Property Banks in Louisiana.

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PROPERTY BANKS IN LOUISIANA

A Dissertation

Submitted to the Graduate Faculty of the Louisiana State University and Agricultural and Mechanical College in partial fulfillment of the requirements for the degree of Doctor of Philosophy in The Department of Economics

By

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ABSTRACT

Property banks, instead of acquiring capital through the cash sales of stocks, obtained their capital by a bond loan secured by mortgages on tangible properties provided by the stockholders. These mortgage banks were chartered by several Southern States to assist planters in disposing of their crops and to aid in the development of income-producing properties.

People purchased stocks of these concerns by giving in exchange mortgages on their property, and the stocks entitled the holders to obtain loans from these banks upon placing their stocks as collateral for such loans.

Bonds were issued by the property banks to acquire the necessary capital. Mortgages served as security for these bonds, accompanied in many instances by a state pledge or guarantee.

The underlying principle of this system of banking was that the basis of all value is property and that it appreciates in value. Some increase in value of land occurred as a result of this system of credit extension, but loans by these banks to individuals were based upon the appraised value of the property when offered for mortgage, not on any appreciated value occurring thereafter.

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During the 1830's and the early 1840's no less than nine Southern States established such institutions to develop agriculture and for improvements. Louisiana was the first to employ this system and other states tended to model their system of mortgage banking after it.

This treatise is a case study of Louisiana's three mortgage banks—The Consolidated Association of the Planters of Louisiana incorporated in 1827, The Union Bank incorporated in 1832, and the Citizens' Bank first incorporated in 1833. A large portion of the data comes from documents, manuscripts, and records of the concerns under observation; the remainder, for the most part, is derived from government documents, laws, records, reports, contemporary newspaper articles and periodicals, and Louisiana court cases.

Chapter II gives an historical background for the evolution of property banks in Louisiana and describes in some detail the theory and general principles of mortgage banking. Chapter III is a case analysis of the Consolidated Association of the Planters of Louisiana, the first property bank, and it is based largely on the bank's records now deposited in the Department of Archives and Manuscripts at Louisiana State University. Chapter IV deals with the Union Bank and emphasizes the English brokers' manipulations of the bonds of this company. Chapter V is concerned with the Citizens' Bank. This case provides an excellent illustration of the complicated and intricate practices of speculation rife at
Chapter VI weaves the three experiments into the general pattern of banking in Louisiana, the South, and the Nation by indicating the relative importance and influence of these particular concerns in agricultural developments and internal improvements. Chapter VI also presents a picture of the role played by these mortgage banks in the construction of the international credit bridge. The last chapter, Chapter VII, shows that while the system of mortgage banking could not of itself cause a spiral inflation, once the spiral was introduced by outside factors, it could and did contribute to the existing inflation. This chapter presents the probable major causes for the failure of property banking in Louisiana. It also completes the discussion on the theory and principles of mortgage banking introduced in Chapter II.

Throughout the entire study particular emphasis is placed upon (1) the circumstances under which the various specific bonded debts contracted by the mortgage banks and underwritten by the State were incurred; (2) the inducements held out to the investors; (3) the difficulties encountered by the lenders and borrowers in attempting to understand each other during alternating periods of illusory and enthusiastic optimism and of pessimistic depressions; (4) the efforts of the State to rid itself of a contingent liability and to reform the banking privileges and restrictions; (5) the part played by the debtor and creditor in aiding or obstructing the debt settlements; and (6) the economic effects
and the international repercussions of these almost forgotten
debt controversies.

The major contribution of this study, probably, is the
presentation of additional facts and information of a phase
of American economic and financial history. This study is of
Louisiana's experience in banking during an era of optimistic,
speculative and inflationary developments; and it reviews the
controversial and prolonged settlements of the bonded debts
incurred by the State for property banks.
A little more than a century ago property banks were peculiar to the South. During the 1830's and the early 1840's no less than nine Southern States followed Louisiana's example and established property banks in an effort to entice foreign capital for the purpose of developing agriculture and internal improvements. The securities of many of these property or mortgage banks were endorsed by the States. The amount of available local capital funds was insufficient to foster a rapid expansion of agriculture and to facilitate the sale of the products to distant or foreign markets, therefore, the States created banks for the avowed purpose of securing the necessary capital through the sale of bonds, and these bank securities had to have the States' endorsements to make them marketable in foreign money markets. The influence of property banks in the economic, financial, and

political affairs of the Nation was considerable, but the history of the important role they played in the development of the South during the nineteenth century has been neglected, if not almost forgotten.

Students of economic and financial history have neither overlooked, nor neglected, the role played by foreign capitalists in supplying credit to American promoters and speculators. The services and functions of international bankers have been presented with precision and clarity by a few industrious researchers and authors. Nevertheless, most of their studies have failed to give adequate stress to the theory, structure, operations, influence, and importance of property banks, especially with reference to the part they played in the development of American resources, commerce, trade, and finance in relation to world needs and international investments. This treatise, therefore, attempts to give a more complete analysis of those enumerated phases which have been insufficiently studied. It is an attempt to accomplish the task by reviewing Louisiana's experience with property banks. This State was the first to institute the system of mortgage banking, and it had three such institutions; its experience should be representative.

A large portion of the data for this study comes from documents, manuscripts, and records of the banks under observation, and the remainder of the information, for the most part, is derived from government documents, laws, records,
and reports. Only necessary secondary sources of information are included.

The treatise approaches the problem of determining and explaining the role and importance of property banks by first discussing the theory and principles involved; then it undertakes to present a historical analysis of the specific organization and operation of each of the three mortgage banks in Louisiana; and finally it attempts to indicate the importance and influence of the particular experiments and to draw specific conclusions on the soundness of the theory and the principles involved. Chapter II begins by giving an historical background for the evolution of the establishment of property banks and continues by explaining the theory and general principles of property banking. The writer anticipates part of the ensuing analyses in this chapter in order to give the reader an understanding of what follows, but no specific case illustration is given; that is left for the three chapters dealing with the experiments. Chapter III is a case study of the Consolidated Association of the Planters of Louisiana, the first property bank, and it is a detailed analysis based on the bank's records now deposited in the Department of Archives at Louisiana State University. Chapter IV deals with the Union Bank of Louisiana, and it emphasizes the English manipulations with American securities. Chapter V is concerned with the Citizens' Bank of Louisiana. The stress in this chapter is chiefly on the complicated and in-
tricate practices of speculation at the time. Chapter VI weaves the three experiments into the general pattern of banking in Louisiana, the South, and the Nation, by indicating the importance and influence of the property banks in agricultural developments and internal improvements. It gives also a concrete picture of the role played by the mortgage institutions in the construction of the international credit bridge. The last chapter, in order to complete the discussion introduced in Chapter II, presents conclusions pertaining to the theory and principles of property banks.

Briefly, the study deals with the technique employed in placing and liquidating specific bond issues by the Louisiana property banks on the European money markets—the English money market in particular. It is an analysis of the procedure followed by the individual property banks to negotiate, transmit, refund, and redeem bonds issued in their favor and endorsed by the State of Louisiana.

The period covers a span of seventy-five years, it begins with the inception of the Consolidated Association of the Planters of Louisiana in 1827 and extends to 1902 when the bonds issued for the Citizens' Bank were finally liquidated.  

The treatise considers the circumstances under which the various specific debts underwritten by the State were

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incurred; the inducements held out to investors; the difficulties encountered by the lenders and the borrowers in attempting to understand each other during periods of illusory and enthusiastic optimism and of pessimistic depressions; the efforts of the State to rid itself of a contingent liability and to reform its banking privileges and restrictions; the part played by debtor and creditor in aiding or obstructing the debt settlements; and, finally, the economic and international repercussions of these almost forgotten debt controversies. Emphasis, however, is placed upon the economic, financial, and political effects of the property banks upon the people of Louisiana in general, the cotton and sugar planters in particular. The outlook is that of the citizens of Louisiana, not that of the foreign financier, but the intention is to be unbiased and unprejudiced. The aim is to adhere to facts in every instance.

Particular stress is placed upon the statistical data acquired from the available banking and other records. Such data, however, are evaluated, because not all of the existing data give true facts. Indeed, if all the figures were taken at their face value, utter confusion would result. Only through the appraisal of certain data is it possible to determine the profits and losses of the marketing firms, to obtain the contractual relationships and obligations, and to assess the influences of the transactions.

While it is advantageous and necessary to cite orig-
inal material, the process of footnoting is difficult and quite complicated. The manuscripts are so varied and numerous that a complete description of each document would be cumbersome and not too helpful. Therefore, some simplification in the process of footnoting is in order. Thus, at this point the author takes the opportunity to state how he proposes to indicate the source of his information; it is a codification of the data that serves as a basis for the treatise:

**CAHM**
Any citation with this letter grouping means that the information is to be found in the Consolidated Association of the Planters of Louisiana Collection of Miscellaneous Letters. These letters are chronologically arranged in corrugated boxes placed on shelves in an air-conditioned room of the Department of Archives and Manuscripts at Louisiana State University. With each citation is included the name of sender and receiver, the place of origin, and the date.

**CAHL**
This group of letters refers to the Collection of Bound Miscellaneous Letters of the same company.

**CABM**
Citations with these letters refer to the Consolidated Association Books of Minutes. There are numerous volumes of these, but the collection is not complete, and, furthermore, some of the existing volumes are partially destroyed. Therefore, no volume number is given with the reference. Only the date for the minutes of a Directors' Meeting is given.

**CABL**
A reference with these letters applies to the Consolidated Association Letter Books. These books contain transcribed copies of letters sent by the company and other reports which were mailed or delivered by the officers of the bank. There are several Letter Books, but the same situation exists with these as with the Books of Minutes. Only the date and the names of sender and receiver is stated.
CASS
This group of letters refers to the Consolidated Association Stock Books.

CAGLB
Citations with these letters refer to the Consolidated Association General Ledger Books.

CHIC, 1838.
This is an abbreviation for a special pamphlet entitled, "Report of the Committee of Investigation (selected from the stockholders) Appointed by the Directors of the Citizens' Bank of Louisiana, in Conformity with the Resolution of the Board of 18th October, 1838." (New Orleans: E. John and Co., 1839).

CHIC, 1842.
This is an abbreviation for a similar pamphlet entitled, "Rapport du Comite d'Investigation--Somme par les Actionnaires--de la Banque des Citoyens le premier aout 1842, soumis le 7 novembre suivant." (New Orleans: Imprimerie de L'Abellle, 1842).

CBBM, 1843.
This is an abbreviation for an independent manuscript published in 1843. It refers to the "Statement of the Board of Managers of the Citizens' Bank" (no publishing company, and no date of publication).

CBBM, 1844.
A citation of this sort refers to a report sent to the President of the State Senate, February 2, 1844. It is a printed copy of the report without a specific title.

UBJC
This is an abbreviation for a special report entitled, "Report of the Joint Committee, on the Affairs of the Union Bank of Louisiana, 1833."

UBAR
A citation with these letters refers to a printed copy of the act of incorporation, along with the rules and regulations. The pamphlet is entitled, "Act to Incorporate the Subscribers of the Union Bank of Louisiana with Rules and Regulations of the Company." (New York: Clayton and Van Norden, 1832).
Each citation with this abbreviation has a number before and after the abbreviation, for example, 47 La. Ann. 432. The abbreviation stands for Louisiana Annuals which include court decisions. The number before the abbreviation indicates the volume, and the number following gives the page of the case being cited.

La. Acts
Whenever this reference is made it applies to the Acts of Louisiana. The year that is included with the abbreviation indicates the volume where the particular act is to be found.

Leg. Doc.
This is an abbreviation for Louisiana Legislative Documents. The year included represents the volume. A word of warning must be given about this source, however. The documents now included in the Louisiana Legislative Documents were previously part of either the Louisiana Senate or House Journals. When the last two mentioned were rebound by the Louisiana State University Library, the reports that were included in the appendix were bound separately. Therefore, if the reader does not find the source in the Leg. Doc., he will find it in either the Senate or House Journal for the particular year. The title of the document is the guide.

House Jour.
This abbreviation represents the Journal of the House of Representatives of Louisiana. The year included in the citation gives the volume.

Sen. Jour.
The abbreviation stands for the Journal of the Senate of Louisiana. The year stated represents the volume.

House Deb.
This citation refers to the Debates of the House of Representatives of Louisiana.

Sen. Deb.
This citation refers to the Debates of the Senate of Louisiana.
The other references or citations given in this treatise do not need to be codified. A bibliographical note at the end of this study gives a detailed description of the primary sources of information.
Property banks were established in Louisiana in order to entice foreign capital funds that would serve the purpose of extending credit to individuals for developments beneficial to the State. It was the continuation of an effort that had become prevalent in every State in the Union after 1812. It was part of a contest that had been going on between this country and Great Britain since after the War of 1812; the American object was to secure a market for its production, while the English aimed to defeat our tariffs devised for that purpose in order to maintain and increase their markets.\(^1\)

An Economic Background

Shortly after the War of 1812, the United States embarked upon a vast program of internal development, especially in the fields of transportation, agriculture, and natural resources. At first, the Federal Government, as well as the States of the Union, took active part, but soon, however, the United States Government was forced to curb its extensive activities because of a Supreme Court Opinion on the constitu-

\(^{1}\) Cf. Leg. Doc., 1843, "Report of the Board of Currency."
tionality of its undertakings. The decision, nevertheless, instead of acting as a deterrent, stimulated the States to foster expansion and development with relentless fervor.  

New York initiated the large-scale movement in 1817 by providing the funds for the construction of the Erie Canal. Other states were not backward in following the practice.

Prior to 1815, banks, turnpike companies, bridge companies, insurance companies, et cetera, had been incorporated by several States, mostly Eastern States, but it was after the War when such enterprises appeared in profusion. At first, such improvements were undertaken with the use of local capital. Soon, however, developments became too great in scope to be financed by local funds. Larger undertakings had to be financed from larger money-markets such as New York and Philadelphia. Banks and investment houses in these centers looked favorably toward the corporation shares. Corporation stocks and bonds sold as well as government shares, and the yield of corporate certificates was higher. On the other hand, London and other European money-markets preferred government bonds or government pledged securities to the more speculative corporate shares, for the obvious reason that distance added more


difficulties to the collection of corporate shares than it did to securities of the government. Difficulties arising from distance, however, were not so troublesome to the domestic investment houses as they were to the foreign investors. On this account, large Eastern banking establishments invested in corporate enterprises for themselves in order to acquire larger incomes and acted only as intermediaries in the sale of government bonds.

The development of the South and Southwest was different from that of the East. After independence was achieved in 1783 and the recognized boundary became the Mississippi River, the frontier settlers advanced more aggressively through the Allegheny barrier. Waves of pioneers settled in the fertile plains of the great valley. When the Louisiana Territory was acquired from France, pionering began in the Mississippi Valley in the West and in the South. The opening of the Great River and its tributaries to transportation did much to foster migration to and within the new region. Furthermore, the increased demand for cotton after the War of 1812 and the invention of the cotton gin did much to open a new theater for rapid expansion, and the new South and Southwest were well suited to the growing of cotton. This meant, however, that unlike the Eastern States

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where most of the agriculture was for home consumption, the
newer regions "were given over almost entirely to the produc-
tion of a single crop for sale in a distant market"; and
only through a foreign market could these newer sections profit
from the increased production in agriculture, because they had
no town or domestic non-agricultural population to demand their
products. Furthermore, the newer regions were not suited as
was the East to the creation of corporate enterprises. Efforts
by the people of the new Southern States were bent mostly to-
ward agricultural improvements which did not lend themselves
to the corporate form of organization. Eastern capitalists,
therefore, could not be persuaded to invest in such endeavors,
especially when more lucrative opportunities existed much closer
home. Profits resulting from the sale of staple agricultural
products were not as lucrative as the profits realized from
industrial and commercial enterprises in or near their vicinity.

In the newer regions the income from the sale of
crops enabled the plantation owners to secure slave laborers
needed and much of the clothing and food for these laborers,
also mules and supplies. The proceeds, however, were far too

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5Matthew B. Hammond, "Agricultural Credit and Crop Mort-
gages in the South." The South in the Building of the Nation,
op. cit., p. 457.

6Cf., John Stuart Mill, Principles of Political Econ-
small to meet the planters' ambitious needs and desires. Furthermore, the development of the system was hindered by the lack of capital; very little of it existed in these newer regions, and capital was essential for rapid development and international trade. Individuals had none and very few banks existed because capital was required for their inception. Some scheme, therefore, had to be devised to entice capital from those who possessed it. That scheme was the property bank.

Banks in Louisiana Prior to 1827

Before property banks were introduced in 1827, there were, or had been, several banks in Louisiana, and their structure should be reviewed in order that the reader may visualize more clearly the evolutionary process of mortgage banking.

Louisiana, like most States of the Union, had its share of banks created for the purpose of development. Even though the first bank ever to be created in Louisiana was established in 1804, five were chartered between then and 1827, there being three still in existence in 1827. The amount of funds rendered available through these early institutions was considerable, but not sufficient for the ever-optimistic speculators and over-zealous legislators. By 1827 the potential capital of State banks had reached the total of $8,500,000; the
population was less than 200,000.\(^7\)

The Louisiana Bank. — On the twelfth of March, 1804, Governor Claiborne granted a charter for the first bank ever to exist in the territory.\(^8\) The charter incorporating the Louisiana Bank was signed by the Governor after receiving a petition for such an institution from the leading citizens of New Orleans and vicinity. These leaders wanted a bank because they thought it would serve to unify the three national groups --the French, Spanish, and American.\(^9\) President Jefferson was of the same opinion and he approved Governor Claiborne's action.

After the charter was granted, however, Madison, Secretary of State, and Gallatin, Secretary of the Treasury, were opposed to the Governor's move. They were opposed because they were anxious to establish a branch of the Bank of the United States in New Orleans. Nevertheless, the bank was established.\(^10\)

\(^7\) The three banks were: the Bank of Louisiana with a capital of $4,000,000, the Louisiana State Bank with $2,000,000, and the Bank of Orleans with $500,000. (\textit{Of. Leg. Doc.}, 1843, "The Report of the Board of Currency"; the \textit{Sen. Jour.}, 1857; and \textit{infra} pp. 17-19). According to T. Q. Hawk, the population of Louisiana by 1830 was 215,739 (\textit{op. cit.}, pp. 218-219). It should be noted, however, that the banks of Louisiana served as a banking and trading center for a large portion of the South, Southwest, and the New Middle West.


\(^9\) \textit{Ibid.}, pp. 22-23.

\(^10\) \textit{Ibid.}
The masses were not in favor of the bank; in their minds the institution could have no other purpose than to issue paper money. To them it could only result in an experience similar to that experience with the French "Kings Money" issued in the 1730's, or with their more recent experience with the Spanish "libranzas." They felt the bank to be an American scheme to legalize robbery. Nevertheless, these people believed in their leaders and they abided by their decisions. They accepted the bank, therefore, and slowly became accustomed to it, along with the branch of the Bank of the United States established in New Orleans January, 1805. 11

The Planters' Bank and the Bank of Orleans. — A deficiency of currency was being felt seriously in New Orleans during 1811, partly as a result of the expiration of the charter of the Bank of the United States, and partly as a result of an increase in business. 12 To alleviate the scarcity the State Legislature granted two bank charters: The Planters' Bank on April fifteenth, and The Bank of Orleans on April 15.


The authorized capital of the Planters' Bank was $600,000 to be procured through the sale of shares at $200 each, payable in specie. The primary purpose of the institution was to meet the needs of the agricultural interests of the Territory; that is, the bank was mainly concerned in discounting promissory notes which were agricultural in character, and in advancing credit for the improvement of agricultural property. The charter was granted for a period of fifteen years, but the bank became insolvent prior to 1826, without having been too successful in accomplishing the desired aim.

The Bank of Orleans was incorporated with an authorized capital of $500,000. Its shares were $100 each, payable in money or notes. This bank was primarily for commercial purposes, but it dealt, also, in agricultural endeavors. Its original charter was for fifteen years, but in 1823 the State Legislature extended it to 1847, for which the State was to receive a bonus of $25,000.

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13 Acts of the Territory of Louisiana, 1811, pp. 96-100 and 164-178.
15 V. Delhouche, loc. cit.
The Louisiana State Bank. — By 1818 the people of Louisiana had become thoroughly accustomed to banking, and they no longer resented the "money creators." Furthermore, the creation of banks by the various State Legislatures had become the vogue in every State after the closing of the first Bank of the United States, and the fervor had not subsided with the chartering of the second Bank of the United States. Louisiana took action in 1818 by providing for the establishment of the Louisiana State Bank with an authorized capital of $2,000,000; and, fearing that this capitalization might not be adequate, it further provided that, with legislative sanction, the capital of the bank could be increased at the rate of $400,000 a year, the total never to exceed the sum of $4,000,000. For granting this generous charter, the State received a bonus of $100,000 and subscribed to the bank's stock in the amount of $500,000. The bank was a success even though it was found expedient to discontinue the branches in all the important centers, except the St. Martinville branch, which of course was done with the consent of the Legislature.

The Bank of Louisiana. — The first bank to receive direct aid from the State was the Bank of Louisiana, incorporated April 7, 1824; the State issued bonds for and in favor of

17 Ibid., 1818, pp. 78-90.
this bank in payment for the bank stocks purchased. This institution was incorporated with a capital of $4,000,000, half of which was subscribed by the State. To pay for its subscription, the State issued bonds for the bank to a total of $2,400,000, and pledged its faith for the payment of the principal and interest thereon. That amount of bonds was issued for the $2,000,000 of shares because it was known that the bonds would not sell at face value. It was felt, however, that the bonds would sell above 83 1/3 per cent of par. Any amount obtained on the bonds above $2,000,000, therefore, was to be distributed as dividends among the stockholders.

The bonds issued in favor of the bank were sold to Thomas Wilson and Company of London and the negotiation resulted in a profit of $321,822 for the bank; and this was because the bonds sold at above 83 1/3 per cent of par expected by the State.

The law provided that the profits should be distributed as dividends, and this the bank did. The method employed,

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however came to be a subject of much controversy. The distribution favored the stockholders, but not the State. In so far as the incident illustrates the flagrant abuses on the part of the bank of the privileges granted, it will be helpful, therefore, to explain what actually took place with respect to this new method of securing profits.

The policy followed by the bank in the distribution of the profits from the sale of the bonds was on the basis of the face value of the stock subscriptions and not on the amount actually paid in for the shares. Inasmuch as half of the $4,000,000 stock capitalization was subscribed by the State, the remaining $2,000,000 was to be subscribed by individuals. Nevertheless, the law provided that only one-fifth of the amount subscribed by the individual stockholders, or $400,000, had to be paid at the time of the bank's inception. Of that initial subscription payment, however, only $138,840 was actually paid in. Thus it was that the stockholders, not including the State, received one half of the profits realized, or $160,911 on an actual paid-in investment of $138,840—a profit of 115 per cent. Naturally, the State as a stockholder objected to the method employed for the division of profits.  

On $2,400,000 of obligations for $2,000,000 of stocks, the State was receiving $160,911, while the other stockholders were receiving the same amount of profits on an actual commitment of $138,840. That was not an equitable distribution. When the matter was brought to court, therefore, the State secured a decision requiring the profits to be divided on the basis of paid-stock, saving the State more than $140,000, while still granting a profit of 14 per cent to the individual stockholders.

With the profits belonging to the State, the bank was ordered to purchase State bonds, such bonds to be placed in a sinking fund for the redemption of bonds originally issued in favor of the bank. Two years later, in 1829, the court's order had not yet been put into effect. The State Treasurer reported to the House of Representatives,

... I requested the President and Cashier of the Bank of La. (they being with the State Treasurer, Administrators of the sinking fund) to unite with me to carry said resolution into effect. As a preliminary step, we applied to the Board of Directors of said institution, to ascertain whether an amount of the profits made on the sale of the State bonds, proportioned to the stock of the bank owned by the State would be by them paid over to us as such administrators....

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27 S. A. Caldwell, loc. cit.
Apparently, however, the order of the court was never complied with. Alcee Fortier relates:

The order to buy bonds for the sinking fund was evidently not complied with, for on March 7, 1854, the attorney-general of the State was directed by act of the general assembly to 'institute suit without delay' against the Bank of Louisiana to compel said bank to place to the credit of the State as available means on July 1 next the amount the State was entitled to in gains or profits made by the bank on the sale of State bonds; such portion as the State might be entitled to in the balance of the profit and loss account; and any other claim and amount which the attorney-general might think was due the State.30

The bank appeared to have good management and it prospered. The interest payments of 5 per cent, payable semi-annually, were met, and the bonds were reimbursed on the maturity dates, 10, 15, 20, and 25 years from July 1, 1824.

The Bank of Louisiana, therefore, while not a property bank in structure, had some characteristics which were soon to be incorporated by the property banks. One important characteristic was that the capital of the bank was acquired from Europe through the sale of bonds. The bonds, however, were not secured by mortgages. Rather they were secured by the bank's assets and the State's pledge. Therefore, when the property bank scheme was introduced, it was not a radical change. Instead of the bonds being secured by the general assets, they were secured by a multitude of mortgages supplied by stockholders.

31 Cf. Miles Weekly Register, Vol. XXXVIII, p. 35.
The Theory and Principles

Property banks, sometimes improperly named 'land banks', were banks of loan, deposit, and discount, not mere banks of note issue. They were similar to State or regular stock banks except in organization. Their capital funds, instead of being acquired through a sale of stocks, were obtained by means of a bond loan. Mortgages which were supplied by the stockholders served as security for the bonds. In essence immovable tangible property served as a basis for an acquisition of credit and specie. The scheme was an elaboration of the "John Law" idea.

In 1650 William Potter in The Key to Wealth: or a new way of improving Trade, stated that the greater the quantity of money the more prosperous was a nation's trade. As a means of obtaining more money Potter proposed to issue bills drawn on the security of land and other property. This was the core of John Law's monetary doctrines. It was the idea behind colonial 'land banks'.

According to John Law in Money and Trade Consider'd with a Proposal for Supplying the Nation with Money:

Domestick Trade depends on the Money: A greater Quantity employs more People than a lesser Quantity. A limited Sum can only set a number of People to work proportion'd to it, and tis with little Success Laws are made for employing the Poor or Idle in Countries where Money is scarce; good Laws may bring the Money to the full Circulation 'tis capable of, and force it to those Employments that are most profitable to the Country: But no law can make it go further, nor can more People be set to Work, without more Money to
to circulate so, as to pay wages of a greater number. They may be bought to work on credit; and that is not practicable, unless the credit have a circulation, so as to supply the workman with necessaries; if that's supposed, then that credit is money, and will have the same effects, on home and foreign trade.

John Law accepted silver and gold as money, but criticized both as an adequate standard of value. Paper money, Law claimed, was a more stable measure of value, and his essential idea was that money was only a voucher for buying goods. Money was not the value for which goods were exchanged, but the value by which goods were exchanged. He believed in stability and security, provided the supply of money was adequate to meet the needs for money.

In Law's estimation, land gave the ideal stability and security to money and still enabled a country, irrespective of its geographic location, to have an adequate quantity of these vouchers for the purpose of exchanging goods. Furthermore, land, besides existing in adequate quantity, had intrinsic value, and a value which would be enhanced by the issuance of money having this land as security. His idea consisted in giving notes to anyone who was prepared to mortgage his land or to sell it to a public body created for that purpose. The idea is a familiar one, and it had its first application in this country with the "colonial land bank."

Colonial land banks were simply note-issue banks. They were designed to issue "batches" of paper notes on the security of real estate mortgages. Since currency was scarce in the colonies, several of the residents in a community devised a

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\(\text{Op. cit., p. 11}\)
plan for note-issue purposes; they "created" a bank and subscribed to it by giving mortgages on their real estate. The bank, using these mortgages as security, issued its own notes. These notes the subscribers acquired from the bank and used them in the daily trade. An agreement was made to keep the paper money in circulation in an amount proportional to their subscriptions. No capital funds were required. There was no reserve backing the notes, and there was really no redemption.33

Like the colonial land banks the property banks adopted the idea presented by Potter and Law that land had intrinsic value, but it was not for the purpose of issuing money or circulating credit-notes as was done by the colonial land banks. Instead, it was for the purpose of procuring credit and specie from another locality, not for the mere creation of money or circulating credit; this was a point of departure from the John Law scheme and a difference from the colonial land banks.

The financial structure of property banks was different from that of the colonial land banks. Mere paper money could not satisfy the needs of the people of the South. For instance, specie and credit was wanted in Louisiana because commerce, or exchange, was not local in character. If the securing of equipment, slaves, and markets for their products—sugar and cotton—

had been local in character, "batches" of paper money might have sufficed, but the equipment and slaves had to be bought from the outside, either from the East, the older South, or abroad. Products had to be sent outside the community for sale. Gold, silver, bills of exchange, credit, et cetera, were essential, and individuals by themselves could not readily obtain these, especially in a vicinity where little capital funds and credit were available locally. They could not persuade outsiders to accept local "batches" of paper money, premises to pay, mortgages on their individual property, et cetera, in payment for the things they did need. Individually, they could not bear the expense and time of the specific transactions in international trade. Only by collective action of some sort could the endeavor be rendered feasible. Banks, therefore, were brought into the picture. Because there existed very little capital in the community, banks were to be the means of enticing specie and credit in from the outside. Any plan of this nature, furthermore, had to afford stability and security. Otherwise the bank could not get much capital. Through the medium of the property banks, the legislators were informed that all problems would be solved and rapid development and prosperity would result.

Credit for originating the underlying theory of property banks is given to a Mr. Moussier of New Orleans; it is said that he introduced the idea of establishing a system of
collateral securities for loans. This idea was adopted when Louisiana, Mississippi, Arkansas, the Florida Territory, and other Southern States granted charters for the establishment of property banks in aid of agricultural and cotton developments.

The financial structure of property banks consisted of a pool of mortgages to form a collateral trust, much like the present practice of pooling a multitude of real estate mortgages and issuing trust certificates or bonds. Property banks, therefore, represent a midway point, or a second stage, between the colonial "land" banks and the existing Federal Land Banks, a step of departure from the John Law scheme and a step toward sounder banking practice.

Mortgages on agricultural properties served to purchase stocks in a property bank. A cotton or sugar planter, desirous of becoming a stockholder in a property bank chartered by the State for agricultural developments, acquired the stock with mortgages on the plantation, not necessarily with money. The property banks took these mortgages and placed them in their vaults to serve as security for the bonds issued for sale. Once sold, these bonds obtained for the banks the funds essential to do business—capital funds for loans to clients.

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Inasmuch as the stockholders were to be the clients of the banks as well as owners, there remained a problem to be solved. The client-stockholders had already given their only security—mortgages—to acquire the stocks and had nothing left in the form of security for loans from the banks except the stocks themselves. Property banks, therefore, accepted the stocks of their banks as collateral for loans granted. It may be said, therefore, that the agricultural landowners were permitted to "lift themselves by their own boot straps."

Becoming a stockholder in a property bank, nevertheless, was not a simple matter. Not everyone could become a stockholder. Generally, only those with fixed tangible property of a certain nature could qualify. A qualifying applicant desirous of becoming a stockholder had to meet additional requirements and his application had to be approved by the directors of the bank. First, the applicant signed the stockbook of a property bank, stating the amount of stock desired and the type of property offered for mortgage. Then, investigation was made by the officers for acceptance or rejection of the prospective subscription. The institution's attorney investigated all the titles of the properties offered for mortgage; he ascertained the amounts and nature of any mortgages, privileges, and other charges with which the properties might be incumbered; and he affirmed the affidavits filed and presented by the prospective subscribers. The agents of the banking firm made a thorough and detailed evaluation of the prop-
certificates offered for mortgage; and they presented a sworn es-
timate-certificate to the attorney for approval. If the stand-
ard set by the charter was met, the officers so advised the
subscribers and issued in their names the specified stocks of
the corporation. When issued, these stocks permitted the hold-
ers, if and when they desired, to make use of their account at
the bank; that is, they were granted a loan after the bonds
were sold and the funds were available at the bank.

Nevertheless, a stockholder was not permitted to obtain
a loan equal to the par or face value of the certificate. Most
regulations required that only from one-half to two-thirds of
the face value of the stocks could be had as a loan.³⁷

There was a specific reason for a limitation being placed
on the amount a stock certificate could serve as collateral for
a loan, and that reason was that the State and the organizers
of property banks wished to have more than adequate security
behind any credit extended. Based on the same belief John
Law had, it was thought that twice the property value was a
double assurance that there was adequate security. Besides,
the limitations restricted the amount of credit the stockholders
could obtain below the amount that was secured by the sale of
bonds, and this permitted the banks to have enough funds to
carry on other business activities; that is, if a property

³⁷ The Louisiana property banks specified that a loan
could be granted up to one-half the par value of the stocks.
bank, for instance, had sold $2,000,000 of bonds and had
issued $3,000,000 of stocks, the limit of credit that could
be extended on the stocks would be $1,500,000 at most, leaving
$500,000 for other business endeavors and operation costs.

So similar to Lawism were property banks in some re-
spects, that the question arises, What about inflation? Did
property banks have inflationary characteristics?

Unlike the earlier John Law schemes, property banks
were not intended to foster, encourage, or accentuate infla-
tion. Theoretically, there were to be no inflationary effects
from the establishment of property banks. There was to be no
spiral rise in the value of land as a result of these banks.
Increases in property valuation were not to affect the status
of the mortgaged property as far as an individual property
bank was concerned. Once the property was evaluated it became
the basis for the mortgage. If the value of the land increased,
and it was firmly believed that land always increased in value,
the amount of the mortgage did not change. It was necessary
for the mortgage to remain the same, and no new mortgage could
be obtained on the added value.

To illustrate the above, let us take a hypothetical
case: for instance, A is a planter with agricultural property
worth $500,000. He subscribes to the extent of $200,000 in the
B property bank by giving a mortgage on his property for
that amount. Now, he has not hypothecated his property for
stocks to the full amount set in the evaluation; that is,
there is a value of $300,000 on his property that is unincum-
bered. If he wanted to, and if the subscription book of the institution permitted it, he could become a stockholder for $300,000 more. Let us say that A waits a year or two before he decides to increase his holdings in the bank's stocks. In the meantime, for some reason or other, the value of land in general has increased, and at the end of the interim his land is worth $600,000. According to the principle involved, A could obtain but $300,000 in stocks and not $400,000; that is, he could obtain additional stocks on the basis of the original valuation and not the new. Under such circumstances no inflationary boom of a spiral type can be fostered or encouraged by action of the bank.

Nevertheless, in actual practice, some degree of inflation might have been possible in a community like New Orleans where more than one property bank existed. For example, where several banks of this nature were situated in an area, it sometimes happened that property owners were stockholders in more than one property bank, and, as the restriction on valuation mentioned above did not apply beyond the sphere of the individual bank, there might have been a possibility of some inflation, unless a further restrictive measure was taken into consideration. That measure was that whenever property was offered for mortgage which was already incumbered, twice the amount of the incumbrance was deducted from the valuation for purposes of issuing stock certificates on the remainder of valuation.
To return to our hypothetical case: If, instead of attempting to increase his stock holdings in the B property bank, A decides to subscribe to stocks in the C property bank, there arises a different situation; and the difference is that the original valuation is not extended beyond the province of the individual firm. Once the valuation of a piece of property is determined and declared by a firm it remains fixed during the entire period and it serves as security on the mortgage given for the purchase of stocks. This does not mean, however, that other firms are bound to accept the same valuation on this property as that accepted by property bank B when it is involved in transactions with the property owner A. For instance, when planter A subscribes for stocks in property bank C, he presents the titles on the property and specifies to what amount the property is incumbered. Then the appraisers of bank C determine the valuation of the property independently of any appraisal made previously by any other bank. Such a procedure, therefore, leaves open a possibility for an inflationary practice; that is, if the appraisers declared the property to be worth $600,000 instead of $500,000, it might permit some spiral inflation to the extent of $100,000 as far as the valuation on that particular property is concerned, if it were not for a further restriction that has not been introduced in our illustration. That restriction was that at least twice the amount of the debt had to be deducted from the appraised valuation before the
remainder became employable on hypothec for the purchase of stocks. The net result was, therefore, that the valuation of the property had to increase considerably before inflation resulting from the bank's action could have any effect in causing an upward spiral in prices or property values; that is, the restriction had as its purpose a check to the possibility of inflation.

