

Percy Hampton Johnston's Days As A Backwoods Bank Examiner

Submitted by
BOB COCHRAN

Collectors of paper money, checks, stocks, bonds, scrip, etc., who make up our membership, are mostly concerned with these tangible issuances of banks and other organizations. John Hickman describes them as "History in Your Hand," and I couldn't agree more. This magazine is the medium where information is shared about these financial documents, the organizations behind them, and the circumstances of their issuance. Banking and finance is also a people business, and I believe stories about the people involved in banking deserve to be discussed here as well. These stories are not concerned specifically with paper money, but they do provide us with an insight into the banking business, and the bankers themselves, many years ago.

A casual glance at the 1902 Series, Third Charter Date Back note, issued by the Chemical National Bank of New York, shows the printed signature of Percy H. Johnson as president of the bank. The name "Percy" is not a popular name today; to some it connotes "blueblood," or "upper class." You might think that Percy H. Johnson, president of a large national bank in New York City, was "born with a silver spoon in his mouth," sent to the "right" schools, and groomed for the position he occupied when his signature was printed on this note — you would be wrong.



Percy H. Johnston as a young man.

PERCY H. JOHNSTON was born in Lebanon, Kentucky, on New Year's Day, 1880. His father died when he was ten, and he and his siblings were forced to work to support the family. His first job was as the lamp lighter in Lebanon at the age of eleven. He later worked as a delivery boy for a local laundry, and later still clerked in a general store. He decided at a very early age that he wanted to become a banker; he got his first job in the banking field when he was hired as a runner by the Marion National Bank of Lebanon. He was 16 years old, and his pay was \$10 a month. While working in the bank he witnessed the examination of the bank by the National Bank Examiner, and was quite fascinated by the task. He became friends with the examiner, and in 1906 was recommended by the examiner to become his replacement. The Secretary of the Treasury, Shaw, considered him to be too young for the job, but Johnson was persistent and secured the appointment.

He kept the job for seven years, and he recounts some of his more unusual experiences during this period of his life.

The Absent-Minded Cashier

In one of the hill town banks I discovered a shortage of \$16,000 in their loans and discounts. The cashier had gone out but had promised to return at noon. As night came on and he had not returned it began to look like a defalcation. I called a directors' meeting for the following morning at ten. When I entered the bank at eight the cashier was on the job and quite unperturbed. I spoke sharply to him about the shortage. He scratched his head, thought a moment, went to the vault and promptly placed on my desk the missing notes which he had absent-mindedly failed to file in the note case. The directors assembled and I went over the loans and discounts with them, finding everything in good shape. The leading director was a prominent lumberman and when I explained that, under the law, the duties of managing a National bank devolved upon the directors he ejaculated "My God, I never knew that; don't we give the cashier \$50 a month to run her?"

Toting a Pistol to Work

During the examination of a bank at Monticello, Kentucky, in the feudin' country, I noticed eight or ten notes which were suspiciously white and clean, bearing a variety of signatures in similar handwriting. I immediately checked these notes against the

ostensible makers' accounts and found that none had received credit for the proceeds. After the bank closed for the day I took the cashier in the back room and told him that, in my opinion, the notes were forgeries. He urged me to let him go home for supper and promised to come to the hotel afterwards and give me a full account of what had happened. When he returned I invited him to go to my room, being careful to follow him up the stairs. This proved a wise precaution as I was unarmed while I noticed the bulge of a large revolver in his hip pocket. I ran for the arrest of the cashier. Other than the forgeries, the bank's assets were good and the well-to-do farmers on the Board voluntarily made up the deficit remaining after the surety bond was collected. Within three weeks the bank was ready to open and it was my duty to be on hand.

A friend telephoned to warn me that the cashier, now out on bail, had made a statement that he would kill me when I returned. At that time and place such a threat could not be safely disregarded. I was not looking for a shooting engagement; neither was I going to duck my responsibility to open the bank. I was used to shotgun and rifle, but my younger brother, Ellis, was a crack shot with side arms and he, intrigued at the prospect of adventure, bravely volunteered to accompany me back to Monticello.

