

Chapter D30

by
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Half a Territorial redeemed in 1907 shook up the Treasurer's redemption fund process in 1919

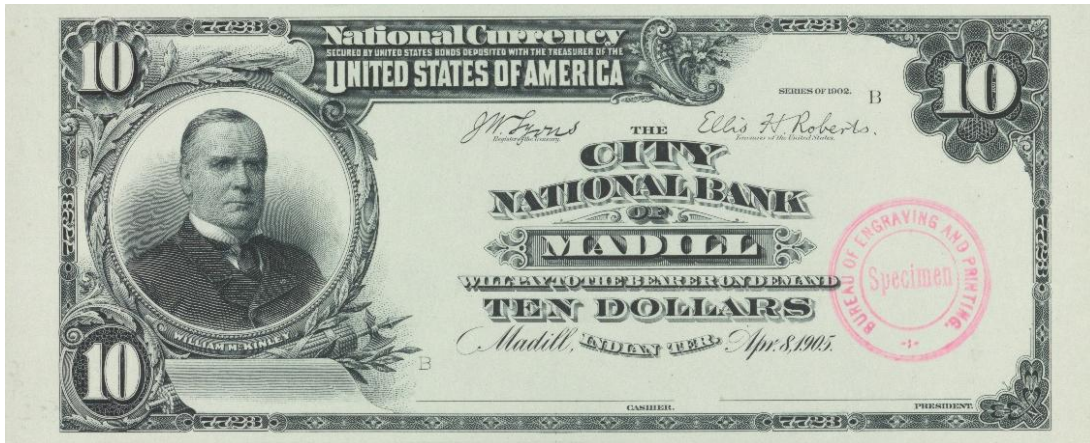


Figure 1. \$10 subject from the 10-10-10-20 plate for The City National Bank of Madill, Indian Territory. Redemption of half of a \$10 red seal from the plate in 1907 created a \$5 credit due the bank in the Treasurer's redemption fund that wasn't resolved until a long-standing redemption procedure was revamped in 1919 when the bank was liquidated. Smithsonian Institution photo.

A Damaged \$10 Territorial Note

On May 1, 1907, the Treasurer's National Bank Redemption Agency (NBRA) recorded the receipt of 95 unfit \$10 notes, 15 unfit \$20s and half of a \$10 issued by The City National Bank of Madill, Indian Territory, charter 7723. This redemption of Series of 1902 red seals totaled \$1,255.

The Treasurer sent a memo to the Comptroller of the Currency's office advising them of this redemption, thereby authorizing the issuance to the bank of \$1,255 in new currency as replacements. The fragment was logged into the Comptroller's ledger in the \$10 redemption column as "1 fr, \$5." The notation "fr" was the clerk's notation for the fractional part of a note.

The Comptroller's office ordinarily would have sent \$1,255 in new notes, but the Madill bankers used only 10-10-10-20 sheets. All the Comptroller's clerks could do was send \$1,250 as replacements and put a \$5 credit owed to the bank on their books. The replacements went out May 4th, 1907. Thereafter, each time a new ledger page was begun, the clerks dutifully carried the "\$5 due" entry forward for the next ten years.

Effectively, the bank's outstanding circulation was now \$5 less than its \$50,000 bonded circulation.

More than a decade later, when the bankers placed the bank into voluntary liquidation, they arranged for the deposit of \$50,000 in the Treasurer's redemption fund to retire their outstanding circulation. It was \$5 too much.

This is the story of how the Treasurer's office handled such overages in the redemption fund, and how the Madill \$10 fragment precipitated a long-overdue overhaul of the redemption process for handling such overages. The change actually required the Treasurer's office to adopt a revised philosophy toward their redemption fund as a simple monetary account set up to retire a class of currency versus a holding of money earmarked for actual individual notes that had to be presented for redemption.