From the above illustration there may arise a question as to whether or not a property owner at a later date might obtain a mortgage on the basis of increased valuation if his property were already fully mortgaged. The answer to the question has been given and it is repeated: it is "No." It is not necessary that property be mortgage-free for the purpose of offering it for mortgage, but a mortgage could not be granted on what was already hypothecated. Thus, if a property owner had a mortgage covering his entire property, he could not obtain a second mortgage on the same property, or on the increased valuation. All a property owner could hypothecate was the unmortgaged portion of his property; and if the property was partially incumbered, twice the amount of the incumbrance was deducted from the appraised valuation before a mortgage was granted on the remainder.

Another question is that of transferability of stock certificates of a property bank, and that question might have perplexed many. With property tied up with stocks it is difficult perhaps to visualize how the stocks of the property
banks could be transferred from one individual to another. Impression must not be had, however, that "once a stockholder always a stockholder" prevails until the expiration of the corporation. Transference was possible, even though it was not as simple a matter as it was for common stock bank certificates purchased with specie, other money, or notes. To sell a stock of a property bank, permission from the institution was essential. Furthermore, the new owner had to supply property to be mortgaged which was equally as satisfactory as the one it replaced; the directors of the corporation had to be assured that the position of the bank with respect to the total of mortgages held was not altered. And the idea behind such a policy was to protect the security of the bonds issued by the bank.

38 While permission was essential for proper transference it was not always sought by the seller and buyer of the stock. For instance, there is evidence from the records and manuscripts of the Consolidated Association of the Planters of Louisiana that several transactions in stock ownership occurred without the knowledge of the institution. During the later years of the firm's existence, during the long period of liquidation, the matter of stock ownership became very confused and complicated because of this; and when assessments were declared on the stockholders, it was found that some planters had purchased property mortgaged for stocks in the corporation without even knowing that such a mortgage existed and that they were owners of stocks in the corporation.

39 The individual mortgages could be changed, but the total had to remain intact until the expiration of the bond obligations; that is, the ratio of mortgages to bonds had to remain equal. If the bank redeemed a portion of its bonds, it could reduce by a like amount the mortgages it held as security for bonds, but it could not reduce the fund of mortgages until this was done, and it could not reduce the fund by a larger portion than the amount of bonds redeemed.
Such a policy as described above was sound as far as it went, but it overlooked certain conditions which might have impaired the security. For instance, when a transaction took place, the terms of exchange were agreed upon by the buyer and seller. Either the seller of the stocks settled his account with the bank if he had a loan on the stocks, or had it transferred in the name of the new stockholder. If it was the latter, there was not much danger of impairing the security. But if it was the former, there was some danger if the settlement was in the form of a note. The best way to indicate the difference is by illustration:

In Case I, A, the old stockholder, decides to sell his property worth $400,000 to B, the new stockholder, for $400,000, the amount of the mortgage for which $400,000 of stocks were received. A had obtained a loan of $200,000 on his stocks, $10,000 of which had been repaid. The agreement reached is that B shall assume the loan A had on the stocks, paying A the difference—$210,000. Under such conditions, the same property serves for the new mortgage replacing the old. The stocks and the loan are now in B's name instead of in A's name. B is not entitled to an additional loan, except on the $10,000 that has been repaid, because his stock serves as security for the loan he has assumed from A. Under this sort of a transaction, therefore, the pool of mortgages is not impaired.

In Case II the same conditions apply, except that B pays A the full amount and does not assume A's loan, that
being settled by A himself. If B pays A in money and with this money A settles his account, it leaves B with the privilege of securing a loan up to $200,000 at the bank, but it does not impair the pool of mortgages more than does Case I. If, however, B pays A with a note secured by the same property, or its agricultural productivity, the situation is different. To clear his account on the loan A discounts B's note with the bank. Thus, while it appears that the security of the bondholders is unimpaired because of the pool of mortgages being intact, the security is not the same because in effect the bank has resorted to loaning to the full amount of the stocks. Indeed, the bank has granted a second mortgage on property already mortgaged, and theoretically bondholders were to be protected from such a practice. Needless to say, however, both the bank and the stockholders favored the latter type of transaction mentioned in Case II.

Soundness of the Theory and Principles

At the time of their inception, property banks were hailed by many as a worthy innovation and a salvation to the needy agricultural people of the South. The soundness of the reasons given for their inception was questioned by many others, especially by those who witnessed the deplorable experiences with these institutions, mostly during the latter years of their existence. Some indications have already been given to substantiate both views, depending on the outlook.
No thorough analysis has been made as yet, however, to provide a basis for judgment on the soundness of the theory and principles involved, and it is not the purpose of this chapter to do so, especially when specific case histories have not been reviewed. The task at present must necessarily be limited to the presentation of additional phases playing a part in determining the soundness of the theory and principles of property banks, or what is a system of collateral securities for the purpose of acquiring loans. A conclusion can be drawn only after certain factors have been considered rather carefully. For instance:

1. The method of evaluating property requires sound, scientific, and skillful judgment on the part of appraisers. In the case of property banks, however, there is no definite guide for evaluation. Evaluation was a guess—at best, an inaccurate guess. Furthermore, the firm belief of the adherents of property banks was that land had intrinsic value in itself and that value invariably augmented with time and progress. Such a method of evaluation and such a concept of value, therefore, might easily lead to over-valuation and it might stimulate "boom" prices of land— inflation.

2. The cost of obtaining capital must not exceed the revenue to be received therefrom. That is, the income derived from the capital must be adequate to meet the
fixed semi-annual interest and current costs. Besides, there should be enough funds available by the time of the maturity of the bonds to redeem the obligations in full plus other costs involved, irrespective of the amount received at the time of the sale of the bonds. In other words, the bonds must not be sold at too great a discount and with a rate of interest which is excessive.

3. The date of maturity of the bonds must be distant enough to permit the funds to yield a revenue in the meantime. Irrespective of the fact that bonds are sold at a low rate of discount and with a small interest rate, it will not be profitable to obtain this capital if there is little time given for it to yield an income.

4. The capital obtained from the sale of bonds must not exceed the needs of a community. Appropriate capital funds foster business activity and development, encourage an increase in land valuation, and accentuate a general rise in prices. Excessive capital for credit purposes, however, may be expected to foster speculation and may cause inflation.

5. No theory or principle can be expected to operate in practice if there are flagrant abuses and intentional circumventions. Rules, regulations, restrictions, and limitations are intended to be abided by and adhered to. Good, sound, and honest management is essential.
No institution should be permitted or encouraged to prostitute and violate laws pertaining to it, the specifications guiding its behavior, and the limitations restricting its operations.

The succeeding chapters reveal in part the information necessary to formulate some conclusions pertaining to the soundness of mortgage banking, although they should not be construed as presenting adequate material to disprove and reject conclusively the theory and principles applicable to property banks in general. Conclusions that may be drawn from the case studies that follow apply to the specific experiences in Louisiana and not to all mortgage banking experiences. Only in so far as it is possible to give a deductive analysis of the general principles can it be permissible to venture into a broader generalization.  

40 The theory and principles described in this chapter are based on the manuscript material of the three banks studied in the next three chapters.
CHAPTER III

THE CONSOLIDATED ASSOCIATION OF THE PLANTERS OF LOUISIANA

The creation of the Bank of Louisiana in 1824 was of considerable assistance to commercial endeavors, but inadequate for the agricultural needs of the State. About four and a half per cent of the State's population were engaged in commerce of some sort. 1 On April 21, 1817, Judge Dominick A. Hall of the United States District Court for the Louisiana District rendered a decision which broke the Fulton-Livingston monopoly of steamboat trade on the Mississippi River. 2 This was seven years prior to the famous case of Gibbons vs. Ogden. On account of this decision steamboat traffic brought a rapid increase in New Orleans commerce. 3 From 1821 to 1825 commercial exports for the State had increased from $7,272,172 to

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1 There were in Louisiana by 1820 some 153,407 inhabitants, of which 6,251 were engaged in commerce. (V. Debouchel, op. cit., p. 139.)


$12,582,924, and to this increased commerce the Bank of Louisiana turned most of its attention, thus leaving agriculture without an adequate supply of banking facilities. It was felt, therefore, that agriculture needed more financial encouragement, and that such encouragement would further increase exports.

CHART A

EXPORTS FROM NEW ORLEANS, 1821 to 1827

<table>
<thead>
<tr>
<th>Years</th>
<th>Domestic</th>
<th>Foreign</th>
<th>Total</th>
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<tr>
<td>1821</td>
<td>$ 6,907,599</td>
<td>$ 364,573</td>
<td>$ 7,272,172</td>
</tr>
<tr>
<td>1822</td>
<td>7,303,461</td>
<td>675,184</td>
<td>7,978,645</td>
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<td>1823</td>
<td>6,769,410</td>
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<td>7,779,072</td>
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<tr>
<td>1824</td>
<td>6,442,946</td>
<td>1,483,874</td>
<td>7,926,820</td>
</tr>
<tr>
<td>1825</td>
<td>10,965,234</td>
<td>1,617,690</td>
<td>12,582,924</td>
</tr>
<tr>
<td>1826</td>
<td>9,048,506</td>
<td>1,235,874</td>
<td>10,284,380</td>
</tr>
<tr>
<td>1827</td>
<td>10,602,332</td>
<td>1,126,165</td>
<td>11,728,997</td>
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</table>


5 Ibid.
Sugar had been introduced in Louisiana as early as 1744 by the Jesuits from St. Domingo, and it had been manufactured as early as 1794 by Etienne de Bore. Nevertheless, sugar had not come to be of great importance in Louisiana until after the introduction of steam power to operate the sugar mills, the first of which was introduced by Mr. Coiron in 1822. The early engines for the manufacture of sugar, however, were very expensive. They had to be imported (through A. Gordon, E. J. Forstall and Company) from England at a cost of about $12,000 per engine. Later they were manufactured in this country at from $5,000 to $6,000. Not many planters, therefore, could afford to make such heavy expenditures; but those that could did, and soon they were reaping handsome profits, which motivated a financial plan. The scheme called for State assistance.

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9. Ibid.

CHART B

PRODUCTION OF SUGAR CANE IN LOUISIANA
1823-1836

<table>
<thead>
<tr>
<th>Year</th>
<th>Tons</th>
<th>Year</th>
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<tr>
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<td>17,249</td>
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<td>13,223</td>
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<td>25,873</td>
<td>1832</td>
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<tr>
<td>1826</td>
<td>40,599</td>
<td>1833</td>
<td>41,980</td>
</tr>
<tr>
<td>1827</td>
<td>50,599</td>
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</tr>
<tr>
<td>1828</td>
<td>27,599</td>
<td>1835</td>
<td>17,249</td>
</tr>
<tr>
<td>1829</td>
<td>40,243</td>
<td>1836</td>
<td>11</td>
</tr>
</tbody>
</table>

Cotton did not yield as high profits to Louisiana planters as did sugar, but the profits from the sale of cotton were substantial, especially with the ever-increasing demand for cotton by the manufacturers. The cotton crop of Louisiana exceeded 100,000 bales for the first time in 1824; cotton sold for 23 to 25 cents a pound in New Orleans during 1825, a proof that cotton had profitable prospects.

1. Louisiana Sugar Cane Industry Year Book, 1929, p. 97.
Both sugar and cotton could be grown throughout a large portion of the State. Still more advantageous was the fact that these two crops could be grown interchangeably. Furthermore, the cotton ginning mills could be turned into sugar mills without the need of incurring excessive costs.¹⁵

Both sugar and cotton planters, therefore, strove to obtain state assistance for the purpose of getting the capital deemed necessary to develop their plantations. Late in 1836, the farmers presented to the State Legislature a petition, asking for relief from the oppressive interest rates charged for funds and from the shortage of available capital; and this petition the Legislature presented to a committee

¹⁴Ibid., pp. 191, 194, and 195.
for study. The findings presented were in the form of a bill proposing that a Planters' bank be chartered.

A bill with the title "An act to incorporate the subscribers to the Consolidated Association of the Planters of Louisiana" was passed by both houses of the Legislature, March 16, 1827. The declared purpose of the act was specifically to help and protect the hard-pressed agricultural groups, reduce the excessive burden of high interest rates on money, and remedy unforeseen accidents which might cause excessive suffering to these laborious and commendable planters.

Organization of the Bank

According to the Act of 1827, the Consolidated Association of the Planters of Louisiana was to be capitalized at $2,000,000 to be raised by means of a bond loan. The stockholders were to be planters exclusively in need of capital, and they were to be permitted to subscribe to the bank's stock to a total of $2,500,000, each share being of $500 denomination. The shares were payable in mortgages on immovable

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16 House Jour., 1827 (Fr.), p. 28; and Sen. Jour. 1827, p. 69. Mr. Pierre Landreau guided the bill through the House and Mr. Charles Derbigny through the Senate. Both these men later took an active part in the affairs of the bank.


18 CABM, "Project of the letter to be sent to Stephen Girard of Philadelphia" (Fr.).
property, provided the land was in the state of cultivation. The mortgages held by the bank, in turn, were to serve as security for the bonds to be issued. The bonds were to bear five per cent interest per year payable semiannually, and they were to be issued in equal series of 5, 10, and 15 years, respectively. The sale of the bonds was to be limited in price to not less than 95 per cent of par payable in New Orleans, where the interest and principal were to be paid. After the sale of these bonds the stockholding planters were to be entitled to a loan, or credit account, on their stock up to one-half the face value of the certificates.19

The name of the bank as incorporated was "The President, Directors and Company of the Consolidated Association of the Planters of Louisiana," and its charter was to be effective until April 30, 1842. Under that name it could buy, receive, and possess all kinds of property, either movable or immovable; and it could loan, negotiate, sell, grant, alienate, demesne, and dispose of the same. It was permitted, also, to take mortgages and pledges, and to discount, according to accepted banking principles on such credit and on such security as might be deemed advisable, providing the discounted paper did not exceed in value the double of the capital.

The administration of the bank was to be conducted by

20Ibid., section 7.
seven directors elected yearly by the stockholders of the institution. No stockholder, however, could become a director without being exclusively a planter, a citizen of the United States, and an owner of at least ten shares bought on mortgages intended as a guarantee for the reimbursenebt of the bonds. 21

Dividends to the extent of the profits could be declared by the company and deposited in the name of the stockholders. Before any dividend could be declared, however, yearly reports showing a detailed statement of affairs had to be made to the government; and, furthermore, no dividends were to be paid out until the expiration of the charter. This provision was intended to act as an added protection for the bondholders. 22

The firm was not to charge more than eight per cent per year on notes discounted or money lent out. No more than six per cent was to be charged on any loans or discount made on notes at order, payable within four months after the date of making. These provisions were to guard the clients of the bank against any unduly high interest charges. 23

In order that the State Government might have some control over the bank, it was provided in the law that a comptroller for the institution be appointed by the Governor with the

21 Ibid., sections 8 and 12.
22 Ibid., sections 12 and 13.
23 Ibid., section 12.
advice and consent of the Senate, and his term of office was for two years. His duties were: to submit to the firm any legal advice necessary to guide its operations, to report to the Legislature from time to time on the state of affairs of the bank, and to propose any legislation, if needed, to enable the better and more efficient operation of the company.

Subscription in the bank's stocks started on May 1, 1827, and as soon as a thousand shares were subscribed an election for directors was held. The directors then proceeded immediately to undertake plans for negotiating a loan through a sale of bonds, and they selected a committee to prescribe ordinances and regulations for the institution.

The committee, appointed to advise on the means to negotiate a loan, recommended the nomination of one or more agents to act for the bank. The loan, they suggested, could

24 Ibid., section 18.
25 CAEM, June 21, 1827 (Fr.). The election of directors was held June 18, and Manuel Andry, Honore Landreau, Louis Allard, Zenon Roman, Manuel Alise Pascales, Francois Pascales, and Lauretiere Volant Labarramet were elected. They met in the presence of Hughes Levergne, comptroller who was appointed by the Governor, on the 21st. They were sworn into office by Judge Bermudez.
26 Ibid., June 25, 1827 (Fr.) The committee in charge of ordinances and regulations did not present any rules until December 16, 1828. Only a brief plan was offered by the committee in charge of negotiating a loan. And after their June 30 meeting, the directors did not assemble at a meeting, outside of a single brief meeting in January, 1828, until March 5, 1828.
be obtained in the North of the United States, in England, or elsewhere, but they indicated preference for the United States if it was possible. The comptroller and the attorney were to prescribe the exact terms of the loan project.  

The project that was presented by H. Lavergne, comptroller, and C. Derbigny, attorney, contained two vague plans: one was to authorize the agents to negotiate a loan at par with five per cent interest, the other was that the commissioners negotiate the loan at as low as ninety-five per cent of par. In either case, they were to attempt to obtain the loan at less than five per cent if possible.

Obviously, if the loan was to be obtained in the United States, the two plans were not too difficult to understand. Selling the bonds at par with five per cent interest would mean, most likely, that the bonds would be sold at their face value, or, as it was, $1,000 each, the bank paying interest of $50.00 theron. A sale of bonds at ninety-five per cent of par would mean a sale at a discount of five per cent, or at $950 for each $1,000 bond. In both cases, the sale would be at $950 per security.

On the other hand, if the bonds were to be sold abroad, there arose another problem. The question is, what did the comptroller and attorney mean by par? That question cannot be

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27 Ibid., June 27, 1827 (Fr.).
answered at this point, but evidently the intention was to leave vague the terms that would be acceptable by the bank in order that the agents might have a freer hand when they negotiated with the purchasers of the bonds.

Accompanying the two plans were further instructions: the payment for the bonds was to be made in New Orleans at the expense of the house or houses entering into the contract; if this payment was to be made in bills of exchange, the bonds were not to be delivered until after the bills were converted into redeemable money; and, furthermore, $50,000 in drafts were to be demanded, if practical, for surety of the fulfillment of the contract or contracts entered into with the company for the purchase of the bonds. 28

Messrs. Lavergne and Landreaux were appointed agents for the company to negotiate the $2,000,000 loan, and they attempted to obtain said loan in the various parts of the United States and Europe without success.

According to E. S. Sparks, "The Private company was unable to sell its bonds probably because of the lack of local capital and foreign credit." 29 A more probable reason for the failure of a negotiation, however, was that the bonds of the institution lacked the appeal to entice capital.

28 Ibid., "Project of Instruction for the Negotiation of the Loan" (Fr.).
29 Loc. cit., p. 84.
The Consolidated Association was offering for sale bonds which had maturity dates not very distant from the time of issuance. Those of the first series, for instance, were to mature within five years from the date they were to be issued. They were not the kind of investments to attract investors who looked for an assured income over a relatively long period of time; and they were not the kind of instruments that would arouse the interest of speculators who looked for a substantial profit from their investments in a relatively short time, simply because the nature of the business did not lend itself to quick profits. Furthermore, neither the investors nor the speculators could be convinced of the institution's ability to obtain enough revenue from the loaned funds to effect payment of the bonds at maturity.

Mortgages presented by the Stockholders served as the sole security for the bonds. Such collateral trust certificates could not instill confidence with those investors beyond the political entity where the bonds were issued. These mortgages did not appeal to the foreign creditors and investors because the laws under which the mortgages were granted were different from their own. Furthermore, the creditors were not in a position to ascertain the value of the lands offered on mortgage or the integrity of the would-be borrowers. Foreign creditors, naturally, would insist upon a pledge from a better-known entity, one they could more easily and less expensively call upon in
Pressure, therefore, was brought to bear in the Legislature by those interested in the bank to have the State assist the bank by issuing bonds in its favor. The State was asked to pledge its faith to redeem and pay interest on the bonds in the event that the private concern should fail to do so.

Strong protests arose on such a proposal in both Houses, however. In the House of Representatives a minority group opposed the move and gave for its reasons:

1. That the subject matter and provisions of the said act, are not within the legitimate scope of legislation; inasmuch as it is a mere contract by which the State is bound as security for a certain class or description of citizens, to enable them to borrow money for their exclusive use and benefit, without any corresponding advantage to the public, or adequate security against loss.

2. Because it is a useless and prodigal use of the name and credit of the State, for particular advantage, which name and credit might be more beneficially employed, in procuring funds for general improvement, in which all portions and classes of the community might partake.

3. Because by thus pledging the faith of the State for so large a sum, in the manner and for objects aforesaid, its means are diminished, and its credits are exhausted for objects not public.

Had the bonds been bought, in case of default, the bondholders would have found it necessary to take action against the bank and force liquidation and collection on the individual mortgages. Such a procedure would have been lengthy and expensive, without too great assurance that their claims would be recognized and honored by the courts and the laws of the borrower's country and state.
4. Because the Institution created by the Act, to which the act aforesaid, is a supplementary, does not in its nature, and the means provided for its administration, afford a sufficient guarantee for its ultimate compliance with the contracts it is authorized to make, or the accomplishment of the ends proposed by it; and in case of failure or misfortune, the State will, in consequence of the act, aforesaid, be committed to an extent, much beyond its means to meet; and the citizens in general, involved in great distress, and exposed to great and heavy burdens, by reasons of an act, in the anticipated benefits of which they are not to partake.

5. Because the passage of said Act has in the opinion of these protestants, a direct tendency to infuse and destroy the public credit and to embarrass it in its pecuniary arrangements. 31

The minority group in the State Senate expressed its opposition to the measure in similar terms. They voted against the bill, they said:

1. Because we do believe it highly improper for this body to pledge the credit of the State to any body of individuals whatever, it being out of the range of Legislation, except especially required and directed by the people.

2. Because we believe that the security is insufficient to protect the State in case of loss.

3. Because some of those who voted for the bill are signers, and belong to the Association, and we conceive are interested, when our rules forbid any person to vote on any question in which he is immediately interested.

4. Because the State has already borrowed two millions of dollars, and the above act adds two millions five hundred thousand dollars more, which will go against securing the credit of the State, and may put it out of their power to borrow money in case of need.

Despite these protests, however, and despite the refusal by the Governor to affix his signature to the bill, an act to amend the charter and to assist the Consolidated Association passed, February 19, 1828.

The amended charter increased the bank's capital from $2,000,000 to $2,500,000 and increased the stock authorization from $2,500,000 to $3,000,000, and the corporate life of the bank was extended from June 30, 1842, to June 30, 1843. According to this bill, the State agreed to issue its own bonds for the property bank, and the pledge on these bonds engaged the faith of the State for the reimbursement and for the payment of interest in the event the bank failed to do so. The bonds were Louisiana State Bonds in favor of the Consolidated Association and they were secured by mortgages held by the bank. All the State guaranteed was payment on the claims; it acted as a co-signer; and its liability was contingent. Stipulation was made in the act, however, that all sums be paid and received in New Orleans.

For the privileges granted the State was given bonus stocks in the institution to the amount of $1,000,000, on which it could be granted a credit of $250,000 at the regular rate of interest. Furthermore, the State was to appoint six of the twelve directors.

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34 Ibid.
35 Under the original charter the corporation elected seven directors and the Governor appointed the comptroller.
The new directors held their first meeting, March 11, 1828, and again resumed plans to negotiate a loan and formulate ordinances and regulations for the administration and operation of the business affairs. Mr. Felix de Armos, spokesman for the committee appointed to formulate plans for the negotiation of a loan, presented two plans for the procurement of a loan, both similar to the first two plans presented a year earlier, and he proposed secret instructions and letters of credentials for the agent to represent the institutions in the sale of the bonds.

The ordinances and regulations adopted for the conduct of the affairs of the bank were specific and rigid. Only the more important rules are given at this instance, and in an abridged form. The major ordinances establishing the rules for the administration of the bank were:

1. Three stockholders, other than directors, were to be selected each year to act as judges over the election of directors.

2. Notices of the elections were to be sent out thirty days prior to the election and were to be published weekly in two New Orleans papers for the month preceding the election.

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36 CAM'., March 11, 1828 (fr.). The six directors appointed by the State were: Messrs. Villere, Andry, Foucher, Bromard, Duplantier, and- - (record destroyed). The six elected by the stockholders were: Messrs. Landreau, Allard, Zernegne, L. Pascalé, Labarre, and Deschapelle.

37 Ibid., and cf., supra, p. 49.
3. The judges were to report the results of the elections to the president who was to notify each elected director to meet at the banking house the following February 1, at 11 A. M. for the purpose of selecting a president.

4. The President, Directors and Company were to have charge of all monies, notes, and other mobile or immobile properties.

5. Money and notes were to be received without retribution and all deposits were to be remitted on demand.

6. The properties offered for mortgage by subscribers or others were to be evaluated by appraisers selected by the direction. Each parish was to have three such appraisers selected from stockholders or other planters within the parish. Their duties required specific and detailed reports. They had to submit the certificate of estimation as follows:

We the undersigned _________ and stockholders of the Consolidated Association of the Planters of Louisiana, residing in the Parish of _________ and being Commissioners named by the President, Directors, and Company of said Association for the purpose of appraising the properties of said parish, do swear and affirm to the best of our ability and conscience that we estimate the property of ___________________________ inhabitant residing in this parish at the sum of $__________ conforming to the detailed information following, viz.:

Arpsens of land facing the Mississippi River with a depth of ______ arpsens, of which _____ only are today under cultivation in ____________, the surplus being standing timber or brush. The quantity or arpsens we estimate in total to be _________ worth $______________

Slaves of both sexes, named _______ (name and age) estimated in total at $______________

Horses and ____ mules at $______________

Pairs of oxen at $______________

Buildings estimated in total at $______________

Total of our appraisal $______________

We further declare that our above appraisal was made in full to the best of our ability and knowledge.
In faith of all the above, we have sworn and affirmed our ordinary signature in the presence of the honorable ___________, Judge of this parish, the _______ day of the month of ________, in the year _______.

(signed) ___________, commissioner

___________, commissioner

(Judges' signature)

7. Each year the president was to transmit to the commissioners in the parishes the total of the profits and the percentage of increase in dividends for each stockholder. The commissioner was to transmit the information to the stockholders.

8. The method of transferring the stocks was to be according to specification. When a stockholder wished to transfer his stocks, or part of them, he was to present to the Direction the titles of the properties of the plantation owner whom he wished to have replace him for the total or part of his stocks. If the Direction judged the securities offered in exchange to be equal in all respects to those of the stockholder wishing to make the transfer, it was to accept the mortgage presented and free the former or part of it. In the case of dividends under such a transfer the transactors were to reach an agreement between themselves, if possible, in order that the Direction might make the transfer of all dividends to the new stockholder. If such were not done, however, the old stockholder was to be credited on the books for the dividends declared up to that time, and he was to be paid these dividends at the time of the expiration of the charter.

9. If a stockholder were to find it necessary to suspend payments on a loan obtained the Direction was to advise a means of assistance if possible. If such were not possible the Direction was to obtain a reimbursement of the funds by means compatible with the interests of the stockholder. The dividends due the stockholder until the time of the suspension, if any should have been declared, were to remain on deposit with the bank of the Association until the expiration of the charter to be paid then to the rightful owner of the stocks after the institution had been paid all due it on such stocks. The Cashier was to announce in the newspapers the number of stocks to be transferred by reason of default, avoiding, if possible, to mention the name the individual involved.
10. Proper precautions were to be taken in the printing and issuance of paper notes in order to avoid fraud and counterfeiting.

11. In view of the fact that the bonds were to be reimbursed in three equal payments, maturing June 30, 1833, 1838, and 1843, it was to follow that the loans made to the stockholders were to be repaid in yearly instalments of such portions to effect the full payment within the maturity limit of the bonds. For instance, a loan made prior to June 30, 1829, would be payable in 14 instalments, one prior to June 30, 1830, but after June 30, 1829, in 13 payments, etc.

The regulations for the conduct of the affairs of the Consolidated Association dealt with: officers, elections of officers, and the duties of officers; hours of business, method of business activity, and the terms for engaging in business transactions; discounts, terms of discount, and the types of paper acceptable on discount; credit, procedure for obtaining credit, and the collateral acceptable for credit, et cetera.

A few important rules were:

1. Each subscriber had to be a planter and had to furnish mortgages on plantations in the state of cultivation and producing revenues, slaves and animals attached thereto, and the buildings that were part of the estate, as soon as he was directed by the Direction the subscriber was to furnish: the title of properties, the certificates declaring already existing mortgages, privileges, or other incumbrances, the certificate of estimation, and an affidavit declaring:

(1) if he was a curator or executor,
(2) if he was or had been married,
(3) if he had wedded a widow having one or more children.

GASB, December 16, 1828 (Fr.).
(4) if he was or had been a curator or executor for a minor, 
(5) if he had been a curator interdict or absentee, 
(6) if, without being a curator or executor, he had taken part in the administration of the affairs of a minor, either interdict or absentee, 
(7) if he was or had been a witness of some executor, curator, or other administrator appointed by law, 
(8) if an inheritor, if he had been given charge by inventory of the affairs of some succession, 
(9) if the property he wished to mortgage came from a succession partition, 
(10) if the property came from a succession where the legacies have not been paid, 
(11) if he was a creditor or debtor of the State, a company, or corporation, 
(12) if he was or had been guardian of the acquired properties by legal authority.

2. When the subscriber had fulfilled all the requirements specified and had met the approval of the direction he was to receive stock certificates properly endorsed by the officials, and immediately a credit account was opened for him, equal to one-half the total face value of the certificates in his name. This credit he could make use of at will.

3. Non-subscribers wishing to obtain a mortgage loan from the bank had to follow the same rules and procedure pertaining to mortgages as a subscriber desiring to purchase stocks.

4. Payments on mortgage loans by non-stockholding planters or other individuals was to be by fifths from year to year until the end of the fifth year, when the mortgage would be cleared.

5. The Association was not to charge more than eight per cent per year on loans and discounts, not more than six per cent on any loan or discount made as a pay-to-order note payable in four months from the date the loan or discount was made, and no simple note payable or mortgage note could be discounted without the concurrence of three-fourths of the Directors present. Interest was to be deducted on all loans and discounts accorded to stockholders, plantation owners, or other individuals.

6. The total of notes discounted to effect payment of notes or other obligations due the Association was never to be applied for other uses.

7. All negotiable instruments offered for loan or discount and drawn by individuals residing outside the
limits of New Orleans were to be made payable to the Consolidated Association, or to some domicile within the limits of the city corporation. 39

Negotiations with Baring Brothers

After receiving instructions from the new Board of Directors and with new facilitating provisions for effecting a loan, Mr. Lavergne once more set out on his mission to sell bonds. He spent a few months 40 in the financial centers of the North—New York and Philadelphia—but his attempts to sell the bonds were unsuccessful. Thus, upon advice from Mr. Stephen Girard, a Philadelphia financier, he proceeded to England.

In Liverpool, Mr. Lavergne contacted Mr. Alexander Gordon, associate of the business firm Gordon and Forstall and Company of New Orleans. The two went to Baring Brothers and Company of London and had several interviews and conferences concerning the loan. At first, Baring Brothers did not appear to be too interested, but finally an agreement was reached. 41

A contract for the sale of the bonds was entered into with Messrs. Baring Brothers and Company, September 13, 1826. 42

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39 Ibid.
40 From April to August, 1828.
41 Consolidated Association, Miscellaneous Letters (hereinafter referred to as CABL), Lavergne to Andry (President of the Consolidated Association), Liverpool, August 14, 1828, and London, September 6, 1828 (Fr.).
42 Ibid., London, September 14, 1828.
What the exact terms of the contract were cannot be ascertained definitely because the contract, or its duplicate, has not been found amongst the records and manuscripts of the Consolidated Association. Nevertheless, there is enough supplementary information available to enable one to formulate the approximate terms of the contract.

From all appearances the stipulations of the contract entered into between Baring Brothers and the Consolidated Association were not unfavorable to Baring Brothers. They, Baring Brothers, were to buy outright in their name 750 bonds of $1,000 each at the rate of ninety-five per cent of par; payment was to be made in London after delivery of the bonds purchased. The remainder - 1,750 bonds - was to be consigned to this same firm in sum of 50,000 pounds sterling or in amounts of 250 bonds - from time to time after March 1, 1829. Each consignment, however, was to require the consent of this London house. The payments of interest and the principal on all bonds were to be at the sterling rate of exchange, 4 shillings 3 pence on the dollar, the American mint rate of exchange under the bimetalllic standard established in 1791.

43 In the "Report" rendered by Alexander Gordon and Hughes Lavergne to the Consolidated Association, September 23, 1826, it is stated that a duplicate copy of the contract is attached. No such copy was found, however, while conducting the research. There may be a copy among the papers of the Baring Brothers Collection deposited at the Federal Archives of Canada, Ottawa, but the writer did not go there to investigate.

44 It was later agreed to make payment in New Orleans as specified by the charter.

45 The current rate of exchange was 4s. 6d.
All payments by the Consolidated Association were to be made effective at the counting house of Baring Brothers in London. For selling the bonds of the Consolidated Association, Baring Brothers were to receive a commission of two per cent. For handling the affairs of the bank, Baring Brothers were to collect a fee of one-half of one per cent, that is, the fee was to be charged on the sterling amount of the interest paid and the reimbursements made. By the terms of the contract Baring Brothers did not bind themselves to sell the Louisiana bonds of the Consolidated Association at a specified rate; they reserved for themselves the right to sell the bonds at any price they deemed proper in order to protect themselves from possible loss. Furthermore, they would not agree to have their name included on the Louisiana bonds as was desired by the bank.

The favorableness of the contract for the Consolidated Association is not quite evident. The Commissioners, however, attempted to make it appear advantageous in their letter and report of the negotiation. When they first notified the

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46 CAML, Lavergne to Andry, London, September 6, 14, and 23, 1829 (Fr.).
47 Ibid., Baring Brothers to Hughes Lavergne, London, September 15, 1828, viz.: We take this opportunity of repeating that in declining to adopt the form of endorsement suggested by you for the security of the Association we were influenced by the absolute necessity which we felt imperative under any novel mode of introducing our names on the certificate likely to attract notice as contrary to the usages to which mercantile people are accustomed.
48 Ibid., Lavergne to Andry, London, September 14, 1828, and September 23, 1828 (Fr.).
Association concerning the contractual agreement, they stated that the organization would receive $235,000 on December 31, 1828, upon remittance of $300,000 of bonds, $427,500 on February 15, 1829, upon another $450,000, and roughly $222,000 on March 1, 1829, from the consignment of $250,000 more bonds. That was a loss of $65,500 on a million dollars, but the Commissioners felt that the amount would be less because part of the payment by Baring Brothers was to be in the form of credit upon which the bank could draw bills of exchange, and bills of exchange were then selling at eight per cent premium. Bills of exchange would give the bank a profit of $17,760, according to the calculations presented, and that would reduce the loss to $47,740; a million dollars of bonds would, therefore, yield 952,260, a sale at above 95 per cent of par. 49 Unfortunately, however, the Commissioner misrepresented the contractual terms and reported anticipated returns not borne out by the contract. Had they reported properly, the results might have been more favorable.

The detailed report on the contract indicates still more favorable conditions for the bank. Through dubious means the Commissioners made it appear that the bonds sold at better than 97 per cent of par and that the consignments were at above par. First, they established the results of their negotiations on the assumption that the average

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49 Ibid., September 14, 1828 (Fr.).
maturity period for the bonds was nine and a half years because one-third of the bonds matured in June, 1833, one-third, June, 1838, and one-third, June, 1843, or four and a half, nine and a half, and fourteen and a half years, respectively. Second, they based their calculations on the assumption that the difference between the contract rate of exchange and the current market rate of exchange was in the favor of the bank. Third, they included in their calculations fictitious profits arising out of losses.

On the sale of $750,000 of bonds to Baring Brothers, the net loss reported was $23,315, and the general reasoning employed to get this figure was:

1. To sell $750,000 of bonds at a five-per-cent discount is to incur a loss of $37,500.

2. This loss of $37,500 is immediate; therefore, the bank is deprived of its use for nine and a half years. If the bank had this sum at its disposal, it could earn six per cent compound interest for nine and a half years. Thus, the loss is really $65,252.

3. To pay for the $750,000 will require only $708,333, because the rate of exchange is 4s. 3d, and not 4s. 6d.

4. To pay $708,333, however, will require the purchase of bills of exchange and these sell at eight per cent premium, a cost of $56,667 (sic. $54,666.64).

5. This cost of $56,667 for the purchase of drafts, nevertheless, occurs only in nine and a half years; in the meantime, that sum can be used by the bank to yield a revenue at six per cent compound interest, thus giving a sum of $98,604.