The bank was twenty miles from the nearest railroad and we drove over in a two-horse buggy with a young lad at the reins, Ellis and I keeping a sharp lookout for possible ambush. We had hoped to transfer to the stagecoach at the junction of two roads and, wondering if we were in time to catch it, I approached a typical bewhiskered Mountain Boy with a basket on his arm. He told me we had missed the stage and we lingered a few minutes to pass the time of day and ask him what was going on around Monticello. He said there was hell to pay; that a few days before the Federal Marshal had come through with the cashier in his custody. When I asked him why the cashier had been arrested he said he didn't know but doubted if there was any good reason as he had known the boy all his life and his father before him. I reminded him that there was usually cause behind a Federal arrest but he had the typical moonshiner's viewpoint that "them thar Federal Inspectors have to raise hell ever once in a while to hold their jobs." When I told him that I was the Federal Inspector in question he was rendered speechless and remained transfixed as long as I could see him as we drove off down the road.

On reaching the bank Ellis remained in the lobby with an open suitcase in which there were two tissue paper wrapped parcels, each containing a fully loaded six-shooter. I had a third revolver on my belt and kept the fourth on my desk where I was working. Nothing happened; they weren't ready for us yet, but the cashier had several fearless brothers around and, since we had arrived safely, we figured that there was more likelihood of our being picked off from behind some mountain ridge than of having to shoot it out face to face.

After my official duties had been performed and the time came for us to go to our hotel room for the night, the lobby was filled with loafers and some of the toughest looking characters were eying us in a way that boded no good. As we went upstairs I asked the hotel keeper in a good loud voice to call us at six o'clock and be sure to send up a pitcher of hot water with the call. When we reached our room we pulled down the shade and a little later blew out the lamp, but we did not go to bed. During the day Ellis had carefully scouted the barn where our horses were kept. About one o'clock, when everything was dark and still, we went down the back stairs in our stocking feet, quietly

hitched up our horses and drove out of town. Not until we had crossed the Cumberland River twenty miles away would we feel safe. When we reached the river the ferry was on the other side of the stream and our shouting, even shooting, failed to attract the ferryman. I had started to undress, expecting to swim the river and bring the ferry back, when we saw a light and a voice called to assure us that the ferry was coming over. An hour later we flagged the train to Cincinnati and heaved a huge sigh of relief.

In due time the cashier was convicted, one of the twenty-one convictions I secured out of twenty-two prosecutions in six years. When the judge sentenced the prisoner to several years in Federal prison the cashier made a very tactless remark; he said when he got out of Atlanta he was going to hunt me up and kill me. For this indiscretion the judge added another five years to his sentence. But he must have cooled off for he never bothered me again. Incidentally, this man was the only one of the twenty-one men I convicted who voiced personal resentment against me. Most of the others shook hands with me and said I had been fair to them.

Officials of the Treasury Department in Washington had been monitoring Johnston's progress as a bank examiner. Secretary of the Treasury Shaw had been extremely reluctant to hire him in the first place, because of his age (26). But his abilities were proven, with the result that he was given an expanded territory.

Bank Cotton

At Headland, Alabama, I walked into the First National Bank one morning to see if I could confirm the suspicion of a previous examiner that the bank was speculating in cotton. The door was unlocked and an old Negro janitor was sweeping up. "Stop right whar you is!" said he, holding up his hand. He told me he had instructions not to let anyone in but had forgotten to lock the door. I asked him to telephone the cashier, tell him the National Bank Examiner was there and to come down to the bank. "Naw, Sir, I can't do that," he objected, "Marse Alex is sound asleep and he'll bawl the everlasting hell outta me if I wake him up." So I got the number from the old man, phoned the cashier and asked him to instruct the janitor to let me go inside the bank and begin my examination. As I went inside the rail I noticed under the teller's window a large packing case containing about five bushels of cotton samples such as buyers pull out of a bale when they examine it. I complimented the janitor on the quality of the cotton and casually asked him who the principal buyers were. "Oh we is; the bank is the bigges' buyer," he proudly volunteered. That was just what I wanted to know. During my examination I looked for, and sure enough found, an account set up under the title Bank Cotton.

