Chapter P28

by
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Unprecedented:
notes were ordered for a Lincoln national bank *after* it was liquidated

Figure 1. Lincoln National Bank, charter 2750, on the corner of 11th and O streets in Nebraska's capital city. The bank opened July 6, 1882 and issued only Series of 1875 notes. George Pratt photo (1889).

A Curious Occurrence

There is an odd entry in the Van Belkum national bank note issuance data for The Lincoln National Bank, Nebraska, charter 2750, in our catalogues (Hickman and Oakes, 1990: Kelly, 2004). It is:

Series of 1875:

5-5-5-5	1 - 4745
50-100	1 - 31
50-100	51 - 55

Of course, the oddity is the gap in the sheet serials for the 50-100 combination. Co-author Hansen asked Lofthus to determine if he could find an explanation in the National Currency and Bond Ledgers in the National Archives.

What Lofthus found is the only case known to occur among the more than 12,000 issuing banks where the Comptroller of the Currency ordered a printing of notes for a bank *after* it had been liquidated. Fortunately for us, the incident was so extraordinary that Watson W. Eldridge, the Chief of the Comptroller's Issue Division, wrote a memo in an obscure ledger explaining what happened so we can tell this tale.

Merger Back Story

The events that led to this unique situation was fallout from the consolidation of The Lincoln National Bank with the larger First National Bank on July 12, 1892. Through the timing of actions taken by a clerk in the Comptroller's office, the circulation of The Lincoln National Bank was shorted by $750 upon the liquidation of the bank

The Lincoln National Bank was voluntarily liquidated after a ten-year existence. National bank examiner J.M. Griffith (1892) questioned why the bankers would want to close: "This bank is in good condition and its business is prosperous, and yet the stockholders seem to think they can better themselves by consolidating with the First National Bank of this place, which is the largest bank here, and to do this it seems necessary to first put this association into voluntary liquidation."

An unusual result of the merger was that The Lincoln National Bank's president, Nathan S. Harwood, became president and assistant cashier Franklin M. Cook became cashier of The First National, replacing the key management of that larger bank. An explanation lies in a finding by examiner Griffith that "one of the prominent officers of the First National Bank is sick and is anxious to leave for Europe." The implication was that the top management of The First National would be seamlessly replaced by the experienced officers from the successful Lincoln National. Newspaper accounts reported that the merger would make The First National one of the strongest banks in the Midwest.

Significant to this story is that the $22,500 circulation of The Lincoln National Bank wasn't assumed by The First National. The National Bank Act allowed liquidating banks to avoid depositing money to cover their outstanding circulations if the merged entity assumed the circulation of the liquidating bank. In this case, no assumption occurred so the officers of The Lincoln National deposited money with the Treasurer to redeem their circulation.

The decision to maintain the circulation of The First National as was proved wise as the Panic of 1893 soon rolled over the nation. On top of the panic, Nebraska suffered widespread crop failures in 1893 and 1894. Harwood and Cook rode through the Panic with the assistance and wise counsel of Charles E. Perkins, a bank director and investor who also happened to be president of the Chicago, Quincy, and Burlington Railroad (Huntoon, 1973).

From its opening through February 1892, The Lincoln National issued only Series of 1875 $5s. However, in the summer of 1891, the bankers decided to switch to $50s and $100s. Consequently, the Bureau of Engraving and Printing prepared a 50-100 plate that was certified July 23, 1891. The Comptroller's Issue Division received the first printing from the plate—sheets 1 to 50–on August 11, 1891. The Issue Division continued to use up the stock of $5s to replace redemptions, so the 50-100 sheets sat in its vault until January 4, 1892, when sheets 1 to 10 were sent to the bank. Subsequent deliveries comprised of 50-100 serials 11 through 31, occurred through May 28 to replace routine redemptions.

Canceled Shipment

On July 18, 1892, the Comptroller of the Currency's Issue Division recorded the issuance of five 50-100 sheets, bank serials 32 to 36, totaling $750. The sheets were to replace the redemption of $750 worth of worn notes that had been logged-in three days earlier. At this point, all was normal.

Figure 2. The Bureau of Engraving and Printing certified proof for The Lincoln National Bank's Series of 1875 50-100 plate. Smithsonian Institution photo.

Then things got strange. Later that day, the clerk handling the ledger canceled the $750 shipment, writing in red ink "No. 32 to 50 inclusive destroyed." The explanation followed: "Vol Liq July 18, by Vote of July 12, 1892," adding that the bank was due $750. Furthermore, he sent the remaining vault stock for destruction.

These destructions were unprecedented at that stage. Strange was the immediate cancelation and destruction of the notes in the shipment as well as the remaining vault stock. The notes involved in the canceled shipment logically should have been returned to the vault stock. As for immediately cancelling and destroying the vault stock, that detail traditionally was carried out weeks to months after a liquidation, not instantly. The cancelations at that time would prove to be a mistake.

A. Barton Hepburn was the Comptroller of the Currency at the time.

Our job for the rest of this article is to track the $750 worth of canceled notes through the books of the U.S. Treasury. This $750 is not simply an abstract entry on the government's book, but $750 in actual notes that belonged to The Lincoln National Bank that vanished from the system when the clerk sent them off for destruction. The notes were gone but their memory lingered in the form of a $750 debt owed to the bank. Could it be repaid in real notes?