6. From this $98,604 revenue must be deducted the cost of purchasing drafts. The net revenue, therefore, is $41,937.
(7) Therefore, with the revenue at $41,937 and the loss at $65,252, the final net loss is $23,315.50.

That loss on $750,000 meant a sale at about 97 per cent of par, interest payable in England.

On the consignment of the $1,750,000 of bonds, the calculations were more weird and were made to show the sale at par. The Commissioners decided that $1,750,000 in bonds sold at 95 would yield $1,662,500. Since in all probability, the consigned bonds would be sold in fourteen or fifteen months after March 1, 1829, the period in between would permit the institution to gain $133,000 on the $1,662,500 in bills of exchange which it could draw against Baring Brothers and could sell on the market at eight per cent premium. This profit would reduce the loss incurred from the sale of the consigned bonds, figured in the same manner as for the $750,000 sold outright, to make the final net loss negligible, or what would amount to a sale of bonds at about par. 51

The distortion of facts and figures presented by the Commissioners on the results of the negotiations are obvious. First, the basic assumption of an arithmetic mean for purposes of computing compound interest is a serious error; it does not give the same result as compound interest computed on the separate series of bonds as would be done on an

50 Ibid., September 23, 1828 (Fr.).
51 Ibid.
actuarial derivation. Second, the assumption that the contract rate of exchange of 4 shillings 3 pence in comparison with the current market rate of exchange of 4 shillings 6 pence gave the institution a 3 pence advantage is a misstatement. While it may appear that there is an advantage, it must be remembered that the British were buying the bonds in terms of the sterling, not dollars, and the interest and reimbursement was to be paid in England in sterling, not dollars. Taking a contract rate of 4 shillings 3 pence instead of 4 shillings 6 pence meant that the Baring Brothers were overvaluing the sterling and not the United States money: they were taking the value of the American monetary

52 The mathematical difference can be illustrated as follows:

Compound interest on the three separate series on the $1 basis:

- $1 compounded at 6% for 4½ years = 1.3048
- $1 compounded at 6% for 9½ years = 1.7535
- $1 compounded at 6% for 14½ years = 2.3565

$3 on the three series totals = 5.4148

Compound interest on an arithmetic mean on the $1 basis:

- $3 compounded at 6% for 9½ years = 5.2305

The difference amounts to .1543 on the $3, or .0514 per $1, or $5.14 per $100. The error is over 5%. Thus, for the compound calculation on the $37,500, which is $65,315, a sum must be added of $1,927.50.
unit to be worth less than a dollar, not equal to a dollar. Third, the assumption of profits being realized from an eight per cent premium existing on bills of exchange is "creating" profits where profits do not exist. Because it was necessary to purchase bills of exchange to effect a reimbursement, and because in all probability these bills would have to be acquired at a premium, it did not mean that the bank could enjoy an income from the expense in the meantime.

The calculation of a loss of $37,500 on the $750,000 bond sale was correct because the contract price was specified at 95 per cent of par. Unfortunately, however, par did not equal a dollar. The British monetary system is:

- The pound sterling (£stg) = 20 shillings (£)
- The shilling (£) = 12 pence (d)
- The pound sterling = 240 pence (d)

Most likely the Commissioners presented their argument by the following method:

Under a ratio of £1 = 4s 3d = 51d:
- The pound sterling, or 240d = $4.70588
- Under a ratio of £1 = 4s 6d = 54d:
- The pound sterling, or 240d = $4.44444

But the above calculation is on the assumption the £1 = $1. The case in question is different in that it takes the sterling as fixed instead of the dollar: the dollar is the variable. Thus, if they say that their pence is worth $.01960 in American money (¢1.0151d) when it is known to be worth $.01337 on the market, (¢1.54d) they are overvaluing their pence by $.00123. The way to find the value of the dollar under such conditions is to find the cost of the three additional pence required, figured at the current price (3d x $.01337), and it is $.05511. The dollar, then, is worth in terms of the sterling $.94489--94½ cents.
not mean the face value of the bonds. Par meant the conversion rate of money between the two countries based on the defined legal metallic contents of each standard monetary unit. Therefore, a conversion of English sterling into American dollars meant another loss of approximately $39,569, despite the Commissioners' calculations. Thus, the immediate loss suffered was more nearly $77,069. This loss can be increased by figuring that the bank had to forego the opportunity of reaping a revenue on the sum at the rate of six per cent compound interest during the period the bonds were outstanding, but it must be calculated on an actuarial basis. Nevertheless, to take the $56,667 draft purchase expense that occurs at the time of the maturity of the bonds and to figure that that amount was earning the bank a six per cent compound interest for the entire period prior to the purchase was a misleading and erroneous profit fabrication, which should not be considered as reducing the loss incurred from the sale. Furthermore, to say that the bank would have to reimburse but $706,333 on the $750,000 was a reversal of the facts. According to the terms of the contract Baring
Brothers were loaning $708,333 and were being repaid $750,000. 54

The calculations pertaining to the results to be obtained from the consignments of bonds are erroneous and false, also. The Commissioners employed the same methods as was employed in the sale in order to obtain favorable results. Moreover, they added a profit to be realized on the consignment because the payment by Baring Brothers for the bonds was to be in drafts, and drafts sold at a premium. The $1,750,000 consigned bonds at 95 per cent of par would yield $1,662,500

54 The computation of the Commissioners, evidently, was:
The market rate of exchange of the dollar in terms of sterling was 4 shillings 6 pence. Therefore: $750,000 at 4s 6d (54d) is equal to 40,500,000d.
The contract rate of exchange was 4 shillings 3 pence. Therefore: $750,000 at 4s 3d (51d) is equal to 38,250,000d.
The difference is 2,250,000d. Therefore: 2,250,000d converted into dollars on the basis of the current rate of 4s 6d is equal to $41,667.

Therefore, if the bank sells $750,000 of bonds and is paid in sterling, the bank receives 40,500,000d. On the other hand, the bank will pay back this loan in dollars converted into sterling at the rate of 4s 3d, or at $41,667 less than the amount received ($750,000 - $41,667 = $708,333).

The actual terms of the contract did not state anything of that nature. Instead it said that the dollar was worth 4s 3d and, therefore, only 4s 3d would be given on each dollar of the bond loan. Further, it said that the loan would have to be repaid in sterling, and for each dollar of debt 4s 6d would be required.
plus eight per cent on the latter sum, or $133,000, and by figuring the compound interest as was done for the sale of bonds, the net loss would be reduced to almost zero— a consignment sale at par.

Without going into the details and the false calculations pursued by the Commissioners, however, it is possible to approximate the cost of the sale and consignment of the bonds. First, there was the discount of five per cent on $2,500,000, say $125,000. Second, there was the loss resulting from the differences in the rates of exchange, say $150,000. Third, there was the two per cent commission charged on the negotiation, say $50,000. Those three items alone amount to $325,000, and a loss of $325,000 on $2,500,000 is thirteen per cent, or a negotiation at 87 cents on the dollar. This, however, does not include the interest lost while the funds were in transit; it does not include the cost of purchasing bills of exchange; and it does not include the numerous other items which could be brought into the picture.

Before going farther with the negotiations, the theory concerning monetary standards should be examined in order to get a fuller understanding of the terms of the contract. Some might say that Baring Brothers were very exacting in their terms, that they were taking advantage of the borrower. Close analysis, however, will show that they were not to be blamed for the position they took, and that they could have had the same terms in effect without having a contract with
specifications thereof. The American monetary standard entitled and gave them those terms.

England was on a gold standard. The unit of money was the pound sterling (£ stg.) and it contained 113.0015 grains of pure gold.

The United States had a double standard, gold and silver, or what is commonly called a bimetallic standard. That unit of money was the dollar, which contained either 24.75 grains of pure gold, or 371.25 grains of pure silver; and that ratio was decided upon after a close observation of the relationship of the prices of the metals on the market: their relative values as commodities in the state of the arts. Based on the existing market ratio, therefore, the mint ratio was established by law at 1 to 15.

On the market, however, the ratio does not remain fixed because prices are not fixed. Without government or other interference prices fluctuate freely to adjust themselves to the supply and demand. Sometimes the individual prices move harmoniously when general prices fluctuate as a whole; sometimes the prices of individual commodities fluctuate without an appreciable fluctuation in the general price level; and sometimes individual prices fluctuate at the same time that the general prices fluctuate. To the advocate of bimetallism, however, the prices of gold and silver were not viewed from all those angles. If the price of silver increased, that of gold decreased, and vice versa; and the reason was that if there
was a greater demand for silver, for instance, there would be less of a demand for gold, and the price of silver would rise while that of gold would fall. As the price of silver increased, people would be willing to purchase less of the metal and would look for another metal - gold - which would serve the purpose at a lower price, the principle of substitution. The net effect would be to decrease the price of silver and increase the price of gold. "Compensatory action" is the term used to describe the behavior; and because of the compensatory action, the relationship of the two metals has the tendency—in the long run—to remain the same, not only within a nation, but throughout the world.

Thus, when it was found in 1791, that the ratio of silver to gold was 15 to 1 on the world market, it was thought that if established by law at the same ratio, both metals could be used as a standard, without difficulty arising from divergence of the two ratios.

According to the theory, if the market rate changed from that of the mint, compensatory action of the two metals would re-align the ratios. For instance, if the market ratio went to 16 to 1, gold would leave the mint and go on the market because it was undervalued at the mint. Once on the market, however, this gold would increase the supply and thereby reduce the price until the market ratio returned to that of the mint. Compensatory action would, in the long run, keep both ratios in line; and because of this, a monetary unit based on bi-
metallism would have a double footing. It would not be a monetary unit with one metal as a base at one time and another one sometime later, depending on the fluctuations in the market prices of the metals used as a standard.

There are several hypothetical assumptions and many important omissions to the above theory, but as far as the logic is concerned, the conclusions are sound in theory. The economic historian, however, sees the flaws. One of the assumptions is that all the nations have a bimetallic standard. To limit compensatory action to one nation is erroneous.

There is some compensatory action between gold and silver on the world market and there is a definite ratio between gold and silver. Nevertheless, habits and customs change, and because of this—among other things—the ratio does not remain fixed. There is, also, some compensatory action between the mint and the market operating through the compensatory action of gold and silver on the market. But the mere fixing of a ratio by a government, even if based on the existing market ratio, does not force the world market ratio of the two metals to remain in harmony with the legal ratio established by one nation. That would be possible to a greater degree only if all, or a majority of, the nations adopted a bimetallic standard with an identical ratio, or approximately so. To repeat again, there is some compensatory action, but it is not national in scope. It applies to practically all goods for which there are substitutes, and it applies
everywhere in the world. It is not necessary to have a legal money standard for it to operate. Its operation, however, does not guarantee a fixed relationship.

Be it as it may, the fact remains that soon after 1791, the market ratio changed, and the compensatory action did not bring it back in line with the established mint ratio. The market ratio changed from that of the mint; it went to somewhere around 15.5 to 1 and 16 to 1, and remained there for forty years or so.

That meant that at the mint you were given 24.75 grains of gold for every dollar. On the world market, however, more than one dollar was offered for the same number of grains of gold. Naturally, it was profitable to buy gold from the mint and sell it on the market.

Let us see what a Britisher could do. His monetary unit, the pound sterling, had 113.0016 grains of pure gold. The sterling rate, or par, of exchange, therefore, with the dollar on a mint basis was in terms of the metallic contents of both units; that is, the pound sterling equaled $4.444, or to reverse it, the dollar equaled 4 shillings 3 pence. On the market, however, his pound sterling was worth $4.71, or thereabouts, or the American dollar was equivalent to 4 shillings 6 pence. That, on the surface, may appear to be to the advantage of the American, but let us examine closer.

Suppose a Britisher came here and bought something. If he obtained 24.75 grains of gold from his bank, or govern-
ment, and presented it to the American mint in order to get dollars to pay for the goods, he would lose money because he could get the same amount of dollars on the market for less grains of gold; he could get approximately $1.06 on the market for the same amount of gold. Where did he buy the dollars? Naturally it was on the market.

The analysis so far, however, still leaves a wrong impression, the impression that gold was flowing into the country. That was not the case, and soon we shall see why.

Assume that the Englishman has a choice of paying silver or gold and his choice was silver. If he took 371.25 grains of pure silver to the mint, he received one dollar; but if he took the same grains of silver to the market to acquire dollars, he could not get one dollar for that number of silver grains; he would receive about 94 cents for his 371.25 grains of silver. Naturally, his choice was to get the dollar at the mint. Nevertheless, that was not the most profitable thing he could do.

Suppose that he goes to the mint with his silver as illustrated above, but instead of getting dollars he obtains gold. He would be given 24.75 grains of gold for 371.25 grains of silver, and he could take the gold to the market and get about $1.06 for it. As far as the Englishman was concerned, such an undertaking was the best of the choices if he had to use metals to effect his payments. Nevertheless, it was not necessary for him to use metal, or to go through the process, to get the same results.
The British buyer had sterling notes backed by gold—England was on a gold standard—and anyone who possessed the money could get gold for it as defined by law. Therefore, he did not have to get gold to buy dollars, but he received more than $4.44 for it. If the Americans did not grant him approximately $4.71, he could revert to the gold transaction and get that much. The effect, therefore, was that the Englishman received one dollar's worth of goods for 4 shillings 6 pence.

The question now arises as to what happened to the American buying in England; the picture was reversed. If the American offered to pay $4.44 for a pound sterling's worth of goods in England, they would not accept it. They would demand that he pay them approximately $4.71, or 113.0015 grains of gold. The American, of course, found it cheaper to ship the grains of gold because he could get them at the United States mint for $4.44. The effect of this was that the American paid 4 shillings 6 pence for one dollar's worth of goods. If the American owed a dollar debt to England, he had to pay 4 shillings 6 pence to cancel it.

Baring Brothers did not have to specify the two rates in the contract in order to get them, our monetary standard did that. The rates were stated to remove doubt, and to avoid possible losses from changes of the market ratio of the two metals and the two monies.

The Commissioners who were negotiating with Baring
Brothers understood the principles involved—at least in part—and showed some of their effects under a camouflage. Because it was easy to be misled by the complexity of foreign exchange, however, they chose to obtain an erroneous conclusion in an effort to falsely convince "someone" that they had made a sale of the bonds at a good price, a price that was advantageous to the bank. 55

The Board of Directors approved Mr. Lavergne's negotiation and seemed well pleased.

Several months after the contract was signed the Association attempted to have Baring Brothers revise some of the provisions. It asked to eliminate the clause requiring the reimbursement of the capital in England. It wanted to eliminate the provision whereby Baring Brothers to protect their advances reserved the right to sell the Louisiana bonds of the Association at any price. It made known its desire to have the funds from the sale of bonds before March 30, 1830. 57

55 The matter of par and market rate of exchange was a serious problem for many States. Some States repudiated their debts on the ground that par had been violated by the banks and the English financiers. Alabama, Mississippi, Florida, Michigan, Illinois, etc., had many long and bitter debates in their legislative halls on this very point. The general feeling was that they had been "robbed." There was some justification for that feeling too because most of their bonds were sold after 1834 when the mint ratio was changed from 15 to 1 to 16 to 1, and because English financiers continued to hold to the 1791 par of exchange after it was changed by law in this country. That, however, does not apply in the present case because the date is prior to 1834.

56 CABM, December 2, 1828 (Fr.).
57 CABL, Andry to Baring Brothers, New Orleans, April 7, 1829 (Fr.).
Baring Brothers, in answer to the desired changes, remarked that an alteration in the provision for the payment of capital and interest in England would take away from the bonds their principal merit which gave them an advantage over all other American stocks. The contract rate of exchange payable in London made the reimbursement a fixed sum, which no variation of the market rate of exchange could effect. Any change would decrease the price of the bonds on the market. They made no comments pertaining to the other desired changes, but they consented, however, to confirm anything that would be agreed upon with Mr. Thomas Baring, their representative, while he was in America to complete the minor points that had remained unsettled in the September contract.

Learning of the arrival of Mr. Thomas Baring in the United States, the Directors passed a resolution authorizing the comptroller (now Mr. Thomas Forstall) to propose to Mr. Baring to allow a further advance of one hundred thousand pounds sterling on the consignment of a proportional amount of bonds and to reiterate the demands already made to Baring Brothers and Company.

58 It should be noted that the contract rate of exchange was based on the U.S. monetary law of 1791, where the £stg equaled $4.444. The government had undervalued gold, therefore, it was on the market at somewhere around $4.86 to the £stg, but it fluctuated. It was not until 1834 that the gold was redefined.

59 CAML, Baring Brothers to Andry, London, May 29, 1829.
60 CAMB, June 20, 1829 (Fr.).
When approached, however, Mr. Thomas Baring refused to consider the proposals on the grounds that he was not acquainted with the mission of Mr. Allard who was then in New York trying to negotiate another loan on the American market. Moreover, he considered the September contract no longer in force because of this attempted negotiation.

The Directors of the Consolidated Association felt rather indignant about Mr. Baring's letter and statement that he considered the contract terminated. They challenged his contention that the terms of the contract had been violated. The President made a strong plea in defense of the "Actions of the Association." He even agreed to recall Mr. Allard and revoke his powers on August 15 if he had not been successful in negotiating a loan by that time. Mr. Baring would not compromise.

Mr. Thomas Baring would not accept the Association's proposal to recall Mr. Allard and to terminate negotiations in the United States. He refuted, also, the Directors' arguments on the contract not being abrogated by Mr. Allard's negotiations. For him the contract had ceased to operate. He wrote:

... the situation of my house with regard to the Association has much to tend with, and it is in my opinion that as long as the idea of a negotiation

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61 CAML, Thomas Baring to Allard, Saratoga, N. Y., June 8, 1829 (Fr.).
62 CAML, Andry to T. Baring, New Orleans, July 11, 1829 (Fr.).
63 Ibid., Andry to Allard, New Orleans, July 11, 1829 (Fr.).
in the United States continues to be entertained it would be neither prudent, advantageous, nor creditable for my house to continue its advances on the bonds of the Association. There is, to my mind, a thinking difference between the situation of agents of the institution with the knowledge that its interests were intrusted to us without reserve or division and that of supplying its wants until others came forward, and at the very moment when it is in negotiation with other capitalists.

The termination of the contract, however, did not mean that Baring Brothers wished to cease all other negotiations with the bank. They simply wanted the additional consignments at more favorable terms. Therefore, as a substitute to the former contract, Mr. Baring offered a plan for a new negotiation if the Association wished to cease its negotiations with other capitalists, namely:

That Baring Brothers and Company shall buy for their account from the Planters Association of Louisiana, a further number of five hundred (500) Bonds of $1000 each, say 168 of the first series, 166 of the second series, and 166 of the third series, of the same tenor and form as those already sent to London and with the dividend coupons not yet due; to be delivered to them in London, and for which they shall pay the drafts of the Association at 60 days sight at the London rate of eighty-eight per cent (88%). Therefore, the Association may draw £193 sterling against each Bond and the sum of £99,000 sterling against the whole. The Association shall take proper care that the Bonds corresponding to these drafts are in the possession of my house at the time of the appearance of these bills. In case the Board of Directors accepts this offer, I authorize the Association to commence their drafts

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64Ibid., T. Baring to T. Forstall, Montreal, August 3, 1829 (translation).
when they think proper, and to continue them to the amount of ninety-nine thousand pounds sterling, upon the compliance with the above conditions. Should the Board contemplate any change in the date of the reimbursement of the first series, it will then send to my house, 250 of the second series and 250 of the third series; but you will see that, should that not be the case, I am ready to meet its views by taking a full proportion of those of the short date. When you deduct two per cent (2%) commission for the sale, which the institution would have to pay for consignments, the price of 88% corresponds with its limits of 90%; the only difference being that the interest from June thirtieth, is included in our purchase, whilst, upon the sales from the Association, it would not be included in its limits, I suppose.  

In the event that the organization did not accept his offer, Thomas Baring authorized the Direction to draw on consignment another fifty thousand pounds sterling after they had received notice that the previous bonds had been sold. If it did accept, however, he expected to be accorded terms similar to those of the former contract, in order to dispose of at least part of their existing purchase. What he meant by this was that the Association not draw on Baring Brothers until January 1, 1830.  

This new offer was far more unfavorable than the London contract in many ways. First, it did not grant any of the institution's demands, not even the request that all the bonds be sold before March 30, 1830. Second, it did not permit the Direction to draw on consignments as freely as before. Third,  

65 Ibid., (translation).  
66 Ibid., Saratoga, N. Y., August 15, 1829 (Fr.).
It only agreed to take 500 more of the Association's bonds, and at 88 per cent of par, including interest coupons—7 per cent less than the London contract. It is evident, therefore, especially in the light of the analysis of the first contract, that Baring Brothers had a very profitable affair in the new contract. For the Association, however, it meant a sale of bonds at 77 or 78 per cent of their face value.

The Directors of the Consolidated Association met in an extraordinary session in order to study the offer and they decided that such a negotiation would cause a loss to the Association of $12,650 on $500,000 of bonds. As they figured it, it was a loss of 8 and 7/10 per cent from the former price. Nevertheless, they felt it necessary to accept the offer in order to satisfy the stockholders.

The first sale on the bonds consigned March 1, 1829, took place November 15, 1829, the date when Baring Brothers announced the disposal of $64,000 worth of bonds, the price they claimed to be at about 97 per cent of par. Five days later, November 20, they sold $156,000 of bonds. By November 28 they reported that they had sold the entire amount of the $234,000 of bonds that had been consigned to them; their report shows the sale in 21 days. The 234 bonds yielded a credit for the Association of $49,673.93, or approximately

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67 CAB4, September 17, 1829 (Fr.).
69 Ibid., November 28, 1829.
$220,771, the interest coupons being included as part of the

The question arises, naturally, Why did the bonds not sell until November and why were they sold so rapidly when they did start selling? The answer, most likely, is that bonds were not offered for resale until after the details of the contract formulated by Thomas Baring were completed, and then only to chosen clients.\textsuperscript{70} That, however, was not the only answer. A letter on December 11, 1829, gave the clue:

\begin{quote}
The present time appears indeed so favorable for the realization of the remainder of your stock, that we cannot but feel stronger regret than ever that your charter should have prevented your transmitting your Bonds without previous payment in New Orleans, and should thus, perhaps, from unavoidable delay, prevent your profiting of these advantageous circumstances. If, however, we understand the acts of your legislature rightly, the Association has now completed the security required by the State and is at liberty to send its Bonds forward without previous payment, and in such a case we should recommend the board of directors to transmit the remainder as soon as possible for sale here....\textsuperscript{71}
\end{quote}

Innocent as their statement may appear, it is of great significance. Baring Brothers, by selling the 254 bonds were meeting the charter requirements of the Association. As a result they

\textsuperscript{70} The reason for making such a statement is that Barnings wrote, saying, "This stock does not take well with the public, and it is only among our immediate friends that we have been able to place any...." (CAML, Baring Brothers to Consolidated Association, London, October 20, 1829).

\textsuperscript{71} CAML, Baring Brothers to Consolidated Association, London, December 11, 1829.
would not have to make immediate payment for the 500 bonds they were about to receive as agreed to in the August contract. Furthermore, if this token sale met with the security required by the Association, the entire amount of the bonds could be shipped to them without immediate payment being necessary. It would be nice to receive interest on bonds without having to pay anything until they were sold.

The London money market, which Baring Brothers claimed so active in November to permit the sale of bonds, continued to be very active throughout the winter months. After the rapid November sale, however, no bonds were sold until March 22, 1830. Thereafter, there was a regular market for the bonds at a good rate until July. In April the Louisiana bonds were at 102. By May the bonds were up to 103 and 1/2. And in June they reached the peak of 104.

An explanation is necessary, however, on the high price of the Louisiana bonds of the Association. Some indications have already been given in the discussion of the contracts, but there remain a few points to be cleared. The simplest problem to be cleared in an attempt to understand par as interpreted is that the quotations at above or below par included the accrued interest on the bonds from the date of issue. Thus if customer B bought a bond in June, 1830, he bought the bond with all the interest coupons attached. On

72 Ibid., March 22, 1830.
the coupons from the date of issuance, January, 1829, to June, 1830, interest was collectable even though B was not the owner of the bond before June, 1830. Naturally B would be willing to pay more for the bond if it included the interest due. The price he paid for it should not be understood, however, as the price from par: the amount paid for interest should be deducted from the price to ascertain the variation from par.

A solution of what constitutes par is not too satisfactory. Par, you will say, is the face or stated value of the bond. In other words, $1,000 must be received for every $1,000 bond sold to be repaid at $1,000 in order to have a par sale. Thus, if the bonds had sold in this country, par would have been relatively simple to ascertain; the currency received would have been the same as the currency paid. Negotiations, however, were with a foreign country. Two different currencies were involved. Furthermore, to complicate matters more, the United States had a legal currency system which was not in harmony with the existing state of affairs in monetary exchanges. On a gold and silver basis as defined by the Banking and Currency System, the British pound sterling was equivalent to $4.44, but on the current market rate of exchange there was an advantage in London's favor of as much as 10 to 14 per cent; the pound sterling sold at somewhere around $4.86. Under such condition, was the mint rate of exchange or the market rate of exchange par?
What constitutes par is discussed in the Reports of the Illinois General Assembly, 1839-1840. That body gave the different interpretations of par as viewed by the Americans and the English. In the United States the argument followed Albert Gallatin in his "Considerations on the Currency and the Banking System of the United States":

Being obliged to refer to the rate of exchange, it must be recollected that what is universally meant by par is the promise to pay, in another place, a quantity of pure silver or gold equal in weight to the quantity of pure silver or gold contained in the coins with which the drawer of the bill of exchange is paid.

In England they followed a somewhat different reasoning. Fortune's Epitome of the Stocks and Public Funds, the standard of the London Stock Exchange, considers par as "the equivalence of a certain amount of standard currency of the one country in the standard currency of another." That was different, however, from the course of exchange. Course of exchange "is the current price between two places ... which is always fluctuating, being sometimes above, and sometimes below par, according to the circumstances of trade, and the consequent debt due to or from one country, from or to the other."

The Americans were talking of a difference in the metal contents of the currency. What they considered a difference of exchange the British considered a course of exchange. To


75 Cited in R. C. McGrane, op. cit., pp. 7-8 (footnote).
the British the par was the practice that evaluated the pound to be worth $4.44 in American money. Actually, it was worth 2.73 per cent more under coinage laws before 1830, and 9.46 and 5/8 per cent more after 1830, because of the change in the market ratio. The American interpretation gave way, however, to that of the British. Both sides continued to argue, but "par" remained a question, with the English imposing their interpretation.

The Consolidated Association Louisiana Bonds continued to be sold by Baring Brothers throughout 1830, although with less activity because, as they claimed, there was a depression in the London money market. May, 1831, however, marked the end of sales by Baring Brothers of the consigned bonds of the Association. It appears from the records that, from 1829 to 1831, Baring Brothers and Company sold a total of $1,882,000 of bonds consigned to them by the Consolidated Association.

It will be remembered that Baring Brothers had agreed to purchase on their account a total of 750 bonds by their first contract and 500 bonds by their second. Had such

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77CMUL, Baring Brothers to Consolidated Association, August 6, October 6, and 30, November 6, 13, and 29, December 8 and 14, 1830.
78Ibid., and reports on sales from November 28, 1829, to May 30, 1831.
79Supra, pp. 61 and 80.
an agreement been fulfilled and had Baring Brothers resold $1,882,000 of consigned bonds, the sum of bonds outstanding would have been over $2,500,000. It must be assumed, therefore, that Baring Brothers purchased less bonds for resale than they had agreed to and accepted more on consignment than was specified in the contracts.

From the date of the contract until May, 1831, the Consolidated Association paid $62,500 ( £ 14,132 stg.) every June 30 and December 31. That meant that it was paying the semiannual interest on the entire $2,500,000. Not all the bonds were outstanding, however, during the period from January, 1829, and May, 1831. Bonds were consigned to Baring Brothers from time to time after notice was given by Baring Brothers that the previously consigned bonds had been sold; the Consolidated Association did not have use of the funds from the sale of bonds during the entire period. Baring Brothers were receiving, therefore, the accrued interest on the bonds it had in its possession for sale plus the interest on the bonds which had not yet been delivered by the Consolidated Association; it was receiving interest on instruments which had required no disbursement whatsoever.

It is conclusive, therefore, that the bonds sold at a discount which exceeded the legal limits specified by the

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80 This conclusion is derived from the letters and documents. Cf., CABL, CABC, CAML.
State Legislature. The actual loss sustained by the sale and consignment of bonds was not revealed in the bank's records, but it appears that the loss was as high as twenty per cent, if not more. It was very difficult to make a profit from capital the cost of which was so excessive.

Early Operations of the Bank

The Consolidated Association opened for business in January, 1829, two years after the original charter was granted. The sale of 300 bonds to Baring Brothers, effective December 30, 1828, gave the bank a credit account with the London house upon which it could grant loans to its customers.

The first stock-loan was granted on February 19, 1829; and during the several ensuing days, a number of loans were made. It appears, however, according to the records, that the majority of the early loans were granted to the directors,

81 The original charter was granted March 16, 1827, and provided that it was subject to change by Legislature if the bank did not commence operation by January, 1828. Thus, the charter ceased to be effective when the bank failed in its first bond negotiations. The Act of February 19, 1828, however, revived the charter with the repeated stipulation that the bank open for business by January, 1829. (5 La. Ann. 44. Consolidated Bank vs. The State of Louisiana.)

82 Supra. p. 61.
State officials, and others influential in getting the institution organized.83

The funds for the sale or consignment of bonds were not too plentiful and quick in becoming available for credit and discount purposes. The contracts with Baring Brothers did not enable the Consolidated Association to build an adequate credit account with this London firm. The terms of the contracts did not provide for large enough consignments at any one time to permit the Consolidated Association to draw large amounts of drafts on Baring Brothers. For example, besides the $300,000 of bonds sold, December 31, 1828, and besides the sale of 450 bonds more, February 15, 1829, there was the consignment of approximately 250 bonds, effective March 1, 1829. That meant that the New Orleans firm had but $1,000,000 available for loans and discounts until Baring Brothers further consented to accept additional consignments from the Association. Really, the amount available was less than $1,000,000 because the bonds were taken at a large discount. That was a paltry sum when there were stockholders in the amount of $2,000,000 calling for credit, not to mention the innumerable amount of commercial paper that was offered for discount, nor the numerous other property owners desiring mortgage loans.

83 The first loan was to J. B. Moussier who read the first project of a loan and who was influential in the relations with Baring Brothers. The second loan was to C. Deschapelles, a director of the bank and a member of the Legislature, et cetera. (Cf. CAML, February 19, 20, etc. 1829).
Some idea of the early operations of the bank is available from the first financial report compiled by the officials. A so-called "Statement of Affairs ..." was drawn as of June 16, 1829, five months after commencing operations, and it gives, or claims to give, the sources of funds and their application, viz.:  

Statement of affairs of the Association as of June 16, 1829

Passive

Loans on Mortgages $754,000.00

Bills discounted:
  to the State of La. $55,000.00
  to E. Landreau 15,000.00
  to the stockholders on credit:
    to Mr. LeBreton $1,500
    to Mr. Herrang 6,900
    to Mr. Villere 6,000
    to Mr. Reman 10,200 24,600.00
  Bill discounted to Mr. Allard, commissioner of the Association now absent. 2,200.00

Bills discounted to various small demanders 90,334.22 187,134.22

Discount on the $750,000 of Bonds 37,500.00

Balance in the hands of Baring Brothers and Company to meet the payment of the expenses of discount on the remittance of 234 bonds, and on the interest due on the remittances 33,866.72

General Expenses 25,393.41

(continued on next page)
Active

Capital: 984 bonds of $1,000 $984,000.00
Discounts 64,623.98
Premiums on letters of exchange on B.B. 13,634.73
Surplus in the Bank 7.25

______________________________
$1,062,285.96

to deduct the passive account

______________________________
1,057,894.35

24,371.61

______________________________
90,334.22

add Notes discounted to be collected*

Total at the disposal of the Association $114,705.83

*This is the amount of Bills discounted to the various small demanders included in the passive account.

Statement of Income and Expense (for period ending June 16, 1829)

General Expense $25,393.41
Interest on 984 bonds 22,166.72

______________________________
47,560.13

Gross loss

Deduct Premium on letters of exchange 13,634.73

______________________________
33,925.40

Add Discrepancy*

24,371.61

______________________________
58,297.01

Total loss

*The discrepancy is the difference between the passive and the active in the Statement of Affairs.
Loans on stocks and mortgages, according to the report, amounted to $754,000; discounts granted totaled $187,134.22—an extension of loans and discounts to the sum of $941,134.22. This extension of credit was rendered possible through the bank's acquisition of capital funds; and the report states that the institution obtained the funds by the sale of 964 bonds of $1,000 each, the discounting of notes with other institutions to the amount of $64,623.98, and the sale of bills of exchange on Baring Brothers at a premium amounting to $13,634.73. The loss sustained during the period was calculated to be $58,297.01.

A simple glance at the report, however, suffices to convince one that the procedure of calculation employed was erroneous and somewhat fictitious. An analysis based on the report at its face figures would be in error and of little practical use. About the only things obtained from the financial statement are: some vague idea of what transactions took place during the interim mentioned; and a strong impression that the officials of the firm desired to conceal true facts.

It would be best to ignore the financial statement entirely if a more reliable source of information could be found, but the other records of the company do not afford more reliable information, especially during the early
months of the bank's existence. It will be necessary, therefore, to accept, in part, the information presented in the so-called "Statement of Affairs." From this statement it may be possible to ascertain more factual data upon which to base a more accurate analysis.

The first thing to consider is the title: "A Statement of the Affairs of the Association as of June 16, 1829" is misleading. The report resembles more "a statement of funds derived and applied"; and we shall review it as such.

The purpose of the statement of funds—sources and applications—is to analyze the changes which took place in the business during the accounting period. It is to study the changes that took place in the assets and liabilities during the interim in order to trace the sources and application of funds.

The value of the statement lies in the analysis. The increases and decreases of specific items, when considered as a whole, give a picture of the state of affairs. It is quite valuable in indicating the amount and nature of the working capital and the cash on hand or in the banks, as differentiated from the profit or loss realized during the period.

The basis of a statement of funds is the comparative

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85 The accounting employed by the company was very crude and incomplete. For example, the entries for early loans were made on the letters of application, not on any particular set of books.
balance sheet. The information necessary to make the analysis of funds received and applied is obtained by first preparing a comparative balance sheet. Otherwise, it is very likely that there will be no statement of funds.\textsuperscript{86}

The company officials did not derive their data from a comparative balance sheet, however; instead, they presented their "fabricated statement" with the appearance of a balance sheet.

The 984 bonds that were sold or consigned to Baring Brothers did not yield $984,000, but considerably less. Besides the deduction for the discount of five per cent, there should have been the deduction of the loss suffered by the contract rate of exchange. Under the contract terms with Baring Brothers it was agreed to accept the dollar as being worth 4 shillings 3 pence, instead of the current rate of 4 shillings 6 pence; that meant a loss of approximately six cents on every dollar. The total loss on account of exchange on the 984 bonds was about $59,000.

When the Association discounted £64,623.98 of its notes with other institutions, it had to sustain a loss of three or four thousand dollars since the current discount rate was approximately six per cent. That should have been included in the statement.

Incomes derived from operation should have been added to the funds derived section of the statement. Earned interest and earned discount are funds received, and if they had been so included the picture of the bank's situation would have been improved. Even then the funds at the bank's disposal would not have been $114,705.83 as claimed.

Some very dubitable accounting is found in the "Statement of Income and Expense." Under the assumption that the so-called "Statement of Affairs" was a balance sheet, the officers figured that the excess of credits over debits meant a deficit and, therefore, they added it to the net loss; that, however, was not the serious deficiency of the income and expense statement. The real trouble was that only a few of the expense items were included. If all items were included, the expense account would total approximately $175,000 to $176,000, if not more. 87 The income items, on the other hand, would be more than the inclusion of the profit made from selling bills.

