

MAINE STATE LEGISLATURE

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THE LEGISLATURE,

OF THE

STATE OF MAINE,

DURING ITS SESSION

A. D. 1833.

BANK COMMISSIONERS' REPORT.

The Commissioners appointed by the Governor and Council to "examine the doings and transactions of the several incorporated Banks in this State, and generally to ascertain the state and condition of the same," attended to that service between the 19th of October and the 30th of November, and

REPORT :

The South Berwick Bank, which we visited on the 23d of October, we found had extended its accommodations to the Directors much beyond the limits permitted by law. The 27th Section of the Act of 1831, Chapter 519, restricts the whole amount, which may be due at any one time from the Directors, either as principals or endorsers, to one third of the capital. The capital of this bank being \$50,000, the aggregate of the liabilities of the Directors is not allowed by law to exceed \$16,666. But on the day of our examination we found the amount to be \$30,208 52, of which 17,888 81 they owed as principals and 12,319 17 they were liable for as endorsers or sureties, making an excess beyond the limits of the law of more than \$13,000.

The Directors state as an excuse for so far transcending the liberty allowed by law, that they found it impossible to conduct the business of the bank advantageously for the Stockholders, without taking a large amount of their Directors' paper. The board consists of seven persons, all of them engaged in trade or partners in houses which are so engaged, and doing in fact nearly all the business of the place. The consequence is that nearly all the accommodation, which the trade of the place requires is required by the Directors, and most of the commercial paper, to which that trade gives rise, is paper which they give or receive in the course of their business. We have heard of no complaint that others had been deprived of accommodations at the Bank in consequence of the large loan to the Directors; on the contrary, it appeared, from an examination of the discount books, that the Bank had liberally extended its loans to the neighboring towns. We believe, also, that the loan to the Directors is perfectly safe; that they are men who are doing their business on a solid capital, and are fully able to meet all their liabilities; nor would the loan be considered as unreasonably large, if they did not stand to the Bank in the relation of Directors.

The **P**resident stated to us that the **D**irectors had endeavored to keep their liabilities within the limits of the law; that to effect this in one case, in which a **D**irector is a partner in a commercial house, that the paper of the firm is taken with the endorsement of the other partner, and the partner who is a **D**irector had given a bond of indemnity to his partner for his endorsement, which was lodged with the **B**ank for its security. In other cases they had taken the security of a partner who was not a **D**irector, for the partnership debt, without such bond, and yet, the **D**irectors were concerned in so large a proportion of the business of the place, notwithstanding all the efforts of the board, their liabilities would often exceed the limits of the law. We suggested to the **P**resident the propriety of selecting for their **D**irectors a part from among the **S**tockholders, who were not engaged in trade; or of reducing the number from seven to five. The objection to this was, that persons not engaged in active business were not so well acquainted with the quality of paper offered for discount, nor so useful in giving circulation to the bills of the **B**ank; and that they had experienced a practical benefit in having their most active business men engaged in the **D**irection.

The South Berwick Bank is not the only one which has felt an inconvenience in the legal restriction on the amount of the liabilities of the Directors; and some others have had recourse to the same expedients to keep down their Directors' liabilities within the limits of the law: that is, when a Director has been a partner in a commercial house, the Bank has taken the name of the other partner for the partnership debt. In other cases they have discounted paper for Directors without their endorsement, when they considered the security undoubted without it. These facts have been urged upon us as a reason for recommending to the Legislature a repeal of this restriction on Directors, or at least such a modification of it as will allow them an accommodation to a larger amount. If the general law remains unchanged, it is suggested that exceptions should be made in favor of particular banks. Urged in this way, we have felt it our duty to consider the propositions. Though we admit the inconvenience of the restriction in particular cases, we do not feel prepared to recommend a change in the law. As a general rule, we think it wise and salutary; advantageous to the banks themselves, and contributing to the security of the public. The