Figure 3. The Lincoln NB's Asst. Cashier Franklin Cook, who moved with Harwood to the First National, visited the Comptroller of the Currency's office in Washington in June 1892 to seek prompt approval for the merger given the strong condition of both banks. Lincoln Herald (Jan 2, 1892, p. 4).

On July 28, notification was received at the Comptroller's office that the officers of The Lincoln National deposited $22,500 in the Treasurer's redemption account to cover the retirement of their entire circulation liability. Lurking within the $22,500 was the $750 value of notes that were now gone. This overage in the redemption fund was due the bank. Did that debt just get passed on to the Treasurer's redemption account?

If so, the simple solution seemed to be that the Treasurer simply send a check for the $750 overpayment in his redemption account to the bank.

This idea was broached with U.S. Treasurer Enos H. Nebeker. He would have none of it. His office replied in effect that the redemption fund dealt in actual notes. It was not established in part to serve as a convenient slush fund to paper over accounting mistakes. In order to send a check to the bank, the Treasurer would have to gain authorization for the expenditure through an Act of Congress.

Unstated but implied to the Comptroller was that your people created this problem; you fix it. And by the way, your office has to issue $750 worth of Lincoln National Bank notes to allow us to redeem that portion of the bank's circulation liability that they deposited with us.

Let's back up for a moment to see how similar cases were handled in the past and obviously were going to occur again in the future. Afterall, the Lincoln bank was not the first where shipments for replacements were caught up in liquidations or failures as the banker's deposited funds with the Treasurer to redeem their circulations. There was a protocol for handling such situations.

The impacted shipments were rescinded, as was done in the case of the Lincon bank.

If the shipment was in progress before the banker's deposited money with the Treasurer to retire their circulation, the Comptroller's office notified the bankers to adjust their deposit down by the amount of the canceled shipment to close the matter.

However, if the banker's deposit for the full amount of their outstanding circulation arrived at the Treasurer's office, as was the case here, it resulted in an overage in the Treasurer's redemption fund equal to the value of the rescinded shipment. The overage represented more notes than were in circulation. so the Treasurer redemption fund was expecting to redeem more notes than were possible. In these cases, the Comptroller had his issue division technically issue notes from his unissued vault stock equal to the overage and had them delivered to the Treasurer's office to be redeemed into the redemption fund for the credit of the bank. This not only liquidated the debt owed to the bank but also provided actual notes that the Treasurer used to retire the overage that was now on his books. A simple entry in the Comptroller's issuance ledger documented the move.

The crying difference in the Lincoln case was that there was no vault stock left to draw upon. However, any solution to satisfy the Treasurer had to involve real issued notes.

The Solution

The $750 credit to the bank festered in the Comptroller's office for another two months. Finally, in September, someone there determined that there was nothing in the National Bank Acts governing the operation of the Comptroller's office that precluded them from ordering a printing of notes for any bank, even if it had failed or been liquidated. Forthwith, an order was sent to the Bureau of Engraving and Printings to print $750 worth of 50-100 sheets for the Lincoln bank. Those sheets–serials 51 through 55–arrived on September 21, 1892.

The Comptroller's office sent the sheets to the U.S. Treasurer on behalf of the bank with the request that they be deposited to its credit in order to liquidate that part of the bank's $22,500 circulation represented by the canceled shipment. This was done. Treasury's debt in favor of the bank was cleared, the sheets were destroyed in due course, and the matter finally concluded.

The post-liquidation printing of the $750 worth of the bank's notes created notes to replace those that had vanished through the stroke of the clerk's pen. The brouhaha always was centered around notes, so notes had to be involved in its solution.

Documentation

All of this was explained as follows by W.W. Eldridge, Chief of the Comptroller's Issue Division in a note handwritten in red ink on the page for The Lincoln National Bank in a National Bank Note Receipt and Delivery ledger (C of C, 1863-1923, v. 175, p. 141).

> When this bank went into liquidation there was $750 due it on account of mutilated notes destroyed which was not allowed for in the deposit of lawful money to redeem the notes. The deposit was covered into the Treasury and could not be returned to the bank without an appropriation from Congress. Under these circumstances, the $750 above was ordered printed and was sent to the Treasurer of the U.S. for credit to the bank's liquidating account, with request that he send draft for same amount to the bank. The bank was instructed to credit the item to its circulation account the same as if the notes had been issued to it, same to be balanced by the certificate of destruction of these notes when destroyed.
>
> W.W.E.

Watson William Eldridge

W.W.E. was Watson William Eldridge. His personal involvement is evidence of the unusual situation created by the canceled 50-100 sheets. Eldridge grew up in Flint, Michigan, joining the Union Army, 24th Michigan Infantry during the Civil War and served at Antietam and Vicksburg. He was detached to the invalid corps in June 1863. After the war, he remained in Washington and joined the Comptroller's office in March 1871 as a clerk at a salary of $1,400 per year. He was promoted to teller in 1875, and in 1889 was promoted to be the Issue Division Chief, then one of the five senior-most positions in the Comptroller's office.

Eldridge worked for Treasury for 46 years. At age 74, he was still working as chief when he suffered two paralytic strokes. News reports said he was despondent when he shot himself at his Washington home in January 1917 (Kalamazoo Gazette, Jan. 20, 1917: Washington Post, Jan. 20, 1917).

Surviving Notes

No Series of 1875 $50 or $100 notes are reported from The Lincoln National Bank. An uncut sheet of $5s is in the hands of descendants of a former First National Bank of Lincoln officer's family and an uncut pair of $5s from another sheet is also reported.

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