87 The records are not complete enough to permit a construction of a statement of income and expense, but a few additional facts serve to show that the loss was greater than given by the officials:

For example, some of the expenses were:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Expense</td>
<td>$25,393.41</td>
</tr>
<tr>
<td>Interest</td>
<td>22,166.72</td>
</tr>
<tr>
<td>Discount on 750 bonds</td>
<td>37,500.00</td>
</tr>
<tr>
<td>Discount on 234 bonds</td>
<td>11,700.00</td>
</tr>
<tr>
<td>Loss on par of exchange</td>
<td>59,040.00</td>
</tr>
<tr>
<td>Commissions on interest</td>
<td>110.83</td>
</tr>
<tr>
<td>Commissions on bonds</td>
<td>19,680.00</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$175,590.96</td>
</tr>
</tbody>
</table>
of exchange at a premium, but such income would not be large enough to reduce the expense amount to give the reported loss of $58,297.01. It is safe to say that the income should have been approximately $25,000. An accurate profit and loss statement, therefore, should indicate a loss at some figure above one hundred thousand dollars, not $58,297.01 as reported.

Why should the officers of the Consolidated Association want to present such misleading information? It may be that the officials were attempting to create credit under the guise of transferring credit. It may be, also, that they were attempting to conceal the heavy losses sustained by the company, especially in the sale of bonds.

During the year 1850, the funds from England were slow in being made available to the bank, and the demands for credit by the people were great, therefore, the Consolidated Association sought a loan from some domestic money center. The directors resolved at their meeting of December 1, 1850, to negotiate a loan of £200,000, reimbursable in one to two years. This sum, they claimed, would partially satisfy the demands made on the Association up to June, 1850. 88

A New York bank supplied the Association with the loan desired, but the extra £200,000 received for purposes of granting credit was soon depleted. The directors, therefore, seeing

88GARM, December 1, 1850 (Fr.).
a shortage in funds and feeling that the bank was approaching rapidly the $2,000,000 limit specified in the charter relative to mortgage loans, appointed a committee to investigate the advisability of stopping loans on mortgages. 89

Mr. Leveque, the spokesman of the committee, reported that:

(1) The institution had a balance of $14,800 left from the $200,000 loan procured on drafts according to the December 1, 1830, resolution.

(2) The loans on mortgages and credit to other borrowers amounted to $2,118,395, or $118,395 above the limit specified in the charter.

(3) On the $213,626.11 owed the Association by Baring Brothers there was coming due interest of $176,700, leaving a net of $36,926.17 owed the institution by Baring Brothers. 90

The directors, therefore, decided to order a suspension on new mortgage loans until a new order be issued. 91

As an additional restriction, they passed a resolution requiring all borrowers on mortgage to pay interest from the first day their credit was opened instead of at the end of the period, that is, interest payable in advance. The directors claimed that this would be a means of preventing the loss of interest that resulted in the lapse of time which generally flowed between the day credit was granted on the mortgage and the time at which the borrowers paid interest. To the borrowers, however, the policy meant that they had to pay interest

89 Ibid, February 7, 1831 (Fr.).
90 Ibid, February 9, 1831 (Fr.).
91 Ibid.
before they had had the use of the credit. 92

Interest payments on bonds had been met regularly up to 1831. During the latter part of 1831, however, the Association had difficulty in meeting the interest. The company could not obtain drafts because of their scarcity and it claimed that it could not ship specie on account of storms. The President, therefore, asked Baring Brothers to grant the Consolidated Association an "open-credit" account of twelve to fifteen thousand pounds sterling. This credit, he stated, was to be used in the case of absolute necessity for the payment of interest. 93 Baring Brothers refused the request and reprimanded the officers for not being able to prepare adequately to meet foreseen obligations. They agreed, however, to be of service in the event of unexpected disaster. 94 To make matters worse for the bank, the sugar planters were unable to pay the interest on their loans on account of a crop failure. In spite of these adversities, however, the Association was able to meet its payment on time.

In 1832 conditions were even more acute. Postponement on stock and mortgage loans increased considerably over those of the latter part of 1831. Many of the discounted

92 Ibid., February 19, 1831 (Fr.).
93 GAHL, Consolidated Association to Baring Brothers, New Orleans, September 3, 1831 (Fr.).
94 GAHL, Baring Brothers to Consolidated Association, London, October 22, 1831 (Fr.).
Notes had to be extended. Letters of exchange were scarcer than ever. The June interest payment to Baring Brothers had to be made in specie, and at quite an expense to the company.  

The matter of reimbursement of the five year bonds was a vexing problem which the directors had to face in 1852. The maturity date of these bonds was June 30, 1833. With the bills of credit scarce, the shipment of specie expensive, and the planters unable for the most part to meet the interest and installments on their loans, something had to be done to avoid default. The President of the Association, therefore, asked Baring Brothers for advice and offered a means of reimbursement, which was to make payment through drafts drawn by the Union Bank against the Baring Brothers.

The London bankers at first accepted the proposal, but a short time later rejected it. Nevertheless, the Association proceeded to acquire drafts on Baring Brothers from the Union Bank and they delivered them to the London house as means of effecting the reimbursement of the maturing five-year bonds. Baring Brothers, notwithstanding their rejection, accepted the drafts for the purpose of retiring the company's obligations.

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95 CABL, Consolidated Association to Baring Brothers, New Orleans, April 6 and 15, 1832 (Fr.).

96 Ibid., April 15. The Union Bank was another property bank then in the process of organization, and it was selling bonds to Baring Brothers. (Infra, Chapter IV, 192-222).

97 CABL, Baring Brothers to Consolidated Association, London, June 8, 1832, February 3, and April 13 through June 29, 1833.
These drafts on Baring Brothers, however, were not sufficient to effect the complete retirement of bonds. It was necessary to ship $40,000 in specie to make up the deficiency. 98

By 1834 the financial situation of the bank was approaching a critical stage. The sugar crop of 1833 was almost a complete failure. Furthermore, there was a shortage of specie, or rather a flight of specie as soon as it was acquired, and a scarcity of commercial paper except at high premiums. All the banks of New Orleans felt the pressure. The Consolidated Association along with other banks decided, therefore, to relieve the pressure through cooperative action.

It was resolved and voted by the Association of Bank Presidents in New Orleans that notes discounted could be extended with the same security at a reduction of ten per cent every sixty days until December, 1834; they jointly requested the Bank of the United States to have the New Orleans branch extend its discounts on $1,000,000 of local banks' commercial paper to expire February 1, 1834, or to grant loans not exceeding five per cent of the capital of the banks. 99

98 CAHL, Consolidated Association to Baring Brothers, New Orleans, May 12, 1833 (Fr.).

99 CAHL, J. B. Hulin (Mechanics and Traders' Bank) to Consolidated Association, New Orleans, February 24 and May 26, 1834; H. Laveragne (then cashier of City Bank) to Consolidated Association, New Orleans, May 28, 1834.
The Consolidated Association's losses resulting from the adverse economic conditions were considerable. Furthermore, the reimbursement of bonds, which Alexander Trotter claims could not be absolved by profit, did not permit recuperation from previous losses. Also, there was the $100,000 loss from embezzlement by Mr. Provost, cashier. The "Statement of Affairs of the Association as of September 9, 1834," gives an estimate of the loss, and possibly an underestimate, viz.:

See next page for Statement.


101 GAEL, Hugh Lavergne (new cashier of Consolidated Association) to Baring Brothers, New Orleans, June 24, 1834.

102 GAEL, September 9, 1834.
General Statement of the Consolidated Association
on September 9, 1854

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and Loss</td>
<td>$118,260.72</td>
</tr>
<tr>
<td>Notes and Bills discounted</td>
<td>$426,360.66</td>
</tr>
<tr>
<td>Stock Loans</td>
<td>$1,135,038.61</td>
</tr>
<tr>
<td>Loans on Mortgage</td>
<td>$372,585.75</td>
</tr>
<tr>
<td>Bills Receivable</td>
<td>$60,500.00</td>
</tr>
<tr>
<td>Foreign Bills of Exchange</td>
<td>$51,202.93</td>
</tr>
<tr>
<td>State of Louisiana</td>
<td>$5,036.85</td>
</tr>
<tr>
<td>Notes and Bills discounted, protested</td>
<td>$129,768.33</td>
</tr>
<tr>
<td>Protest Account</td>
<td>$179.50</td>
</tr>
<tr>
<td>Baring Brothers, London</td>
<td>$52,600.57</td>
</tr>
<tr>
<td>Commission of Interest, London</td>
<td>$3,178.65</td>
</tr>
<tr>
<td>Premium on Letters of Exchange</td>
<td>$3,487.13</td>
</tr>
<tr>
<td>Suspense Account</td>
<td>$50,264.77</td>
</tr>
<tr>
<td>Expense Account</td>
<td>$2,081.33</td>
</tr>
<tr>
<td>Real Estate</td>
<td>$65,413.00</td>
</tr>
<tr>
<td>Due by Local Banks</td>
<td>$8,200.50</td>
</tr>
<tr>
<td>Cash:</td>
<td></td>
</tr>
<tr>
<td>Specie</td>
<td>$67,764.87</td>
</tr>
<tr>
<td>Local Bank Notes</td>
<td>$460.00</td>
</tr>
<tr>
<td>Total</td>
<td>$2,559,979.17</td>
</tr>
<tr>
<td>Capital (bonds outstanding)</td>
<td></td>
</tr>
<tr>
<td>Discount Account</td>
<td>$95,119.17</td>
</tr>
<tr>
<td>Dividends Nos. 1 and 2</td>
<td>$160,000.00</td>
</tr>
<tr>
<td>Circulation</td>
<td>$75,550.00</td>
</tr>
<tr>
<td>Due to Local Banks</td>
<td>$145,000.79</td>
</tr>
<tr>
<td>Deposits</td>
<td>$80,309.21</td>
</tr>
</tbody>
</table>

The profit and loss item of $118,260.72 appears to have been attained by simply subtracting the total considered as assets from the liabilities; there was no statement of profit and loss to substantiate the amount claimed as loss. The assets must also be looked at with scrutiny; it is permissible to capitalize certain costs, but not operating expenses. By removing the "water" there would have been a far greater loss than reported. Had the officers arrived at a loss of approx-
imately two or three hundred thousand dollars, they would have been more accurate. 103

With these losses being evident, the officers, nevertheless, declared two dividends, amounting to $160,000. It is difficult to see how the bank had ever really earned any profits.

Financial conditions improved somewhat in 1835. From Mexico, silver dollars had been received through the sale of drafts on London, and the cotton crops for the year had been good. 104 Furthermore, the Consolidated Association had been able to obtain some relief from the shortage of commercial paper by obtaining $50,000 in credit from the Union Bank of New York and $50,000 from Messrs. Prum, Olard, King and Company of New York to operate on the domestic exchange. From Thomas Wilson and Company of London it was granted a running credit of 20,000 pounds sterling uncovered for ninety days, or approximately $100,000 on which the bank probably received $89,000 in bills of exchange at the rate of 4 shillings 3 pence. 105

Even at $300,000, the loss would have been an underestimate. For instance, the cashier, Mr. Lavergne, admitted to Baring Brothers that the Association did not expect to realize anywhere near the full value on the $129,768.35 of protested notes and bills discounted, nor did it anticipate a full payment of principal and interest in arrears by the mortgage owners. CAHL, August 7, 1834, and February 31, 1835 (Fr.).

UAML, Consolidated Association to Baring Brothers, New Orleans, February 21, 1835. The letter states that sugar prices were 5 and 1/4 cents a pound and that cotton was considered almost as good as coined money. (Fr.) 105

Ibid.
The State was generous toward the Association, too. Seeing the difficulty the institution had faced in meeting the five-year bonds, the Legislature passed an Act on March 21, 1835, to extend the maturity dates of the 1833 and 1843 bonds until June, 1848, or to a nearer date if convenient.  

The State was still more generous in 1836. On March 7 the Legislature provided for the issuance of another $1,000,000 in bonds to be secured by mortgages on immovable property situated in New Orleans and suburbs, Lafayette, and Carrollton. 

The million dollars of the "1848" bonds was issued May 1, 1836, and the Consolidated Association entered into a contract with Francois Delizardi and Company of London for the sale of bonds. Once the contract was signed, however, the Governor refused to deliver the bonds issued by the State in the bank's favor. He interpreted the Law of 1836 to require an equivalent retirement of the old bonds of the State for the new. In spite of the strong pleas by the directors of the Association for a change of attitude, the Governor refused to alter his opinion—old bonds had to be retired before an equivalent amount of new bonds could be relinquished by the State.

107 Ibid., 1836, p. 95. 
108 CAHL, Consolidated Association to F. delLizardi, New Orleans, June 25, 1836 and Consolidated Association to Governor White, New Orleans, August 18, 1836 (Fr.).
In May, 1637, the Consolidated Association felt the crisis. A series of events had occurred previous to that time, however, to give warning that serious difficulties were close at hand. The upturn of the Association's business activity in 1635 was short-lived. With all the relief obtained the bank was not able to fare any too well; the institution was not able to profit from the substantial credit extended to it. By 1836 it suffered the effects of overexpansion, and in that respect it was witnessing the same effects as were all the other banks of New Orleans.

Perhaps the major reason why the New Orleans banks felt the pressure from overexpansion in 1836 was an account of the situation in England. Toward the end of 1836 the Bank of England was experiencing a shortage of specie and to remedy the situation it began rejecting all American bills not drawn at short date or sight and not predicated on effects in the hands of agents in London. Furthermore, it prohibited any English banking house from offering or extending uncovered credits. That radically curbed the credit facilities of the local banks. Their "open credit" accounts with Anglo-American bankers were closed; Thomas Wilson was forced to close the Consolidated Association's $50,000 "open credit." Bills of exchange which were so essential in the rapidly expanding trade became extremely scarce and specie had to be employed.

109 Ibid., Consolidated Association to T. Wilson, New Orleans, February 3, 1836 (Fr.), and Consolidated Association to Baring Brothers, New Orleans, February 4, 1836 (Fr.).
110 Ibid., January 28, 1837 (Fr.).
The continuous rise in the price of cotton throughout 1836, however, was a major factor which enabled the New Orleans banks to remain open during that year and the early part of 1837. Another reason why there was not a precipitous downfall as might have been expected was that the local banks, including the Consolidated Association, were heavily indebted to the New Orleans branch of the second Bank of the United States and later to the United States Bank of Pennsylvania and other Eastern banks, which were actively engaged in maintaining high prices in cotton.

The debt of the New Orleans banks with the branch of the Bank of the United States placed them under the power of the second Bank of the United States at Philadelphia. Mr. Biddle, president of the Philadelphia bank, placed Southern banks under its control in order to control the cotton market. This second Bank of the United States had invested heavily in cotton and Mr. Biddle wished to maintain the price of cotton stable.

When the charter of the second Bank of the United States expired toward the end of 1836, Mr. Biddle took over much of the assets and control of this firm into his State bank, the United States Bank of Pennsylvania. Besides, the Louisiana banks had entered into contracts with some of the Eastern banking institutions which were largely under the power of

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111 Cotton prices rose from 6 3/4 pence per pound in 1833 to 10 to 12 1/2 in 1836. CAML, Hobson and Son to Consolidated Association, Liverpool, March 31, 1836; CAML, Consolidated Association to Baring Brothers, New Orleans, March 30, 1837.

Mr. Biddle and which were interested in cotton, and these local banks permitted large accumulation of balances with these Eastern firms, giving them and Mr. Biddle the additional power which had not existed under the second Bank of the United States.

Unlike the second Bank of the United States, however, Mr. Biddle and other Eastern bankers exerted more pressure on the local banks and they were not as cautious as the Bank of the United States had been. Therefore, large drains on specie reserves resulted, and this was weakening the New Orleans banks.

Fortunately, through the combined efforts of these local banks more specie was secured and a restricted discount policy was put into effect in order to check the strain on the reserves.\footnote{Ibid.}

The high price of cotton, the Eastern support, and the importation of specie, however, did not keep the local banks in a state of apparent soundness for too long. The Bank of England was even more stringent during 1837 than it

\footnote{Ibid.}
had been in 1836. The 1836 cotton crop failure throughout much of the South had left many cotton factors with heavy advances. Jackson’s "Specie Circular" of 1836 was rapidly making itself felt through a deflation in land values.115 Specie continued being drained out of the banks as soon as it was acquired.116 May 16, 1837, therefore, fourteen of the New Orleans banks closed. Within a few days the remaining banks suspended specie payments. The Consolidated Association was in this latter group.

Business During the Depression, 1837-1843

Louisiana laws required a bank to forfeit its charter after ninety continuous days of suspension, but the laws were not enforced. The Consolidated Association was permitted to resume operations after the May crisis, and it was not until November 12, 1842, that any decree of forfeiture was rendered at the instance of the State. At that time the bank was requested to transmit its assets to a board of managers appointed by the State, which request the institution complied

115 CAML, Consolidated Association to Baring Brothers, New Orleans, March 30, 1837 (Fr.).
117 CAML, John Barnett to Consolidated Association, New Orleans, May 22, 1837 (Fr.). Rightor, Gayarré, Martin Fortier, and Debouchel include the Consolidated Association as one of the two New Orleans banks that did not suspend specie payments. The Barnett letter, however, gives the impression that the bank did suspend.
with February 17, 1843. Thus, from 1837 to 1843 the management of the affairs of the Consolidated Association proceeded as it had previous to May, 1837. Nevertheless, what took place with respect to the business activities of the bank during the depression period is difficult to decipher and analyze. The records are not complete and the information is often evasive, conflicting, and confusing. For that reason, only the more revealing data are cited in giving a general picture of the affairs of the concern.

The sale of "1840" bonds, authorized by the Legislature in 1836, was begun by Francois deLizardi a short time before the crisis occurred in May, 1837, but this London house did not terminate its efforts of sale because of the panic. Throughout the depression years from 1837 to the middle of 1842 it was selling the Association's Louisiana bonds on the European markets, and the amount it had to sell was $2,000,000, not $1,000,000 as provided by the 1836 Law. Of that amount it sold $1,617,000, there being 383 bonds still unsold when the bank was ordered into a state of liquidation, November 12, 1842. No semblance of agreement, however, seems to appear relative to the exact terms and results of the transactions among Francois deLizardi, Baring Brothers, and the Consolidated Association pertaining to the new bonds sold and the old bonds retired as provided by law.

118CABM, February 17, 1843 (Fr.).
Bonds outstanding in 1837 amounted to $2,004,000: the original issue had been for $2,500,000, but the first series amounting to $496,000 was retired in 1833. Of the $2,004,000, there were $1,170,666.66 of the "1833" bonds and $833,333.34 of the "1843's." 119

By 1843 the records indicate that the amount of the original bonds had been reduced to $762,000, and that these were "1843" bonds. The conclusion, therefore, is that $1,170,666.66 of "1833" bonds and $70,333.34 of the 1843's, or a total of 1,241 bonds, had been redeemed between 1837 and 1843.

On the other hand the "1843" bonds totaled $1,617,000. If the provision was that these bonds were to redeem a like amount of old bonds, there appears a glaring inconsistency in the analysis thus far; 1,617 bonds to redeem 1,241 bonds is not logical. The report made by the board of managers, however, when they took over the affairs of the bank gives a clue to the solution. The report stated that a total of 2,074 bonds, each of $1,000, had been redeemed by the corporation during its entire active existence. By deduction, therefore, it is found that the 1,617 new bonds served to retire 1,578 old bonds, in so far as 496 bonds were retired.

According to the provisions of the charter, the bank was to issue the bonds in three equal series. That should have meant $833,333.33 of each series. The bank, however, chose to issue the bonds in amounts cited above.
before 1837. It follows that 337 State bonds had been redeemed which were not issued for and in favor of the Consolidated Association. It follows, also, that the cost of retiring 1,578 bonds was at least $39,000. 120

In the way of a summary, the debt was $2,000,000 in 1837. A sum of $1,617,000 of bonds was sold between 1837 and 1843. From this sale, $1,241,000 of the company's State bonds were retired, along with $337,000 of other State bonds. The bank's bonded debt stood at $2,380,000 in 1843.

Interest payments on the bonds were met by the Consolidated Association from 1837 through June 30, 1842. The first default occurred December 30, 1842. 121 Interest payments, however, were not always made in drafts as was formerly the general practice. Until the latter part of 1839 most of the payments were met by the shipment of cotton. After 1839 it was in specie. The June 30, 1837, interest payment had been met when the May crisis occurred, and the bank had recuperated enough from the shock by Fall to meet the December payment.

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120 No direct citation is given for the figures presented because they are derived figures for the most part. The most reliable source is the report presented by the board of managers (CABM, April 26, 1843). The other important sources from which the above facts are derived are: pp. 1 and 104, CABL, November 5, 1839; CABM, May 29, June 8, June 15, July 27, and August 3, 1839, October 17, 1840, and November 20, 1841; and CAL, April 26, 1843.

121 The December 30, 1842, interest payment was met by Baring Brothers. Infra., p. 128.
but in 1838 no specie was available and the drafts were too expensive. Cotton was the solution.

Cotton was acceptable in England because there was still a great demand for the product by the manufacturers. Payment in cotton was advantageous to the Consolidated Association for several reasons: it had not the necessary specie and could not afford to purchase drafts at a high premium; it dealt in cotton and cotton tracts in its regular business; its stockholders were in part cotton planters; and it had several notes on hand secured by cotton. Furthermore, payment in cotton was looked upon as a means of stimulating the export of cotton, which at the time had reached a very low ebb. 122

Specie was needed to pay interest after 1839, however, because of the policy of the Bank of England; that is, by the end of 1839, London was suffering from a money panic. Considerable sums of specie had been drained from England, enough to place her in a very unhealthy situation. According to the theory adhered to by the Bank of England since 1827 - the Palmer Rule - a drain of specie which reduced the reserve of gold and silver below the minimum required or deemed as necessary to secure the bank notes meant that the quantity of notes and credit was too large. Therefore, the Bank of England proceeded to contract credit facilities and fol-

122 Cf., CABL, August 3, 1837; CAML, August 3, 1837; CABK, October 30, 1839, November 6 and 16, 1839 (Fr.).
owed policies which would replenish the supply of specie. First, this had the effect of increasing the scarcity of London drafts and it forced debtor nations like the United States to deplete their supply of specie in order to effect payment on their fixed obligations to England. Secondly, the curtailment of credit restricted the possibilities of shipping cotton to England. Circumstances forced the Consolidated Association to make a choice between devising a plan to acquire specie for shipment to England and facing default on interest and principal. The bank chose the former. How it went about to obtain the necessary specie is most interesting.

Louisiana banks and other banks throughout this country suffered from a shortage of gold and silver. It was not an easy matter to obtain a specie loan from domestic banks. Thus, on November 6, 1839, the directors of the Association devised a plan whereby the institution was to obtain specie for itself and other banks in New Orleans. It was decided that, in order to get specie, London drafts amounting to a sum of $250,000 were to be sold to the New Orleans house of

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The demand for cotton had also decreased, and it might have been that Britain was boycotting American cotton because there were so many defaults by American corporations on their interest payments.
Francois deLizardi and Company of London (Manuel I. de Lizardi and Company of New Orleans). The sale of the drafts was to be at par—par meaning $4.44 to the pound sterling and 5 francs 25 centimes on the dollar in favor of France. The Association was to be paid for the drafts in Mexican coins in terms of American dollars. Following is a detailed process of the roundabout and complicated sale procedure:

For the drafts on London drawn by the Consolidated Association, the house of deLizardi in New Orleans was to issue its own drafts or notes, payable in ninety days from date. Mr. Bauducin, cashier of the Consolidated Association, was to act as agent for deLizardi of New Orleans and go to Mexico in order to exchange the deLizardi drafts or notes for Mexican specie. The coins were to be shipped to New Orleans in the name and title of the Consolidated Association. The insurance cost in the shipment of the specie was to be borne by Francois deLizardi of London (not New Orleans). Other costs and losses were to be divided equally between the bank and deLizardi of New Orleans. If there were any profits resulting from the sale, both were to share equally. Furthermore, if it happened that not all the drafts could be sold for Mexican coins, deLizardi of New Orleans was to furnish the Association with the kind of drafts that the New Orleans house was in the custom of purchasing for itself. Also, the Consolidated Association reserved the right to terminate such operations after a fifteen days' notice.  

124 CARM, November 6, 1839 (Fr.).
The transaction was executed according to the terms and specie was secured by the Consolidated Association. No profits were realized from the negotiation, however. Instead, there evolved an expense, not including the loss incurred from the par of exchange, of somewhere over twenty thousand dollars. As stated above the house of delLizardi was to bear half of the expense under the terms of the contract. When it came to the payment of its share, however, delLizardi refused to pay certain interest charges included by the bank on the importation of specie. The amount of delLizardi's portion of the loss was figured at $11,504.11. Of this portion, $7,991.95 was interest. Final settlement was reached in June of 1843, whereby it was agreed by the Association that delLizardi would be held for the balance only, or $3,512.17.

The above is an illustration of one incident. There were several others. From 1840 through June 30, 1842, it appears that the payments of interest by the Association were made in specie. Default occurred in December, 1842, after a decree of forfeiture had been rendered at the instance of the State.

The third interesting phase of the Bank's operations during the depression years is that of loans and discounts. At the very outset the policies followed relative to loans

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125 Of., CAEM, June 23, July 3 and 17, 1841, and June 7, 1843 (Fr.).
126 ibid., April 15, 1840, November 6, 1840, November 10, 1841, November 13, 1841, and April 16, 1842 (Fr.).
and discounts was not what might have been expected. The de-
pression and the difficult times did not cause the bank to be
prudent. Despite the economic conditions, the bank considered
itself sound, and it was too lavish with its credit, irre-
spective of the soundness of the creditor, because it felt
that more credit was needed to cope with the distressing
circumstances.

At the time the Crisis occurred the bank held a large
amount of discounted notes, and many were on protest. Payment
on these notes could not be met at maturity date; therefore,
the notes were renewed and there was no set policy at first
on the renewals. The bank simply operated under a makeshift
arrangement, trying to cope with individual cases as the imme-
diate circumstances seemed to dictate. For the most part the
commercial paper held was extended in maturity, provided addi-
tional security was given and/or the paper was reaccepted at a
lower percentage than previously discounted. No new paper was
discounted during 1837 and 1838, however, simply because the
bank did not possess the adequate means to extend new credit.

In June, 1839, the policy adopted on discounts was that
notes discounted subject to renewal could be renewed to six
months from maturity date and at twenty per cent less,
provided they were paid in full at the end of the period.

127

127 CAME, June 1, 1839. See also the credit policies
adopted April 11 and September 5, 1838.
At that time the bank also ventured in the discounting of new paper. The provision was that new notes not exceeding $300,000 could be discounted if their maturity dates did not exceed January 10, 1840. In July, 1840, a motion was presented before the Board of Directors to end all renewals on discounted notes after January 1, 1941, but it failed to be adopted. Instead, it was decided to continue the past policy; and it was not until after the passage of the Banking Act of 1842, that restrictive measures were undertaken. On February 23, 1842, it was voted to renew discounted notes at a reduction of ten per cent until April 5, and after that date there were to be no renewals.

The 1837 Crisis forced the stock and mortgage borrowers to suspend, or continue to suspend, their interest and instalment payments to the bank, and about all the bank could do was to increase its suspense account. It could not force payment because the planters did not have the means to pay. That left two choices: one was foreclosure, the other the extension of credit.

Foreclosure was employed sparingly by the bank because a foreclosure could not reimburse the bank, and it would result only in a substantial loss. The "bottom" had fallen out on land values. The extravagance of the Legislature in granting

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128 Ibid., July 11 and 15, 1840 (Fr.).
129 Ibid., February 23, 1842 (Fr.).
charters for banks had contributed substantially to the ex-
sting inflation. The increase of credit and currency and
the rise in optimism throughout the Nation had caused the
price of land to spiral upward. During the period after 1825
land around New Orleans, for instance, had risen several
times above the 1825 value.\textsuperscript{130} It was at those highly in-
flated prices upon which the bank had granted loans. The
deflation in land prices after the crisis made it impossible
ofr the institution to recover even as much as one half of the
amount loaned. Foreclosure, therefore, was employed only
when there was no other alternative and when there was no fu-
ture hope of recuperating a fair amount of the loan. Fore-
closures were used as a weapon—a weapon to intimidate those
who suggested reform.\textsuperscript{131} The alternative for settlement,
or postponing of settlement, was credit. What the planter
did was to give the ban a note in payment for the interest
and principal due on his loan and almost always this note
was a mortgage on future crops.\textsuperscript{132} The bank then used
these mortgage notes as collateral or security for the

\textsuperscript{130} F. X. Martin, \textit{op. cit.}, p. 436.

\textsuperscript{131} Cf., S. A. Caldwell, \textit{op. cit.}, p. 61.
The records of the bak show that there were sev-
eral foreclosures and that there was much litigation during
the period. That, however, does not invalidate the above
statements. The cases on foreclosure seem to indicate pres-
sure on the part of the bank to enforce its will.

\textsuperscript{132} CAML, various letters from loaners asking to mort-
gage their future crops in payment of the interest and install-
ments due on their loans (Fr.).
issuance of post-notes, or what might be called one- or two-year mortgage bonds. The post-notes bore interest, and the bank issued them in small denominations for circulation purposes. Moreover, these post-notes gave the bank a means of extending credit further to the same debtors as well as to others.

By giving the bank mortgages the stockholders were meeting their obligations on their loans with the bank. The mortgages in the bank's possession entitled it to issue certificates of indebtedness with the mortgages acting as security. In so far as the stockholders met their obligations and thereby reduced their loans below fifty per cent of the face value of their stocks held as collateral, they were entitled to an additional credit up to fifty per cent of the value of the collateral, provided they would accept the loan in the form of post-notes. These post notes could then be used as circulation; also, they could be used to cancel debts with the bank. Almost always, however, these post-notes were re-acquired by the bank in order to sell them on the European market, and in Europe they could be employed to purchase the "1846" bonds being sold through Francois deLizardi. 133

Credit and script flooded the state during the depression years. Safety and solvency did not enter into the minds of the bank directors. They were concerned with relieving

133cf. CABM, April 11, September 5 and 19, 1838, and March 14, 1840 (Fr.).
distress. The financial status of the borrower mattered little. They gave credit freely to anyone who could furnish the bank with a piece of paper stating it was a mortgage of some sort. The bank operated under the false illusion that security, irrespective of its source, was all that was necessary for soundness. Its officers persisted in believing that the security could not depreciate because the value was written on the face. Loans and discounts, on the other hand, did not relieve the planters. They served, among other causes, to build the Consolidated Association into an unsound institution.

A fourth phase of activity between 1837 and 1842 which was of considerable importance was the inter-bank cooperation in New Orleans. Even prior to 1837 the banks of New Orleans had acted jointly to solve problems of specie-shortages. After the Crisis they acted jointly to issue post-notes according to agreements. Each bank was allocated its proportionate share in the privilege of issuing notes or granting loans to depressed "sister" institutions. Agreements were also reached for the purpose of acquiring specie and resuming specie payments. Joint action was taken, furthermore, to circumvent legislative bank reforms. It may be said, however, that this inter-bank cooperation was on the whole fairly sound. It kept the Consolidated Association and other banks adhering to similar practices from creating utter chaos--
or rather accentuating the chaos.

Liquidation

On November 12, 1842, the Fifth District Court of Louisiana in New Orleans handed a judicial decree of forfeiture to the Consolidated Association of the Planters of Louisiana. This decree was rendered at the instance of the State in conformity with the Law of March 14, 1842, providing for the liquidation of certain banks of the State of Louisiana. This Law of March 14, 1842, specified the method of liquidation to be pursued by those banks unable to comply with the provisions of Act 22, passed February 5, 1842.

The intent of Act 22, entitled "An act to revive the charters of the several banks in the city of New Orleans, and for other purposes" was to put an end to the financial embarrassment existing in the State, especially with respect to banks. The purpose of the law was to establish sound banking practices. Horace White has concisely summarized the main features of the "Banking Act of 1842" as follows:

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134 The bank did not cease to exist after the reform was introduced. Far from it—the corporation continued to exist for forty years or more. More about this bank corporation in Chapter VI, after the other property banks have been studied.
136 Ibid., and No. 22, pp. 34-62.
...the requirements (1) of a specie reserve equal to one-third of all its liabilities to the public; (2) the other two-thirds of its liabilities to be represented by commercial paper having not more than ninety days to run; (3) all commercial paper to be paid at maturity, and if not paid, or if an extension were asked for, the account of the party to be closed and his name to be sent to the other banks as a delinquent; (4) all banks to be examined by a board of State officers quarterly or oftener; (5) bank directors to be individually liable for all loans or investments made in violation of the law, unless they could show that they had voted against the same if present; (6) no bank to have less than fifty share holders, having at least thirty shares each; (7) any director going out of the State for more than thirty days, or absenting himself from five successive meetings of the board, to be deemed to have resigned, and his vacancy to be filled at once; (8) no bank to pay out any notes but its own; (9) all banks to pay their balance to each other in specie every Saturday, under the penalty of being immediately put in liquidation; (10) no bank to purchase its own shares or lend on its own shares more than thirty per cent of the market value.137

Any bank not conforming with the above summarized measures of the Act of February 5, was subject to a forfeiture of its charter. The Act of March 14 specified the method of liquidation for any bank incurring a forfeiture of its charter.

The general provision of the Act was:

... that whenever any bank of this state, located in the city of New Orleans, by any act, omission, or violation of law shall have incurred the forfeiture of its charter, the Attorney General or the District Attorney shall present a petition in the name of the State to a court of competent jurisdiction, setting forth such acts, omissions, or violations, and praying that the charter of said bank be declared null and void, and the corporation

dissolved. The Court shall try such case summarily, and without intervention of a jury; and if, on the trial thereof it shall appear to the Court that the said bank has incurred a forfeiture of its charter, it shall declare the same null and void, and the corporation dissolved.138

The law, however, was amended to modify its general stand with reference to a forfeiture of charter and dissolution. Banks in which the State was a stockholder, or for which the State had issued bonds, were not to come under the general provision of the law. Such banks were not to be permitted to go into liquidation voluntarily, nor could they dissolve by reason of a forfeiture of their charters. If the said banks did not abide by the provisions of Act No. 22, or other laws, a judicial decree of forfeiture could be rendered against them. The decree, however, was not to remove the corporate powers and privileges previously enjoyed by said banks, except that of note issue. Definitely, a decree of forfeiture was not to permit dissolution. Business was to continue as before with the exception that no notes could be issued. Further restriction was to be imposed only if in the opinion of the Board of Currency the fixed assets were deemed insufficient to meet the outstanding obligations. In such an event it could be required that a sinking fund be established from other assets in sufficient amount to make up for the deficiency of the fixed assets, and these sinking fund assets

138

La. Acts., 1842, No. 98, Section 1, p. 234.
were not to be employed for any other purpose except to pay for or purchase bonds of the State issued to or for the account of said banks individually. ¹³⁹

According to the law of March 14 any bank in which the State had an interest that refused to comply with the above provisions—refused to relinquish the note issue privilege and to establish a sinking fund if requested—was to be liquidated. This liquidation was to be carried out by a Board of Managers appointed by the Governor, and this board was to take over the affairs and conduct business under the corporate name of the bank. The management was to be under the direction of the Board of Currency, and such management under their supervision was to continue until the State was satisfied that all the obligations on the bonds issued in the name of said bank had been met; afterwards the remaining assets were to be returned to the stockholders.¹⁴⁰

Thus it was that when the Consolidated Association failed to comply with the provisions of the laws enacted in 1842, the Court was ordered to render a decree of forfeiture against the corporation. This was done November 12, 1842. The Governor then appointed a Board of Managers to take over the affairs of the firm as was specified in section 29 of the March 14 Law.

¹³⁹ *Ibid.*, section 23. The sinking fund was to remain in the possession of the respective banks under the direction of the Board of Currency.

A letter from the Governor to the officials of the Consolidated Association was read December 7, 1842, informing the directors that the selected managers were: Hughes Lavergne, Charles Derbigny, P. A. Rost, Alexander Gordon, and A. Lesseps. In this same letter he requested that the affairs of the bank be placed in the hands of the above-named administrators.\footnote{141}

The officers of the bank, however, refused to remit the assets of the bank as requested. They refused to comply with the wishes of the Governor until after a vote by the stockholders and after an absolute order from a competent tribunal.

