THE *Last* NOTE ◀REVISITED▶

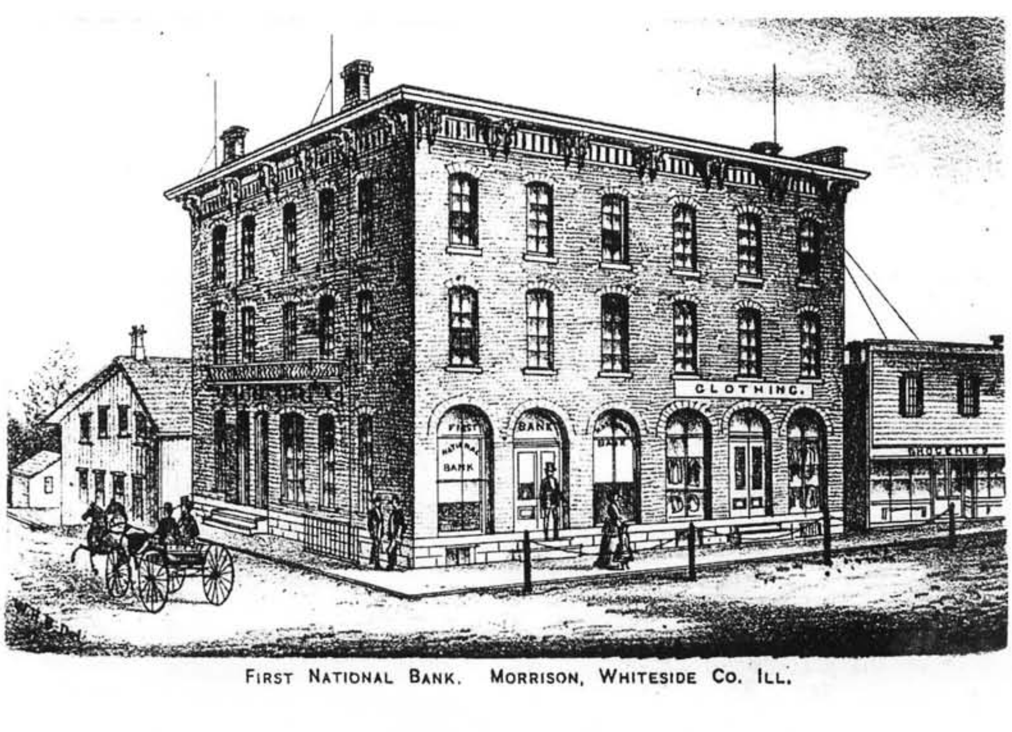
by DAVE GRANT

While perusing some back issues of *PAPER MONEY* not long ago, I ran across Gerome Walton's 1975 article *The Last Note.* To use his own words, Walton "piqued my interest in finding a note or sheet that would fit this category. As originally indicated by Mr. Van Belkum's statement, they are indeed rare." As luck would have it, I found my "first" last note at a coin show in St Louis during the summer of 1995. It is position "C" of sheet 1360, the last $10 Series of 1875 note issued by the first National Bank of Morrison, Illinois.

THE First National traces its origin to the private bank of Stiles & Company organized by Messrs. Stiles and Jackson in 1863. Stiles retired the next year and Jackson formed a new partnership with Leander Smith under the name of L. Smith and Company. Within a year, the organizers of the First National Bank of Morrison applied for and received national charter number 1033. The former partners continued with the new organization, Smith serving as president and Jackson as cashier. These gentlemen served together until Leander Smith's death in 1889. Jackson continued in office until WWI, giving the bank nearly half a century of service. A contemporary drawing reveals that the bank was housed in a substantial three story brick building at the corner of Main and Cherry Streets, right at the heart of downtown Morrison. An interesting bit of trivia about the bank is the claim that the first time lock ever purchased by a banker was purchased by the First National in 1874.

Despite some damage and its relatively low grade, the note is nevertheless oddly attractive with its cherry red seal and charter numbers and the signatures of A(lbert) J Jackson and Leander Smith. Although the bank received its charter on January 28, 1865 the note itself is dated June 1, 1865. This is probably a "batch" date (described by Huntoon, 1986, No. 122) and may indicate that a few months passed before the bank ordered its first currency shipment. The note's Treasury serial number (H37198) dates its printing to (probably the end of) 1882. By this relatively late date the Bureau of Engraving and Printing had entirely displaced the private bank note companies' role in printing currency, and the note carries imprints of both the American Bank Note Company, at the bottom center, and the Bureau of Engraving at the upper left.