When the cashier arrived I told him what I had learned and asked him to call a directors' meeting. The following day I explained to the board — made up mostly of farmers — that under their charter the bank could not purchase cotton or anything else not needed in carrying on their bank business. It developed that the cotton account had always made money, that the profits were turned back to the bank and that no one had benefited personally from the transactions. Nevertheless I had them sign an agreement and enter it in the minutes that the bank would abandon the illegal practice. This was a great blow to the directors because there wasn't enough other business to keep the bank running.

When the meeting broke up one of the directors took me aside and said, "Young fellow, you are pretty smart; you are the

only one who has been able to catch this. There must be some other way by which we can do it legally and I want you to tell me how." I was glad to show him a way. "Organize a company with one to five thousand dollars of working capital put up by individuals, pay the dividends to the stockholders and give any part of the profits you wish to the bank." My plan was adopted and everyone was made happy.

Interesting Interest Rates

The president of a bank in Eufaula, Alabama, a prominent lawyer who received no salary, was present with the other directors when I was going over the notes and discounts. He was a typical Southerner — tall, middle-aged. I asked him a routine question "What is the current rate of interest received by your bank?" He had risen and was striding up and down the room to stretch his legs, so he said. He stopped suddenly, pulled his glasses down to the end of his nose, looked over them and asked, "Young man, does that have to go in your report?" For the answer I showed him question 27, "Give the current rate of interest obtained." He flicked the ash from the end of his cigar, hesitated a moment and replied, "Very well; tell the Honorable Comptroller that it runs all the way from 12% to grand larceny!"

What's the Difference Between "Up" and "Down"?

In a small Pennsylvania town, as I went out of lunch with my assistant, he asked me what I thought the building of the bank we were examining was worth. It was a two-story structure about 30 feet wide and possibly 100 feet deep. I appraised it at \$7,500. He agreed with me but said the bank was carrying it on the books at \$30,000. When I returned from lunch I explained to the president — an old German — that, based on comparisons with other bank buildings I had seen, I did not see how he could justify a valuation of \$30,000. He was quite indignant and claimed the figure was rightly nearer \$50,000. I asked him if he had an oil well or gold mine in the basement. He made no such claim but said there was more to the property than had met my eye. He took me out on the street and counted off six store buildings in the block, saying "THIS is our banking house!" He told me with pride that the bank owned all of these buildings. I hated to do it, but I called his attention to a section in the banking law which prohibits a bank from owning any real estate other than that used for banking purposes, and provided that real estate acquired for debt must be disposed of within five years. In his broken English he asked me if I had ever been to Pittsburgh; had I seen the First National Bank Building there which has tenants on 28 floors above the bank? "What's the difference if in a big city the tenants go up in the air and in a small town they go down the street?" He had me. So I agreed to write to Washington for a ruling. I guess he stumped the Comptroller, too, for I never got a reply.

"R. Day"

It was in northern Ohio, in a bank with a million and a half resources, that my assistant discovered an account of \$82,000 on the individual ledger to which deposits were made periodically, but there had been no withdrawals, nor had any interest been paid. The account was in the name of R. Day but the bookkeeper could give me no explanation of the extraordinary circumstances. "Do you mean to tell me," I asked, "that you do not know anything about a man with \$82,000 to his credit who fre-

quently deposits a few thousand dollars, never withdraws anything out, yet does not receive the customary interest on his balance? I am going to put you under oath and require you to answer my questions truthfully under penalty of the National Banking Laws." He began to whimper and informed me that if he told me about it he would surely lose his job. I asked him if he had been instructed not to know anything about Mr. Day and he admitted he had. I promptly walked into the President's office. He was an elderly man and wore a black skullcap on his bald pate. I asked him if he knew who was putting the money into the R. Day account. "Did the bookkeeper tell you anything?" he countered. "He lied to me just as he was instructed to do," I told him. This set him back and when I threatened to put him under oath for questioning he opened up and confided that this was the bank's own money.