The stockholders' meeting was held December 10, and at the meeting they voiced the opinion that the Act of March 14, 1842, impaired their rights and privileges. Therefore, they protested against the taking possession of the assets of the bank by the managers appointed under the provisions of said Act.\footnote{143}

\footnote{141} CABM, December 7, 1842 (Fr.). Hughes Lavergne was president of the bank, Charles Derbigny, the attorney, A. Lesseps, a director, and Roth and Gordon, substantial stockholders. Besides, A. Gordon was the New Orleans agent for Francois de Lizardi of London, i.e., he was with the New Orleans house of de Lizardi, sometimes known as Manuel de Lizardi of New Orleans, a successor of Alexander Gordon, and Edmund J. Forstall and Company of New Orleans. de Lizardi of London owned a good portion of the bonds of the bank. And M. de Lizardi owned a good portion of the stocks in the corporation. So did Gordon own stocks personally.

\footnote{142} Ibid., December 10, 1842 (Fr.).

\footnote{143} Ibid., December 17, 1842—a copy of the letter from the secretary of the stockholders, Mr. A. Gally, New Orleans, December 16, 1842 (Fr.).
The order from a competent tribunal came from the Attorney General. In his letter of December 13, he ordered the directors to transmit the active resources of the bank to the managers appointed by the Governor. The decision of the directors of the bank was, therefore, to recognize the managers of the bank, but they agreed to transmit the resources only after an inventory had been made, terminated, and verified by a notary. Thus, an inventory was begun December 23, 1842, and it was completed by February 16, 1843. At a meeting of February 16 the directors announced that they were ready to relinquish the assets of the bank at 10 A. M. the next morning.

By April 23 the new managers rendered a report of the affairs of the Consolidated Association to the Governor. It included a Statement of Affairs as of April 21, a General Recapitulation of the Assets, and an interpretation of the financial status of the bank.

144 *Ibid.*, December 17, 1842—a copy of the letter from the Attorney General, New Orleans, December 13, 1842 (Fr.).

145 *Ibid.*, December 19, 1842 (Fr.).

146 *Ibid.*, February 16, 1843. The President and a manager, Mr. Hughes LeVergne, died February 16, 1843 (Fr.).
A Statement of Affairs of the Consolidated Association of the Planters of Louisiana as of April 21, 1843.

**Assets:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes Discounted</td>
<td>381,876.75</td>
</tr>
<tr>
<td>Stock Loans</td>
<td>1,176,961.27</td>
</tr>
<tr>
<td>Mortgage Loans</td>
<td>67,363.51</td>
</tr>
<tr>
<td>Real Estate and Buildings</td>
<td>131,244.69</td>
</tr>
<tr>
<td>Notes Protested</td>
<td>405,289.60</td>
</tr>
<tr>
<td>Bonds of the State</td>
<td>220,000.00</td>
</tr>
<tr>
<td>Loan to State</td>
<td>10,072.65</td>
</tr>
<tr>
<td>Stocks</td>
<td>60,202.04</td>
</tr>
<tr>
<td>Notes Receivable</td>
<td>345,909.82</td>
</tr>
<tr>
<td>Baring Brothers</td>
<td>767.55</td>
</tr>
<tr>
<td>Union Bank of New York</td>
<td>92.75</td>
</tr>
<tr>
<td>Specie</td>
<td>3,371.67</td>
</tr>
<tr>
<td>Citizens Bank Notes</td>
<td>787.50</td>
</tr>
<tr>
<td>Protest</td>
<td>950.56</td>
</tr>
<tr>
<td>General Expense</td>
<td>3,110.75</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>2,716,033.14</td>
</tr>
</tbody>
</table>

**Liabilities:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds, 1843</td>
<td>763,000.00</td>
</tr>
<tr>
<td>Bonds, 1848</td>
<td>1,617,000.00</td>
</tr>
<tr>
<td>Notes in Circulation</td>
<td>157,570.00</td>
</tr>
<tr>
<td>Interest due Baring Brothers</td>
<td>19,170.37</td>
</tr>
<tr>
<td>Interest due on Bonds</td>
<td>35,825.00</td>
</tr>
<tr>
<td>Individual Deposits</td>
<td>37,235.58</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>22,086.00</td>
</tr>
<tr>
<td>Due other banks</td>
<td>4,349.55</td>
</tr>
<tr>
<td>Duo de Lizardi of London</td>
<td>2,097.20</td>
</tr>
<tr>
<td>Discounts</td>
<td>42,851.32</td>
</tr>
<tr>
<td>Profit and Loss</td>
<td>12,008.59</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>2,716,033.14</td>
</tr>
</tbody>
</table>

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This statement has been consolidated for the sake of brevity. The sequence of the items as listed has been kept. The general headings were translated to conform with current terminology.
General Recapitulation of the Assets of the Consolidated Association on the 21st April.

<table>
<thead>
<tr>
<th>Description of Assets</th>
<th>Total Amount</th>
<th>Estimated value</th>
<th>Estimated loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes and bills discounted</td>
<td>381,878.75</td>
<td>272,779.97</td>
<td>109,098.78</td>
</tr>
<tr>
<td>Stock Loans</td>
<td>1,178,981.27</td>
<td>1,030,981.27</td>
<td>148,000.00</td>
</tr>
<tr>
<td>Loans on Mortgage</td>
<td>67,363.51</td>
<td>25,000.00</td>
<td>42,363.51</td>
</tr>
<tr>
<td>Real Estate</td>
<td>131,244.09</td>
<td>67,575.00</td>
<td>63,669.69</td>
</tr>
<tr>
<td>Notes and bills disc. and protested</td>
<td>406,289.60</td>
<td>30,000.00</td>
<td>376,289.60</td>
</tr>
<tr>
<td>Due by State of La.</td>
<td>235,072.65</td>
<td>235,072.65</td>
<td></td>
</tr>
<tr>
<td>Bills Receivable</td>
<td>245,909.82</td>
<td>177,000.00</td>
<td>68,909.82</td>
</tr>
<tr>
<td>Stocks and Sundry claims</td>
<td>60,202.04</td>
<td>38,454.61</td>
<td>31,747.43</td>
</tr>
<tr>
<td>Due by Bankers</td>
<td>860.33</td>
<td>860.33</td>
<td></td>
</tr>
<tr>
<td>Specie on hand</td>
<td>3,371.67</td>
<td>3,371.67</td>
<td></td>
</tr>
<tr>
<td>Protest Account</td>
<td>960.56</td>
<td></td>
<td>960.56</td>
</tr>
<tr>
<td>Notes of Citizens Bank</td>
<td>787.50</td>
<td>787.50</td>
<td></td>
</tr>
</tbody>
</table>

2,712,922.39  1,871,883.00  841,039.39

Liabilities:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Louisiana State Bonds</td>
<td>2,380,000.00</td>
</tr>
<tr>
<td>Baring Brothers, Interest</td>
<td>19,170.37</td>
</tr>
<tr>
<td>Balance of interest due</td>
<td>50,825.00</td>
</tr>
<tr>
<td>Interest owing due</td>
<td>59,500.00</td>
</tr>
<tr>
<td>Notes in Circulation</td>
<td>157,570.00</td>
</tr>
<tr>
<td>Individual Deposits</td>
<td>37,265.58</td>
</tr>
<tr>
<td>Bills Payable</td>
<td>22,085.00</td>
</tr>
<tr>
<td>Due local banks</td>
<td>4,349.58</td>
</tr>
<tr>
<td>Due Foreign Bankers</td>
<td>2,097.20</td>
</tr>
</tbody>
</table>

2,720,862.73

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148 Ibid. If the liabilities were 2,720,862.73 and the estimated value of the assets 1,871,883.00, the deficit was 848,979.73. In the liabilities section the date for the interest owing due was June 30, 1843, and the practice had been in the past to ship specie or bills of exchange as early as in April to effect the payment of interest in June.
On the basis of these two reports the managers claimed that the $848,979.73 deficit included a loss from the devaluation of the assets to the amount of $841,039.39. They figured the net loss to be 35 5/8 per cent when calculated on the basis of the $2,380,000 of bonds outstanding, and 28 1/2 per cent on the basis of the total bonds negotiated.

They further stated that the majority of the borrowing stockholders were in arrears by at least $323,621.23. These arrears they attributed to the low prices of agricultural products during several of the preceding years and to the great depreciation in property values resulting from the general distress existing since 1837.

The State Legislature, anticipating that the situation of the Consolidated Association would not be favorable to meet the payments and interest on its bonds pledged by the State, and knowing that the borrowing stockholders of the property bank were in a distressed situation, acted to relieve the bank. It passed an Act on April 5, 1843, to facilitate the liquidation of property banks chartered by the State.

The principal provisions of the act were that:

(1) ... whenever any stockholder in any of the property banks in liquidation shall tender to the persons superintending such liquidation any of the outstanding bonds of the State, issued in favor of such bank,
he shall be entitled to have the property mortgage by him to secure the stock, released from such mortgage, for the amount of the capital of the bonds so tendered, and of the interest which may have accrued thereon at the time of the tender; and in lieu of said bonds, certificates bearing the same rate of interest as the bonds shall be issued for the same amount, in favor of such stockholder, in each of which certificates it shall be stated that it is issued to a stockholder in lieu of a bond, and is not secured by mortgage, nor by the faith of the State.\textsuperscript{151}

(2) ... whenever any person shall be indebted to any liquidating Bank for any stock loan or otherwise, and shall tender to such Bank, in offset or part offset of such loan or debt, any of the bonds of the State, issued in favor of such Bank, the person charged with the liquidation of such Bank shall receive such loans in offset, as aforesaid, and shall release in such event, only the mortgage granted to secure the stock, up to the amount of the capital of the bonds thus received in offset, and of the interest already accrued thereon, at the date of the tender: Provided, however, such tender shall always be either an equal number of bonds of each series, or of bonds belonging to some series already due, or to the series next due, and that it shall be the duty of each of the Banks of the State, at all times, to receive in offset or part offset of debts due it, its own debts, when liquidated and part due, whether for circulation, deposits, or arising from any other source whatever, and whether such Bank be or be not in liquidation, and without reference to the date at which the debtor offering such tender may have acquired the claim by him offered in offset: Provided, that no defaulter to the Bank shall have this right of offset for the amount of his defalcation: And provided further, that in all the payments thus made as aforesaid by the stockholders, upon stock debts ten per cent be paid in specie.\textsuperscript{152}

(3) ... the Property Banks of this State whether in liquidation or not, through their authorized agents, shall be authorized to contract with their stockholders for a privilege and mortgage on the future

\textsuperscript{151} Ibid., section 1.
\textsuperscript{152} Ibid., section 2.
crops, revenues and rents of the property mortgaged to secure their stock or stock loan, to an amount sufficient to pay and extinguish the annual installments, as they fall due, by the stockholder on his stock loan, as well as the annual interest, in advance, due on the balance of said stock loan, and that the privilege shall be paid out of such future crops, revenues, or rents, in preference to all other claims, except existing privileges accorded by law, and the privilege which may be granted to the furnishers of all necessary and indispensable supplies for the carrying on and maintenance of said property; 153

The Act further provided that the Consolidated Association could, with the consent of the bondholders, extend and prolong the time of payment of any of the bonds for a period of fifteen years, provided the extension did not exceed ten years after 1843, date of expiration of the bank's charter as previously extended by law from the original termination date of 1843. 154

This Law of 1843, therefore, did more than merely facilitate or provide the machinery for liquidation. It was permitting the debtors to pay off their debts, and it was designed to relieve the State from contingent liability. Moreover, it was aimed at overcoming the handicaps existing in the export of American cotton.

Because the English resented the American defaults and repudiations after 1837, a boycott had been declared on American cotton exports. 155 Furthermore, the policies of

153 Ibid., section 4.
154 Ibid., section 10.
the Bank of England had continued to make foreign bills of exchange scarce, thus curtailing the ease of export of American goods, especially cotton.

The provisions of the Act of 1843 helped to break the boycott. For instance, Louisiana cotton exporters could ship their cotton to England and sell or exchange it for bonds of the State of Louisiana; and the transactions did not necessarily require specie or bills of exchange. Since the bonds were quoted on the London money market at somewhere about 50 or 50, the owners were willing, even anxious, to sell or exchange the bonds for cotton, especially if somewhat more than the market price was offered for the bonds. Furthermore, the exchange had the effect of raising the market price of the Louisiana bonds. The cotton owners, for their part, were anxious to exchange or sell cotton for bonds because they could use the bonds obtained at a price below par to extinguish their debts on the basis of the face value of the bonds. The result was to raise the price of both the bonds and cotton, redeem some of the bonds for which the State was contingently liable, and increase the volume of cotton exports. "A steady stream of bonds started from England in payment for cotton and were automatically retired when American planters used them to pay off their debts."156

Impression must not be had, however, that the bondholders as a whole welcomed the Act of April 5, 1843. A

156 L. H. Jenks, loc. cit.
storm of protests arose. Baring Brothers, for instance, issued a Circular to the holders of the Consolidated Association bonds stating that neither the State nor the bank had provided funds for the purpose of extinguishing bonds or for the payment of interest. They decried the liquidation of the Consolidated Association because they thought it to be a sound institution. The Circular stated:

The recent conduct of the legislature has had the effect of embarrassing the banks, of depreciating the value of their assets, of lowering the credit of the state, and by the non-payment of the interest or capital of the bonds of greatly depreciating the prices of these securities; and as at the same time the banks had been compelled to receive in payment of debts the bonds issued by the state in their favor at par or the nominal value indicated in the bond, the result had been that the domestic debtors are benefited at the expense of the honor of the state and of the just claims of its foreign creditors.

Baring Brothers, therefore, emphatically recommended that the English bondholders keep possession of the bonds in order to better control and direct the price at which they were in favor of selling these bonds. Moreover, they maintained that the action of the Legislature had made the State directly liable for all payments of bonds issued for and in favor of the banks of the State.

Many others criticized the Act. Most of them, however, did it at the direct or indirect instigation of Baring

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Brothers. The Democratic Review stated that the law had brought discredit upon the State. The New Orleans Bee and other New Orleans papers contained several paid articles and editorials expressing the dissatisfaction of foreign bondholders relative to the Act. An article appeared in the North American Review in January, 1844, written by B. R. Curtis. The article claimed that the law of 1843 impaired the obligations of contract between the State and banks, banks and foreign creditors, and the State and foreign creditors, viz.:

... Now there is not the smallest doubts that this law amounted to a contract made by the state and the banks with every bondholder that these mortgages should be held by the banks in trust to secure the payments of the money loaned on the bonds. There is not a court in the country which would hesitate so to declare upon these facts. And when the state placed these banks in liquidation and thus took control of their affairs it was bound to guard this trust strictly and faithfully. It had no right to receive depreciated bonds at par in payment for well secured debts which it held in trust for third persons.

What would the law of Louisiana, or the courts of Louisiana say to a tutor or guardian who should receive depreciated paper in payment of a debt due to his ward secured by mortgage? Undoubtedly, they would say it was unfaithful administration; and would order him to make good the difference. And may the legislature itself justly do what its own laws condemn as unfaithful and unjust? ... This law impairs the obligation of a plain contract between the state and the banks on the one part and

\[159\] Cf., R. C. McGrane, op. cit., p. 184.
\[160\] B. R. Curtis was later a Justice of the Supreme Court of the United States. (Cf., S. A. Caldwell, op. cit., p. 67.)
the bondholders on the other; and it is therefore a conflict not only with the Constitution of the United States but with the fundamental law of Louisiana which prohibits the legislature from enacting any law impairing the obligations of a contract.\footnote{North American Review, vol. 58 (1844), pp. 137-140.}

London newspapers were more vehement in expressing their views and the views of the bondholders pertaining to action of the Louisiana General Assembly. The London Morning Chronicle held that the Act of 1843 was "a more heinous breach of faith than repudiation." The London Times approved the advice given in the circular of Baring Brothers.\footnote{London Morning Chronicle, November 3, 1843, and London Times, July 19, 1843; cited by R. C. McGrane, op. cit., pp. 156-157.}

There were many, however, who defended the law, especially those associated with some branch of the State, or directly connected with Louisiana. The Board of Currency, as an illustration, states that the English bondholders were "designedly misinformed."\footnote{Louisiana Legislative Documents, 1844, "Report of the Board of Currency for 1843."}

The writer in the London Morning Chronicle ...
... either did not understand the circumstances under which the law was passed or had grossly misrepresented them. It would be just as well for the European journalists to be chary on their abuse in noticing matters of this sort, for the people in this section of the Union are just the very last men in the world who could be bullied or black-
guarded into measures... Now we would ask the Morning Chronicle or the Boston Advertiser... if by any convulsion in business or revolution in monetary affairs, or imprudence if they like, either Great Britain or Massachusetts was suddenly without previous suspicion of crisis, called upon to provide for a debt, the interest of which alone required twice as much revenue as the ordinary receipts of the treasury, would or could either of them at once meet it? And if the amount of the obligation for which they would have ultimately to provide depended upon the value of the assets of insolvent corporations which they had indorsed, would they not make a schedule of the effects and arrive at a reasonable appreciation of the deficit they would have to make good before adopting a system of taxation for that purpose? ... We know of no surer way to blunt the sensibilities of a people to the obligations of contracts than for the press and more especially for foreign journalists to assail their honesty, when they have done the best thing, at the time, in their power to do, for the public creditors.

Whatever were the merits or demerits of the Act of 1843, the procedure for meeting payments of debts in bonds at par, or nominal face value, was pursued. Unfortunately, however, the banks did not always benefit from the method of liquidation. In the instance of the Consolidated Association much of the payment of debt was effected by giving bonds and coupons not yet due, instead of the past-due obligations. This meant that much of the receipts went toward extinguishing non-due securities, leaving the bank with insufficient means

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164 Reprints of the articles in the London Morning Chronicle and other London papers were made at the expense of Words, agents of Baring Brothers, in the Boston Advertiser and other American papers.

165 New Orleans Bee, December 23, 1843.
to take care of the past due and current obligations.\textsuperscript{166}

An illustration of how the 1843 Act functioned may be given by citing a specific case: For instance, Mr. J. E. Rost, a manager appointed by the Governor for the administration of the liquidation of the Consolidated Association, informed the bank that in order to pay the company what he owed as a stockholder, he was sending 225 bales of cotton to Liverpool with orders to invest the product in bonds of the State, which he expected to receive shortly.\textsuperscript{167} Mr. Isaac Thomas of Rapides informed the bank that his daughter was now owner of the properties mortgaged to the institution for stocks and that she was offering to mortgage 200 bales of cotton of her future crop. The first part of the cotton was to be delivered November 1, 1843, and the second portion on January 1, 1844. This cotton was to serve in purchasing Louisiana bonds issued for and in favor of the Association and was to offset her debt.\textsuperscript{168}

The shipment of cotton to England by the debtors independently in order to acquire bonds, however, was not the only method employed to purchase Louisiana bonds. The managers decided in order to facilitate the debtors of the Consolidated Association to receive from the said debtors

\textsuperscript{166}\textit{Cf.}, \textit{House Jour.}, 1846, pp. 120-124.

\textsuperscript{167}\textit{Gazette}, April 29, 1843 (Fr.).

\textsuperscript{168}\textit{Ibid.}, May 13, 1843 (Fr.).
cotton to be transferred in London into bonds of the State; and these bonds would then serve to cancel the debts of the debtors in proportion to the cotton transmitted; that is, the institution would take the cotton, ship it to Liverpool, acquire the bonds in London then quoted at 50 or 60, and then cancel debts owed it on the basis of the nominal face value of the bonds. 169

The cotton trade in the United States benefited considerably from the Law. From January 1 to April 22, 1843, the export of American cotton was 704,205 bales. For the same period in 1842, the export was 358,132 bales. It was an increase of 346,073 bales, or almost double the amount. In spite of the opposition voiced by the British investors, they were taking the cotton in England and American exports benefited. 170 The price paid in London, or Liverpool, for American cotton was 4 to 6 pence a pound, somewhat low in comparison with former prices, but better than 1841 and 1842. 171

The policy of the Consolidated Association to facilitate liquidation and payment of debt did not limit itself to the provisions of the 1843 Law. Even before the Act of

169 CAEM, May 3, 1843 (Fr.). For London quotations on the Louisiana bonds see Circular of Baring Brothers of April 7 and June 17, 1843, or citation in the New Orleans Daily Picayune, July 12, 1843.

170 Daily Picayune, July 8, 1843.

171 Ibid., October 14, 1843.
1843 had had time to be carried into effect, the corporation provided that debts to the bank could be paid with interest coupons on the bonds of the State. The managers moved, April 5, 1843, that interest coupons would thereafter be accepted as circulation. Earlier than that, however, it had been moved and voted that specie would be accepted on the basis of the bank's depreciated notes. The firm was in need of $20,000 in specie and it arranged to obtain the silver or gold by permitting the stockholders and other debtors to pay their debts by giving the bank specie equivalent to the current depreciated value on the circulation notes and by getting the debt canceled on the basis of the face value of the notes. At the time, the notes were circulating at about 40 per cent discount which meant that the debtors were paying their loans at 60 cents on the dollar. This policy was extended in May, 1843, to obtain specie to be converted into bonds of the State in London. To illustrate, when a debtor gave the bank 50 cents in specie, it would purchase bonds in London and cancel the debt on the basis of the nominal face value of the bonds.

The discount policy of the Consolidated Association during this period was far too generous. Instead of renewing notes discounted at a further reduced rate as had been the

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172 CABM, April 5, 1843 (Fr.).
173 The amount of specie required depended on the market price of the bonds.
174 CABM, March 15, 1843 and May 3, 1843 (Fr.). For circulation discount, see Daily Picayune, July 1, 1843.
practice in the several years past, the managers decided
in April, 1843, that all notes discounted considered payable
in full at maturity could be renewed in full. 175

During 1843 the Consolidated Association continued
to default on its interest payments. It did not even repay
Baring Brothers for the part of the interest they paid on the
bonds, figuring that they would be reimbursed shortly by the
Association. Letters from Baring Brothers requesting repay­
ment went unheeded. The only satisfaction Mr. M. Purton,
agent of Baring Brothers, received on his request that
Baring Brothers be repaid was a notice that the bank had no
funds with which to reimburse Baring Brothers for the interest
they had paid for the corporation. 176 When asked to suggest
a plan for payment, the answer given by the managers was that
they could do nothing until the Legislature enacted a law to
provide for the settlement. 177 Knowing that the State had
pledged its faith on the payment of principal and interest
on the bonds, the managers figured that the State would make
provision for the interest payments, and the State did pay
Baring Brothers for their 1842 interest advance.178

The amount of bonds outstanding was reduced in 1843,

175 G:BM, March 25 and April 5, 1843 (Fr.).
176 Ibid., March 4, 1843 (Fr.).
177 Ibid., March 18, 1843 (Fr.).
178 House Jour., 1844, pp. 57-59.
but it is impossible to ascertain by how much. The records of the bank say that $151,167.55 in bonds and interest had been received during the year as result of the provisions of the Law of 1843.

In August, 1844, plans were begun to extend the maturity dates of the bonds outstanding and to capitalize the interest due on these bonds. Arrangements were made to have Mr. Edmund J. Forstall negotiate with the bondholders to have the maturity of the bonds delayed 5, 10, 15, and 20 years from January 1, 1845, and to have the interest rate reduced from 5 per cent to 2 1/2 per cent.

What the bank officers desired was to have new bonds issued to replace the existing bonds. Their plan was to have $2,000,000 of bank bonds issued in equal series, one-fourth maturing every five years until 1865, i. e.:

- $500,000 payable January 1, 1850
- 500,000 payable January 1, 1855
- 500,000 payable January 1, 1860
- 500,000 payable January 1, 1865

The reimbursement was to take place in London with Baring Brothers at the exchange rate of 4 shillings 3 pence on the dollar in favor of England. The interest was to be 2 1/2 per cent payable in London at the rate of 4 shillings 6 pence, the current rate of exchange. The State was to be relieved

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179 CABM, March 13, 1844 (Fr.). According to this report, there were 12,150,000 bonds outstanding and $2,286,827 in bonds and interest past due. The claim for April 21, 1843, was that the obligations outstanding were $2,437,995.39.
from all and any liability on these new bonds, and against
these bonds the institution was to deposit collateral secu-
rities with other banks in the State in its own name, along
with the name of the agent representing the bondholders. The
Association was to be permitted to withdraw these securities
in amounts according to the amounts of the new bonds retired.

This plan suggested by the Association, however, did
not appeal to the European bondholder, but they were in favor
of extending the maturity dates of the existing bonds. Baring
Brothers and Company in 1845 expressed their desire to formu-
late a plan for refunding the bonds, and they entered into
negotiations with Mr. Morphy, acting representative of the
Consolidated in the place of Mr. Forstall, in order to reach
an agreement. Tentative plans having been drawn, Baring
Brothers then attempted to get the bondholders' consent to
formulate terms for the liquidation of their claims. Tentative
terms were reached with the bondholders, but the plans fell
through. It was not until 1848 that Baring Brothers, Francois
deLizardi, and the Consolidated Association did reach an
agreement.

In 1847 another drastic change was instituted in the
management of the affairs of the Consolidated Association.

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180 CAEM, August 31, 1844 (Fr.).
181 CAML, Baring Brothers to Morphy, London, July 17,
1845. 182 La. Acts, 1848 (Extra Session), Nos. 11 and 59,
It was deemed advisable by the General Assembly to free the organization from the exclusive management of the State, and permit some control on the part of the stockholder. On April 6, 1847, an Act was passed "...to protect the State against loss on account of its liabilities for bonds issued for the use of property banks."  

Under its provisions, the stockholders were to elect three managers, the State continuing to appoint the others. Together, they were to manage the affairs of the institution and proceed with the liquidation as further provided by the Act.  

The provision to further facilitate the liquidation was a permission to extend the maturity dates of the bonds 6, 9, 12, 15, and 18 years. And in order that the liquidation be quicker, the law specified, also, that the bank was authorized to raise funds by contributions from the stockholders. These contributions were to be divided into instalments running from one to seventeen years.  

The managers thereupon by resolutions determined that under the above act a contribution of six dollars per share shall be paid by each stockholder of this Association on June 1st, 1849 and on the same day of each succeeding sixteen years; and that the sum due on the stock loan by the stockholders shall be divided into eighteen annual instalments to be paid on June 1, 1848, and being paid for every succeeding June for seventeen years.  

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183 Louisiana Acts, 1847, No. 100, pp. 76-78.  
184 Ibid.  
185 Ib.  
186 Le. Ann. 425. Consolidated "Association vs. George Lord. The managers of the bank had decided that $102 per share of stock was needed to retire the bonds, or $6 for 17 years.
The matter of extending the bonds, however, was not to be such a simple matter. First of all the extension required the approval of the creditors; a negotiation had to be undertaken for the purpose of refunding. While the Legislature had provided for the extension, it had not specified the terms of refunding that would be acceptable. The question was introduced several times, but the 1847 Session ended without the problem being settled. Evidently, the idea of the majority of the members of the General Assembly was that the extension be provided for with the Consolidated Association assuming all the liability. At least, not to increase the liability of the State with reference to the bank.

The idea of the managers of the Consolidated Association was to devise a plan which would be agreeable to Baring Brothers and Francois deLizardi. The first proposal offered was that the extension of bonds be effected by issuing annuities to correspond with the original bonds, and the State was to remain a party to the pledge for security as it was previously. The Consolidated Association offered its own bonds, however, for the funding of the accrued interest on the State bonds that had been issued in its favor.

Baring Brothers and Francois deLizardi agreed to the proposal, but they asked that the plan of refunding be revised in such a manner as to have the State pledge its faith for the reimbursement of the bonds to be issued for the purpose of capitalizing the accrued interest. Consent was had
on this from the Consolidated Association, and the bank attempted to persuade the Legislature to grant the pledge. In the meantime, the London houses issued circulars to the bondholders of the Consolidated Association and drew terms of assent for them to sign. The terms of assent, however, included the provision that the State of Louisiana give its pledge on the new bonds to be issued for the purpose of capitalizing the accrued interest on the existing bonds. The terms of assent may be illustrated by the Form of Assent drawn by Francois deLizardi. It read as follows:

The undersigned Holder of Bonds of the State of Louisiana, bearing date 31st December 1820, signed by the Governor and Treasurer of that State, and due 30th June, 1843, bearing the following numbers, hereby consents, provided the existing liability of the State of Louisiana for principal and interest remains unimpaired, that the said Bonds be endorsed by some legally-authorized Agent, in London and that such an endorsement engage to repay the principal of each Bond as follows:

200 Dollars on 30th June 1854 In New Orleans
200 " " " 1857 at the Office of
200 " " " 1860 the Treasurer of
200 " " " 1863 the State of
200 " " " 1866 Louisiana

and that new Coupons shall be attached to the bond payable in the Office of the Treasurer of the State of Louisiana, in New Orleans, half-yearly, on the 30th June and 31st December each year, at the rate of five dollars per Annum for every One Hundred Thousand Dollars due. The first half-yearly dividend to be paid on the 31st December, 1843.

Also consents, that the unpaid arrears of interest, since 31st December, 1842, to 30th June, 1848, amounting to 275 Dollars, upon Bond of 1000 Dollars, be funded and a new Bond, with coupons, be given by the State of Louisiana, in lieu of such arrears for 275 Dollars. Such bonds shall be legal Obligations of the said State, and on the Consolidated
Association of the Planters of Louisiana, to
repay on each bond in the proportion of:

Dollars 45.85 on 30 June 1849 In New Orleans
" 45.83 " " " 1850 at the Office of
" 45.85 " " " 1851 the Treasurer of
" 45.83 " " " 1852 the State of
" 45.83 " " " 1853 Louisiana.
" 45.83 " " " 1854

and with reimbursement, Interest, at the rate of five
per centum per annum, in Half-yearly Dividends payable
30th June and 31st December each year, at the afore-
said office, the first dividend to be paid on the
31st December, 1848. 186

Another tentative agreement was reached between the
bank and Baring Brothers, December 21, 1847, and Baring
Brothers pronounced that the holders of $208,000 of bonds
were willing and ready to liquidate. 187 Francois deLizardi
reported, December 31, 1847:

We received in due course your esteemed
favor of the 10th of November and agreeable to
your wish therein expressed; have since commu-
nicated with Messrs. Baring Brothers on the sub-
ject of the bonds of your institution. We have
caused to be printed the letter of assent on the
part of the bondholders to your proposal relating
to their bonds and funding the arrears of interest
thereon, to which up to the present time, we must
have the pleasure in stating that no dissention
has been shown, but on the contrary, holders
readily sign, and we hope by next packet to be
enable to send you letters for the greater part
of the loan issued through this house. 188

Since the Louisiana Legislature terminated its session
in 1847 without granting the pledge included in the assent

186 CAIL, Form of Assent: F. de Lizardi and Company,
London, December 23, 1847.
187 CAIL, Baring Brothers to Morphy, London, December
21, 1847.
188 Ibid., F. de Lizardi to Consolidated Association,
London, December 31, 1847.
a revision was necessary in the terms accepted. New circu-
lars were issued again in order to get the bondholders to
agree in accepting the bank bonds. For instance, Baring
Brothers published the following circular:

In the circular of assent to the Plan
issued by me, and agreed upon by you, for the
settlement of unpaid arrears of Dividends on the
Bonds of the Consolidated Association of the
Planters of Louisiana, the following words were
inserted by us:—"Also consents that the unpaid
arrears of Interest, since 31 December, 1842 to
30th June, 1848 amounting to 275 Dollars upon each
bond of 1000 dollars, be funded, and a new Bond with
coupons, be given by the state of Louisiana, in lieu
of such arrears for 275 Dollars; such bonds shall be
legal obligations on the said State, and on the Con-
solidated Association of the Planters of Louisiana."

The sanction by Act of the Legislature of La.
was required for the issue of New Bonds by the
State; and although no objection was made to the
proposal by the legislature, yet the limited term
of session having expired, that body separated with-
out the adoption of that condition. As by the Con-
stitution, the Legislature will not again be called
together for a space of two years, the President,
Managers, and Directors of the Planter's Association,
in order to affect an immediate settlement of the
arrears, and recommence the regular payment of inter-
est on their Bonds, propose that the condition of a
Bond be given by the State for the arrears of Inter-
est should be omitted, in lieu of which, Bonds of the
Consolidated Association Bank are to be issued, and
they specially pledge the following securities, say—

<table>
<thead>
<tr>
<th>Security Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. All the bills receivable, amounting at date of the</td>
<td>$298,562.69</td>
</tr>
<tr>
<td>above resolution to</td>
<td></td>
</tr>
<tr>
<td>2. Loans secured by Mortgage</td>
<td>20,142.98</td>
</tr>
<tr>
<td>3. Bills receivable, renewable under Discount</td>
<td>24,267.23</td>
</tr>
<tr>
<td>4. 530 shares in the Capital Stock of the Bank of</td>
<td>53,000.00</td>
</tr>
<tr>
<td>Louisiana</td>
<td></td>
</tr>
<tr>
<td>5. Barataria and Lafourche Canal Company Stock</td>
<td>10,000.00</td>
</tr>
<tr>
<td>6. 75 Shares of Levee Steam Cotton Press Company</td>
<td>7,500.00</td>
</tr>
<tr>
<td>7. 34 Shares of Commercial Banking Stock</td>
<td>3,400.00</td>
</tr>
<tr>
<td>8. Banking House</td>
<td>5,000.00</td>
</tr>
</tbody>
</table>
Making a Total, According to the Bank, of $421,872.90 for the reimbursement of these bonds, the aggregate amount of which would be 384,350 Dollars.

The other condition of the proposed arrangements remain unimpaired for the acquittal of the original bond as a Special Agent is now in Europe, in order to carry into effect the whole settlement, and the acceptance of the proposed arrangement seems to us, under all the circumstances, favourable to your interest, we beg, if you agree with us, that you will, without delay, sign and return to us the accompanying assent, and send your bonds for the requisite endorsement, as the stay of the Agents will be of short duration.

The terms of Assent as revised by both London houses were accepted by the Consolidated Association and they were presented to the Legislature for approval. When an extra session was called, the General Assembly passed a bill to accept the terms and demands of the bondholders.

By the end of 1848, Baring Brothers had secured the assent of all the bondholders except one on bonds sold through their house. François de Lizardi reported the assent of holders owning 795 bonds.

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189 Ibid., Circular: Baring Brothers to Holders of Louisiana Bonds of the Consolidated Association, 1848.
190 Louisiana Laws, 1848 (extra Session), No. 59, p. 34.
191 CAML, Baring Brothers to A. B. Roman, London, October 5, 1848; Baring Brothers to Consolidated Association, October 20, 1848. Even after the assents had been signed by several of the bondholders Baring Brothers refused to take definite action until after bondholders in an aggregate of $1,800,000, principal and interest, agree to the Assent. Baring Brothers, themselves, had on hand 499 bonds due in 1843 and 795 due in 1848, which, with back interest, amounted to $1,623,525.
The actual conversion on the refunding started in January of 1849. To replace the existing bonds the State Treasurer issued and delivered $1,376,000 of new bonds. To capitalize the interest due on the old bonds the bank authorized the issue of $352,875 in bank bonds, of which amount $321,400 was actually issued. By April 20, the refunding was complete. The terms of refunding are enumerated in the Consolidated Association Bond Book, 1850-1867, as follows:

1. Bonds issued in renewal of the Louisiana State Bonds due on the 30th June 1843, Series C.
   Five hundred and thirteen (513) Bonds, of Series C, of One thousand Dollars each, signed at Amsterdam, on the 15 August 1848, by A. B. Roman, Agent. To each of these Bonds are attached Five Coupons of Capital of Two Hundred Dollars each, payable on the 30th June of the years 1854, 1857, 1860, 1863, and 1866, marked C.
   No. 13, C. No. 20, C. No. 27, C. No. 34, C. No. 41, the last Coupon being only payable on the surrender of the Bond to which it is attached and also of the Louisiana State Bond bearing the same number. ... Thirty-six Coupons representing the interest at Five per Centum per annum due half yearly, are also attached to each Bond and are as follows, all bearing the letter C. No. 1 $25 due 31st December 1843, No. 2 etc. ... No. 40 $5 30th June 1866....