The note is significant not only because it is a "last note," but also because it led me to a review of the year-by-year circulation totals from the *Annual Reports of the Comptroller of the*



FIRST NATIONAL BANK. MORRISON, WHITESIDE CO. ILL.

Currency which provided insight into why the first and second charter period issues from the bank are so scarce.

During its first 20 years, the First National matched its holdings of U.S. Government Bonds to that of its capital and secured the maximum circulation possible. This equalled 90 percent of its bond holdings and the circulation totalled $45,000 before 1871 and $90,000 thereafter. The bank maintained its circulation at $90,000 through the extension of its charter in 1885 and for a couple of years more. Then, in 1887, the bank slashed its holdings of bonds to $25,000 and reduced its circulation accordingly to $22,500.

This action was very common for national banks at the time, but the explanation requires reference to a bit of financial history. As is well known, the National Banking Act was passed, in part, to create a market for the massive issues of government bonds used to finance the Civil War. At the end of 1860, the federal government's debt totalled just $65 Million, and this had more than doubled since the "Panic of '57" because of the country's slow economic growth. In order to prosecute the war, federal military spending began in earnest during 1861 and continued at historically high levels. By the end of 1865 the government's debt totalled $2,678 million. After Appomattox, the national government's spending and, consequently, its incremental borrowings were drastically reduced as tax revenues again began to outstrip spending. This permitted the resumption of specie in 1876 and, with less governmental demand for money, interest rates fell during the postbellum period as well.

Relatively flush with cash, the government followed an aggressive program of redeeming or "continuing" (at a lower interest rate) maturing bonds, and, in some cases, actually paid a premium to repurchase and retire older, higher coupon debt. By the mid-1880s, the older high coupon bonds, which secured national banknote circulation, commanded increasingly high premiums to par. National bankers found that they could realize better profits by selling their bonds, reducing their circulation and reinvesting the proceeds in other, more attractive opportunities. For example, in 1886 the 4 percent bonds (redeemable after 1907) were quoted at an amazing 128, and even the 4½s (redeemable in just 5 years) sold at 111. Such profits far exceeded the profits from circulation and were not ignored by most bankers.

Interestingly, the Act of July 12, 1882 further accommodated this tendency by permitting any national bank with capital of $150,000 or less to reduce its holdings of bonds to just 25 percent of the amount of paid in capital. Since the amount of a bank's circulation was tied to its holdings of bonds, this, in turn, reduced such bank's permissible circulation. In order to release the bonds it held in excess of this minimum the bank simply deposited "lawful money" in the redemption fund equal to the difference between its old level of circulation and the new, reduced level of circulation. The key point for the Morrison bank, however, is that for banks which had reduced their bond holdings, no new notes would be issued, even to replace worn or damaged notes, until the actual outstandings reached the lower "bonded" level of circulation.

Since the value of the circulation privilege had been reduced, the advantages of a national bank charter were also substantially lessened and the organization of new national banks slowed markedly. This was especially true in smaller communities, where the minimum capital requirement of $50,000 required for a national charter was far higher than what was being required by most state chartering authorities.

During the 1890s the federal government again entered a period of rising expenditures and debt. And, perhaps not coincidentally, regulations were liberalized to encourage the organization of National Banking Associations, in part no doubt, to strengthen the demand for government securities. In addition, a large increase in the supply of bonds carrying the circulation privilege occurred with the "3s" of 1908-1918 issued in conjunction with the Spanish American War. The supply was further expanded in late 1905 when the 2 percent Panama Canal issues also received the circulation privilege. Because of the lower interest rate, these bonds carried a lower premium in the secondary market than earlier issues. Equally important, the Act of March 14, 1900 permitted a national bank to issue circulation up to an amount equal to 100 percent of its bond holdings and the minimum capital requirement to organize a national banking association in a small town was reduced to just $25,000. Together these changes ushered in what John Hickman referred to as the "Golden Age of Home Town Banking."