Mutilated Currency Regulations

The U.S. Treasurer's office published regulations regarding the redemption of mutilated paper currency. Damaged notes where three-fifths or more of a note were intact were redeemable at full face

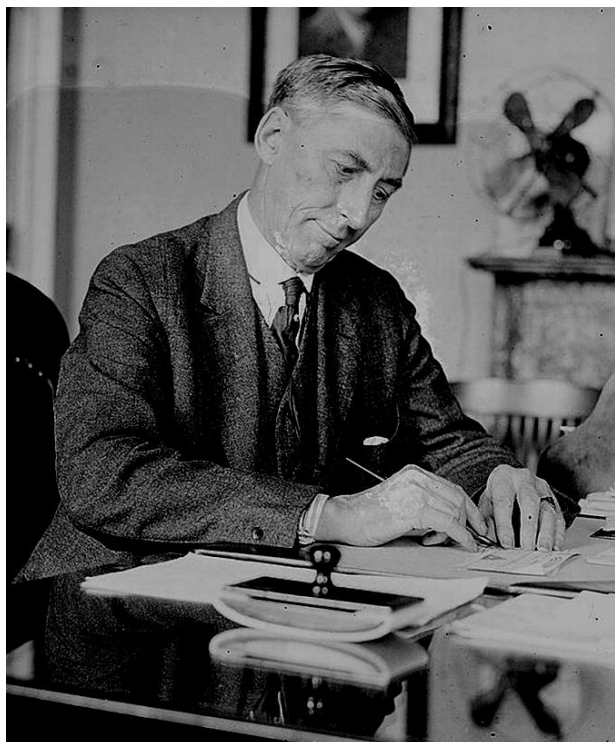


Figure 3. U.S. Treasurer John Burke, appointed by President Woodrow Wilson. Burke served as Treasurer from April 1, 1913, to January 5, 1921. Library of Congress photo 2016828803.

value. Regarding more heavily damaged notes, the regulations stated:

* * * National bank notes, when mutilated so that less than three-fifths, but clearly more than two-fifths, of the original portion remains, are redeemable by the Treasurer only, at one-half the face value of the whole note or certificate. Fragments not clearly more than two-fifths are not redeemed unless accompanied by evidence* * * (Pratt's Digest, 1910 Ed. p. 348).

Outstanding Circulation Reporting

Despite being owed \$5, the bankers reported their taxable outstanding circulation to the Comptroller from 1907 to 1910 as \$50,000. Beginning in 1911 and continuing through 1917, they accurately reported it at \$49,995, except in 1915 where a lower figure represented redeemed notes for which they had not received replacements yet.

Liquidations and Overages

On December 22, 1917, the Comptroller's office received notice from the bankers that they were placing the bank in voluntary liquidation. A national bank entering liquidation had to deposit funds with the Treasurer to cover redemption of its outstanding circulation.

Despite accurately reporting their circulation as \$49,995 in their September 11, 1917 annual report to the Comptroller, the bankers arranged for \$50,000 to be deposited in the Treasurer's redemption fund on January 15, 1918 in order to secure the release of their bonds. That was too much. They created a \$5 overage in the fund.

Redemption Fund Overage Procedure

Overages in the redemption fund can be observed in the National Currency and Bond Ledgers where bankers over-deposited money for their closing circulations. These occurred during liquidations and receiverships or where bankers were extending the corporate lives of their banks when they closed-out the circulations of their former series notes (Lofthus-Huntoon, 2011).

From its inception, the Treasurer's office treated money in the redemption fund as actual notes awaiting redemption, insisting that there was no legal authority for them to send bankers refunds for overages without an appropriation from Congress.

As a result, when an overage occurred, the Treasurer's office required the Comptroller's Issue Division to draw notes from the Comptroller's unissued vault stock for the bank equal to the overage and deliver the notes to the NBRA to be deposited into the redemption fund to the credit of the bank. The notes were then redeemed and destroyed, with the credit liquidating the debt owed to the bank. Notice that this mechanism provided actual notes that the Treasurer's fund was expecting to redeem. The Treasurer's requirement to receive actual national bank notes for such fixes was a cumbersome but workable solution.

In the case of the \$5 owed to the Madill bank, the hands of the Comptroller were tied in 1918 just as in 1907. Without \$5s there were no notes suitable to give the Treasurer to redeem against the \$5 overage on his books. Why the Comptroller's clerks didn't cut a \$10 note in half and submit that is unknown.

Resolution

Stymied, the Comptroller's office reached out to the Treasurer's office for help. It took 15 months, but things finally took a positive turn. The matter eventually was raised to Treasurer "Honest John" Burke, former North Dakota governor and future justice of the North Dakota Supreme Court. Burke took a

common-sense approach and sent the following memorandum to Comptroller John Skelton Williams.