2. Bonds issued in renewal of the Louisiana State Bonds due 30th June 1848, Series D.
   Eight Hundred and Sixty-three (863) Bonds of Series D, of One thousand dollars each, signed at Amsterdam, on the 15th August 1848, by A. B. Roman, Agent.... To each of these Bonds are attached Five Coupons of Capital of Two Hundred Dollars each,

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payable on the 30th June of the years 1854, 1857, 1860, 1863, and 1868, marked D. 13, D. No. 27, D. No. 34, D. No. 41, the last coupon being only payable on the surrender of the Bond to which it is attached and also of the Louisiana State Bond bearing the same number.... Thirty-six Coupons representing the Interest at Five per Centum per annum due half yearly, are also attached to each Bond and are similar to those attached to the Bonds of Series C, with the exception of the letter.... The payment of the Capital and Interest to be effected in New Orleans, at the office of the Bank. The Bonds bear the same numbers as the Louisiana State Bonds to which they are annexed....

3. Bonds issued in Settlement of Interest and Coupons of Interest due on the 30th June 1848, on the Louisiana State Bonds of 1843, Series A.

Five Hundred and Thirteen Bonds (513) of Series A, of Two hundred and seventy-five Dollars ($275) each, Signed at New Orleans on the 15th May, 1848, by A. Morphy, President, and G. Miltenberger, Cashier, making together $141,075., representing the Interest and Coupons of Interest due on the Louisiana State Bonds of 1843, the Holders of which have consented to the Settlement offered by this Bank.... To each of these Bonds are attached Six Coupons of Capital, the first of $45.85 payable on the 30th June 1849, and the others of 45.83 payable on the 30th June of the years 1850, 1851, 1852, 1853, and 1854, the last Coupon being only payable on the surrender of the Bond to which it is attached.—Twelve Coupons, representing the Interest at Five per Centum per annum, due half yearly, are also attached to each Bond....

4. Bonds issued in Settlement of the Coupons of Interest due on the 30th June 1843, on the Louisiana State Bonds of 1848, Series B.

Seven Hundred and Six Bonds (706) of Series B, of Three hundred Dollars ($300) each, signed at New Orleans on the 15th May 1848, by A. Morphy, President, and G. Miltenberger, Cashier, making together $211,800, representing the Coupons of Interest due on the Louisiana State Bonds of 1843, the Holders of which have consented to the Settlement offered by the Bank. To each of these Bonds are attached Six Coupons of Capital of Fifty Dollars each, payable on the 30th June 1849, 1850, 1851, 1852, 1853, and 1854, the last Coupon being only payable on the surrender of the Bond to which it is attached. Twelve Coupons
representing the interest at five per centum per annum, due half yearly, are also attached to each bond....

After the refunding was completed and after the bank began receiving the six dollars per share contributions from the stockholders, the bank's deficit was reduced annually until the time of the Civil War. The net deficit was reported at over $300,000 in 1848 and by 1860 it had been reduced to a point where there was a surplus. The War disrupted this situation, however, and by 1867 when the bonds should have been redeemed, there existed a considerable deficit. Below are some illustrations of the bank's deficit or surplus during the period under consideration, viz.:

April 29, 1848:

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<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Assets</td>
<td>$1,565,478.76</td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td>1,910,526.51</td>
<td></td>
</tr>
<tr>
<td>Deficit</td>
<td>345,047.75</td>
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November 29, 1848:

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<tr>
<td>Assets</td>
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<tr>
<td>Liabilities</td>
<td>1,631,295.71</td>
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<tr>
<td>Deficit</td>
<td>334,827.55</td>
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December 15, 1849:

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<tr>
<td>Assets</td>
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</tr>
<tr>
<td>Liabilities</td>
<td>1,706,143.89</td>
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</tr>
<tr>
<td>Deficit</td>
<td>337,878.45</td>
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January 26, 1850:

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</thead>
<tbody>
<tr>
<td>Assets</td>
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</tr>
<tr>
<td>Liabilities</td>
<td>1,709,140.49</td>
<td></td>
</tr>
<tr>
<td>Deficit</td>
<td>372,524.27</td>
<td></td>
</tr>
</tbody>
</table>

December 28, 1850:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>1,290,188.63</td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td>1,637,990.93</td>
<td></td>
</tr>
<tr>
<td>Deficit</td>
<td>347,822.30</td>
<td></td>
</tr>
</tbody>
</table>

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194 Consolidated Association Bond Book, 1850-1867, pp. 1-13
### December 27, 1851:

| Assets | $1,225,771.70 |
| Liabilities | 1,564,368.45 |
| Deficit | 338,596.75 |

### January 29, 1859:

| Assets | 729,819.93 |
| Liabilities | 832,541.15 |
| Deficit | 102,721.16 |

### July 30, 1859:

| Assets | 772,009.41 |
| Liabilities | 832,526.15 |
| Deficit | 60,516.74 |

### December 31, 1859:

| Assets | 777,536.23 |
| Liabilities | 826,566.15 |
| Deficit | 49,029.92 |

### June 30, 1860:

| Assets | 809,447.04 |
| Liabilities | 794,616.15 |
| Surplus | 24,830.89 |

### December 29, 1860:

| Assets | 598,506.79 |
| Liabilities | 554,666.15 |
| Surplus | 41,340.64 |

There are no data pertaining to the affairs of the Consolidated Association during the period of the War.
The only fragment of information is that by 1864, the deficit was $37,850. 199

During the years that followed 1848 most of the stockholders paid their six-dollar-per-share, annual contributions, but these payments were often made under protest. 200

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200 CAML, There are many letters of complaint on file: see records from 1848 to 1866.
Some refused to pay and, thus, the matter of the legality of the assessment and of the Act of 1847 were taken to court. The Supreme Court, however, upheld the validity of the Act and it authorized the bank to enforce the payment of the contributions.

By 1853 the Legislature was considering the matter of relieving itself of debt from the bonds issued to the Citizens Bank by permitting the Citizens Bank then in the process of liquidation to reincorporate as a stock bank, which would assume the debts of the property bank. That would have meant that the Consolidated Association alone would have to bear the expense of the board of managers in charge of the liquidation of the property banks. It was suggested, therefore, that the Consolidated Association be relieved from the management by a Board of Managers under the supervision of the Board of Currency.

This suggestion presented by the Board of Managers was accepted, and April 11, 1855, the General Assembly passed an Act to "Provide for the Future Management of the Affairs of the Consolidated Association of the Planters of Louisiana." The provisions of the Act were that every year the Governor, with advice and consent of the Senate, appoint three citizens

202 Ibid., pp. 3-4.
mot stockholders of the bank to serve as directors of the institution, and three directors were to be elected by the stockholders. These directors were to serve as a new Board of Bank Managers for the Consolidated Association, their expense to be borne by the firm. As soon as this new board was organized, the existing Board of Managers was to cease to exist.

The affairs of the bank under the new management was no improvement over the previous arrangement. If anything, it was more extravagant. Furthermore, the State Legislature passed another law, March 15, 1855, which permitted the Association to "sink" its current funds into dead weight investments. Section 1 of Act No. 193, "An act to provide for the liquidation of the Consolidated Association of the Planters of Louisiana" authorized the bank "to invest their assets at a discount of eight per cent per annum on all loans having more than ninety days to run."

Then came the War which paralyzed the business of the South. This war disrupted the liquidation process of the company, which technically was to terminate in 1856. As it was, the Association was unable to continue payments on the bonds when they fell due. The stockholders had to cease paying their assessments.

204 Ibid., sections 1, 2, 3, 4, and 5.
207 S. A. Caldwell, op. cit., p. 69.
Had it not been for the War, it might have been that the Consolidated Association could have been able to fully liquidate its obligations. The War, however, was making paupers out of the planters. Property owners were being suppressed by the necessity of making Federal contributions and by the payments of excessive taxes.

Here is what Edmund Forstall had to say relative to the condition of the bank and the situation of the time. First is a report on the Consolidated Association:

### Consolidated Association of the Planters of Louisiana

#### Statement as of 30th June 1863

**Liabilities:**
- Annexes to Bonds: $548,000.00
- Coupons due: 29,541.15
- Special Deposits: 33,433.66
- Total: 610,974.81

**Assets:**
- Stock Loans: 214,651.40
- Bills Receivable: 196,320.13
- Real Estate: 16,533.10
- 700 Shares, Bank of Louisiana Stock: 70,000.00
- 34 Shares, Commercial Bank: 5,400.00
- Contribution yet due: 44,646.00
- Consolidated City Bonds: 23,612.30
- Cash on Hand: 34,931.57
- Carrolton Bank and small debtors: 542.33
- Total: 604,567.03

**Deficit**: 610,974.81

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Cf., CABL, Forstall to Baring Brothers, New Orleans, July 4, 1863; and "Statement of Affairs as of June 30, 1863" (English).
The second part of the report reflected somewhat the situation at the time:

In this state of things the Board of Liquidation passed a resolution ... on the 30th of June (1863) concerning protest on the annexes due on that day, so that interest thereupon may continue to run until paid.

For the government of the parties concerned, I endorse a list of stockholders of the Association, showing the annual average crops of Sugar of the country stockholders; I have no means of ascertaining with satisfactory accuracy the income from the properties of the city stockholders before the war, but it is well known here that it was very large.

You will perceive that to secure the payment of the annexes yet in circulation amounting to $548,000 the holders thereof hold mortgages and productive property in this city principally and in a few of our interior towns to an amount of $1,251,000

and on productive country property and the slaves thereon to an amount of 1,384,000

in total 2,638,000

At a low estimate the property thus mortgaged produced per annum, before the war, fully 1,000,000

Its condition this day is as follows:

Military necessities have destroyed the crops of last year and devastated all the sugar estates within the Federal Lines, completely disorganizing labor; and the work of destruction is going on—from affluence, the Planters named on the list of stockholders have been reduced, for the time being, with their large plantations to absolute poverty and their fine mansions and sugar works may at any moment be reduced into ashes as suggested by our only official paper.

Despite the fact that 1866 was to mark the end of the liquidation of the bank's obligations, the Consolidated Association was still faced with a bond and interest debt of

209 Ibid., July 4, 1863.
$647,702.40. What is more, the firm was insolvent to the extent of several thousand dollars; its liabilities exceeded the value of the available assets—$647,702.40 of liabilities, $609,109.48 of assets—a deficit of $38,592.92.

Another extension, therefore, was necessary. Another assessment on the stockholders was deemed essential. The State Legislature found it necessary to grant an extension not to exceed ten years and to provide for further contributions from the stockholders. The Act permitting another funding stated, "during the late war this institution and its stockholders ... suffered such heavy losses that a further delay must be granted for its final liquidation." The bonds outstanding, therefore, were allowed to be postponed on their maturity, provided the extension was on the same terms that already existed on the bonds. To assure the security on the bonds, the managers and directors had "to require all stockholders and debtors to furnish mortgages on property of sufficient value, and other undoubted security, in order to be able to redeem at the proper time the State bonds and coupons remaining due, and all interest arising from the extension of time." If the opinion of the Louisiana Superior Court is to be accepted, the cause of the prolonged liquidation period was not the War, despite the claims

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210 Ibid., Forstall to Consolidated Association, May 7, 1866.

211 La. Acts, 1866, No. 38, p. 66.
of the Legislature. The cause was mainly the diversion of funds from their purpose to squandering and riotous living. The funds that should have gone toward liquidation were diverted to the payment of unwarranted salaries to a board of officers—president, vice-president, cashier, directors, and the like. The fact remained, however, that the bank had to fulfill its obligations.

Assent from the bondholders was again required in order to extend the maturity date of the annexes, and the bank bonds and to capitalize the interest due and the interest coupons. The Board of Liquidation which was in charge of the Consolidated Association offered a plan to refund the bond annexes due in 1863 and 1866, to refund the bank bonds not yet paid, and to capitalize the interest by issuing new bank bonds as had been done in 1848.

On the basis of the proposal for refunding by the Consolidated Association, Baring Brothers issued a circular to the bondholders, viz.:  

Our Agent in New Orleans has had placed in his hands by the Board of Liquidation of the Consolidated Association of the Planters of Louisiana a statement of their Liabilities and Assets, and it shows a present deficit of $38,592.92. In view of the present prostrate condition of the

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35 La. Ann. 425. Consolidated Association vs. George Lord. For a verification, see the Books of Minutes. There were several arguments concerning salaries and expenses. The matter was taken to the Board of Liquidation and the Legislature. The salary affair was finally incorporated into law.
sugar interests in the State which cannot be
revived before a satisfactory reorganization of
labor is attained (which may take several years)
it is proposed to extend the period of redemption
of the $400 still unpaid on the original bond of
$1000.

The annexes due 30th June, 1863, amount to $265,600
" " " " " 1866, amount to 275,200

It is proposed to exchange these for the follow­
ing annexes to be divided into four equal instal­
ments:

1st Payable, 30th June 1870 .......... 135,200
2nd Payable, " " 1872 .............. 135,200
3rd Payable, " 1874 ............... 135,200
4th Payable, " 1876 .............. 135,200

(540,800)

To meet the interest on the Annexes due 30th
June 1863, say $265,600 at 5% for 3 years $39,840
Two years interest on $39,840 at 5% ....... 3,984
43,824.

the Board would issue annexes payable 30th June 1868,
with Interest Coupons at 5 per cent payable Annually
or semi-annually.

Should these proposals be favorably entertained
an agent will be sent to London to carry the same
into execution with authority to sign the Annexes
to be issued.213

The terms were accepted, and Adolph Schreber, a member
of the company of Edmund J. Forstall and Sons of New Orleans,
was sent to London as agent for the Consolidated Association.

He left in July and commenced in August to negotiate on the
exchange of annexes. Refunding, however, progressed slowly
and with difficulty.216 By the end of 1866, Mr. Schreber re­

213 CABM, May 11, 1866.
214 CABM, June 8, 1866.
215 CABL, Consolidated Association to A. Schreber,
July 12, 1866.
216 CABM, Schreber to Consolidated Association, London,
August 25, 1866.
ported that 775, or about half, of the bonds had been exchanged. Finally, in February of 1867, the exchange was completed and the agent returned to New Orleans.

Whatever might have been the expectation of the bondholders from the exchange made in 1866, their hopes were not fulfilled, because the years that followed were years of corruption and economic disorder. Taxes increased tremendously in Louisiana and the bonded indebtedness rose beyond the means of the State. The affairs of the Consolidated Association were terribly mismanaged.

In 1874 the Legislature passed a funding act to consolidate the bonds outstanding and the floating debt of the State. This law and its amendments baffled the courts, the people, the State, and the holders of bank bonds for several years. Did the State of Louisiana, through its funding law, repudiate the Louisiana bonds issued in favor of the Consolidated Association and in favor of the Citizens' Bank?

"From 1865 to 1877 Louisiana was governed by the carpetbaggers, whose rule was one of great extravagance." "Of all the reconstructed governments in the South, that of Louisiana was probably the worst." Vulgarity, bribery,

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217 Ibid., November 14, 1866.
218 Ibid., February 28, 1867.
220 S. A. Caldwell, op. cit., p. 103.
221 R. C. McGrane, op. cit., p. 313; and E. Lonn, Reconstruction in Louisiana, pp. 8, 28, 68, 77, and 88.
corruption, and extravagance were the vogue of the period, and always the State debt was mounting. To check these unwise and unbearable debts, therefore, the citizens organized and passed a constitutional amendment in 1869 to limit the State debt to $35,000,000. Nevertheless, the debt continued to mount.

By 1870 there were so many different kinds of bonds and other certificates of debt outstanding that the Legislature attempted to consolidate the debt somewhat. March 16, 1870, it passed "An act to provide for the payment or funding of the floating debt of the State, by the issue and sale or exchange of State bonds." To carry out the provisions of the funding, a Board of Liquidation (composed of the Governor, the Auditor of Public Accounts, and the President of the Citizens' Bank) was created; and it was to settle and redeem all floating debts of the State created by authority of law by selling or exchanging new bonds of $1,000 each, payable forty years from May, 1870, at the rate of six per cent per year, payable semianually. The bonds could be sold at not less than $72.00 in current money for each $100, and they were to be offered in New York, London, Paris, Hamburg, and Frankfurt. That funding act, and its amendment of 1871, however, failed to curb and consolidate the bonded indebtedness:

instead, it "created" a new debt.

Finally, the opposition to the growing debts was heard through an organized group of taxpayers. They formed a taxpayers association and presented a circular which stated that the limit specified by the Constitution had been exceeded and which warned all concerned that they, the taxpayers, would not pay taxes to discharge obligations in excess of the $25,000,000 constitutional limit. The weight of the circular persuaded the members of the Legislature to take cognizance of the debt situation and it evoked strong denials from certain officials.

Governor H. C. Warmoth in his annual message of January 1, 1872, branded the findings of the committee "wrong in principle and false in fact." He also voiced his opposition to the reports of the Auditor of Public Accounts which substantiated the findings of the taxpayers. "The State Auditor," he said, "persists in publishing to the world that our debt is $41,194,473.91, which he makes up by adding the actual debt of the State, which is $22,295,790.58, an amount which he calls a "contingent debt" of $18,898,683.33." Whether or not the constitutional limit was exceeded is difficult to ascertain. Nevertheless, the reports of the Auditor of Public Accounts partly substantiate the conten-
tions of the taxpayers. The debts reported, January, 1870, were:

<table>
<thead>
<tr>
<th>Liabilities for property banks</th>
<th>$4,858,933</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debts proper, in trust funds</td>
<td>868,195</td>
</tr>
<tr>
<td>Debts proper in bonds</td>
<td>16,848,685</td>
</tr>
<tr>
<td>Certificates of Indebtedness</td>
<td>33,815</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$22,589,625</strong></td>
</tr>
</tbody>
</table>

The debts reported in January, 1872, were:

| Debts proper in bonds          | $20,188,800 |
| Bonds loaned to various banks  | 6,579,683   |
| Miscellaneous debts            | 3,476,269   |
| Authorized for debts prior to 1871 (not issued) | **$11,439,000** |
| **Total**                     | **$41,733,752** |

The debts reported in January, 1873, were:

| Funded debt                   | $21,801,800.00 |
| Unfunded debt                 | 2,291,607.90   |
| Debt proper                   | **$24,093,407.90** |
| Contingent debt               | 5,483,602.47   |
| **Total**                     | **$29,577,010.37** |

There is no common basis upon which to compare the reports for the three years cited because each is different in grouping and the groups do not have the same inclusion of debts. The contingent debt reported in 1873 referred to the liabilities for banks; it did not include all contingent debts. The other contingent liabilities on the State's statute books as of January 1, 1873, were:

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226 Ibid., 1872.
227 Leg. Doc., 1873.
Balance of subscription of State in 1653 to railroads $2,108,000

Bonds of Mexican Gulf Canal Co. (Act No. 116, 1869). 120,000
N. O. Mobile and Chattanooga R.R. (Act No. 28, 1869) 2,075,000
N. O. Baton Rouge and Vicksburg R. R. (Act No. 145, 1869) 6,250,000
Charity Hospital of Shreveport (Act No. 149, 1869) 100,000
Miss. Valley Navigation Co. (Act No. 84, 1870). 100,000
Arkansas Delta R. R. Co. (Act No. 106, 1870) 375,000
Southeastern R. R. Co. (Act No. 28, 1871) 375,000
Miss. River Navigation Co. (Act No. 29, 1871) 250,000
To build a State house (Act No. 31, 1871) 1,500,000
Alexandria and Fulton R. R. Co. (Act No. 40, 1871) 1,875,000
Louisiana Warehouse Co. (Act No. 41, 1871) 1,500,000
N. O. and Northeastern R. R. Co. (Act No. 106, 1871) 1,212,500
Levee Company (Act No. 43, 1873) 1,000,000

Total contingent liabilities $21,090,500

Nevertheless, the Auditor was justified in not including these contingent liabilities because none of the bonds authorized by the above acts were issued and no liabilities had been incurred by the State under any of these acts.

In 1873 a new administration came into office and it was under pressure to take action on the debt question. William P. Kellogg, the new governor, was in favor of adjusting the debt situation and he appointed a Citizens' Committee

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of seven persons to investigate the State debt. This Board of Examiners rendered its report, December 25, 1873, and the Governor included it in his message of January 1874.

In substance the conclusions were:

1. That the contingent debt of the State amounted to $21,090,500 and that in some cases the laws which had authorized the contingent debt were void. Thus it was recommended that a law should be passed to remove all these laws from the statutes.

2. That the debts incurred in favor of the Citizens' Bank and the Consolidated Association amounted to $4,828,880.55. Nevertheless, it was believed that the State should not be called upon for this debt.

3. That the bonds outstanding amounted to $24,283,886.00, but that their market price was not more than fifty cents on the dollar, or about $12,000,000.

4. That, as soon as the entire debt was reduced to below $25,000,000 by an act to remove the void and lapsed contingent debt, the outstanding debt should be consolidated on the basis of the market price of the bonds, or $12,000,000.

The members of the Legislature which met in January, 1874, had been impressed by their constituents with the necessity of reducing the debts and the heavy tax burdens, but they hesitated to accept the recommendations of the Governor's Citizens' Committee. Instead they accepted the suggested proposals of the Secretary of State made in his report of 1873.

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229 Ibid., 1874, and Financial Chronicle, January 17, 1874.
231 The contingent debt was divided into two sections, the first of $15,003,000, the second of $6,087,500.
233 The above conclusions differ from those given by W. A. Scott. (Cf.: The Repudiation of State Debts (Boston: Thomas Y. Crowell, 1893), p. 111).
He had proposed the funding of the whole bonded and floating debt into forty-year consolidated bonds at the rate of sixty cents on the dollar. These debts, however, he figured, should first be scaled down to $25,000,000 as provided by constitutional amendment and then reduced to $15,000,000, above which they were not to be increased.

The funding act passed, January 24, 1874, was entitled "An act to provide for the funding obligations of the State by exchange of bonds; to provide for principal and interest of said bonds; to establish a board of liquidation; to authorize certain judicial proceedings against it; to define and punish violations of this act; to prohibit certain officers from diverting funds except as provided by law, and to punish violations therefor; to levy a continuing tax and provide a continuing appropriation for said bonds; to make a contract between the State and holders of said bonds; to prohibit injunctions in certain cases; to limit the indebtedness of the State and to limit State taxes; to annul certain grants of the State aid; to prohibit the modification, novation or extension of any contract heretofore made for the State aid; to provide for the receipt of certain warrants for certain taxes; and to repeal all conflicting laws." This Act No. 3 authorized the State to issue forty-year, seven per cent, "consolidated bonds," not exceeding $15,000,000, to be

exchanged by the Board of Liquidation at the rate of sixty cents in "consolidated bonds" for one dollar of valid obligations. Because of the chaotic state of affairs, and because of the numerous irregular and fraudulent bonds outstanding, this Board of Liquidation, charged with funding the bonds, was prohibited from issuing any bonds in exchange for any outstanding bonds or other obligations whose legality and validity might be questioned until their validity and legality was ascertained by a decree of the courts of Louisiana. The next year a supplementary act was passed which contained a list of bonds that were considered "questioned and doubtful" and it reversed the duty of the Board on these: "None in that list could be funded until the holders of them had obtained a final decree of ... (the Supreme Court) attesting them as in that act directed."

The funding act of 1874 avoided to state which part of the debt was considered illegal and it refrained from stating whether or not the debt exceeded the constitutional limit. Instead, it stated that the outstanding valid and legal bonds were to be converted into "consols" at sixty cents in the dollar with the limit of consols to be $15,000,000, an indirect and obscure way of saying that a debt in excess of $25,000,000 should not be considered in the funding. There-


fore, inasmuch as the debt proper was $24,093,407, consisting of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total bonded debt</td>
<td>$21,801,805.00</td>
</tr>
<tr>
<td>Floating debt:</td>
<td></td>
</tr>
<tr>
<td>Certificates of indebtedness</td>
<td>154,188.84</td>
</tr>
<tr>
<td>Auditors Warrants</td>
<td>1,987,499.06</td>
</tr>
<tr>
<td>Due fiscal agent</td>
<td>150,000.00</td>
</tr>
</tbody>
</table>

there arose in the minds of many the idea that the State was repudiating its debt incurred in aid of the Consolidated Association and the Citizens' Bank, and it took several years to settle that issue. 236

Objections from bondholders against the funding act of 1874 were numerous. The New York bondholders protested and cited proof of the State's ability to pay its debts in full. The London bondholders refused to accept the terms of the act and considered this act to be a means to confiscate forty percent of their bonds, principal and interest. 237

Immediately after the supplement to the funding act was passed, May 17, 1875, Mr. O. J. Forstall, representing holders of certain enumerated Consolidated Association Louisiana bonds, applied to the court for a mandamus to compel the funding of the bonds of the Board of Liquidation. He alleged that the Board had refused to fund the bonds as provided for by the Act of 1874, and he averred that the Act of 1875 was unconstitutional. The Supreme Court declared the act

236 There were many, also, who claimed that the State was repudiating part of its proper debt because it was redeeming its bonds on the basis of the market price of the bonds.

constitutional and defended the action of the Board of refusing to fund the bonds until declared valid. Then it formally declared those particular bonds valid and legal, and it restricted its statement by saying, "We desire to be distinctly understood that we are expressing no opinion on the validity of any bonds except those before us and in the hands of the relator."\(^{238}\)

When Lesassier and Binder presented Consolidated Association Louisiana bonds for refunding, the Board of Liquidation refused; it said:

We wish it distinctly understood that we do not deny the eventual liability of the State, in case the assets of the bank, and of the stockholders prove insufficient, after legal discussion according and in conformity to the full measure of the obligation contracted, and we fully recognize that the faith of the State is pledged to redeem all promises made and all liabilities incurred, but beyond this we hold that the State has no legitimate authority to extend her liabilities, and therefore we believe in this instance that the bondholders must look to the assets pledged to their reimbursement, see that they are properly and legally administered and applied, and should those prove inadequate, they, in the meantime, having pursued all their legal remedies, then apply to the State for the fulfillment and redemption of her promises.\(^{239}\)

Therefore, they took their case to court, and in 1878 the Supreme Court of Louisiana rendered a decision requiring, not only these bonds to be funded, but all Consolidated Associ-
tian Louisiana bonds. It said that the bonds were legal obligations of the State issued for a valid consideration and within the legal limit.

Dissatisfaction with the Court's decision was great. Many thought that this debt ordered funded was illegal, unconstitutonal, and unwarranted. The dissatisfaction was unmincingly voiced by the press. The New Orleans Times expressed its views as follows:

The latest and queerest fact in regard to the involved, complicated and eternal Consolidated Planters' Association bonds is that the bondholders are proceeding to fund their bonds into State Consols. This is queer, but it is lawful. It is lawful because the Supreme Court so declared the other day. It decided that the State having gone the security of a private bank for certain bonds, and that the bank, having failed to pay them when due (although it was and is abundantly able to do), the State, as security, is responsible and must pay them. These bondholders were not authorized by the Sovereign State to sue it, but they accomplished the same object by a mandamus to compel the Funding Board to fund their bonds into State consols.... This is lawful; not because it is comprehensible, but because it is the Supreme Court that holds a mandamus....to compel the funding board to issue bonds for other people's debts, for which the state is not equivalent to suing the State in law, although it is equivalent in fact.

So much for the law. Now for the queerness. It is queer that these bondholders should avail themselves of this right to fund their bonds simply because they can do so much better, unless there is an enormous lie out of somewhere and an undeveloped swindle lurking behind it. A $1,000 Consolidated Planters' Association Bond funded into a State con­sol at sixty cents on the dollar and that sold on

the street at 75 cents will yield precisely $450.
But if good mortgages on good plantations which
secure the bond were foreclosed and sold out,
the bondholders would get its face value of
$1,000 and costs of a suit besides. Why do short
financiers prefer $450 to $1,000? This is queer.241

The press and the people thought it "queer" that the
bondholders should want to exchange their thousand dollar
Consolidated Association Louisiana bonds for six hundred dol­
lars of consolidated bonds, but it was not queer or strange.
The amount of interest collected on the one thousand dollar
bonds was fifty dollars. The amount of interest on the six
hundred dollars of consolidated bonds was forty-two dollars.
Such a difference in interest return was not great. Furth­
ermore, the Association bonds were quoted on the market at as
low as forty or fifty; their security was the assets of an in­
solvent bank in the process of a prolonged liquidation and
under receivership, with a State pledge which was questioned;
and they had been issued many years previous and had been
extended several times. The consolidated bonds, on the other
hand, had not yet depreciated; they were outright and un­
questioned obligations of the State; and they were new bonds
with period of forty years before maturity. Naturally, the
preference was for "consols."

Some of the bondholders, however, wanted the State to
pay or assume the Association bond debt on the basis of the

241 New Orleans Times, April 20, 1878.
face value, one thousand dollars. In 1883, the Court reaffirmed the decision of 1878, and the law of 1877, reaffirming the funding law of 1874, and it settled the issue on the conversion as provided in the funding act of 1874.

Not only was the funding act of 1874 responsible for the confusion of the legality and validity of the Consolidated Association Louisiana bonds, but because of the uncertainty of the act the management of the concern became uncertain, chaotic, and confused. The extension law of 1866 specified that the bonds could be extended for ten years and no more. When 1876 came it was the end of the extension and the bonds were due. No law was passed to further extend the bonds because of the funding act of 1874, and the legality of the obligations was still unsettled. The way was open, therefore, for someone to take advantage of the situation. June 17, 1876, "One Charles Nathan, a bondholder (acting, as is charged, at the instigation of B. Flanders (Pres.)) hunted up the record of the old suit for forfeiture of the bank, which had been instituted in 1842,..." He had it transferred to the Superior District Court and he filed a petition of intervention in the affairs of the bank. He alleged that the term of liquidation

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243 La. Acts, 1877, No. 58, pp. 77-84.
244 Leg. Doc., 1877, "Report of the President of the Board of Liquidation."
was expiring and that there was no new provision of law for its future management and liquidation. He, therefore, asked that a receiver be appointed.

This proceeding was purely ex parte; nobody was notified or asked to be notified. It was taken in an extinct suit, in which judgment had been rendered thirty-four years previously, which judgment had received full execution, and the power of the court over it was entirely exhausted.

Mr. B. F. Flanders was appointed receiver and was authorized to take immediate possession of all the books, assets, and affairs of the corporation. Mr. Flanders as President of the Board of Directors of the Consolidated Association accepted the order of the court, dissolved his board, abandoned his office as president, and turned the affairs over to himself as receiver.

Subsequently, Mr. Max Grebner, a foreign bondholder, considered Mr. Flanders' receivership position illegal and he started proceedings in the United States Circuit Court to oust Mr. Flanders as receiver. He asked for the appointment of a new receiver. The strange thing, however, was that Mr. Grebner made Mr. Flanders, receiver, a party with himself and Mr. Flanders as president of the Consolidated Association the other party.

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245 Ibid.; 7940 United States District Court, Max Grebner vs. B.Y. Flanders.
246 Leg. Doc., 1877, op. cit.
247 Ibid.
248 Ibid.
These two men obtained a subpoena directed to the Consolidated Association of the Planters of Louisiana, through its president, Mr. Flanders. That was the only notification the corporation and its stockholders received of a court action. Moreover, Mr. Forstall had resigned his presidency when he had accepted the position of receiver.

When the case appeared in court the contest centered between Flanders who was attempting to retain his own receivership and Grebner who was demanding the appointment of a new receiver. Because of the improper management of the bank, the Circuit Court ordered the control of the liquidation to be placed under the District Court. Then, to solve the contest between the two men, it appointed Mr. Flanders and Mr. Allain Eustis, who was Mr. Grebner's choice, joint receivers.

The State, which had an interest in the bank, was never consulted or made a party in the court proceedings. Mr. H. R. Steele, Assistant Attorney General, filed a petition of intervention in the name of the State in which he waived the rights of the State and asked for the appointment of a receiver. The court accepted his request by appointing Mr. Wiltz the third receiver. The two other receivers accepted the appointment and stated in their minutes "... by the appointment of Lieut. Governor Wiltz as one of the Receivers of the Association, we recognize the intention of the Court.
to have the State fairly represented in the administration of the affairs of the Association."\textsuperscript{251}

Meanwhile the stockholders of the Consolidated Association were called together for the purpose of electing their three representatives on a new Board of Directors. The directors of the corporation then started judicial proceedings and demanded that the receivers be vacated and that the affairs of the company be returned to the proper liquidators.\textsuperscript{252}

The State, on its part, also moved for a vacation of receivership.\textsuperscript{253} Messrs. Baring Brothers of London, however, opposed the State's action and, through their representative, Forstall and Sons, sent a protest to the Honorable E. P. Billings of the District Court, asking that the receivership be maintained.\textsuperscript{254}

The receivers, Messrs. Flanders, Eustis, and Wiltz, constituted themselves as a Board in December, 1877. They moved and voted to meet once a month to take care of the financial affairs of the bank, and they ordered the ordinary and daily business to proceed in the same manner as heretofore. Their major change was to select the State National Bank as a depository for the funds of the Association, in-

\textsuperscript{251} CABM, December 26, 1877.
\textsuperscript{252} \textit{Leg. Doc.}, 1877, \textit{op. cit.}, and CABM, March 3, 1880.
\textsuperscript{253} S014 United States District Court, The State of Louisiana vs. E. F. Flanders.
\textsuperscript{254} Protest of Edmund Forstall and Sons to the Hon. E. P. Billings, United States District Court, November 29, 1877.
stead of the Louisiana National Bank, which had been selected by the previous administrators in May, 1877.

According to their report of April 8, 1878, the receivers stated the Association's debt on bonds and accrued interest was $559,341. Against this liability they claimed that the firm had $16,516.14 of good bills receivable, $25,134.67 of worthless receivables, and some improved and unimproved property. Furthermore, they claimed that there was $30,324.30 which should be forthcoming from the stockholders to help liquidate the obligations, $13,182 in contributions not yet paid, and $17,142.30 in accrued interest on these past-due contributions.

What assets the bank had and what contributions were still due, however, were deemed insufficient to meet the claims against the corporation. The receivers, therefore, suggested that another assessment be levied on the stocks to complete the full and final liquidation of the affairs of the Association. A further suggestion was that all of the properties held by the bank be sold at once: improved property for one-half in cash and one-half in notes to mature in 1, 2, and 3 years, and with interest at 8 per cent; unimproved real estate at one-fourth in cash and the remainder in notes; doubtful notes held by the bank at the best price possible; and the good bills deemed desirable to discount at the regular rate.

255 CABM, December 26, 1877.
256 Ibid., April 8, 1878.
257 Ibid.
Before action could be taken on the suggestion, however, it had to be presented to the Court which had control over the receivership. Mr. J. W. Gurley, Master in Chancery, appointed by the Fifth Circuit Court of Louisiana for the United States District Court, reported to the Court on April 17, 1878, that he had considered the suggestions made by the receivers and he was of the opinion that it was advisable to sell the improved and unimproved properties, except that the interest be 5 per cent on the notes accepted instead of 8 per cent as suggested.

The Master in Chancery was of a different opinion on the sale of bills receivable. In his way of thinking, the doubtful bills had long since been placed in the hands of attorneys for collection, and, therefore, were not in the bank's possession; nor was the bank aware of what steps, if any, had been taken to secure their collection. Owing to the uncertainty as to the whereabouts and status of the bills, he recommended that action regarding the doubtful or worthless notes be postponed until they were returned to the bank, or more exact information on them had been secured. The good bills receivable, he thought, were secured by mortgage and were bearing interest. He saw no reason for converting them by discount into non-interest-bearing funds.

It is evident from the suggestions rendered by the

258Ibid., April 17, 1878.
receivers, that they were attempting to liquidate the assets of the bank in such a manner as to reimburse themselves on their claims as quickly as possible. Little consideration was given to the claims of others. For that reason, therefore, others who had claims filed intervention claims against the receivers. These complaints asked for judgment by preference against the said receivers on bonds of the State issued for and in favor of the association and on bonds proper of the bank when it assumed the interest coupons due on the State bonds above mentioned. What ensued was a struggle by the various interested parties to gain control of the assets of the bank. Among the groups were: the State, the agents of Baring Brothers, and the stockholders.

The State, not being successful in forcing the Court to order a vacation of receivership and to restore the affairs of the bank to proper liquidators by judicial proceedings, decided to enact a law to accomplish its aims. Act No. 20 of March 30, 1878, ordered:

That the honorable judges of the Circuit Court of the United States for this district and circuit be and they are hereby respectfully requested to cancel and rescind the orders appointing receivers for this corporation, and to restore its assets and affairs to the control and possession of the president and directors, as at present organized under the Act No. 113 of 1853, which is declared to continue in force, ...