These events are nicely illustrated by the First National Bank of Morrison. In early 1885, the bank applied to the comptroller to extend its charter. The Act of July 12, 1882 provided that:

> ...notes of any national bank so extending the period of its succession issued prior to such extension, shall be redeemed at the Treasury of the United States as provided in the act of June 20, 1874; at the end of 3 years from the date of its extension, the bank shall deposit lawful money with the Treasurer of the United States to redeem the balance of the notes outstanding at the date of its extension ... from time to time as these notes shall be redeemed, new circulating notes shall be issued to make them distinguishable from those previously issued.

That is, the bank received its replacements for worn or damaged currency after recharter in the form of brown back notes. In 1887 the bank chose to reduce its bond holdings to the permissible 25 percent of capital, or $25,000. Since circulation was limited to

FNB Morrison, Charter 1033

Dates Covered	Capital	US Gov't Bonds	Bonded Circulation
1865 to 1870	50,000	50,000	45,000
1871 to 1886	100,000	100,000	90,000
1887 to 1897	100,000	25,000	22,500
1899	100,000	25,000	13,300
1901	100,000	25,000	7,200
1903	100,000	25,000	4,400
1904	100,000	25,000	25,000
1905	100,000	66,060	25,000
1906	100,000	56,960	25,000
1907	100,000	88,085	25,000
1908	100,000	116,470	88,000
1909 to 1928	100,000	Over 100,000	84,000 to 99,750
12/31/32	100,000	105,000	50,000

Entered Receivership during 1993, closed December 7, 1933.

Sources: Through 1922, Comptroller of the Currency, Annual Report. Thereafter, Polks Bank Directories for March of each year.

Officers of the FNB of Morrison during the Large Size Currency Period

	President	Cashier
1865 to 1889	Leander Smith	Albert J. Jackson
1889 to 1893	W.S. Wilkinson	Albert J. Jackson
1894 to 1913	Edward A. Smith	Albert J. Jackson
1914 to 1918	M.H. Potter	F.A. Van Osdel
1919	H.H. Wilkinson	F.A. Van Osdel
1920 to 1923	D.S. Spafford	F.A. Van Osdel
1923 to 1929	John A. Riordan	F.A. Van Osdel

90 percent of the value of the bonds, the bank's circulation was simultaneously reduced to $22,500. To recover the $75,000 of bonds that this action permitted, the bank was required to deposit $90,000 minus $22,500 or $67,500 of "lawful money" into the redemption fund. New notes were not issued to the bank to replace redeemed, worn or damaged currency until the circulation actually outstanding totalled $22,500 and, since neither the bank's capital nor holdings of bonds were increased during this period, it is likely that the bank did not receive any new notes for a several years after 1887. Further, the circulation figures after 1899 indicate that the bank began to deliberately permit its circulation to run down. Huntoon (1981) has noted a similar phenomena somewhat later in regard to Arizona banks, and it is also illustrated in the much later activities of the Mercantile National Bank of St Louis, which consciously redeemed circulation when it was advantageous to sell bonds, only to increase its bond holdings and obtain new currency when it seems advantageous to take an opposite course.

This reduction is also reflected in the amount of currency issued to the bank and explains the rarity of first and second charter notes. During its first 20 years, the bank issued circulation equal to $311,000, or an average of about $15,500 for each of its 20 years. During its second 20 years, the bank issued only a third as much, $116,800 or $5,840 per year, very little of which would have been issued after 1900. In 1903 the bank's authorized circulation had dwindled to just $4,400. After the second extension of its charter in 1904, the bank's circulation returned to $25,000 and began to approach capital again during the 'teens as bonds once again became a desirable investment.

This reinforces the notion that collectors should not judge the rarity of a bank's early issues based on the last circulation figures available. And, even a low grade note can provide significant insight into the day-to-day operation of national banks and be a real gem among the chaff.

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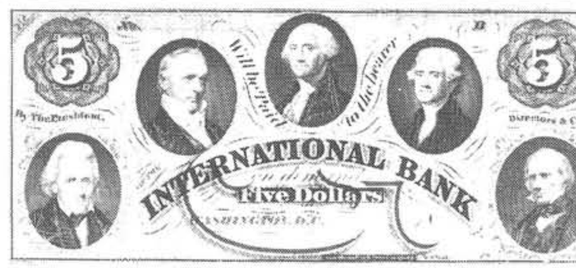
ACKNOWLEDGMENTS

Thanks to Lee Stickle for providing some very useful background information on the bank and for the nice drawing of the building from the period the note was issued.



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