policy of the law is to favor, in the choice of Directors, the selection of such stockholders as are not large borrowers. We think the policy good, and that it ought not to be changed. In nearly all cases where banks have sustained large losses, and especially where losses have been sustained by the public from the insolvency of banks, it has been in consequence of the large amount which the Directors have borrowed themselves. It is manifestly safer for the bank that the paper of those who want large accommodations should be passed upon by disinterested persons, than by the borrowers themselves; and though it is desirable that a portion of the board of Directors should be composed of men in active business, and therefore of such as want bank accommodations, it is not desirable nor is there usually any necessity, for making up a board exclusively of this class of persons. Neither are we prepared to recommend that a dispensation should be granted to particular banks from this salutary restriction. If yielded to one, every other that felt the inconvenience would apply for the same indulgence, and it would be difficult to refuse to one what was granted to another; and there would be danger that the restriction would soon be withdrawn in all the

cases where it is the most needed. If any innovation is made on the law, we should recommend one of a general character, to allow the liabilities of the Directors in the small banks, with capitals of \$50,000 only to be extended to 50 per cent. of the capital, but only in cases where the number of the Directors was seven or more.

With the exception of the excess of the liabilities of the Directors, we saw nothing to object to in the mode in which the business of the South Berwick Bank has been conducted the past year. It has always been managed with skill and prudence, and has been a useful institution, not only to the village where it is established, but to the neighboring towns. Its loans we consider to be entirely sound, and the Bank itself entitled to full credit.

The loan of the York Bank we found to exceed the amount which by law it is entitled to have due. The state of the Bank, as it existed on the day of our examination, is exhibited in the following statement :

<i>Dr.</i> Capital Stock, -	50,000	Bills and Notes discounted, 78,074 34
Bills in circulation, -	66,669	Loan to the Atlantic Bank, 20,000
Deposits, -	13,647 67	Do. Globe Bank, 10,000
Unpaid Dividends, -	220	Do. York Manuf'g Co., 5,125 50
Profits and Loss, -	552 22	
Discount, -	314 24	113,199 84
		Deposited in Suffolk Bank, 2,000 00
		Deposited in Globe Bank, 17,264 04
		Bills of other Banks, - 821
		Checks, - - - 1,667 75
		Specie, - - - 1,456
		<hr/>
	136,403 13	136,408 63

The loan of the Bank, adding to the bills and notes of individuals discounted, the loan to three corporations which, not being of the nature of deposits, but loaned on time, are not to be distinguished from discounts to individuals, was \$113,199 84. By the fifth Section of the Act of 1831, entitled an Act to regulate Banks and Banking, it is provided that there shall not be due to any banking incorporation more than double the amount of its capital stock actually paid in. The manifest object of the law in fixing this limitation on the business of banks, is to prevent the dangers which would arise from overtrading; and the real intentions of the Legislature we suppose are satisfied when the banks confine what is properly called their loans within these limits. We think the limits are sufficiently liberal. If a bank, with the aid of its circulation and deposits, can keep its loan up to twice the amount of its capital, it may easily divide ten per cent. profit to its stockholders, after paying all its expenses including the State tax. The possibility of making a profit of ten per cent. will always bring into operation as large an amount of bank capital as the business of society requires, and while our whole circulating medium consists of bank bills, we think

that the safety of the public demands that the banks should not extend their business beyond the limits now allowed by law. We are far from intending to intimate an opinion that there is any danger in the present case. But it is obvious that the more a bank extends its business, the greater is the danger that it may become embarrassed. A bank must always own a sum equal to the excess of its loan above its capital. With a capital of 100,000 dollars, if it has loaned 200,000, it must own 100,000, and if it has loaned 300,000, it must own 200,000. When a bank has loaned, therefore, only to double the amount of its capital, it will continue solvent unless it loses more than half its loan, but if it has loaned to three times the amount of its capital, its will become insolvent, provided it loses more than one third of its loan. So large a loss as one half of the loan of a bank, can scarcely take place without extreme indiscretion on the part of its Directors, and while a bank keeps within the limits allowed by law, there can be but little danger to the public. But we think the liberty allowed is large enough, and ought not to be exceeded.

