

MAINE STATE LEGISLATURE

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Wm. F. Hill
DOCUMENTS

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THE LEGISLATURE

OF THE

STATE OF MAINE,

DURING ITS SESSION

A. D. 1856.

PART SECOND.

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1856.

THIRTY-FIFTH LEGISLATURE.

SENATE.

No. 28.

STATE OF MAINE.

THE Joint Standing Committee on Banks and Banking, to which was referred the joint order of the two branches of the legislature of Feb. 14th last, directing the committee to "inquire into the expediency of investigating the doings of the directors of the Skowhegan, Ellsworth, Searsport and Somerset Banks," having considered the subject therein contained, ask leave to

REPORT :

Having ascertained that the introduction of the order was based upon the bank commissioners' report, their inquiries were confined to the apparent deviation from the requirements of law by these banks, in permitting too large an indebtedness to them by the directors and stockholders, and, in one case, of an over circulation of their bills. The committee have received written and oral communications from the presidents and directors of all these banks, and feel themselves authorized to make the following explanations :

The Skowhegan bank appears to have bills due them, upon which a director is liable to an amount largely beyond what is allowed by law. The president furnished the committee with a list of this paper, which, from the knowledge by a portion of

the committee, of the standing of the principals thereon, they believe to be good beyond a doubt; but it being made payable to a firm of which one of the directors was a member, and it being discounted for their benefit, in part, they were required to place their endorsement thereon. In making their return, the cashier included the liability of this firm, as a liability of the member of it who was a director of the bank. The committee deem this to have been a proper return under the provisions of the law, although it is believed not to be the general practice of cashiers. There is no other apparent impropriety in the transactions of this bank which appears from the return.

The Somerset bank, by the report, has also paper upon which the liabilities of the directors are largely beyond the lawful limit. The president of this bank has made a statement to the committee in relation to the cause of this liability, which is substantially similar to the case of the Skowhegan Bank. The paper discounted, the committee believe to be undoubtedly good without the endorsement of the directors; but it was discounted for the benefit of firms and corporations, of which the directors were members or the agents, and not for their individual use. In the return, this paper was placed with great propriety to the liability of the directors, they having placed their endorsements thereon. This bank appears to have managed its business within the provisions of law with the above exception.

The Searsport bank also shows by the report, a liability of its directors and stockholders beyond the amount allowed by law. The president of the bank explains this by a statement, that the paper signed by, or bearing the endorsement of the directors and stockholders, and which caused the excess, was discounted for companies or associates engaged in building ships, and upon which the names of a large number of men of wealth appear as principals; and that in addition thereto, the ships were held by the bank as further security; that the excess was only temporary, and has, since the return, been

greatly reduced. The committee believe that the paper would have been safe to the bank, even without the names of the directors or stockholders. This bank appears also to have extended its bills in circulation beyond the amount allowed by law, and this is a transaction in which the public are more immediately interested. The enterprising citizens of that community, the past season, required the liberal aid of the bank to enable them successfully to prosecute their navigation and commercial business affairs; and as the bank had at all times a liberal deposit in Boston for the redemption of their circulation, and desiring to afford the greatest facilities to those depending upon their accommodation, consistent with safety to the bank and to the public, the directors felt themselves called upon to permit a larger amount of issue for a limited time, than under other circumstances would have been done. Since the return, their circulation has been considerably reduced, and is now nearly down to the lawful limit. The stockholders of the bank are numerous, and generally people of substantial property, and the committee believe the public can have no cause to fear that their bills are not entirely safe.

The committee are satisfied that the three banks named, are among the safest and most useful in the state. The stock is owned by a large number of individuals, who seek a safe investment of capital; and they are managed by men of intelligence and integrity. And in the cases where they have not complied with strict legal requirements, it is not believed that they intended to violate any provisions of the law whereby the public would suffer loss.

The late board of directors of the Ellsworth bank permitted some of its officers to use, to an improper extent, the funds of the bank for their own benefit. The stockholders have now elected a new board, who are endeavoring to close their business in such manner as will result in the least loss to themselves. The public are interested only as it regards the circulation. This, as appears by the return, is only about eighteen thousand dollars, with specie at the bank of over

seven thousand dollars. As they have a large number of stockholders who are men of pecuniary ability, there can be no doubt of the safety of the bill holders. They redeem their circulation promptly at the bank, and the president informs the committee that he is doing all in his power to close the affairs of the bank, and desires a continuance of the charter only for that purpose. From his known integrity, the committee believe that his efforts will cause the best results, both for the stockholders and the public.

The committee are therefore of opinion, that it is not expedient further to investigate the doings of the directors of said banks.

In regard to these banks, while the committee believe that the directors did not intend any willful violation of law, whereby the stockholders or the public would suffer loss, yet they cannot wholly overlook the fact, that the conditions upon which their charters were granted, have not, in the particulars named, been strictly complied with. And the same is also true, to a limited extent, in the transactions of a few other banks. And they believe it to have been the special duty of the bank commissioners to have made official explanation of these transactions.

The commissioners' report in regard to the banks, is merely a statement of their condition, supposed to be a return by the cashiers, but of what date is not mentioned, without comment by them. This is to be regretted, as much valuable information might thereby have been furnished the legislature, collected by such personal examination as the law providing for the bank commissioners contemplates. Had they explained the causes of the departures by the banks, in several cases, from the positive requirements of law, as they undoubtedly would have been able to do, it being presumed that they made the necessary inquiries, the order referred to in the former part of this report would have been unnecessary, and no unjust suspicions in regard to those banks would have been entertained.

While most of our banking institutions are in the hands of honorable men, and managed with a view of their obligations

to the public, there are undoubtedly some exceptions, where present profit to the stockholders, rather than accommodation to the business community, are the leading principles of action.

The committee are of opinion that some changes in the general banking laws of the state are required, and which might be beneficial in further guarding the public, and result in better accommodation to business men, by restraining the practices of institutions created for legitimate banking, from acts too nearly resembling that of street brokerage. The charters of all the banks will expire next year, and the question of their recharter will necessarily come before the next legislature. This will give an opportunity for such changes and modifications in the banking laws as the public interest demands, and experience of past years shall dictate.

All of which is respectfully submitted.

A. B. THOMPSON, *Chairman.*



STATE OF MAINE.

IN SENATE, March 13, 1856.

ORDERED, That 350 copies of the accompanying Report be printed for the use of the Legislature.

WM. G. CLARK, *Secretary.*