March 27, 1919

The Comptroller of the Currency

Sir:

This office having been advised by you that the deposit of \$50,000 to retire the circulation of The City National Bank, Madill, Okla., received January 15, 1918, is \$5 more than the circulation of that bank outstanding, you are informed that the excessive deposit of \$5 has been refunded to that bank today. You are, therefore, requested to adjust your books accordingly.

Respectfully,

John Burke, Treasurer

A Period of Transition

Burke's action signaled a shakeup in how the Treasurer's and Comptroller's officers handled redemption fund overages. Having the Treasurer send a refund directly from the redemption fund marked a move towards using accounting adjustments rather than actual bank notes to resolve overages. A philosophical threshold had been surmounted. The procedure of the Comptroller's office of sending actual notes to the NBRA for redemption gradually ceased.

The latest two cases I've found in the ledgers that involved sending notes to the NBRA occurred in October 1922 where The Fairfield County National Bank of Norwalk, CT (754) was owed \$15,700 for an over-deposit, and in June 1920 where The First National Bank of Columbia, AL (8095) was owed \$1,100. The fact that these two cases post-date Burke's 1919 refund memorandum indicates that the changeover between protocols was not abrupt but it ultimately held.

The Currency and Bond Ledgers from 1915 and onward during Burke's tenure as Treasurer exhibit numerous examples of liquidating banks adjusting their lawful money deposits downward to account for canceled shipments of replacement notes or fractions of mutilated notes owed them. This reveals significantly improved coordination between the Comptroller's office and the bankers to help the bankers arrange for the proper amounts to be deposited into the Treasurer's redemption fund.

Madill, Indian Territory

Madill was founded in 1900 by local rancher William Taliaferro. The townsite is on former Chickasaw Nation land about 17 miles north of the Red River and the Texas border, an area now in south central Oklahoma. The town's location was predicated on the coming of the St. Louis and San Francisco Railway, being named after a railroad official, Judge George A. Madill of St. Louis.

Until Madill's founding, Oakland, two miles to the northwest, was the main town in the area. The railroad assured Madill's growth and Oakland's decline. The Madill post office was established on April 29, 1901, and the city charter was issued September 12, 1902.

The town's population was 1,587 at the time of the fractional redemption in 1907. Its economy was dominated by ranching, agriculture, a nearby oil seep, and, of course, the railroad. Madill was home to three national banks during the territorial era, the First National of which originated in Oakland but was moved to Madill with the coming of the railroad. All three of the territorial banks owe their existence to the Gold Standard Act of March 14, 1900, which allowed for the establishment of national banks in towns with fewer than 3,000 people and bank capitalizations as low as \$25,000.

The City National Bank

The City National Bank was the second of the banks to open in Madill, but the largest, touting a sizable circulation of \$50,000 for a small rather hardscrabble town. The large circulation reflected the aspirational "The City" title chosen for the bank by its founders. City NB opened for business in June 1905. The bankers chose the 10-10-10-20 combination for their circulation. Their Series of 1902 territorial plate carried the bank's organization date of April 8, 1905 and was certified June 7th. The Comptroller's office sent the first 250 sheets of the banks Series of 1902 red seals on June 21st to cover its initial circulation of \$12,500. The bankers quickly purchased additional bonds to grow their circulation to \$50,000 by the end of 1905 where it remained for the duration.



Figure 2. The Madill, Indian Territory, town square in the early 1900's. An unidentified bank is at far right. Oklahoma Historical Society photo.

Addendum

The City NB was in business for 12 years and 8 months, issuing a total of \$370,100 in territorial and state national bank notes. In a quirky coincidence, almost twelve years, nearly the entire life of the bank, would pass before the bank was made whole for the \$5 it was owed for the redemption of the half of the territorial note. The \$5 refund issued by Burke was prominently recorded in the Currency and Bond Ledger for the bank.

The City NB was succeeded by the Guaranty State Bank of Madill. The incentive for the bankers to liquidate their national bank in order to reorganize as a state bank was that Oklahoma had established a depositor insurance program to protect bank customers, thereby giving the state banks a significant competitive advantage.

No territorial notes from The City National Bank of Madill are reported in the National Currency Foundation census. Two circulated \$10 Series of 1902 date back state notes are reported at this writing.

Sources

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