The Waldo Bank has recently been incorporated and commenced business the last season. Its loca-

tion is favorable for doing business advantageously ; but when it commenced operations none of its Directors had any acquaintance with banking, and they set out on principles erroneous and unsafe. No particular hours were set apart for bank hours, but the business was done at any time of the day or evening that suited the convenience of its customers. The system of book-keeping was extremely deficient and in some respects incorrect, and the business of the bank was done in so loose and immethodical a manner as would almost certainly have led to confusion if not to serious embarrassments. The errors of the bank are to be attributed to the inexperience of the Directors, and not to any design to involve their accounts in mystery. We pointed out to them the danger of transacting the business of the bank in this loose manner ; and since our examination, the Cashier has informed us that these irregularities have been corrected, that a set of regular books has been opened on the plan that we recommended, which are now kept regularly and systematically as in other banks. The following is the state of the bank as it stood on the 26th of November.

<i>Dr.</i>			
Capital Stock,	50,000 00	Loan,	- - 90,806 00
Bills in circulation,	47,751 00	Deposit in Suffolk Bank,	3,000 00
Deposits,	- 7,272 28	“ in Eagle Bank,	11,392 81
Discount,	- 2,676 43	Bank charges,	- 521 12
Profit and Loss,	124 75	Specie,	- - 2,450 63
	<u>107,825 46</u>		<u>108,170 57</u>

The Thomaston Bank, having abandoned all expectation of recovering the money of which it was robbed some years ago, has very properly determined to appropriate its earnings, to repair its loss. No dividend has been made the last year, and its profits amounting to \$5,572 26 have been applied to extinguish the loss, leaving a balance still against the bank of 6,160 28. The Directors have made great efforts to discover the thief, but without being able to succeed, or at least without being able to produce such proof against any individual as would convince a jury. They have however succeeded in recovering from a person suspected of the robbery \$2,149 72 a sum about equal to that which the bank has expended in its efforts to discover and bring the culprit to justice. The business of this bank has always been conducted on correct principles, and the bank is fully entitled to the public confidence. The following statement shows the state of the bank on the day we examined it—Nov. 27.

Dr.

Capital Stock, 50,000 00	Loan, - -	87,354 82
Bills in circulation, 58,824 00	Real Estate, -	2,784 00
Discount, - 411 25	Deposits in other Banks, 1,189 27	
Profit and Loss, 38 64	Bills of other Banks, 6,903 00	
Due Commercial Bank, 792 30	Specie, - -	3,353 13
Deposits, - 18,618 32	Suspense Account, 6,160 28	
	Due from J. Thompson, 20,940 47	
<hr/> 128,685 01		<hr/> 128,685 01

We saw nothing in the business of any of the other banks which we have thought deserving particular notice. They appear to be doing a safe and healthy business, and in the transaction of their business keep within the rules which the Legislature has prescribed for their government. The safety of the banks must always depend mainly on the solvency of their debtors; and we have thought [it] our duty therefore to look particularly to their loans. We should do injustice to them if we forbore to say that we consider their loans generally safe. A fair proportion of them is made up of business paper, always the best paper for a bank, and that part which is made up of accommodation paper is generally distributed among a large number of borrowers in moderate sums. This division of the loan contributes essentially to the security of the bank by diminishing the probability of its meeting at any time so considerable a loss as to occasion any serious embarrassment.

