accused of embezzlement and a number of

individuals from both the Order and the bank were indicted.^{168, 169} The validity of these accusations is difficult to ascertain. In most cases, charges were later dismissed.¹⁷⁰ The most substantial accusations were leveled against Hill, who supposedly embezzled as much as \$50,000. Hill disappeared and never had his day in court. The general view was that Hill had been made a scapegoat by others and fled rather than risk arrest. He was never found.⁺⁺⁺⁺

At the time of failure, True Reformers Savings Bank had 5,500 deposit accounts with a significant number of them holding \$30 or less.¹⁷¹ Depositors with accounts of more than \$2 eventually recovered about 25 percent of their deposits, although some may have received more.¹⁷² Meanwhile, the Order claimed a membership of about 60,000 around the world. The bank turmoil prompted the state to suspend the Order's business license, a move that may have had the most significant impact on the approximately 30,000 True Reformers insurance policies held by individuals.¹⁷³ The Order underwent something of a reorganization, replacing its leadership and attempting to restore its credibility, but membership began to dwindle and it ceased operations in the 1930s.¹⁷⁴

The Alabama Penny Savings Bank's failure came little more than a year after the death of its founder. Pettiford's passing in September 1914 was a critical event for the bank. From the inception, Pettiford had meticulously forged relationships across the community, not only among potential depositors but also with other banks dating back to his success in enlisting their assistance in training his staff. His high regard was reflected in the crowd of 3,000 attending his funeral, spilling out into the streets around the 16th Street Baptist Church.¹⁷⁵ It was also something the bank would desperately miss in the months ahead.

The first issue to confront the bank unfolded half a world away. Although the United States did not enter World War I until 1917, the economic impact on the southern United States was almost simultaneous with the War's beginning. More than one-half the U.S. cotton crop was marked for export to Europe, and the combination of a record-large U.S. crop and overseas turmoil sent cotton prices plummeting, losing 40 percent of their value and trading at levels around one-half of what they had been a few years earlier.¹⁷⁶ Given the

++++ Hill's case is especially bizarre given that he was well-known and something of a public figure. There were reports he had tried to deposit money in possibly two Richmond banks after the collapse. In August 1912, a Memphis man was arrested who authorities thought was Hill, but it turned out he was not and the man was freed. In April 1914, Hill was supposedly found living in Los Angeles and posing as a physician, but that account was also incorrect. By the end of 1914, Hill had not been captured and apparently was never found. (*The Times Dispatch*, May 25, 1911 and March 26, 1912; *Chicago Defender*, Aug. 10, 17 and 31, 1912; *The Tulsa Star*, April 4, 1914)

South's continuing dependence on the crop, the impact was felt by not only growers, but also the region's merchants and banks.¹⁷⁷

Both the downturn and Pettiford's passing may have contributed to a decision by bank officials to merge with another local institution in early 1915. The Prudential Savings Bank was established in 1910 by Ulysses Grant Mason, a black physician who, between 1897 and 1908, worked at Alabama Penny Savings under Pettiford.¹⁷⁸ The merger of these two banks to create Alabama Penny Prudential Savings Bank was touted as a merger of near equals, but the older institution was significantly larger and also likely on firmer footing financially.¹⁷⁹

Any stability gained through the merger, however, did not last long. Shortly before Christmas, there was a rumor the bank's teller, who was the son of original teller B.H. Hudson, had embezzled funds. Although the elder Hudson vowed to cover any losses, a run of depositor withdrawals was already underway. This pressure was compounded by the fact that the bank at that time was already seeing substantial seasonal withdrawals related to a traditional Christmas savings club where customers, after making regular deposits throughout the year, withdrew funds to pay for holiday purchases.¹⁸⁰ Against this growing need for liquidity, the bank's assets were tied up in a number of illiquid long-term church loans. Faced with crisis, the bank's leadership turned again to Steiner Brothers for help, but Steiner had a near-simultaneous request for assistance from another local bank under pressure. Steiner chose to support the other institution, leaving Alabama Penny to fail soon after.¹⁸¹

It appears that depositors may have eventually recovered about 25 percent of their accounts from Alabama Penny Savings, although Gaston, the prominent local businessman, later said that "many people in the Birmingham area lost their entire life savings."^{182, 183}

"It was an honest effort to establish a bank in the very heart of the South," N.B. Young Sr., one of the bank's officers, said later.¹⁸⁴ "The chief officers were without reproach. W.R. Pettiford and B.H. Hudson were men with characters as clean as a hound's tooth. The Bank went into liquidation based on a rumor."

Steiner's choice to assist the other bank, which had white owners, over Alabama Penny Savings during the crisis raises at least the question of racism in relationships among the banks of this era. The remaining evidence makes it impossible to determine the factors that were considered in the Steiner decision. Similarly unknowable are the individual relationships among the institutions; however, it is clear that overtly racist practices in financial services could be quickly mitigated by financial considerations. For example, in Richmond white merchants threatened to pull deposits from white banks that did not process checks they

received from black customers.

“This led to the voluntary offer on the part of the leading national banks to act as clearing house agents, not so much to help the colored man as to facilitate the business of large white depositors,” read one account of the decision.¹⁸⁵

There are also reports of white banks working with black banks on financing large mortgages sought by their customers.¹⁸⁶

It is probably not coincidental the longest lasting of the first generation of these institutions – Alabama Penny Savings – was also the one most purely a bank in terms of structure and mission.

Capital Savings was closely aligned with the already-established Industrial Building and Savings, and True Reformers was a function of serving the Order. These connections (as well as the implied government guarantee with Freedman’s) were certainly advantageous at the start of these institutions. In Alabama, however, Pettiford may have been more focused on the task at hand and more farsighted in terms of the potential.

“By very safe and careful methods of extending credit, our bank has assisted many persons in the establishment of small business concerns and such persons, after getting on their feet, have proved valuable customers,” he said.¹⁸⁷ “The management of our bank has all along recognized the principle that, in order to grow truly strong, our constituency must be strengthened. For this reason, as well as to do good generally, it has been its constant aim to lose no opportunity to assist in the general uplift of our ... constituency. In this effort ... the general welfare of the community is subserved.”