Johnston a president of the Chemical National Bank in New York.

When money was collected on demand loans, instead of crediting all of it to bank earnings, he would hold out a thousand or two and put it in the R. Day account. I reminded him that he had been making sworn statements to the Government which he had just admitted to be false, that the penalty for such a false statement was five years imprisonment, in addition to which he had diverted \$82,000 of the bank's money to another man's name and I saw no alternative but to present the evidence to the U.S. District Attorney for prosecution. Tears rolled down his sunken cheeks. "I have not diverted money to any other person; R. Day means *rainy day*!" He explained that he was anxious to build up the bank's surplus account but some of the directors held contrary views and wanted to pay bigger dividends than he considered prudent. The R. Day account was a subterfuge to save the directors from their own prodigality. He was an honorable old man who had given a fine high school building to the town. The conversation ended by my suggesting that he call a meeting of the directors and move that the R. Day account be closed and transferred to the bank's surplus funds. To the other shareholders it was like a gift of \$82,000 and, not wishing to look a gift horse in the mouth, the resolution was readily passed and all was well.



This Third Charter note bears the signature of Percy H. Johnston.

Many years later, at the Chemical Bank in New York, one of our customers was Fuller E. Callaway, President of the great Callaway Mills, whose son later became a director of the bank. On one of his visits Mr. Callaway showed me the financial statement of his company and I noted with approval that he had set up reserves for every possible contingency, even \$500,000 against Forward Sales. I was so much interested that I told him the story of R. Day. He must have shared my interest for on his next statement I spotted a new reserve fund of \$500,000 under the caption of "R. Day." (Anyone familiar with the south, and

Georgia in particular, will probably connect Mr. Callaway with his legacy to all of us, beautiful Callaway Gardens near Pine Mountain, in West Central Georgia.)

REFERENCES

Chemical Chronicle. Special Edition (September 1983). New York: Chemical Bank.

Nye, F.W. (1956) *Knowledge is power: The life story of Percy Johnston, banker*. New York: Random House.

Money Tales continued from page 175

AN OLD JOKE

Diggs saw a note lying on the ground, but knew that it was a counterfeit and walked on without picking it up. He told Smithers the story, when the latter said:

'Do you know, Diggs, you have committed a very grave offense?!

'Why, what have I done?'

'You have passed a counterfeit bill, knowing it to be such,' said Smithers, without a smile, and fled.—*Stillwater* (Minn.) Messenger, Nov. 16, 1858.



#11111111 thru 99999999 and #00000001 WANTED

PAYING COLLECTOR'S PRICES

Large and Small size notes, \$1-\$100 denominations in series 1862-1985. Buying other low and special serial numbers.

NOBODY PAYS MORE THAN:

Mike Abramson SPMC #2653, ANA, PMCM

P.O. Box 6105

Duluth, MN 55816

800-223-2774 ext. 178 M-F

218-724-8433 evenings/weekends

New Data (Continued from page 178)

ACKNOWLEDGEMENTS

James Lemon went out of his way to provide a microfilm of the Bureau of Engraving and Printing plate history ledgers that he located in the U.S. National Archives. These form the basis for much of the information contained herein. Marty Vink provided photos of his extraordinary \$5 FRN Series of 1934C 629 mule. William Sherman of the U.S. National Archives again aided me in locating additional data from Bureau of Engraving and Printing plate history ledgers now in the hands of the archives.

REFERENCE CITED

Huntoon, Peter (1988). Small note mules—a fifty year retrospective: *PAPER MONEY*, v. 27, pp. 5-12, 14.