

Nationals were safe, Treasurer said so

by James C. Ehrhardt

IN THE MID-1860S AMERICANS HAD LEARNED TO BE WARY of paper money issued by unfamiliar banks. Nearly a century's bitter experience with counterfeits and notes from non-existent or failed banks had reinforced a preference for hard money. Even the new-fangled federal National Currency traded at a substantial discount to gold.

Citizens from all walks of life were confused by National Bank Notes. Were they from the local bank or from the U. S. government? Were the notes any good if the bank failed? The U.S. Treasury must have expended considerable effort to convince the public of the safety of National Bank Notes. One example of that effort is given below.

The earliest National Bank in Mitchell County, IA was the Osage National Bank of Osage, charter #1618. It began operations on Feb. 1, 1866, almost three years after the start of the National Banking era. Just three months later the bank was robbed of about \$10,000 plus \$9,000 in unissued, unsigned National Bank Notes. Of course this event received intense local publicity and was the topic of much conversation. A loss of this magnitude surely raised the question of whether the bank would collapse. Citizens wondered whether their bank notes would be honored.

West Mitchell, a small village (1880 population = 307) about four miles from Osage, had an enterprising newspaper editor named T.M. Atherton. His paper, the *Mitchell County Press*, had rapidly gained a substantial readership in the surrounding communities. He printed a number of stories about the robbery and the pursuit of the thieves.

A month after the robbery, editor Atherton printed the following letter dated May 10, 1866, from Francis E. Spinner, Treasurer of the United States, whose remarkable signature graced the notes of the period. The letter states that it is in response to an inquiry received by Mr. Spinner. It is not clear if Mr. Atherton or another local had made the inquiry. Possibly, the purported inquiry may have been a rhetorical device used by Treasurer Spinner.



T.M. Atherton,
editor of *Mitchell County Press*.



Osage National Bank was the first bank in Mitchell County, IA to receive a national charter.

Whatever the origin of the letter, its prominent placement in the paper suggests that the editor felt strongly about his readers' need for reassurance:

Dear Sir: Your letter of the 10th inst. has just now been received. You ask to what extent is the government liable for the redemption of notes of National Banks. I answer: To the full nominal face of every note issued by the Controller of the Currency to a bank and by the bank put into circulation. You ask: 'Should the bank deposits with the United States Treasurer to secure the circulating notes with the

banks depositing them be inadequate to the redemption of the notes of the bank, by the reason of the decline of the securities deposited, is the government bound to redeem the notes at par? The 47th section of the National Currency act only gives the right to forfeit all the securities held for any deficiency; the government has a first and paramount lien upon all the assets of a defaulting bank. I therefore answer this question affirmatively.

You ask again: 'Could the absolute failing of a National Bank impair the value of the circulating note of the bank making such failures?' I answer No. On the contrary the notes of a National Bank that has failed are rather better than worse of a bank in good standing if away from the business centers of the country, for the reason that the Treasurer of the United States becomes the cashier of each defaulting bank, and will through his assistance and all other government officers, redeem such circulation. You ask fourth, 'Are the notes of the United States Treasury, beyond the fact of their being legal tenders, a greater security to the holders than the currency of the National Banks.'



West Mitchell, Iowa

The United States legal-tender notes afford no greater security to the holder than the notes of National Banks. The only real difference between the two, is that while the latter are only a legal-tender from, and to the government, the former are such legal tender from, and to all parties, whether municipalities, corporations or individuals.

Very respectfully yours, F.E. Spinner, Treasurer"

Treasurer Spinner makes several points in his discussion to convince readers of the safety of National Bank Notes. He specifies that notes eligible for redemption must meet two criteria: (1) they must have been issued by the Controller of the Currency; and (2) they must have been put into circulation by the bank. Notes stolen before their release by the bank, such as those from the Osage robbery, were not valid. His answer to the fourth question highlights the original difference in legal tender status of the notes compared to other governmental issues, which is frequently overlooked by collectors. Most interesting is his argument that notes of a failed bank may be better than notes of a bank in good standing. I don't understand this argument (other than his assurance that he would use all government offices to redeem notes), but whatever the logic of the reasoning, it would seem to reduce the strength of his effort to convince the public to accept these new notes.

Ultimately the Treasury's educational efforts were quite successful. A high degree of safety and the public's overwhelming need for an increased supply of money led to the widespread adoption of the new currency. Economic growth was promoted in all parts of the country, eventually leaving behind much interesting material for collectors and scholars to pursue.

Bibliography

Mitchell County Press, vol. 2, no. 7, Thursday, June 14, 1866, West Mitchell, Iowa.