“Banks are an essential factor in the progress and civilization of a nation. They are the media through which the current flows that electrifies the business world and gives energy to and strengthens the brawny arm of labor. Banks quicken commercial activity and render invaluable aid in all the avenues of trade. They gather all the unemployed capital of the country. While the individual may contribute but little, yet the aggregate is colossal.”

- JAMES STORUM
SECRETARY, CAPITAL SAVINGS BANK
1897¹

Atlanta

The first black banks created a path that others soon followed. Between 1899 and 1905, there were at least 28 black banks established in the United States, and by August 1906, there were 33 in operation.² Total deposits were around \$1.1 million, or the equivalent of about \$28 million in 2018.^{####}

“The organization of (the True Reformers Bank and the Alabama Penny Savings Bank) marks the successful beginning of the Negro into the banking business in America,” J.H. McConico of the Little Rock, Ark.-based Capital Savings Bank said during an August 1906 speech to the National Negro Business League (NNBL). “After these Negroes, whose names will live as long as ... history, had succeeded in establishing ... banks on a firm basis, others commenced to argue that what they had done, others could do.”³

Among those “others” who followed was perhaps the most well-known of America’s early black bankers: Maggie Lena Walker.

Born July 14, 1864, in Richmond, the former Maggie Mitchell was raised by a single mother after the death of her stepfather. Her mother worked as a laundress to provide for her family, relying on the children to help.

“I was not born with a silver spoon in my mouth, but a laundry basket practically on my head,” Walker later recalled.⁴

She attended Richmond’s segregated public schools where, at the age of 14, she became active in the Independent Order of St. Luke – a society established in 1867 with a mission similar to other societies that provided sick and burial benefits for their members.⁵ After graduation, she taught for three years before marrying Armstead Walker Jr., and turning her focus to raising her children and expanding her work with the order. She established councils in Virginia and West Virginia as a traveling organizer. In 1899, she was elected the society’s national executive secretary treasurer – a position that was functionally the head of the society in terms of its business operations, including membership and finance.⁶ At the time of her election, the organization was in a precarious position. It had suffered the loss of a long time leader and had \$400 in outstanding debt against \$31 in its treasury.⁷

Wendell P. Dabney, a prominent writer during the era and a high school classmate of Walker’s, said that she made St. Luke’s successful “almost immediately.

“(Her) earnestness, diplomacy and oratorical ability ... served as a magnet.”⁸

^{####} The 33 includes two institutions in Indian Territory.
St. Louis Post Dispatch. Sept. 16, 1906.

The organization's membership doubled within two years. At the order's 1901 annual meeting, Walker proposed a number of changes to the organization and a major expansion of its initiatives, many similar to what her Richmond neighbor Browne had done at the helm of the True Reformers. The meeting also included what were likely Walker's first public remarks about creating a bank.

"(W)e need a savings bank. Let us put our moneys together; let us use our moneys; let us put our money out at usury among ourselves and reap the benefit ourselves," she said.⁹ "Let us have a bank that will take the nickels and turn them into dollars."

To prepare for the initiative, Walker emulated a tactic of Pettiford's, although perhaps without realizing it: partnering with a local white bank that allowed her to observe their operations.¹⁰

Under Walker's leadership, her vision was realized with the opening of the St. Luke Penny Savings Bank in November 1903 in the St. Luke headquarters building, 900 James St. in Richmond. On its first day, the bank received more than \$8,000 in total deposits from 280 depositors, with amounts ranging from a few dollars to hundreds.¹¹

At the bank's helm, Walker almost immediately became a national figure.

Her travels to some of the country's major cities and speeches at numerous churches made headlines in the *Boston Globe*, *New York Times*, *Washington Post* and others.¹² She was one of the era's most prominent voices for black equality and women's rights, including suffrage.

"We are Negro women ... and we must make history as Negro women and make such history as will cause posterity to rise up and call us blessed," she told an audience in Newark, N.J.¹³ "It is for us as women to get behind our husbands, brothers, and friends and arouse them to do their duty and so cast their ballots as to bring justice to the race. You here in the north may not be disturbed about disfranchisement, but it may creep up here one of these days."

Similar to the way the bank was only part of Walker's life, it was also only one of several initiatives created by St. Luke. Over time, the organization's operations expanded in ways similar to the True Reformers to include a retail store, a formalized insurance business to replace the benefit fund, a printing press and a weekly newspaper. Each entity employed a number of black women at Walker's direction, and the women were encouraged to save toward homeownership.

"When any one of our girls is advanced to making as much as \$50 a month we begin to persuade her to buy a home," Walker said.¹⁴ "As soon as she saves enough for the first

payment, the Bank will help her out.”

In addition to its broader focus on homeownership, St. Luke Penny Savings was also involved in educating children about the importance of saving money. Small banks were created that could hold 100 pennies, creating the dollar necessary to open an account.¹⁵

Notably, Walker provided a steady hand, avoiding the pitfalls that plagued True Reformers. The bank began construction on a new building at the corner of First and Marshall streets that opened the following year. In 1929, Walker led a merger with another Richmond black-owned bank, the Second Street Savings Bank, creating Consolidated Bank and Trust. In 1931, the new bank merged with a third local black-owned bank, Commercial Bank and Trust. Walker remained chair of the bank until her death in 1934. Consolidated, meanwhile, was acquired by Abigail Adams National Bank in 2005. It became Premiere Bank after a 2009 merger.¹⁶

During Walker’s lifetime, she served on numerous civic boards including the National Association of Colored Women and the Virginia Industrial School for Girls. She also helped locally organize the National Association for the Advancement of Colored People in Richmond and served on that organization’s national board.¹⁷ Among other prominent activities, she was a leader of the 1904 Richmond streetcar boycott, which occurred after lawmakers passed one of the early examples of Jim Crow legislation allowing electric streetcar operators to dictate segregated seating on their vehicles. Her home at 110½ E. Leigh St. in Richmond is now a National Historic Site.