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259 Ibid., June 6, 1878.
260 Cf., Ibid., July 5, 1878, March 12, and April 15, 1879.
Further it ordered:

That said president and directors be and are hereby directed to take such legal proceedings as may be necessary to procure the rescinding of all orders of court, appointing receivers for this corporation, and to recover possession and control of its assets and affairs. 261

After the law was passed, the Court continued to maintain a state of receivership for the Consolidated Association, and Mr. Huntington and others, holders of Association bonds, intervened and appealed the Max Grebner case to the Supreme Court of the United States. Apparently, however, all parties concerned were uncertain of their grounds; after April 15, 1879, the Books of Minutes contain no further records of the three appointed receivers; the Circuit Court appointed Mr. John Calhoun, who was acceptable to the Directors of the Association, receiver pro tem.; and the Directors and President of the Consolidated Association pleaded with Huntington and others to discontinue the Supreme Court appeal. 262

While the Act of 1878 ordered the President and Directors of the Consolidated Association, who had been duly elected and appointed in July, 1877, to take proper measures to obtain control of the affairs of the corporation, they did not take action until March, 1880. It was not until July that they secured possession of the books, assets, and the affairs

261 1378, No. 20, pp. 254-257.
262 CAEM, June 5, 1880, "Report of the President of the Board of Directors."
Act No. 20 of 1878 did not limit itself to an order that the Consolidated Association be returned to the proper liquidators. It provided, also, for the redemption of bonds and for assessments to redeem the bonds. These provisions were to be applied irrespective of the Court's decision on the convertability of the Association bonds into consolidated bonds.

In case it was decided by the Supreme Court that the State bonds issued in favor of this corporation were legal and valid obligations and fundable, it was to be the duty of the Board of Liquidation to preserve these canceled certificates and to turn them to the Auditor of Public Accounts. Then, the Auditor was to open an account upon his books with the Consolidated Association, which would be charged with the amount of consolidated bonds exchanged for the Association bonds and interest thereon.

The President and the Directors of the Consolidated Association were to convert their assets as speedily as possible and invest the funds in consolidated bonds. If there were sufficient funds realized to purchase consolidated bonds in an amount sufficient to cancel their credit with the Auditor, they were to assess the stockholders with yearly contributions to make for the difference.

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Ibid., March 3, 1880, July 2, 1880.
If the stockholders failed to pay the assessment punctually, they were to forfeit the privilege of delay on their mortgage loans and would be forced to pay the entire loan immediately, or else court action would be taken to force payment.

In the case it was decided by the Court that the bonds were not fundable, the liquidation was to take form in the same manner, except that the funds of the Association would be invested in outstanding bonds of the State, instead of consolidated bonds. 264

For the purpose of attaining the amount of contributions needed from the stockholders, a statement of the condition of the bank was asked. The following is what the directors presented:

**Assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>$30,000</td>
</tr>
<tr>
<td>Cash</td>
<td>$12,000</td>
</tr>
<tr>
<td>Mortgages unmatured</td>
<td>$5,333</td>
</tr>
<tr>
<td>Mortgages matured</td>
<td>$1,900</td>
</tr>
<tr>
<td>Outstanding Claims</td>
<td>$2,000</td>
</tr>
<tr>
<td>Loans on Stock</td>
<td>$30,000</td>
</tr>
<tr>
<td>Unpaid contributions</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

**Estimated value of Assets** $90,233

**Value of Mortgage Property for Stocks:**

<table>
<thead>
<tr>
<th>Location</th>
<th>Shares</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of New Orleans</td>
<td>1,415</td>
<td>$235,000</td>
</tr>
<tr>
<td>Outside of New Orleans</td>
<td>247</td>
<td>$600,000</td>
</tr>
</tbody>
</table>

**Estimated value** $835,000

No shares 3686
No of Stockholders 87

264 *L. Acts, 1878, op. cit.*
Liabilities

Bonds $460,550
Interest due 51,156
Total liabilities 511,706

The estimate of assessment drawn by the directors was

as follows:

Bonds outstanding June 17, 1876 $460,550
Unpaid interest thereon 51,156
Conversion into consols at 60% 511,706 or $512,000

In so far as the instalments were to be for the years 1878,
1879, and 1880, three-tenths of $307,200 of consols if bought
in 1880 and turned over to the state at par will require cash,
purchasing bonds at 50%

Interest paid and to be paid on $307,200 184,496
170,496

This sum divided by 3886 shares equal $43.87/28 per
share.

Thus they calculated that on the basis of $45 per
share, only $5 per share would be required for 1881, $4.90
for 1882, and so on until 1887 when $4.16 would cancel all
debts on consols. (The New Orleans Weekly Observer stated
that $40 was the amount of the assessment.)

Apparently, however, the assessment figured was not
large enough. The Legislature, in 1882, passed another act to
further assess the stockholders. This time, the law stated

263 CAEM, July 3, 1880.
266 CAEM, Ibid.
that the stockholders could fully settle their obligations as stockholders. 268

Again the Board of Liquidation devised an estimate of assessment. The calculated contribution was to be $150, including, of course, the $40-45 levied in 1880. The contribution, however, was not to be in cash inclusively. The Board declared that it was prepared "to settle the debt of the stockholders on payment of said assessment of $150 on each share of which ninety-one dollars seventy eight and a half cents per share may be paid in bonds of the state issued under the funding act of 1874 and fifty-eight dollars twenty-one and a half cents per share is payable in cash at the Institution's office, 56 Toulouse Street." 269

The stockholders protested against the assessment. They refused to vote on any measure or to take any part in the election of directors. They organized to take the assessment matter to the Courts. 270

The Supreme Court of Louisiana tried the cases pertaining to the legality of the new assessment request. In November, 1882, it decided against the Consolidated Association in the George Lord case—a reversal of the decisions rendered in the lower court.

268 Louisiana Acts, 1882, No. 78.
270 Cf., CAME, November 16, 1881.
The Consolidated Association had sued George Josiait Lord for payment of contributions, both for the one levied in 1847 and the 1880-1882 assessment. Judgment was rendered in favor of the bank on both assessments by the Civil District Court. The Supreme Court, however, decided that Lord was liable for the 1847 assessment, but not for any following levy. In brief, the opinion of the latter court was that by paying the instalments levied under the Act of 1847, the stockholders were completely discharged; but in succeeding acts, the stockholders were not a party in the contractual agreement and could not be held liable for the assessments placed.

That decision took away a possible source of funds to the amount of $582,900. It left the bank with a meagre source of a few thousands of dollars in property and about $9,000 in uncollected contributions. For once, the directors and officers of the Consolidated Association were without revenue with which they could spend lavishly in high salaries and other dubious expenses. With the decision rendered, the officers lost interest in the bank, and the institution ceased to exist.

The fracas ended: since the State could not force additional assessments, and since the bonds were convertible, the State had to accept and make good the deficiency. The Consolidated Association ended as it had started—a generous State

was there to act as a support, an air of conclusion was
there to sap away whatever possible, and a sense of false-
hood was there to distort all information possible.

It took forty years to liquidate a bank which was in
active existence by charter during fourteen years. Little
wonder, then, why the Consolidated Association is looked
upon with disdain.
CHAPTER IV

THE UNION BANK OF LOUISIANA

Plans for a second property bank, the Union Bank of Louisiana, were introduced when the Louisiana State Legislature convened in January, 1831. The Legislators, however, postponed action incorporating the institution until January, 1832.¹

The Union Bank was established along the same general principles as the Consolidated Association of the Planters of Louisiana which preceded it, except that the new firm had broader powers. While the Consolidated Association was permitted to accept mortgages only on agricultural properties, the Union Bank was granted the option of accepting mortgages on any sort of tangible property.² To quote Henry Rightor:

The Planters' Bank (sic) would take none but Plantation property; the Union Bank included city as well as country real estate, houses and lots, as well as plantations—in fine, any kind of real property, not even excluding negro slaves, at that time one of the most valuable assets in Louisiana.

¹House Jour., 1831, p. 120.
²R. C. McGrane, op. cit., p. 170.
³H. Rightor, op. cit., p. 592. By Planters' Bank was meant the Consolidated Association of the Planters of Louisiana.
The purpose of the new concern was to foster agricultural development; it was designed to help buy real estate and to make improvements needed thereon. Like the Consolidated Association, the theory behind the organization was that:

... Agricultural productivity would be increased by making it possible for borrowers to obtain credit on easy terms. As their lands were rendered more productive it would in turn become easier for them to meet the interest payments.

Unlike the Consolidated Association, however, the Union Bank proved to be quite prosperous and successful, especially during the first four or five years of its existence. The institution was known throughout much of the nation, the new West in particular. For that reason, perhaps, often goes to it the honor of being the first property bank; though it was not actually the first, there is no doubt that it did serve as a model for similar institutions organized in Mississippi, Arkansas, the Florida Territory, and in other Southern States.

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5 R. Rightor, op. cit., p. 593.
Organization of the Union Bank

The Union Bank was incorporated April 2, 1832, for a period of twenty-five years and was authorized with a bond capital of $7,000,000. The bond capital was secured by $8,000,000 of mortgages obtained from the subscribers in payment for the bank's $8,000,000 of stocks, which were divided into shares of $100 each. The stockholders were to be citizens of Louisiana and owners of revenue-producing properties, and they could subscribe to the extent of the appraised value of the property less double the amount of any encumbrance on it.

The problem of the sale of stocks for this concern was recognized as not being a simple matter. Subscription books were to be opened and kept open for five months, after which time they were to be closed for a year if the total amount of stocks was not subscribed to, though they were to be closed permanently if the subscription maximum was to be reached. Immediately after the five-months' period the directors were charged with evaluating the subscriptions; if there were properties deemed insufficient for mortgage, those subscribers were to be rejected; and if the total of subscriptions exceeded $8,000,000, the officers were to reduce the amount of each subscription in such a manner as not to alter the

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status of the subscriber in relation to the total. 9

To make certain that stocks not be held by anyone outside of Louisiana, the law, besides specifying that the subscribers be none but Louisianians, further provided that the stocks could not be transferred until after four years, when they were to become transferable to any owner of real estate in the State. 10

The legislators, having witnessed the difficulty encountered with the initial attempt of the Consolidated Association to sell its own bonds, were not willing to see the Union Bank make a similar futile attempt; immediately they pledged the faith of the State for the reimbursement of the bonds and for the payment of the interest thereon. Another condition which they remedied—a definite weakness with the Consolidated Association State bonds—was that of the maturity dates on the bonds. The Union Bank State bonds extended from twelve to twenty years: 1,750 bonds were payable in twelve years; 1,750, in fifteen years; 1,750, in eighteen years; 1,750, in twenty years. The bonds, otherwise, were very similar to those of the Consolidated Association. They were of $1,000 denomination with the interest at five per cent, payable semiannually; and, according to the Act, the bonds were to be in the following words:

9Subscription books were opened in Thibodeauxville, Plaquemine, Covington, Natchitoches, Marksville, Vermillionville, St. Martinville, and Clinton.
10La, Acts, 1832, sec. 4.
"One Thousand Dollars"

Know all men by these presents, that the state of Louisiana acknowledges to be indebted to the Union Bank of Louisiana, in the sum of one thousand dollars; which sum the said state of Louisiana promises to pay in current money of the United States to the order of the said President, Directors and Company, on the _______ in the year _______ with interest at the rate of five per cent. per annum, payable half yearly, at the place named in the endorsement hereto, viz.: on the _______ of every year, until the payment of said principal sum.

In testimony whereof, the governor of the state of Louisiana has signed and the treasurer of the state has countersigned these presents, and caused the seal of the state to be affixed thereto, at New Orleans, this _______ in the year of our Lord _______.

(signed) _________ Governor

(countersigned) _________ Treasurer

For the privileges granted and for the pledge given on bonds the State demanded one sixth of the profits. The only other request was that the State be entitled to a credit of five hundred thousand dollars, and for this credit notes or obligations for such sums as might be required were to be furnished, and, further, the State was to pay the usual annual interest in advance. 12

Profits, if and when realized, were not to be declared as dividends at the will of the directors. Neither were they to be held by the bank until the expiration of the bonded debts. All profits realized were to be retained as part of

11Ibid., sec. 5.
12Ibid., sec. 17 and 31.
working capital until the first series of bonds was redeemed, and at that time one fourth of the net profits was to be apportioned to the stockholders in proportion to their holdings. The remaining three fourths plus subsequent profits were to be retained again as working capital until the second series was redeemed, when another one fourth of the net profit could be apportioned. This procedure was to be followed until all bonds were redeemed, after which time dividends could be declared annually.13

Branches of the Union Bank were to be established in eight strategic centers in order to serve the entire State: the Thibodeauxville, Clinton, and Plaquemine branches were to have a capital of two hundred and fifty thousand dollars each; Covington and Marksville, two hundred and twenty-five thousand dollars each; and Vermillionville, St. Martinville, and Hatchitoches, two hundred thousand dollars each—a total capital of $1,600,000 for the eight branches.14

Negotiations with Baring Brothers and Prime, Ward, King and Company

Baring Brothers and Company of London heard about the proposed organization of the Union Bank during the latter months of 1831, prior to the reintroduction in the Legislature of the bill to incorporate the bank. Alexander Gordon and Edmund Forstall and Company of New Orleans wrote to the

13 Ibid., section 17.
14 Ibid., section 54.
London firm for advice concerning the form of bonds to be issued. The suggestion offered by Baring Brothers was that provision giving holders of bonds the option of receiving interest payment either in New York or in London should be substituted instead of in New Orleans, as was proposed. Such a provision, they thought, would improve the marketability of the bonds.

When first approached for the purchase of the bonds, the London banking house indicated an attitude of indifference toward the loan. Baring Brothers stated that if the proposed Union Bank expected a favorable price on their bonds, they might be disappointed: the bank would be unknown in England, there was already a large amount of Louisiana bonds on the London market, such a large, new issue of securities would certainly depress the market, and, furthermore, it would require at least three years to sell the entire amount. They could not afford to tie up so much capital for that length of time.

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15 Much of the information and ideas herein included was taken from Mr. R. W. Hidy's paper, "The Union Bank of Louisiana Loan, 1832: A Case Study in Marketing," printed in the Journal of Political Economy, Vol. XLVII, No. 2, April, 1939, pp. 232-253. The material for Mr. Hidy's study was derived principally from the business correspondence of Baring Brothers and Company now deposited in the Public Archives of Canada, Ottawa.

Furthermore, they expected the political situation in Europe to become settled soon, which would mean a resumption of activity in European stocks and would "offer more encouragement to speculators than those of the United States."\(^{17}\)

Irrespective of the attitude of Baring Brothers toward the prospective large issue of new bonds, the officials of the Union Bank proceeded with their grandiose plans. On May 31, 1832, Mr. Edmund J. Forstall proposed at a meeting of directors "that a committee of three members be named to take into consideration the negotiation of the bonds to be issued by the State in favor of this Bank."\(^{18}\) The committee was appointed and it rendered its report, a most interesting document. Mr. Forstall, spokesman for the committee, submitted a bond market analysis which was a complete denial of the contentions of Baring Brothers. His report stated:

That a more favorable moment than the present, for the disposal of American stocks in England, has perhaps never offered itself; that large portions of the public debt of the United States are in the course of being paid off; that the first series of the Association bonds become redeemable early next year, and of the Louisiana bonds the following year; that the holders have only the alternative of letting their money be idle, or of buying into the British funds, which are barely yielding 3 1/2 pr. ct. per annum, or in the funds of some of the continental

\(^{17}\text{Ibid., p. 235; cf. citation: Baring Papers; Letter Book, Baring Brothers to Mollwaine (cashier of Bank of the United States at Philadelphia), April 21, 1832.}\)

\(^{18}\text{UBJC, Extract of Minutes, May 31, 1832, p. 2.}\)
powers, all of which are considered more or less precarious, whilst just the contrary is the case with the public funds of America, whether created by particular States or by the General Government; that the United States are considered as entirely removed from the vortex of European politics, and their political situation is looked upon as far more safe than that of any nation in Europe, while the notorious prosperity of the country joined to the undeviating exactitude with which the public obligations have been fulfilled, has justly given the utmost confidence to the holders of the different American Stocks.—That many of the menial men in England look with considerable alarm on the present state of matters in that country, as regards its large public debt, and appear desirous to remove a portion of their means from the British funds, yielding 3 1/2 pr. ct. to those of the United States yielding 5 pr. ct. per annum.—That as regards the State of Louisiana, its wealth and great resources begin to be known and appreciated in England, and there can be no doubt that if the 7,000,000 of bonds to be issued in favor of the Union Bank, be now offered in the London market, they will be readily taken, particularly if the nature of the institution be explained, and the public be made to comprehend that the State will hold the most perfect security for the reimbursement of the whole amount. The advantages which will arise to the State of Louisiana from the addition of 7 to 8 millions of effective capital, at a moderate rate of interest, are too obvious to require much illustration, especially the enormous difference which results between selling Bank stock to foreigners and paying to them dividends of 8 1/2 to 9 pr. ct. premium and borrowing money from them at a fixed interest of 5 pr. cent.19

It was recommended by the committee that commissioners proceed to Philadelphia and New York in order to negotiate with American houses dealing in stocks. If they failed to make a sale in the United States, one or more of the commissioners were to go to London to ascertain the best price that could be had in London, Paris, and Amsterdam. It was suggested that if a

19 Ibid.
sale could be made of the entire $7,000,000 of bonds, it
would be permissible, even advantageous, to sell at a sacri-
ifice of one half of one per cent. If the sale proceeded more
slowly, it was thought that it would be better to retain a
portion of the bonds--three or four millions--to be sold on
a consignment basis, that is, on account of the bank or in ad-
vance. Warning, however, was given to the commissioners about
the arguments they might receive against such a large issue of
bonds; the committee remarked: "... they must expect, in the
first instance to be met with a declaration that the State of
Louisiana is emitting too many Bonds, and that as soon as
these are placed, there may be an emission of as many more."
To this the committee suggested:

The reply to this is to be able to shew the
wealth and resources of the State, and the super-
abundant security the State has for every dollar
for which it is bound; it may also be brought into
consideration, that the sums for which the State of
Louisiana emits Bonds are not sunk in Canals or
other public works which, although they may yield
the interest, can never repay the principal, but
for operations in money, payable, to a mortal cer-
tainty, by a particular day and that so far from the
State running any risk, it derives large sums annu-
ally, from the facilities which it has given to the
monied institutions of the State--and that so long
as the State requires such complete security for
every Bond issued, no extra issue of such paper
can be apprehended.20

20 Ibid., p. 3. It was also the belief of the legisla-
tors at the time. They felt that the State could not issue too
many bonds as long as they were doubly secured by property.
Furthermore, there would be always sufficient revenue to meet
the obligations on the bonds, if the bonds were used to serve
as a source of money and credit. In England, on the other hand,
a bank which had to borrow was considered unsound and insolvent.
The capitalists were not prompt to understand the American sys-
tem and often they were reluctant to invest in bank bonds.
In payment for their services the commissioners were to receive one half of one per cent on all sales in Europe, one quarter of one per cent on all sales in the United States, five thousand dollars each in the event of failure to effect a sale, and one per cent on all sums above the limits specified. 21

The instructions regarding the terms that would be acceptable to the bank were broad. The commissioners were empowered to receive offers and to contract for sale of the bonds on any of the following conditions:

1. Principal redeemable and interest payable in New Orleans; proceeds receivable in New Orleans at the time the bonds were delivered.

2. Principal redeemable in New Orleans, interest payable in New York; proceeds receivable at either place as bonds were delivered.

3. Principal redeemable and interest payable in New York; proceeds receivable at either New Orleans or New York.

4. Principal redeemable in New Orleans and interest payable in London at four shillings and six pence (4s-6d); proceeds receivable in New Orleans as bonds were delivered.

5. Principal redeemable and interest payable in London at 4s-6d; proceeds receivable in New Orleans.

6. Principal redeemable and interest payable in London at 4s-6d; proceeds receivable in London at 4s-6d as the bonds were delivered there.

7. Principal redeemable at 4s-3d and interest payable at 4s-6d in London; proceeds receivable in New Orleans as the bonds were delivered.

21 Ibid., p. 4. Extract of Minutes, June 27, 1832.
8. **Principal redeemable at 4s-3d and interest payable at 4s-6d in London; proceeds receivable in London at 4s-6d.**

If the proceeds were to be received in the United States, they were to be paid to the Bank of the United States or its branches, and the bonds were to be delivered through the said bank or its branches. If the proceeds, on the other hand, were to be received in Europe, such proceeds were to be paid to the Bank of England or the Bank of Liverpool and the bonds were to be delivered through the said banks.

The commissioners could negotiate the entire amount or part of it according to any of the eight plans, subject to the following conditions:

1. **If the interest were made payable and the capital receivable in the United States, the bonds were not to be sold at a premium below one per cent, i.e., not less than $70,000 on the whole.**

2. **If the bonds were made redeemable in New Orleans and the interest payable in London at 4s-6d with the proceeds to be received in New Orleans, the premium was to be at or above three hundred sixty-seven thousand five hundred dollars ($367,500).**

3. **If the principal were made redeemable and the interest payable in London at 4s-6d with the proceeds receivable in New Orleans, the premium was to be at or above five hundred forty-four thousand dollars ($544,000).**

4. **If the principal were made redeemable and the interest payable in London with the proceeds also receivable in New Orleans, the premium was to be at or above one hundred twenty-four thousand five hundred dollars ($124,500).**

5. **If the principal were made redeemable in London at 4s-3d and the interest payable in London at 4s-6d, with the proceeds receivable in New Orleans, the premium was to be at or above four hundred twenty-two thousand five hundred dollars ($422,500).**
6. If the principal were made redeemable in London at 4s-5d and the interest payable in London at 4s-6d, with the proceeds receivable in London, the bonds were to sell at or above par.

Messes S. Jaudon and Edmund J. Forstall were appointed commissioners, and with the instructions given them they proceeded to Philadelphia and New York. In Philadelphia they contacted, among others, Mr. Biddle, president, and Mr. W. McIlvaine, cashier of the second Bank of the United States at Philadelphia, and in New York they saw Mr. Thomas Wren Ward, resident agent of Baring Brothers and an associate of Prime, Ward, King and Company. It was through Mr. Ward, however, that most of the negotiations took form. This gentleman first tried to interest Baring Brothers, "in conjunction with Prime, Ward, King and Company, in a loan to the extent of £3,500,000, at a price not above £22.10 per £100." Later this price offer was raised to $113, provided the redemption was at 4s-6d on

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22 Ibid., pp. 4-5.
the dollar, or at $110 if the redemption was at 4s-3d.

During the early stages of the negotiations, Baring Brothers stated that their house was ready to purchase $3,500,000-worth of bonds, provided, however, that the re-

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Ibid. These figures cited by Mr. Hidy were obtained from the Miscellaneous Correspondence of Baring Brothers, Cowan and Mark (London bond brokers) to Baring Brothers, June 26 and July 21, 1832, and also from Baring Brothers Letter Book, June 14 and 15, 1832.

In order that the reader be not confused by the above-mentioned rate of exchange, it should be stated that the above-cited figures are twisted purposely in order to mislead. Viewed with a superficial glance, it appears that Baring Brothers preferred bonds on the basis of the current rate of exchange over bonds at the legal fiction of par, that is, that they preferred bonds at 4s-6d to bonds at 4s-3d. Since the Americans were in favor of an exchange at 4s-6d, it gave the appearance that the figures quoted by Baring Brothers were to the advantage of the American house. Such was not the case, however. What Baring Brothers meant was that they would give more for bonds if these bonds were redeemed by giving Baring Brothers 4s-6d for each one dollar of debt, instead of 4s-3d. From the American point of view, paying a debt at 4s-6d is equivalent to a rate of exchange at 4s-3d. All this is confusing, but it is necessary to keep it in mind when studying international money.

For those who might have forgotten the previous analysis on the rate of exchange, it is repeated. On the basis of market conditions, an American dollar could get 4s-6d of English money. On the basis of the law defining the metallic content of the dollar (and this was before 1854), the American dollar was equivalent to 4s-3d of English money. Thus when the British had to pay English money for American dollar values, they preferred the rate of 4s-3d. When they received English money in terms of American dollars, they preferred to receive 4s-6d. When an American receives 4s-6d for his dollar, he says that the rate of exchange is 4s-6d. When the American pays 4s-6d for a dollar of obligation, he says that the rate of exchange is 4s-3d in favor of England, or in terms of American money the dollar is worth 94 cents in exchange. With the British, when they paid 4s-6d for an American dollar, it meant that they were getting in terms of legally defined American money only the equivalent, in metallic content, of 4s-3d in terms of the legal metallic content of the pound sterling. When they paid 4s-3d, the British were getting a dollar which could buy 4s-6d.
SOI remainder was not placed on the English market before 1834, and provided further that they should have the option at that time to purchase the remainder at the same price they paid for the 3,500 bonds. If the terms did not meet the approval of the commissioners, Baring Brothers offered to accept 1,000 bonds immediately in order that the Union Bank might commence its operations. The bank would be given an immediate advance of $500,000 on half of the consignment and another $500,000 advance as soon as they gave the bank notice that the first lot of bonds had been sold. This procedure they could continue until the entire $7,000,000-worth of bonds was sold. 25

Realizing that the hope of receiving an offer outside of Baring Brothers through Mr. Ward was impossible, the Union Bank commissioners concluded their negotiations by signing a contract, August 14, 1832, which was in conformity with the proposal offered by Baring Brothers and Prime, Ward, King and Company. Needless to say, it was favorable to the parties purchasing the bonds, viz.:

Messrs. Baring Brothers and Co. of London, and Messrs. Prime, Ward, King and Co. of New York, each for the sum set opposite to their names hereby agree to purchase of the Union Bank of Louisiana—which also hereby agrees to sell to them—five and a half millions of dollars of the bonds of the state of Louisiana, to be issued in favor of said bank in equal series having (12) twelve, (15) fifteen, (18) eighteen, and (20) twenty years to run, payment for

25 Ibid., pp. 235-236. The information is from Baring Brothers Letter Book, Baring Brothers to Ward, June 15, 1832.
the same to be made on delivery, with (10) ten days notice at one hundred and six and one-fourteenth dollars ($106-1/14) for every one hundred dollars ($100) of bonds—to say on the first day of November next, one million dollars and the premium thereon—on the first day of December next, five hundred thousand dollars and the premium thereon—on the first day of January next, five hundred thousand dollars and the premium thereon, and the balance in equal sums per month, until the whole sum and the premium thereon be paid; with the privilege to the purchasers of receiving any amount of the bonds, at such time as they may call for them, giving thirty days notice, and on due payment therefor; such calls not to be made before the first of January next and all instalments to be paid within twelve months from the first payment. Payment to be made in New York, Philadelphia, and New Orleans, at the option of the purchasers, with one month's notice to the bank, if at New Orleans. The endorsement on the bonds shall specify that the principal is to be reimbursed at the counting house of Messrs. Baring Brothers and Co. London, at the rate of four shillings and three pence sterling (4-3) per dollar, and the interest be paid in London at the same place, at the rate of four shillings and six pence sterling (4-6) per dollar, and that in all other respects the bonds shall be made substantially to conform to those negotiated through Messrs. Baring Brothers and Co. for the Consolidated Association of the Planters of Louisiana; excepting that the interest shall be payable the first day of February and the first day of August, in each and every year. It is agreed that the commission of Messrs. Baring Brothers and Co. is to be half per cent. on the sterling amount of the dividends, and half per cent. on the amount of principal reimbursed. The remaining one and a half millions of bonds shall be consigned to Messrs. Baring Brothers and Co. for sale on account of the Union Bank of Louisiana—and Messrs. Baring Brothers and Co. shall not be obliged to offer them for sale, until the expiration of the year (1853) eighteen hundred thirty-three, at which time, or any time previously thereto, they shall have the option of taking them to their own account, paying for them on the terms herein before mentioned as paid for, the sum of five and a half millions of bonds, provided, that if not taken for their own account within six months from the first day of November next, Messrs. Baring Brothers and Co. will advance to the Union Bank of Louisiana five hundred thousand dollars, on or before the first day of June next, on the security of the above bonds—
and the further sum of five hundred thousand dollars at the expiration of the year (1833) eighteen hundred and thirty-three, and in case of the above advances being made, Messrs. Baring Brothers and Co. shall not be restricted as to the price for which they may sell the bonds for the purpose of their reimbursement, after making every effort in their power, to obtain such limits as the bank may think proper to fix. The commission of Messrs. Baring Brothers and Co. is to be two per cent. on the sterling amount of the sales. The Union Bank of Louisiana will endeavor to obtain from the proper authority, a renewal of such bonds as may be lost or destroyed by accident, upon satisfactory proof thereof and a guaranty against the re-appearance of the original bonds.  

Baring, Brothers and Co.—for thirty seven hundred thousand dollars  
Prime, Ward, King, and Co.—for eighteen hundred thousand dollars  

The Union Bank Commissioners did not immediately accept Baring Brothers' offer, however; therefore they continued to seek other purchasers in the United States, but they found the prospective buyers refusing to deal with them independently. Accordingly, they said in their letter in regard to the contract, "All the parties from whom we had expectations had united with Messrs. Prime, Ward, King and Co. and they with Mr. Thomas W. Ward." 

When they went to London they found a similar situation. All the investment houses there had agreed to unite with Baring Brothers and Baring Brothers with Mr. Thomas W. Ward. They could not even deal with Messrs. Thomas Wilson and Company.
of London, from whom they had hoped to receive a competitive bid.

To illustrate how the competitive bidding for the Union Bank's Louisiana State bonds had been eliminated, even before the contract with Baring Brothers was signed, Gowan and Marx of London, bond brokers, "had agreed to subscribe for 1,000 bonds at cost—500 for themselves, 400 for Thomas Biddle and Company of Philadelphia, 100 for G. Marx and Son of London." 28

The contract needs interpretation; some phases of it were left ambiguous—apparently that was intentional, too—and clarification is necessary. Of course, the most important phase is the matter of the par of exchange. That, however, has been explained in the previous chapter in the analysis of the Consolidated Association contract. The British investors held par to mean the value of American money as defined by the law of 1791—that legal fiction in which the American dollar was equivalent to 4 shillings 3 pence in British sterling—while the current market rate was higher. In other words, the American dollar was worth but ninety-four cents or so, and not one hundred cents; that was a loss which should be taken into consideration in the present analysis.

28 R. W. Hidy, op. cit., p. 239; cf., citation: Baring Brothers' Miscellaneous correspondence, George Marx to Joshua Bates, June 14, 1832; and Gowan & Marx to Baring Brothers, June 26, 1832.
There were two separate parts to the contract: one dealt with the outright sale of 6,500 bonds and the other with the consignment of the remaining 1,500 bonds. First, it was agreed that Baring Brothers purchase 3,700 bonds, and Prime, Ward, King and Company, 1,800 bonds, the rate to be $106 1/14 per $100 with the par of exchange at 4s. 3d, or what amounted to about 100 or 101 to the 100 in American terms. 29

Of these, 1,000 bonds were to be delivered November 1, 1832, 500 on December 1, 500 on January 1, 1833, and the balance in equal sums per month until the whole sum and the premium thereon be paid. 30

Second, the remaining 1,500 bonds were to be consigned to Baring Brothers for sale at their terms. Baring Brothers, however, reserved the right to withhold this sale of consigned bonds until January, 1834, if they so desired. At that time, or previous thereto if deemed desirable, they could further reserve the option of purchasing the bonds at the same rate as for the first lot, with one per cent premium more if they did not decide to purchase the bonds prior to six months after November 1, 1832, that is, at 107 1/14 after April 1, 1833. If they did

29 That was a better price than that offered for the Consolidated Association Louisiana bonds; they sold under contract at 95 and 87 of par with par being 4s. 3d., or the equivalent of approximately 79 on the 100 in American terms.

30 It is clear that the balance was 3,500 bonds, but it is not clear what was meant by "equal sums." Obviously, that part was left to be interpreted as desired by Baring Brothers.
not agree to take the bonds, Baring Brothers specified that they advance $500,000 to the Union Bank on or before June 1, 1833, provided an equal amount of consigned bonds served as security for the loan. An additional sum on the same terms was to be granted January 1, 1834. After that time, the additional advances were to be granted only upon a notice that Baring Brothers had disposed of the previous bonds.

Under both phases of the contract Baring Brothers reserved for themselves the privilege of selling the Union Bank Louisiana bonds at whatever price they deemed advisable in order to protest and reimburse themselves. "After making every effort to obtain such limits as the bank may think proper to fix," they, of course, diplomatically inserted.

The Commissioners had the following to say to their principal, the officers of the Union Bank:

The powers which we held from the bank gave us the liberty of accepting this offer. It is the exact equivalent for a stock, paying interest and redeemable in the United States, at one per cent premium, agreeably to the calculations which were originally submitted to the Board of Directors, and which very fully covered all possible expenses. We could not but feel, therefore, very sensibly the responsibility which we should assume by rejecting this offer, and deciding to take the risk of effecting a negotiation at a better rate in Europe. Heavy, however, as this responsibility was, we had no wish to shrink from it. We had undertaken the negotiation, and we therefore conscientiously applied our best judgment, aided by much reflection and discussion to the decision of these questions:

1. Is the price offered, under all circumstances, a fair price?

2. How much higher can we reasonably expect to obtain in Europe?
3. Are there any general considerations in favor of a negotiation here which would counterbalance the chances of obtaining a better rate in Europe?  

The report on the contract does not give an adequate answer to the questions posed by the commissioners; they avoided answering any of the questions. Nevertheless, the answers are interesting and afford some statements which reveal economic conditions of the time:

In forming a conclusion as to what is a fair price, the items which enter into the calculation are, the quotations for similar stocks in London, and the rate of exchange for sterling bills. The bonds of the Bank of Louisiana and of the Consolidated Association, were quoted at 4 to 5 per cent. premium at the last advices; 2% per cent. interest would be due on them in a few days which reduces the fair quotations to 2½ per cent. at the highest rate. Exchange in London is now 8 per cent. here, and the prevailing opinion among those who are most extensively engaged in the exchange business, and who have the best means of information is, that the rate will rule low during the coming year. They insist that the surplus imports of last year are already paid for; that the imports of the present year are unusually light, and will continue to be so; that the prospects of large exports of produce next season are very flattering; that the Bank of the United States has already provided very large funds in London to meet the payment in October next of that portion of the United States 3 per cents which is held by foreigners; and that the amount of American stocks, Pennsylvania's, Alabama's, Indiana's, Louisiana's, etc. sent and to be sent to Europe for sale is extremely large; and that of course exchange on London must be very plenty and low. If this be true, can the Union Bank hope to realize an average price for bills on London to the extent of 7 millions of dollars within 12 months, at or above 6 per cent. premium? We decidedly think it cannot. The price then offered for our bonds is at least equal to the premium on exchange. Is the premium of 2½ per cent. quoted in London, more than sufficient to cover the expenses of a negotiation there, such as bankers' commission, brokerage, loss of interest, risk of loss of bonds?

31 UBJC, p. 8.
in transit, etc.? To this also we readily answer in the negative. The effect which the introduction of so large an amount of new bonds may produce on the market has not yet been brought into the calculation, nor have we allowed anything for the profit which parties entering into so large an operation have a right to expect. If we say that these are compensated for by the length of time that our bonds have to run, we are still brought to the same result:—and the conclusion is, that under all circumstances the price offered is a fair one.

What the commissioners neglected to say was that the price was a fair one for Baring Brothers. The logic they use leads up to it, but they refrain from stating the fact. What they actually tried to infer was that the negotiation was not worse than other negotiations entered into with Baring Brothers and other English brokerage and investment firms by American sellers of state bonds, and that under the circumstances the agreement was about as much as could be expected.

What we learn from their answer is that the huge amounts of bonds being sold in London was making bills of exchange more plentiful and therefore lower in price. This fall in price was one thing Baring Brothers were guarding against, and they did all in their power to avoid such a situation; they succeeded, too, as far as they were concerned.