While our banks redeem their bills in Boston they require but a small amount of specie in the transaction of their business ; and accordingly since this practice has prevailed, they have usually kept but a small amount in their vaults. At the time of our examination they had \$130,763 58, while their notes in circulation amounted to \$1,220,633. The disproportion is apparently large, though it is not perhaps much larger than it ordinarily has been for several years past. Still when it is considered that nearly the whole supply of the precious metals in the country is collected in the banks, it is pretty evident that if there should arise at any time a general suspicion as to their security, it might lead to very unpleasant and embarrassing results. While confidence is maintained, no inconvenience is felt from the small amount of specie; and the banks of this State were never better entitled to the public confidence than they are at this time. People are always willing to receive bank notes instead of specie, as long as they know that at any time they may be exchanged for it. But if from a sudden alarm there should be a run on the banks, it is manifest that their specie must soon be exhausted. If any regulations, applied to the system of banking in this State

only, occurred to us, which would have the effect of keeping in the country a large amount of the precious metals, we should feel it our duty to recommend it to the attention of the Legislature. But no practicable measure presents itself to our minds, which, confined to this State alone, would produce this result. If all the New England States would agree to restrict the banks in their issues to bills of five dollars and above, the immediate effect would be a large increase of specie as a circulating medium. But while the banks are permitted to issue bills of the denominations of one, two and three dollars, long experience has proved that these bills will almost entirely exclude specie as a circulating medium, except so much in the parts of a dollar as is necessary for change. If, however, this State alone should adopt the measure of restricting its banks in this particular, it probably would prove ineffectual as a remedy. The small bills of our banks, if called in, would immediately be supplied by bills of the same denominations of the banks of the neighboring States, and it would probably be impossible for the Legislature by any preventative measure to exclude them. We think this subject is worthy of the attention of the Legislatures of the States, whether it

be viewed in relation to the public security or public morals. By far the greatest proportion of counterfeit bills in circulation, consists of bills of the denominations of one, two and three dollars, and the loss from counterfeit bills principally falls on that part of the community which is least able to sustain it.

If, however, the amount of specie in our banks is small, they have abundant means on hand to meet all demands that can be brought against them. Since the practice has prevailed of redeeming their bills in Boston, they have been seldom called upon to redeem their bills at their counter except in small sums. What they want, therefore, is not specie in their vaults, but funds which are equivalent to specie in Boston. At the time of our examination, the banks of this State had deposited in the hands of their agents in Boston, (and in every instance but one their agents were incorporated banks) \$298,547 54, which added to the specie in their vaults amounts to \$429,311 12. In addition to this sum there was due from the banks in Boston to those of this State, payable at an early day and drawing an interest, \$71,930 46. For all practical purposes, this sum may also be considered as a fund

applicable to the redemption of their bills. Their effective funds for the redemption of these bills therefore amounted to something more than 40 per cent. of their whole circulation, a sum which must be considered as very ample.

The late period at which we commenced the examination, prevented us from examining the Calais Bank as yet. We propose that one of the Commissioners should take the earliest opportunity to examine it, thinking it unnecessary to put the State to the expense of so long a journey by two persons to examine a single bank.

The Kennebunk bank had so nearly closed its business at the time when it was last examined, and so nearly extinguished all its obligations to the public, that we did not think any further examination was required at this time. The Saco, Cumberland, Bath, Waterville and Bangor banks, not having had their charters renewed, have been calling in their bills and rapidly bringing their business to a close. No new discounts have been made since the expiration of their charters; the greater part of their debts have been collected, and their capital stock principally paid back to their stock holders. All however have retained sufficient funds to redeem

their bills which remain outstanding. The amount of bills out at the time of our examination is shown in the exhibit below.

Saco Bank,	5,424
Cumberland,	7,599
Bath,	3,663
Waterville,	7,146
Bangor,	7,858

ASHUR WARE,
ABIEL WOOD.

December, 1832.

STATE OF MAINE.

IN SENATE, January 22, 1833.

ORDERED, That three hundred copies of the foregoing Report be printed.

[Extract from the Journal.]

Attest,

T. J. CARTER, *Secretary.*