Walker was still a relatively new banker at the time of the 1906 NNBL convention, but she was already well-known. Although she did not attend the event in Atlanta, the meeting’s proceedings make clear the mere mention of her name received one of the loudest ovations during the entire three-day conference.¹⁸

The Atlanta session was the seventh meeting of the group formed by Washington in 1900 as a catalyst for black business growth and entrepreneurship. Bankers had been involved with the organization from the start. Pettiford was among the speakers on the first day of the 1900 conference, while Giles Jackson, the attorney who authored the True Reformers bank charter, served under Washington as the organization’s first vice president.

Philosophically, there was close alignment between Washington’s theories about the development of black businesses as the path toward equality and the role of black-owned banks in providing those businesses with necessary capital. Pettiford was especially like-minded in

these views. During the NNBL's first meeting, he made a presentation touting black bank ownership with a report showing black individuals were more likely to have a bank account in communities where there were black-owned banks. In Richmond, one out of every nine black residents had a bank account, while in Birmingham, it was one out of every four. Conversely, in Atlanta, where there were no black-owned banks, only about one out of every 30 black residents had a bank account.¹⁹

The 1906 NNBL session welcomed 14 bankers among the event's 500 attendees – probably the most substantial gathering of black bankers in one location to that point in U.S. history. As might be expected, the bankers shared many common issues. Perhaps the most significant from a business perspective was simply gaining the trust of potential depositors. In the South, that meant first overcoming a perception the banks were a mere curiosity and not serious financial services providers.

H.C. Wallace, cashier of the Greenville, Miss. Knights of Honor of the World Savings Bank, explained how his bank for some time was “simply a show-place for our citizens to bring (visitors) to show ‘our Negro bank,’ and to give lots of advice, talk about the weather, drink ice water and, in fact, do all but bring much-needed deposits.”²⁰

The teller of Capital Savings Bank in Little Rock, Ark., made similar comments about how “a large number of people came by and said that it was such a nice thing for the colored people to have a bank.”²¹

While trust in a bank can be influenced by any number of factors – and it is understandable for depositors in the pre-deposit-insurance era to be skeptical of a new and untested institution – the long shadow cast by the Freedman's collapse was evident. At this point, Freedman's was viewed by many as wholly a black failure.

As Pettiford explained in 1906: “Many of the young men born since the failure of the Freedman's (Bank) in Washington would tell us ... that Negroes could not run banks, and they gave as their reason the failure of that bank.”²²

R.T. Hill, who was the first of 11 bankers to present to the NNBL general session at the Atlanta meeting, also addressed the issue.

“No doubt there lingers in the minds of some that the Freedman's Bank was of Negro origin, officered and managed solely by Negroes, and thus managed, they were responsible for its failure,” he said.²³ “This impression (I) wish to correct. Colored men were not elected to any important positions until failure was undermining its very foundations.

“Mr. Douglass was not elected president until the bank was in the throes of death.”

After recounting Freedman's history, Hill expressed concern that inexperienced management, one problem caused by the rapid expansion in the number of black banks, could result in the failure of a black bank that would have similar ramifications for them all.

"We fear that the organization is too fast for permanent safety," Hill said.

"If one Negro banks fails, it would shake the confidence of the world, however insignificant the bank."

The comments were echoed by S.D. Redmond, a physician representing the American Trust & Savings Bank in Jackson, Miss., who urged in his remarks the hiring of an auditor who could hopefully prevent, or at least mitigate, the inevitable failure of a black bank.

"For while we hope for no failures, yet bearing in mind that no man is infallible ... some disastrous results must come; but by this means we might hedge them about and make these failures few and far between," Redmond said.²⁴ "For the failure of one Negro bank in this country will do all the Negro banks more harm than the accumulated failures of 100 white banks would do the white banks."

Redmond's comments offer some perspective on just how long and slow the march of progress had been for black bankers. His institution had opened in 1904, and yet his fears were the same as Pettiford's when the Alabama Penny Savings Bank opened in 1890:

"We felt we were pioneers in the banking business for our people," Pettiford said of his early experience, "and that if we failed it would injure the reputation of the race, as well as damage the standing of ourselves and our families."²⁵

During the NNBL conference's second day, Pettiford called for a side meeting of the bankers where they created the first iteration of the National Negro Bankers' Association to further their collective interests.

"We feel the need of unity among our banks for many reasons – principally for the help that could be extended to the weaker by the stronger in times of need, instead of being forced to beg and pay for assistance to those who do not care for our welfare, except for a handsome remuneration," Wallace said.²⁶ "In the solidarity and union of all the colored banks great good is expected and I am instructed to urge the association of all interested, on the basic principle that unity and only unity can bring about the benefits and advantages of conducive success."

The banking organization was understandably lauded by Washington.

"If I were asked to name what, in my opinion, was the most interesting and encouraging

body ... that I have seen assembled in the last 20 years, I think I should be tempted to name the National Negro Bankers' Association, which held its first meeting in Atlanta," he wrote shortly after the meeting.²⁷

Some sense of the significance of the 1906 event can be gained from remarks made during the general session by Redmond.

"The subject of banking among Negroes at this time must, of necessity, be a unique one – one full of interest to the outside world," he said to begin his presentation.²⁸

"Imagine for a moment a people who, 40 years ago, were but chattels, used as collateral by their masters to borrow money from banks, now presuming to have come all of the way through the stage of transition of being per se collateral in a bank to the station of owning and controlling banks. This incident is without parallel in history.... Nevertheless, be this as marvelous and unique as it may, it is a veritable fact in the case of the Negro banker in this country today; for one has but to reverse his imagination 40 years to see the slave-holder mortgaging a few of the same Negroes in the banks of those days, and borrowing money on the bodies of the slaves of those days, who in many instances, are the same men who are standing at the head of some of our leading monetary institutions which ... stand for the very embodiment of the success of the ... financial and commercial world."

EPILOGUE

“If nothing else, what we’ve come through shows me there’s no limit to what we can do.”

- ALDEN McDONALD
PRESIDENT AND CEO, LIBERTY BANK & TRUST CO.
1997¹

The Road Ahead

IN THE SHADOW OF THE PAST

From the outside, the perception of events such as the 1906 NNBL conference is that they occur in what might be considered a somewhat festive atmosphere. The attendees come, in part, to draw motivation from one another and continue to build collectively upon their joint successes. To be sure, the event, like others to come in the years that followed, had that aspect, but the environment was also tempered by the harsh realities of race in America.

The entire period surrounding the creation of the first and second generation of black banks occurred during a time that some consider to be the nadir of America's race relations.² Defined as the period after Reconstruction's end in 1877 through the first part of 20th century, this era included the expansion of Jim Crow segregation, discrimination, disfranchisement, violence and the return of the Ku Klux Klan in 1915.

As historian Leon Litwack wrote, "What the white South lost on the battlefields of the Civil War and during Reconstruction, it would largely retake in the late nineteenth and early twentieth century."³

Thus, although substantial headway had been made in the area of black banking prior to the 1906 convention, innumerable challenges remained.

As if to underscore this reality, less than a month after the NNBL conference, the event's host city of Atlanta was in the midst of the first race riot in its history. As many as 40 black people were killed over four days. The violence was in part sparked by two white supremacists in the Georgia gubernatorial race who exploited simmering racial tensions in addition to recent fabricated media reports of black assaults, which further inflamed part of the city's white population.[✂]

The NNBL was seen as a potential catalyst for coordinating, stabilizing and increasing the number of black banks across the United States. And the number did continue to grow after 1906 with more than 50 black-owned lending institutions established by 1911 and annual transactions totaling more than \$20 million.⁴ The road was not always smooth. After Pettiford's death in 1914 and the failure of several black banks – not unexpected at a

[✂] To clarify, although both events happened in the same city in close proximity, there is no apparent connection between the riot and the NNBL meetings.

time when it was common for small banks to survive only a few years – the initial NNBL dissolved in 1916.⁵ A decade later, a separate organization under the same name was established by another of the era’s legendary figures.

Richard Robert Wright was born in 1855 to slave parents on a plantation near the community of Dalton in northwest Georgia. After a failed attempt by the plantation owner to sell the boy when he was perhaps as young as 8, Wright and his mother traveled to Atlanta after the Civil War where she hoped to help her children obtain an education. Wright eventually was enrolled at the Storrs School, which was attended by black children of all ages, and was there when Gen. Howard from the Freedman’s Bureau came for a visit. While there, Howard asked the children if they had any messages he could carry back to the North about their progress. Wright, who would have been about 12 years old at the time, responded, “Tell them we’re rising.” The statement, later immortalized in the poem “Howard at Atlanta” by abolitionist poet John Greenleaf Whittier, became something of a rallying cry.⁶

It also changed Wright’s life. Wright said later that his teacher was so impressed by the statement “that she imagined something of value might be made of me and never tired in her efforts in my behalf.”⁷

The teacher’s husband was president of Atlanta University. Wright attended the school and graduated, becoming a teacher. Wright led the establishment of Georgia State Industrial College, now known as Savannah State College, and served in the U.S. military where he was involved in payments during the Spanish-American War. After retiring from education, he embarked on what was essentially a second career as a banker, joining his family in establishing a black bank in Philadelphia in 1921. The move happened after his daughter Lillian was verbally insulted and then physically assaulted by a white bank officer at a Savannah, Ga. bank.⁸ After unsuccessfully seeking an apology from the bank’s president, Wright vowed to “organize a bank where anybody may come and be treated like a lady or a gentleman.”⁹

Wright’s bank, Citizens and Southern Banking Co., was named the same as the Savannah bank where his daughter was attacked.¹⁰ Wright, however, apparently did not readily admit this naming history to his Philadelphia depositors, telling some the depositors they were the “citizens” in the bank’s name, while he was the “southern.”¹¹

The Wrights focused specifically on small depositors from the city’s working class, many who had recently come to the city from the South.¹²

Among Wright’s innovative ideas as a banker were the extension of banking hours to

9 p.m. to better serve customer work schedules and the creation of a special fund set aside for lending specifically to individuals who had lost their jobs.

“We see no reason why we shouldn’t help a good man when he gets into a pinch,” Wright said.¹³ “Sometimes by a small loan homes can be kept intact, families kept together, and the bank not only makes a reasonable profit, but renders a service that will endear it in the heart of the community.”

The idea of resurrecting the NNBL had been discussed since at least 1924. Wright had joined both the Pennsylvania Bankers Association and the American Bankers Association soon after establishing his bank, but he felt that more needed to be done for the nation’s black bankers.¹⁴ At the time the new NNBL, under the name Negro Bankers Association, was established, the nation was home to around 70 black banks, nearly 60 of which operated in the South.¹⁵

“What a power for good we could be if we were organized effectively,” Wright said explaining his thoughts on reforming the association. In our declaration we assert that our purpose is to promote the general welfare and the usefulness of banks and banking institutions and to secure uniformity in action, together with the practical benefits to be derived from personal acquaintance and from the discussion of subjects of importance to the banking and commercial interests of the country and especially in order to secure the proper consideration of questions regarding the financial and commercial usages, customs and laws which effect the banking interest of the country and for protection against loss by crime or otherwise.”¹⁶

In 1948, the organization changed its name to the National Bankers Association and later extended its membership to encompass all minority-owned institutions. It is an advocate for minority- and women-owned banks and is engaged in numerous partnerships.

The Wright family’s move to Philadelphia came during the Great Migration, a remaking of the nation’s socioeconomic landscape as rural black Southerners sought opportunity in the urban industrial centers of the North.

Already faced with the looming threat of physical violence and racist Jim Crow laws, Southern black families saw their economic prospects further dimmed as boll weevil infestations, floods and increasing farm mechanization all reduced the need for farm labor. Meanwhile, new opportunities were developing in the North where the start of World War I had slowed European immigration, an important source of factory labor, just as industrial

production demand rose.

The growth of black neighborhoods in Northern urban centers fostered the development of black business districts, which were often anchored by banks.¹⁷ In Chicago, where the black population nearly tripled between 1910 and 1920 and then doubled again the following decade, Jesse Binga's Binga Bank became a cornerstone for development on the city's South Side. When it opened as a private bank in 1908, it was the first black-owned bank in the Northern U.S. In Chicago, Binga was followed by Anthony Overton, who in 1922, opened Douglass National Bank, nearby.¹⁸ Together, they were the era's two largest black banks.¹⁹

Reflecting the Migration, by the 1930s, black banks had been established to serve business districts and residential neighborhoods in such Northern cities as Detroit, Philadelphia, Pittsburgh and Cleveland. During this period and for some time afterward, the view by many within the black community was black businesses would likely exist in a separate and parallel position to those operated by whites.²⁰ The period between 1900 and the 1930s has been referred to as "the golden age of black business," with black entrepreneurs and capitalists achieving success "within a black economy, which developed in response to the nation's rise of two worlds of race."²¹

By one count, "at least" 57 black banks were created in the United States across the four decades between the True Reformers bank charter receiving approval in 1888 and 1928.²² Another analysis puts the number at a total of 40 before 1933, while a third pegs the number at nearly 130 – the last figure including all types of financial services institutions such as insurance companies.^{23, 24} Reasons for the discrepancy include a lack of uniformity in monitoring institutions by the era's banking regulators, non-standard definitions of what constitutes a "black bank," and the reality that banks during some parts of this period, regardless of ownership or depositor base, could be very short-lived.

These numerical discrepancies aside, there is no question that the era prior to the Great Depression was the most active for black banks thus far in U.S. history.

All banks suffered during the Great Depression. In 1933, the United States had about 14,000 banks total – a massive number of institutions by modern standards but about half what the country had in the 1920s. Black banks saw a far larger drop on a percentage basis during the Depression period, dwindling as low as a mere eight banks, with both of the giant Chicago institutions among the failures. The number of black banks in the United States remained relatively unchanged over the following decades. By one count, only four new black banks were chartered between 1933 and 1960, and only 11 were operational at

the end of that period.²⁵

There was, however, resurgence across the late 1960s into the 1970s. This time frame aligns with the civil rights movement and the establishment of the government's Minority Bank Development Program in 1971, which encouraged the use of minority banks. Between 1963 and the end of 1976, 40 black-owned banks were established, adding to the 10 already in existence.²⁶

Neither the growth rate nor the strength was sustained. Black banks were once again particularly hard hit by the overall banking sector turmoil in the 1980s, with 35 black banks closed by 1988.²⁷ In the 2000s, the numbers saw a general decline with the 2008 financial crisis continuing the now-familiar experience of black banks suffering a disproportionately large blow during periods of banking sector turmoil. There were nearly 50 black banks in the United States in 2001, according to FDIC data. The number fell below 30 in 2013 and continued to dwindle to 22 at the end of calendar year 2017, or a 56 percent decline from 2001.

A couple of important comparisons: First, the total number of U.S. banks dropped about 38 percent across this same time frame to a little less than 5,000 at the end of 2017, thus the decline in black banks has once again been more profound on a percentage basis.²⁸ More troubling, however, is that the black bank experience has not aligned with the experience of other minorities. Overall, markets served by minority-owned banks were hit particularly hard by the 2008 financial crisis and recession. Minority banks had a higher ratio of non-performing loans, a lower share of core deposits and higher expenses relative to income than their nonminority peers.²⁹ However, while the number of black banks at year-end 2017 was lower than in 2001, in each of the other minority banking designations defined within FDIC data (Hispanic, Asian/Pacific Islander, and Native American), the year-end 2017 counts were higher than in 2001.

For some time there has been general discussion among policymakers and others about how the number of total banking institutions relates to the access of financial services. Amid the overall long-term trend of increasing banking sector consolidation, some have suggested that the United States, which still has a very large number of financial institutions compared to other developed economies, could be as well-served with fewer institutions. This opinion is based on the view that, rather than having a large number of community banks, very large institutions could increase their number of branches. Such a model would be similar to the Canadian system.³⁰

Discussions about the potential benefits of community banks can focus on several issues, including, for example, the important role community banks have been shown to play in small business lending, mortgage credit or other financial services.³¹ In this regard, it appears that black banks may fill an especially unique role even among community banks.

Generally, discussions about black-owned banks in recent years have involved their inclusion within the broader designation of “minority banks.” One of the few papers focused specifically on black-owned banks since the 2008 financial crisis was produced by a trio of researchers affiliated with the University of Wisconsin, Whitewater and published by the Federal Reserve Bank of Boston in 2014. In analyzing data compiled through 2011, the authors found poverty rates of almost twice the national level in communities served by black-owned banks, with the data implying that these institutions are located in areas that other banks view as unprofitable.³²

Black banks “are vital sources of capital ... and provide banking services to communities that are often barren of any other mainstream banking services,” the authors wrote.

The Boston Fed paper’s findings are in agreement with a 2017 study from the Chicago Fed that focused more broadly on all minority banks. This study found that minority depository institutions provided credit to customers with relatively low incomes and more credit constraints than customers served by non-minority institutions.³³

In considering these studies, it is also important to keep in mind that nearly one out of every five black households in the United States is unbanked and nearly one out of every three is considered “underbanked,” meaning while they might have a checking account, they receive other financial services outside of traditional banks, such as from payday lenders. In both the unbanked and underbanked categories, the numbers are the highest rate among any race or ethnic designation reported by the FDIC.³⁴

This impacts individuals and communities in any number of ways. The most vivid example in recent history being the foreclosure crisis which hit the black community particularly hard. With the burst of the housing bubble, black homeownership, which already trailed that of whites, began a decline that continued even as the U.S. economy recovered. The fall erased a generation’s worth of gains dating back to the civil rights era.

In a 2010 paper by Jacob S. Rugh and Douglas S. Massey examining issues of segregation and the foreclosure crisis, the authors write that because minority communities are often underserved by mainstream financial service providers, residents of these communities may believe the exploitive terms offered by pawnshops, payday lenders and check cashing services

are the standard. Thus what the authors describe as a “dearth of access to mortgage credit,” meant would-be homeowners became “prime targets for subprime lenders,” who marketed their products aggressively during the real estate boom.³⁵

These findings bring some perspective to the limits of legislative efforts to assure minority access to financial services. While the Community Reinvestment Act seeks to prevent discrimination and practices such as redlining, it addresses only potential issues at individual banks. It appears to be somewhat limited in terms of what it can do to assure broad access to credit on appropriate terms and financial services within a minority community.

As former banker Kim Saunders explained in a 2007 interview, black banks generally remain within the inner city while other institutions focus instead on opportunities that can be found in the suburbs or other higher-wealth locations.

“That positions black banks to serve a pivotal role in the development that is going on in a lot of urban cities across the country,” said Saunders, who at the time was president of Mechanics and Farmers Bank, which opened in 1908 in Durham, N.C. The institution remains today one of the country’s longest-running black-owned banks.³⁶

Alden McDonald Jr. was born in 1943 and grew up in a family of seven crowded into a two-bedroom house near the heart of New Orleans. His father was a waiter at an all-white club, and his mom earned income where she could, often operating an informal taxi service for neighbors. As a child, McDonald joined his younger siblings helping a couple of uncles who were bricklayers. He sometimes spent weekends helping his father work at parties held in the homes of wealthy whites. At his parents’ encouragement, he started college but dropped out to focus more time on working and earning an income. For education, he turned to a trade school where he learned accounting.³⁷ He applied for a job at International City Bank after his father learned from a club guest the bank was specifically looking to hire black employees.

McDonald was soon one of the country’s few black bankers. Within a few years, he was a vice president of consumer lending and the first black bank officer in Louisiana. Soon, he was approached by Norman Francis, president of Xavier University, who asked McDonald if he would serve as president of a black-owned bank that Francis and his business partners were establishing. McDonald turned him down twice, but relented when Francis asked a third time.

Liberty Bank opened in a trailer sitting in a parking lot near the New Orleans business

district in 1972. There were seven employees. At the time, McDonald had yet to earn his degree from the Louisiana State University School of Banking. He was 29 years old. Though he may have seemed ill-equipped for such a job, he was also the most senior black banker in the state. He was something of a modern-day version of Pettiford.

“This Bank represents freedom of our community,” McDonald said in the bank’s opening ceremonies.³⁸ “A light shining the way for a better New Orleans.”

With only \$2 million in capital, the Bank started small, able to provide consumer loans only for things like appliances instead of mortgages or credit for entrepreneurs. But with McDonald at the helm, the bank grew in the years that followed, expanding into six other states and becoming one of the largest black-owned financial institutions in the United States. The Bank weathered the storms – both figuratively in terms of events within the banking sector, and literally in the face of 2005’s Hurricane Katrina. The latter event thrust McDonald into the national spotlight, with numerous articles on his efforts and the work of his bank in the storm’s aftermath, including multiple articles in *The New York Times*.

Among the bank’s initiatives was one that seemed to echo Wright’s program a century earlier that provided credit to individuals who had lost their jobs. After Katrina, Liberty allowed customers to withdraw as much as \$500 from ATMs despite the bank at the time having no way of knowing if those customers had sufficient deposits to cover the withdrawal. McDonald made the decision after thinking about families stuck in hotels and trying to recover. It ended up costing the bank about \$1 million, an amount which was only a portion of the overall losses related to the storm. The Bank also offered extended grace periods on loans and deferred interest on credit.

In discussing the initiative with *The New York Times* on Katrina’s 10-year anniversary, McDonald contrasted Liberty’s philosophy with an unfavorable banker stereotype: “(Some say) a banker is someone who gives you an umbrella when the sun is shining and takes it away when it starts to rain. We try not to be that banker.”³⁹

In the same way the ATM decision accounted for only part of Liberty’s post-Katrina efforts, the bank is only one aspect of McDonald’s life. He has been involved in a long list of boards and initiatives, including time as the president of the National Bankers Association.

Among his many career highlights, McDonald was a featured speaker at a ceremony in Washington, D.C., marking the 150th anniversary of the Freedman’s Savings and Trust Company’s establishment. The event included the renaming of the U.S. Treasury Annex Building, which stands on the former Freedman’s site, to the Freedman’s Bank Building.

The event came only a few days before McDonald marked his own 50th anniversary in banking. McDonald told event attendees:

From 1888 to 1934, African Americans owned more than 130 financial institutions. During that same time, the number of black-owned businesses rose from 4,000 to 50,000 businesses. African American banks in our communities, in our country, do make a difference. We help to grow the economy and we help to build jobs. This has been history and we continue to do it today....

In the Great Recession of 2008, these ... institutions served some of the most economically challenged markets in our country. New Orleans, Birmingham, Montgomery, Atlanta, Detroit, Milwaukee, I could go on and on. These communities today are still challenged and the African American institutions are still there supporting economic growth.

We have a place in this economy. We have a place to help grow our economy, grow our community and provide jobs.... We are stewards of sacred American legacy that every man and woman has the right to life, liberty and the pursuit of happiness. Let's make future generations proud of what we could accomplish together.⁴⁰



Minority Banks

— AND THE —

Economy

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FEDERAL RESERVE BANK *of* KANSAS CITY

SEPTEMBER 27, 2017

BANKING AND THE ECONOMY: A FORUM FOR MINORITY BANKERS

FEDERAL RESERVE BANK OF KANSAS CITY

KANSAS CITY, MO.

Minority Banks and the Economy

Thank you for the opportunity to join you today. I am pleased to host this important event at the Federal Reserve Bank of Kansas City.

The Kansas City Fed is one of 12 regional Reserve Banks that, along with the government agency called the Federal Reserve Board in Washington, D.C., comprise the Federal Reserve System, our nation's central bank. The work of the Federal Reserve can be summarized in three primary mission areas: monetary policy, financial institution supervision and regulation, and payment services. And taken together, these activities are intended to maintain economic and financial stability as important conditions for the health of the U.S. economy and the prosperity of the American public. As a regional Federal Reserve president, I oversee the Kansas City Fed's work in these areas across a seven-state region with branch offices in Omaha, Denver and Oklahoma City.

In my remarks today, I will offer a brief perspective on the performance of the nation's economy and the current stance of the Federal Reserve's monetary policy. I'll also discuss the importance of access to credit in creating broadly shared economic growth, concluding with highlights of how these issues affect communities, including minority communities. Before continuing, I must tell you that the views I share are wholly my own.

The U.S. economy

The U.S. economy is in reasonably good shape, with growth reported to have increased 3.0 percent in the second quarter of 2017, a rebound from its weak first-quarter pace. Consumers continue to be the main force behind this expansion, with consumption accounting for more than two-thirds of the nation's gross domestic product (GDP). We also have recently seen business investment pick up, experiencing the strongest growth rate since mid-2014. Looking forward, with accommodative financial conditions, elevated levels of consumer and business confidence, and a brighter global growth outlook, I expect the economy will continue to grow over the next few years with low unemployment and low inflation.

Labor markets have continued to strengthen with total employment increasing on net by 17 million workers, which is double the number of jobs lost in the last recession. As employment has steadily increased, the unemployment rate has fallen from 10 percent in 2009 to its current level of 4.4 percent. This level of unemployment is below nearly all estimates of the natural rate of unemployment, which is the level of unemployment that is estimated to prevail in the longer run in the absence of cyclical fluctuations.

At last week's Federal Open Market Committee (FOMC) meeting, the committee decided to maintain the current level of short-term interest rates, continuing an accommodative policy stance. Another important action was taken, however. The committee announced it would initiate the process of normalizing its balance sheet.

Based on my own economic outlook, further gradual rate adjustments will be needed to move the federal funds rate toward its longer-run level. With an economy growing at an above-trend rate and unemployment below most estimates of its long-run level, continuing to remove accommodation will be important for long-run sustainable growth and financial stability.

Access to credit

Appropriate monetary policy settings serve an important role in sustaining growth in the long run. But there are many other important factors that determine the nation's economic growth, including a healthy and productive labor market, innovation and access to capital. I would like to turn to the issue of the availability of credit and its implications for the economic prospects of households and businesses.

The banking system in the United States has long been an essential source of capital for the nation's economy. Here in the Tenth Federal Reserve District, we have a large number of community banks.

Having adapted over the years to significant economic and regulatory changes, as well as technology disruption, the community bank business model has retained its unique focus on relationship banking. These banks, their owners and the people who work for them are generally members of the communities they serve. The relationships are long-term, and the incentives of the bank and the borrower are well-aligned.

Whether the community is a small rural town or an urban neighborhood, this business model features local bankers who are immersed in their communities, understand the economic drivers of their communities and often serve as leaders in their communities. Those of you

who are bankers here today recognize this critically important role, and your financial institutions have recognized that this requires diverse staff reflecting the communities they serve.

However, diverse talent in banks is just one aspect of serving a community from a base of understanding and personal engagement. Diverse ownership of banks is also important. Yet, there are very few minority-owned banks in the United States today, and their numbers are declining. Over the 10-year span from 2006 to the end of 2016, the total number of FDIC-insured minority depository institutions has declined from 194 to 157.¹ Within this category, the number of institutions classified as Native American or Alaskan Native American has held relatively steady, falling from 20 to 18, while the number of Hispanic American banks has dropped from 48 to 39. The sharpest decline has been in the number of African American banks, which has fallen by almost half, to 24 institutions, according to FDIC data.

Community bank trends

These trends are not limited to minority banks, however. The number of banks in the United States has dropped considerably from a little more than 14,000 in 1982, according to FDIC data, to around 5,000 today, and much of this decline has been in banks with less than \$100 million in assets. How these consolidation trends affect access to credit is important to understand.

You have only to read today's news to recognize the value of a local bank. It was recently reported that Bank of America, the second-largest lender in the United States, has closed nearly 1,600 branches since the financial crisis. These closures primarily impact rural areas. While some branches were sold to smaller lenders, others were simply closed with customers directed to offices dozens of miles away.² On the other hand, at about the same time this story was making headlines, another article highlighted efforts to save a community hospital in the Missouri boot heel region and the involvement of a community bank in providing its financing. As the banker explained: "We knew what would happen to this community if that hospital closed."³

The historic role of minority-owned banks

Throughout the history of our financial system, the inability to access credit often spurred the establishment of a local bank. These banks often proved to be innovative lenders

that considered the unique characteristics of local communities.

Minority-owned banks emerged for the same fundamental reason, and their history tells an important story about access to the financial system, and understanding history is so important to understanding how to solve the challenges we face today.

In the Tenth Federal Reserve District, Centinel Bank of Taos, N.M., is a great example. Centinel is generally believed to be the first mainland U.S.-based Hispanic bank. If you were here last year, you remember one of our speakers was Centinel's chair and CEO, Rebeca Romero Rainey. In 1959, Rebeca's grandfather, who had served in the military and then earned a law degree, was denied a \$50 loan to purchase office furniture. At that point, he vowed to create a bank that would provide equal access to credit for everyone. After gathering support from about 300 investors, the bank opened for business in 1969.

More recently, the first bank owned or controlled by a Native American tribe was created in 1987 when the Blackfeet Tribe of northwestern Montana took over a failed bank in the city of Browning, Mont. Blackfeet National Bank later became Native America Bank, NA.

With some of the earliest African American banks, loans were primarily to mutual aid societies and entrepreneurs.⁴ The number of African American-owned banks increased substantially after 1900 and, between 1900 and 1914, the number of African American business enterprises doubled, with more substantial increases in some business segments, particularly retail merchants.⁵ This was a notable expansion of opportunity compared to the late 1800s when the primary occupations held by African Americans were blacksmith, tailor, barber and similar jobs.⁶

The first banks with African American ownership opened during the Reconstruction period in our country. The first to receive a charter was the Savings Bank of the Grand Fountain of the United Order of True Reformers in Richmond, Va. In 1890, the bank's founder, William Washington Browne, explained his goal: "The True Reformers sounds like reformers of character, but we are hunting for people who are already reformed. The church ... has the other kind of reformation in hand; mine is financial reform. I want to go forward reforming our people financially. We are throwing away money enough to buy this country."

Browne's bank, and the others that soon followed his model, sought to provide services to customers who had suffered in many ways, including being exploited financially. Prior to that bank's creation, the government had established the Freedman's Bank in 1865 specifically to serve the nation's African American population. Although the intentions were honorable and branches were opened in several states in an attempt to connect to local populations,

the bank's leadership was not aligned with the needs of its communities. Instead, corruption and high-risk investments made with bank deposits resulted in its failure (despite the best efforts of Frederick Douglass, who had fought to save the institution after the damage had been done). In this era before deposit insurance, the collapse took with it the life savings of 61,000 savers who were struggling to become established in the United States.

Browne's life story is itself very much about the ability to overcome challenges and is as inspirational as any in American history. At the age of 13, he escaped slavery and eventually joined the Union Army. After gaining an education in Wisconsin, he returned to the South as a teacher and served as a minister. Influenced by his experiences, Browne established the Grand Fountain of the United Order of True Reformers, a fraternal organization with the stated goals of taking care of the sick, burying the dead and providing other assistance.

Browne had not necessarily sought to establish a bank to achieve personal goals. Instead the bank was created in response to the needs of his organization, which reflected the needs of the community. A Virginia chapter had been unable to organize because of difficulties safely storing its treasury of about \$100. Denied access to a traditional banking institution, the group had to instead rely on the safe of a local storekeeper, which proved problematic. The chapter was ready to give up, but Browne encouraged them forward. Creating a bank provided a degree of security for the organization by meeting a very fundamental financial services need — in this case, the bank was literally a response to the need for a safe place to store funds — but Browne knew, as we know today, that banks also foster opportunities. It was to be an economic win/win — a place to pool the resources of savers to meet the needs of borrowers.

In the words of one of Browne's associates: "We mean to encourage ... people to get homes and means upon which they may independently subsist."

Browne kept his word. Throughout the panic of 1893, which saw nearly 600 banks nationwide either fail or suspend operations, it is recorded that Browne's bank was the only bank in the entire state of Virginia that continued paying out all checks. During the crisis, at least one local public school was able to obtain the funds necessary for paying salaries from Browne's bank after being denied by other financial institutions. Similarly, the bank loaned money to the City of Richmond in the early 1900s when the city was also unable to obtain funds from other sources. This is the story of community banks — saving the local hospital in Missouri today, funding Hispanic customers in 1969 and saving the city of Richmond in the early 1900s. An institution that is local enough to understand and meet

the credit needs of a community determines whether that community thrives or withers.

Conclusion

This history is a reminder of the importance of access to credit and the role it plays in the prosperity of households and the vitality of businesses. In the words of one of Browne's contemporaries, "Banks are the life blood of trade and progress, whenever they may be established."⁷ It is as true today as it was in 1890. And the health and diversity of our banking system remains key to the promise of delivering broad-based economic gains for thousands of communities and for the millions of households and businesses they serve.

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MINORITY BANKS AND THE ECONOMY

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Abbreviations

LC: Library of Congress

LOC CA HAN: Library of Congress, Chronicling America, Historic American Newspapers

LOC P&PD: Library of Congress, Prints & Photographs Division

MAWA: Maggie L. Walker National Historic Site

NARA: National Archives and Records Administration

WIKI: Wikimedia or Wikimedia Commons

VAHM: Virginia Museum of History and Culture

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PAGE 56

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BOTTOM: Memorials of Deceased Companions of the Commandery of the State of Illinois, Military Order of the Loyal Legion of the United States, Chicago, Illinois, p. 61 (1901).

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PAGE 58

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PAGE 59 Harper's Weekly "Freedmens (Savings) Bank" illustration, March 29, 1879, newspaper image obtained and digitized by the Federal Reserve Bank of Kansas City.

PAGE 60

TOP: Courtesy of the Virginia Museum of History and Culture, VAHM 2003.161.75 (circa 1897).

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PAGE 61

TOP: The Twentieth Century Union League Directory: Colored Washington. Efforts for Social Betterment. Compiled and edited by Andrew J. Hilyer, Washington, D.C., p. 4 (1901).

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TOP: Courtesy of the National Park Service, Maggie L. Walker National Historic Site, MAWA 7231 (circa 1903-1905).

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PAGE 64 Courtesy of the U.S. Department of the Treasury, by Douglas Yates (January 7, 2016).

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It is our hope that in their work and experience might be found some beneficial insight as we seek ways to ensure the equitable access to financial services by all Americans. ”

– ESTHER L. GEORGE
*President and Chief Executive Officer
Federal Reserve Bank of Kansas City*



Cashier Emmett C. Burke (second from left) and bank staff in front of the St. Luke Penny Savings Bank, located on the corner of First and Marshall Streets in Richmond Va. The Bank was founded by Maggie Lena Walker, who said: “Let us put our moneys together; let us use our moneys; let us put our money out at usury among ourselves and reap the benefit ourselves. Let us have a bank that will take the nickels and turn them into dollars.”