Next, to the second query, How much could they get in Europe? The answer is of interest, especially in the light of what was claimed when the commissioners were informed of their duties. They now said:
The chances of a rise in American stocks in London, which is almost their only market, it is very difficult to calculate. They are already high, and we know that they now yield a lower rate of interest than many of the Continental stocks. If the peace of Europe should continue uninterrupted, the current of investment will still be directed to the latter; for American stocks are chiefly looked to in consequence of their supposed greater security. But, has noting occurred to impair the confidence of foreigners in American stocks? We fear we cannot answer no. At a distance, we all know how rumor magnifies the declamations of politicians into movements that must shake institutions to their centre. We may not dread the issue of the excitement which the term "nullification" produces — we see and know the ardent attachment of the great mass of our fellow citizens to the "Union." But it is not so abroad. Already we find that great anxiety is expressed, and repeated in every letter on this subject by foreigners who are interested in American securities; and this will continue and increase until "nullification" is forgotten. The recent "Veto" too, will no doubt be held up as a proof of the instability of our institutions, and we shall be told, what if true would be a most serious evil, that with the prostration of the national bank will come the derangement of our currency, and a recurrence of the state of things that preceded the chartering of that bank. What foreigner, believing these things, would be willing to purchase a State stock? We hear here, and it would be urged upon us in Europe, that the legislature of our state has run wild in banking; that it is multiplying banks ad libitum, and that no sooner will this loan be disposed of, than we shall see projects for others set on foot. Altho' these and similar arguments might be entirely met and refuted in conversation with a few, yet it would be difficult to obliterate their impression from the public mind. Failing in our negotiation at home, we should be in some measure in the power of European houses who would not fail to turn this circumstance to their advantage. Upon the whole then, we were forced to conclude, that probably quite as much could be said against the chances of a rise in American stocks in Europe as in favor of them; and that if we could reserve a moderate portion of the bonds to be sold in Europe, for account of the bank, it would perhaps be the best mode of settling our difficulties on this point. This has been done; and altho' we believe that the payments which have been stipulated for will give the bank its capital as rapidly as it can advantageously dispose of it, yet we provided that no inconven-
tense should be felt in case of a delay in selling
the bank's portion of the bonds, but that a large sum
should be advanced if called for.

Perhaps no better price could have been received for the
bonds on the Continent, but that is not the most striking re-
mark made by the commissioners. Their statement revealed fear
in Europe about the vast amount of American stocks on the
market—or rather, the vast amount they thought was soon to be
placed on the European market. In that fear they were justified,
too. No sooner was one project undertaken than another was
"set on foot."

The third question, that of whether or not there were
any general considerations in favor of a negotiation in London
which would counterbalance the chances of a better negotiation
in Europe, was answered in such a manner as to indicate how
pressing it was thought to have immediate capital. To the
query they answered:

... we are forcibly struck with the fact,
that the contract now made will enable the bank
to commence its operations on a large scale, two
months hence; whereas, if we allow one month for
the voyage to Europe, two months for completing the
negotiations there, and a month and a half for advice
to New Orleans, the bank could not ascertain the re-
sult of our operations before the first of January
next, and must then submit to a further delay for
the purpose of negotiating its bills. The difference
in time was, therefore, to be estimated at not less
than four months, and considering the earnest wish of
the bank, long since expressed, to relieve the money
market from a pressure which has been increasing
rather than otherwise; the importance to many of the
stockholders of receiving their loans from the bank
in time to meet engagements which fall due early in
the season — and the relief which the whole community
will feel, even before the bank commences its operations, from the confidence which will be inspired by the knowledge that this large capital is so soon to come into the State, we believed that this difference of time, to say nothing of the difference of interest that the bank would give, presented a powerful argument in favor of concluding the negotiations here (London). To many of our stockholders, the result will no doubt be a benefit far greater than any advance which the most sanguine calculator could have hoped for in Europe. Our planters, many of them, at least, are, in consequence of low prices and short crops for two or three years past, severely pressed, and obliged perhaps to submit to great exactions; and there has probably been no period for many years past when our merchants have been so largely in advance of their friends and correspondents in the country, or when relief could arrive more opportunely to prevent great distress and heavy sacrifices.32

What the Union Bank actually received in American dollars for the $7,000,000-worth of bonds is not ascertainable. The terms of the contract, however, appear to be less unfavorable than those agreed to in the sales of previous issues of Louisiana bonds. Nevertheless, one thing is certain, and that is that the contractors, Baring Brothers and Prime, Ward, King and Company, reaped a considerable profit; the lack of information may complicate an attempt to estimate that profit, but the indications are convincing.33

Of the 5,500 bonds purchased, 1,000 were delivered on November 1, 1832; 500 in December; 500 in January; 1,000 on February 1, 1833; 300 in each of the following 7 months; and

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32 UBJC, pp. 8-11.
33 The writer owes his information and ideas to the sale of bonds of the Union Bank to Mr. R. W. Hidy in his article "The Union Bank of Louisiana Loan, 1832: A Case Study in Marketing," op. cit.
This sale of bonds, however, made it obligatory for the contractors to raise funds in the United States to pay the Union Bank. To do this involved the sale of bills of exchange on Baring Brothers in this country, which, at this time, were selling at eight per cent premium—in itself a rather profitable endeavor.

The object of the purchasers was to sell the Union Bank Louisiana bonds in London at as high a price as could be obtained above their contract price, while at the same time they transferred the funds for payment of the bonds to the United States at as high a premium on the sterling exchange as possible—a two-way profit operation at least. For instance, ignoring for the moment the fact that the contractors sold the purchased bonds above the contract price, these other profits were: first, the profit of exchanging sterling for dollars at the rate of 4 shillings 3 pence (4s. 3d) instead of 4 shillings 6 pence, a profit of 3 pence per dollar acquired; and second, the profit of eight per cent on each dollar received in the exchange process, the premium on the sterling bills sold in the United States. Baring Brothers' big worry, however, was whether the American market could absorb the bills thus created along with the numerous other bills similarly issued for other undertakings, without causing an "over-supply" of exchange, an

"over-supply" which might lower the lucrative premium on London drafts.

The sale of the bonds was most confusing and quite complicated, and only a partial picture may be described herein. For instance, there was not only the matter of placing the bonds in two categories—those purchased outright and those consigned for advances—but instead they were divided into four categories. Baring Brothers carried part of the bonds in an account known as "Account L," one known as "Account S," one as the W. T. Ward Account, and one as the Union Bank Account.

"Account L" originally included 4,500 bonds of the 5,500 purchased—800 for Prime, Ward, and King and 3,700 for themselves. This account was soon changed, however, when it was agreed to place 200 bonds in W. T. Ward's own account. "Account S" included the 1,000 shares purchased from Prime, Ward, and King by three New York firms—J. D. Beers & Co., John Ward and Co., and J. L. and S. Joseph & Co.—and consigned through Prime, Ward, and King to Baring Brothers. The T. W. Ward account included 200 bonds allocated to him at his request. The Union Bank account included the 1,500 bonds consigned by the bank for advances to be granted by Baring Brothers.

"Account L."—By the terms of the August 14 contract, the 5,500 bonds purchased by the contractors carried with them the provision that they could be sold at any price the con-
tractors deemed advisable in order to reimburse themselves, and, furthermore, it was not obligatory that these bonds be sold for cash. It was a sale of bonds to the contractors for a special sum with the funds made payable in the United States, and the contractors could dispose of the bonds in a manner suitable to themselves.

The 5,500 bonds, however, had been reduced to 4,500 by a sale of 1,000 to three New York firms. When these firms consigned the bonds to Baring Brothers for sale, the terms of sale were specified, so that the contractors were not at liberty to dispose of them in the same fashion as the original. Baring Brothers had disposed of some of the purchased bonds, even before the contract had been signed, but apparently this sale was not like that made by Prime, Ward, and King. In June, 1832, Cowan and Marx, London bond brokers, had agreed with Baring Brothers to subscribe for 1,000 Union Bank bonds at cost: 500 were for themselves, 400 for Thomas Biddle and Company of Philadelphia, and 100 for G. Marx & Son of London. All the shares were to be sold through Baring Brothers, and thus they were kept in "Account L." 35

There was, also, Thomas Coterill of Birmingham who had agreed to buy $50,000-worth of the bonds at one per cent above purchase price stated in the contract, and his friend, John Ferguson, also, had requested to purchase between $20,000- and $25,000-worth of the securities. 36

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35Ibid., p. 239.
36Ibid., pp. 245-246.
In October, 1832, Baring Brothers announced a public subscription sale of the bonds for future delivery. The terms of the subscription were that the buyers take equal portions of the four series issued, paying for them in instalments of

- £40 per bond of £1,000 on Monday, October 15, 1832
- £40 per bond of £1,000 on Tuesday, January 15, 1833
- £40 per bond of £1,000 on Friday, March 15, 1833
- £44 per bond of £1,000 on Monday, April 15, 1833
- £50 per bond of £1,000 on Monday, June 17, 1833

That meant a price of (£) 234 pounds sterling per bond, or about 104 per cent, a £40-premium on each £1,000 bond. Then, too, the subscribers, if they wished, might anticipate payments at a 4 per cent discount, and receive letters of engagement which promised the delivery of the bonds as soon as possible. All the securities thus subscribed to were to have attached to them the interest coupons dating from February 1, 1833. Thus, in this manner Baring Brothers effected an advance sale of "Account L." stock to the amount of £1,728,000.

Not all bonds in "Account L.," however, were sold outright or by instalment. Many were exchanged for other American securities. Early in 1833, Baring Brothers exchanged 348 Union Bank bonds for Pennsylvania, Philadelphia, and Baltimore bonds. Later they acquired, with the approval of Prime,

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37 Ibid., p. 246.
38 234 pound sterling equals 36,160 pence and at the rate of 4s 6d (54d) the rate is 104.
40 Ibid., p. 248.
Ward, and King, shares of the second Bank of the United States and of the United States 4½'s for their Union Bank bonds. In the fall of 1834 they exchanged 20,000 pounds sterling of the Louisiana bonds at the rate of 102 for United States 5's at 92, and in January, 1835, they completed the sale of the 4,500 bonds by exchanging $96,000-worth of the Louisiana bonds for $11,000 in New York Life Insurance and Trust Company certificates with coupons bearing 4½ per cent interest. 41

"Account S." — Of the 1,800 bonds allocated them by the contract, Prime, Ward, King and Company sold 1,000 to the three New York firms at cost. They paid Prime, Ward, King and Company approximately $67,142 in cash (a premium of 6 1/14 on the bonds) and through them had the bonds consigned to Baring Brothers. It was specified that the securities "be held at limits not above 104 per cent" for three months after the maturity of the bills drawn by Prime, Ward, and King upon the London firm in transferring funds to the United States. 42 After that period, the London house was to accept the market price for the consigned bonds. 43 Provision was, however, on this account that the bonds sell for cash. 43

Against this account, Baring Brothers specified that Prime, Ward, and King were permitted to draw but £212.10 in

41Ibid., pp. 243-249.
42Ibid., p. 238.
43Ibid., p. 247.
bills on them per $1,000 bond, not £ 225.10 which was the 4 shilling 5 pence rate on the legal par basis. 44

Nevertheless, Prime, Ward, and King did not abide by the restrictions at first and that violation became a source of friction between the two houses, but not a serious one. Prior to January 1, 1833, the New York house had drawn on the Louisiana bonds on "Account S" for more than £ 212.10 per $1,000. The Barings pointed out that violation of their wishes and the mistake was admitted by Prime, Ward, and King, who promised to draw less in the future in order to make up the difference. 45

According to Mr. Hidy, the bonds in "Account S" did not sell at first. No cash sale was recorded until April of 1833, and then the market for these was entirely slack, so much so that Baring Brothers suggested a change in the arrangements by Prime, Ward, and King with the three New York houses, but Prime, Ward, and King did not think it necessary. 46

The sale of the consigned bonds in "Account S" being so poor, Mr. W. T. Ward and Prime, Ward, and King pleaded with Baring Brothers to attempt a sale of part of these bonds in New York. Baring Brothers acquiesced but the plan did not succeed. It was not until the summer of 1834 that a good

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44Ibid., p. 241.
46R. W. Hidy, op. cit., p. 246.
portion of the bonds were being sold and then in Holland
through Hope and Company of Amsterdam. The account was finally
closed in January, 1835, by the sale in London of the remaining bonds.47

W. T. Ward Account. — Mr. Ward’s account for the 200
shares granted him by Baring Brothers and Prime, Ward, and
King was not extremely important. These bonds were to be sold
by Baring for cash and at a premium. Later, when Ward saw the
difficulties encountered with the cash sales of the bonds in
"Account S," however, he urged that the 200 bonds be sold im-
mEDIATELY "at not less than par." Yet, no market was offered
for them. They were taken at the desired price by Prime, Ward,
and King.48

Union Bank Account. — The 1,500 bonds consigned by the
Union Bank for advances from Baring Brothers also showed ex-
treme sluggishness. On these bonds, the Union Bank had spec-
ified "99 per cent ex interest" as the lowest price accept-
able, and the sales had to be for cash.49

By 1835, only 36 of the 1,500 bonds had been sold. In
January of that year, therefore, Baring Brothers secured an
agreement from the Union Bank not to seek another advance until

48 Ibid., pp. 246-247.
49 Ibid., pp. 247-248, cf. footnote Baring Brothers
Miscellaneous Correspondence, Perrault (cashier of Union Bank)
to Baring Brothers, November 29, 1832.
May 1, 1835. As a result, Baring Brothers "were unable to dis- 50
pact of 468 bonds at rates that produced the limit of the
bank, but only at the sacrifice of a part of their commission."

Ninety-seven more were sold between May 1 and July 1. But on
July 30, Baring Brothers announced the sale of 424 at 100½,
excluding interest, which meant a loss of one half of one per
cent on their commission to make the desired price of 99.

Finally, by the end of 1835, the London house still had on
hand some 455 bonds consigned to them by the Union Bank
in 1832. 51

Relations between the Union Bank and Baring Brothers
were not always harmonious, but the disagreements were not
serious. Nearly always they were straightened without diffi-
culty and by good cooperation on the part of Baring Brothers.
The first friction arose when the Union Bank Directors objected
to the Barings' assumption that all interest payments were to
be effected through the London house even if payments were to be
made in the United States to other firms. Baring Brothers did
not uphold Prime, Ward, and King on this demand, and they agreed
to include only interest payments actually paid through them,
even if it did reduce their commission somewhat. 52

50 R. W. Hidy, op. cit., p. 248, cf. citation, Baring
Brothers Letter Book, Baring Brothers to Morgan (President of
Union Bank), January 5, 22, 30, 1835.
52 Ibid., p. 250.
The second source of friction was the Baring Brothers' option to purchase either part, all, or none of the consigned bonds according to the terms of the contract. The Union Bank officials insisted that "the six months which were to elapse before Baring Brothers and Company must decide upon the method of handling the last 1,500 bonds should be considered as ended on May 1, 1853, in New Orleans rather than in London." To this the London merchant-bankers agreed instead of adhering to the position held by Mr. Ward.

The third misunderstanding was more serious, and it nearly caused severance of relations between Baring Brothers and the Union Bank. It was stated that Baring Brothers were under contract obligation to advance the Union Bank $1,000,000 upon the consigned bonds should they not purchase them outright. Furthermore, because the sale of these bonds had been slow, an agreement was reached in April, 1834, to reduce the advance to $500,000—the reduction in the price limit was refused by the Union Bank. To effect this reduction, the bank was to remit funds in London. When September came, however, Baring Brothers stated that they would feel at liberty to sell the bonds at the market rate if the advance was not covered. To this the officers wrote that they would cover the advance on $500,000, and asked that the remaining bonds be held subject to their order. Because of Baring Brothers' demand they

53 Ibid.
thought that the London house wished to cancel their previous agreements, and, therefore, the bank proceeded to find purchasers for the bonds who at the same time would act as the bank's agents. Needless to say, Baring Brothers protested the bank's action. They wrote that they had no intention of altering their relations with the Louisiana firm. In a conciliatory manner they explained their action, and in January they came to terms once more; they sold a good portion of the bonds to show their good intentions. As part of this last negotiation, however, the Union Bank had asked for a credit of $300,000 to be covered by remittances should Baring Brothers fail to sell all the bonds by the end of 1835. The credit was granted. Another demand was that the commission charges upon acceptances be reduced. This was refused. All in all the entire affair turned into an amiable solution, and while Baring Brothers were forced to make concessions, they saw to it that the operation was going to be profitable. 54

Operations of the Bank

During the first four or five years of its existence, the Union Bank was the most prosperous bank in New Orleans, and it handled a large part of the business of the New Orleans Branch of the second Bank of the United States, 55 and why not? After

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all, the second Bank of the United States at Philadelphia had played an important role in the sale of the Union Bank bonds. 56

True, the bank, like the Consolidated Association, found that the stockholders had difficulty in meeting payments because of crop failures and adverse market conditions. The Union Bank was in a better situation because it still had exchanges to sell and more capital to invest. Nevertheless, it met the same fate the other New Orleans banks faced in May, 1837, and like the other banks of the city, the Union Bank cooperated in order to survive during the depression years. Unlike the two other property banks—the Consolidated Association and the Citizens' Bank—however, it was in a fairly sound condition when in 1843 an Act was passed for the liquidation of the property banks. 57 As a matter of fact it was one of the few banks which had issued bonds that actually did not default on interest payments. 58

In 1843, when the notes of the two other property banks were on the market at a discount, the Union Bank notes were being paid in specie. 59 Its current assets were greater than

58 Ibid.
59 The Daily Picayune, July 1, 1843. Union Bank pays specie, Citizens' Bank notes circulate at 31 to 34 discount, the Consolidated Association at 36 to 38 discount.
the current liabilities; according to Board of Currency, the last assets were $937,919.19, and the last liabilities were $749,782.55.60

When the first series of the bonds issued became due in November of 1843, the redemption was met—there was no refunding.61 The Board of Currency stated:

Of the "Property Banks" in which the State has a more immediate interest, the Union met the series of her bonds that fell due on the first of November last, amounting to $1,722,000;—the position of the bank renders it very certain that a continuance of past management will secure the same punctuality in her future, as she has observed in so remarkable a manner in her past engagements.

All other sources state that the amount redeemed was $1,750,000. The discrepancy arises, apparently, from a difference in the interpretation of par. There were 1,750 bonds of the first series, and, therefore, it is logical to say that the redemption was $1,750,000.62

Because the bank met its first series, does not mean that the bank was anxious to meet ensuing maturity bonds. In 1844 the officials of the Union Bank started to press the

60 Miles Weekly Register, Vol. XIII, p. 540
62 R. C. McGrane, op. cit., p. 188.
Legislature for a new issue of bonds. They claimed that if new bonds were issued, the bank could pay on its bonds in the future. This was not granted.

The 1847 series was also met—if not in full, at least almost so—for the Louisiana State Auditor reported, January 1, 1848, that the Union Bank bonds had been funded to the amount of $3,834,000. Had both series been completely redeemed, the total should have stood at $3,500,000.

Governor Joseph Walker, on January 26, 1852, wrote a message to the Senate and House, stating:

I have the honor to inform you that one million eight hundred and sixty-four thousand dollars of the bonds of the State, issued in favor of the Union Bank of Louisiana, with five hundred and forty-two thousand six hundred and fifty dollars of interest coupons, and amounting in all to the sum of two million four hundred and six thousand six hundred and fifty dollars ($2,406,650) were delivered by Christopher Adams, President of said bank on the 25th instant, to the Secretary of State, Attorney General and myself, and destroyed by burning, in conformity with resolution No. 7 approved January 26th, 1844, and a record of the proceedings made in the State Treasurer's office in obedience to the above stated resolution.

Thus, seeing that the Union Bank was liquidating its bonded debt successfully, the Legislators proceeded to make provision for a settlement. On March 6, 1852, the Judiciary Committee introduced "An Act to induce the State Treasurer to settle with the Union Bank of Louisiana." So ardent were

the Legislators for the bill, that, on motion, the rules
were suspended, and the Act was passed.\textsuperscript{65}

What the State wanted as a settlement was to relieve
itself of contingent liability and at the same time to give
up its right to one sixth of the profits, \textit{i.e.}, sell its
stocks for a lump sum.

The State Treasurer approached the bank to effect a
settlement and the officials offered him but eighteen dollars
a share for the one-sixth interest. This he refused and he
was right in refusing.\textsuperscript{66} In June, 1852, the State received its
first dividend which amounted to $207,170, and on January 1,
1853, another $137,396.

Of course, the State did not receive the entire sum for
its own use. The entire amount of the first dividend and
$22,866.73 of the second were retained by the bank upon agree­
ment. Part was retained "on account of the liabilities of
the Bank for Clinton and Port Hudson Railroad Company;\textsuperscript{67}
$3,000 was credited on account of a sight draft on the Treas­
er, paid by the Bank; and $6,000 to refund a deposit made

\textsuperscript{65}House Deb., 1852, p. 111.

\textsuperscript{66}Leg. Doc., 1852. "Reports of the Standing Committees
of the Senate and House of Representatives on Banks and Bank­
ing," p. 4.

\textsuperscript{67}La. Acts, 1848. No. 190, p. 124. A resolution was
approved March 16, 1848, whereby the State acquired 217 bonds
of the State issued for the Clinton and Port Hudson Railroad
and Banking Company.
to represent six State Bonds which the Bank ( was ) ready to deliver." The remaining $105,529.67 was deposited to the credit of the State on the books of the bank subject to draft. 68

The Committee on Banks and Banking demanded information from the Union Bank to ascertain the position of the State as one-sixth owner. The Statement of Affairs presented February 11, 1854, indicated that the fixed assets were valued at $341,108.33, while the fixed or long-term liabilities were $108,000. The current assets, on the other hand, amounted to $636,912.85, against which there were current liabilities to the extent of $556,000.56. 69

In view of this information, therefore, it is simple to see why they advised that it was not to the best interest of the State to sell to the bank its prospective share of the profits—they recommended that the bank be permitted to proceed in its regular course of liquidation and the State receive the profits as they were realized. 70

End of the Union Bank as a Property Bank

By the end of 1852 not all of the bonds had been redeemed, but the liquidation of the debt was proceeding without difficulty. The remaining debt was nominal and provisions

70 Ibid., 1852, p. 4.
had been made for the payment. Therefore, the bank was permitted to continue its operation until the expiration of its charter. That was in 1857.

When the Union Bank ceased as a property bank, however, it did not go out of existence. Louisiana had passed a Free Banking Law in 1853 and the Union Bank of Louisiana was re-incorporated under its provisions; it became a free stock bank.

After the Civil War it took the name of Union National Bank, which it kept until its liquidation in 1896.

More will be said about the Union Bank in the concluding chapter, but a few pertinent remarks can be made here. No doubt the amount of capital was large—maybe more than was needed—but the bank succeeded in meeting its interest payments. What is more, it did not need to refund its debt at any time. It may be that the redemption was not too punctual, but it was effected pretty much according to the charter requirements, and when it was over, there was a profit to be shown. The stockholders, instead of being assessed, received dividends. Certainly the picture was not as described by Mr. E. T. Bank in his Economic History of the South. It was not

71 Ibid.
true that "The bank soon tied up its capital in frozen
assets, issued too many bank notes, and went into liquidation
along with the Planters Bank." (sic)
CHAPTER V

THE CITIZENS' BANK OF LOUISIANA

Perhaps no bank in Louisiana has had as varied a history as the Citizens' Bank; and certainly no bank has had a closer relationship with the economic, agricultural, commercial, and banking development of the State, especially during the period from 1836 to 1842. Its span of life extends from 1833 to 1933—a hundred years of varied, complex, and confusing activities. From 1833 to 1842 it was an active property bank. During the next ten years it was in a state of liquidation. In 1853 it was revived as a stock bank with two separate departments, a banking department and a mortgage stock department, with the former assuming the obligations of the property bank. In 1911 it was reorganized again under the name of The Citizens' Bank and Trust Company. In 1924 it merged with the Canal Commercial Bank and became the Citizens' Branch of the Canal Bank and Trust Company. The end of its history came with the Banking Crisis of 1933.

This chapter, however, does not cover the entire history. It takes into consideration only that portion relating to property banking and State bonds issued for the bank and in its favor. Nevertheless, the analysis covers a period extending
from 1833 to 1902, and the story is a long and complicated one despite the lack of existing data to accord a complete description of the more important phases. To avoid repetition and lengthy discussions, therefore, analyses which pertain to this bank but which were previously stated in former chapters will be eliminated where possible. The reader, however, is asked to remain aware of the analysis given with respect to the case study on the Consolidated Association inasmuch as there is great similarity between the two in many instances.

Organization of the Bank

A bill to incorporate a third property bank in Louisiana was introduced in both Houses of the State Legislature, February 1, 1833. Mr. Grymes, spokesman for the bill in the House of Representatives, proposed that this new property bank have broad privileges. He advocated that the concern,

... in addition to the usual privilege of issuing and discounting notes, receiving deposits, and negotiating exchange, be permitted to underwrite against marine losses and losses by fire; also to contract for the expenses of any work of internal improvement: such as canals, railroads and even to the building of a house.1

The charter for such a grandiose scheme was granted April 1, and by the terms of the Act the Citizens' Bank was authorized to issue $12,000,000 of bonds with interest at

1 Baton Rouge Gazette, February 2, 1833.
five per cent, and their maturity dates were to extend from
14 to 50 years. Mortgages on property were to act as security
for the bonds, and they were to be acquired from the subscrib-
ers in payment for $14,400,000 of the bank's stock. 2 The
procedure was the same as prescribed for the Consolidated
Association and the Union Bank; the subscribers of the Citi-
zens' Bank stock "... mortgaged their lands and slaves to
secure the shares taken by them," 3 and the mortgages given by
the stockholders were to remain in the vaults of the bank to
serve as a perpetual pledge "to the holder or holders of said
bonds until the expiration of the charter and the final
liquidation of the affairs of the bank." 4

In the event of nonpayment of either principal or in-
terest on the bonds by the bank, the bondholders were entitled
to enforce payment by materializing on the mortgages through
legal process. Nevertheless, under this original act of incor-
poration in 1833, the State did not bind itself in any manner
for the debts of the bank. The bonds were to be bank bonds
without the State pledge.

The stockholders on the pledge of their certificates
on deposit with the bank, were entitled to a credit from the
bank equal to one half the par value of their shares. "On using
this credit, the subscriber was required to give his note, re-

3 A. A. LeLong, reminiscences Culled from Annals of the
4 Loc. cit.
newable at the end of every twelve months, on payment of the interest (6½%) annually in advance, and such proportion of the capital sum in annual instalments as would extinguish the debt at a certain fixed period. The recourse the bank had in case of nonpayment by the stockholders was foreclosure by law or by other court action; failure, neglect, or refusal to pay interest or instalment on principal of the loan, gave the bank the privilege to enforce payment in accordance with the provisions of its charter and the laws of the State.

Albeit that cotton and sugar planters and other property owners already had two banks to serve them with a capital amounting to nine and a half millions of dollars, and albeit that these property owners were already stockholders to the amount of eleven millions of dollars, there were still many property owners left who were anxious to secure credit and willing to become stockholders in a property bank. The terms that were offered the subscribers were very attractive and they satisfied the property owners. Most any fixed, tangible property was accepted. It was not necessary that it be property in the state of cultivation and it was not required that it be revenue-raising property. Uncleared land and vacant city lots met the requirements for mortgage with this bank, because, if development were taken into consideration, these too were liquid, safe assets. Furthermore, all properties were ac-

5Ibid.
cepted at the current valuation, simply because the belief was that the value of property and slaves always appreciated—never depreciated. The result was that the bank's stocks were oversubscribed. Every owner "of a vacant lot, whether dry or under water, every proprietor of old tenantless buildings imagined that the millenium was really approaching," and each hastened to subscribe, with the result that subscriptions for stocks totaled $25,875,600. The stock subscription was limited by law at $14,400,000, therefore, the applications for stocks had to be scaled down. This was accomplished by rejecting the non-qualifying applicants and by reducing the amount of each subscription without altering its ratio to the entire subscription so that the total subscribed did not exceed the legal limit.

Attempts to Sell Bank Bonds

Immediately after the charter was granted in 1833, the Commissioners for the Citizens' Bank proceeded to the Northeast in an attempt to sell the bonds in this country, but they were not successful in finding a market. Only a sum of $133,333,33 was borrowed that year through the sale of the bank bonds. In 1834, the Citizens' Bank directed its Commissioners to attempt negotiations in Europe for a sale of $9,000,000. No one in

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England was interested in the bonds. Thus, the Commissioners tried Amsterdam. Here they entered into a conditional contract in February, 1835, whereby the firm of W. Willinck was to take the entire $9,000,000 issue and offer the bonds for sale on the European market. The Amsterdam banking house then set days for subscription to the bonds, but there were no takers, mainly because the Louisiana firm failed to transmit the bonds to the Holland company. When the bonds did reach Amsterdam, however, a new contract was signed—July 3, 1835. W. Willinck issued a printed circular or a prospectus offering the bonds at forty cents to the guilder, but this second attempt was unsuccessful.\(^8\)

While these negotiations were going on with W. Willinck, other Commissioners were appointed and they too were sent to Europe to negotiate the loan, provided their predecessors had not completed the sale. They went to England in an attempt to enter negotiations as their predecessors had done. They found no interest on the part of Baring Brothers. Mr. W. T. Ward had warned the Baring concern already. "I have examined the charter of the Citizens Bank," he wrote on June 22, 1835, "and have come to the conclusion to have nothing to do with it on this side. ... Under this charter I do not see but that the bank may do just what it pleases and to any extent

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\(^8\)R. C. McGrane, cit., p. 174.
within the limits of double the amount of its capital." 9 Nevertheless, it was not necessary to warn Baring Brothers; their negotiations with the Union Bank of Louisiana had led them to alter their policy of taking large issues of bonds for resale.10 When it came to the other London bankers and brokers, the Commissioners could not get their interest either, although they had some encouragement from Thomas Wilson and Company and a new firm being organized in London by Lizardi Harmanos of Paris, which went under the name of Francois de Lizardi and Company.11 They assisted the Commissioners, however, in contacting Hope and Company of Amsterdam.

One of the new Commissioners arrived in Amsterdam in August, and during September he succeeded in entering into a conditional contract with the Holland bankers.12 Hope and Company agreed to take 6,750 bonds, which amounted to $3,000,000 in American money,13 provided the Citizens Bank obtained

11 CHIC, 1838, No. 20, p. 15.
12 CHIC, 1842, p. 2.
13 The Citizens' Bank bonds were not of $1,000 denomination. Each bond had on its face three values: $444.44, £100 sterling, and 1,200 guilders.
the pledge of the State of Louisiana over and above that of the bank; provided, too, that the State repeal the power given to the bank to purchase stock of the Borgne Navigation Company of New Orleans. Following are the terms of that contract, viz.:

Conditional Contract between Hope and Company of Amsterdam, and Edmund J. Forstall, acting on behalf of the Citizens Bank of Louisiana, under a power of attorney bearing date 9th May, 1835, to wit:

On the first part, and on the conditions herein-after mentioned, Messrs. Hope and Co. hereby agree to purchase of the Citizens Bank of Louisiana who also hereby agree to sell them, three millions of dollars, say 6750 bonds, of £ 100 sterling each, of the State of Louisiana, which may be issued in favor of said bank, in equal series of 14, 23, 32, 41, and 50 years, and bearing an interest of 5 per cent, payable semi-annually; payment of the same to be made on delivery, at the rate of £100 for every bond of £100 sterling; binding themselves to remit, if so directed, the proceeds of said bonds to London or Paris, on account of the bank, free of all charges except the customary brokerage of one-tenth of one per cent. The said Hope and Co. reserving to themselves the right, until the 10th of January next, to reduce their said purchase to one million of dollars, should any extraordinary change have taken place in the European money market; and also reserving to themselves the preference of the remaining bonds of the bank, or any portion of them, which may be offered for sale in Europe at their current value.

On the other part, the Citizens' Bank binds itself to use all its exertions to obtain, on or before the 1st of February next, the following amendments to its charter, which are hereby made the sine qua non of this contract, to wit:

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14 Loc. cit.
15 R. C. McGraw, op. cit., pp. 174-175; and of.
1st The repeal of the power given to the bank to subscribe to the stock of the Lake Borgne Navigation Company.

2nd The issuing of the bonds of the State of Louisiana, in lieu of the bank.

The endorsement of the bonds purchased as above shall specify that the principal is to be reimbursed at the counting-house of Hope & Co., Amsterdam, at the rate of £1 200 per £ 100 sterling, and each bond shall be drawn for £ 100 sterling (§44.44) and the interest be made payable at the same place, on the 1st February and 1st August in each year; and coupons in the margin of the bonds, for thirty guilders each, shall be thereeto attached.

The interest of the two millions in suspense shall only be computed (639) from the first day of the month of the delivery of the sale bonds in Amsterdam.

It is agreed that the commission of Hope & Co., is to be two per cent, and one quarter per cent, brokerage, on the amount purchased by them, and half per cent, on the dividends and half per cent on the principal reimbursement.

It is also agreed that the Citizens' Bank binds itself not to offer for sale in Europe, without the consent of Hope & Co., its remaining bonds, the two millions of dollars, if not taken or accepted before the 1st of January, 1837; it being understood that the bank may dispose of $3,000,000 in the United States, provided the interest be made payable and the capital reimbursed there.

It is also understood that the two million dollars of bonds, if taken, shall be forwarded, after the receipt of Hope & Co.'s notification to that effect, within the shortest delay, not exceeding thirty days.

Executed in triplicate, in the city of Amsterdam, this first day of September, 1835. Witness the hands of the above parties:

Witnesses K. Sullen
Reinhold

Hope & Co. Edmund J. Forstall

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The Act of 1836

In order to comply with the provisions of the conditional contract with Hope and Company an act to engage the faith of the State on the bonds was passed in January, 1836. This pledge was granted in a peculiar manner, however. By the terms of the Act the State pledged its faith on only $3,000,000 of bonds, which it authorized the bank to issue immediately, and obviously this was to effect the sale with Hope and Company. On the remaining $9,000,000, it agreed to pledge its faith by granting the bank the privilege to issue the same kind of bonds up to $12,000,000. Each issue was to be in five equal series. One-fifth of the bonds was to mature in each of the following years: 1850, 1859, 1868, 1877, and 1886, that is, 14, 23, 32, 41, and 50 years from February 1, 1836.

For the privilege and pledge granted the State asked for one-sixth of the bank's profits, and any sum thus acquired was to be applied to the support of free schools and three colleges. By profits, the State intended to include the net income from operations and the premiums received from the sale of bonds in the negotiations succeeded in obtaining a price above that specified by law.

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19 La. Acts, 1836, pp. 16-24. The profits were to be divided to the free schools on the basis of the population of each parish, and $5,000 was to be given to each of three colleges for scholarships. The colleges were: Jefferson College in St. James Parish, College of Franklin in Opelousas, College of Jackson in East Feliciana.
Negotiations of the State Pledged Bonds

The negotiations of the State bonds issued for and in favor of the Citizens' Bank were extremely complicated. Anyone not acquainted with some of the entangling relationships among the houses and agents involved with the negotiations will be faced with utter confusion.

First, there was the Netherlands banking house of Hope and Company. The Citizens' Bank was anxious and willing to have this Amsterdam concern sell Louisiana bonds on the European market. The bank, however, had very little relationship with Hope and Company otherwise; that is, it was not interested in maintaining an account with the Dutch bank in order to draw guilder exchange bills against Hope and Company. On the other hand, English sterling bills of exchange and French franc drafts did interest the Citizens' Bank. Therefore, they wanted to establish accounts in London and Paris. By having the Dutch bank sell the bonds and deposit the funds in a French or English bank against which the Citizens' Bank could draw bills of exchange, the problem was simplified. This was done by selecting the banking firms of Thomas Wilson and Company and Francois deLizardi as the London agents, and Lizardi Hermanos as the Paris agent.20

Thomas Wilson soon failed and that left the Lizardis as the exclusive London agent;21 but the sole agency was not a

20CHIC, 1842, p. 2.
simple affair. It involved the Citizens' Bank later in an extremely unusual manner.

In itself the Lizardi organization was complicated, to say the least. Lizardi Hermanos of Paris had established in 1835 two sister houses. To London went Francisco delLizardi to open the banking firm of Francois deLizardi and Company. To New Orleans went Miguel and later Manuel deLizardi to organize the house of A. deLizardi and Company. Actually, the latter named firm bought out the concern of A. Gordon and L. J. Forstall and Company, the two gentlemen remaining with the New Orleans house of deLizardi.

Messrs. A. Gordon and E. J. Forstall, besides being members of the New Orleans house, also were the American agents for the London firm of deLizardi. They were the official representatives and the business transactions in this country with the English house went through their hands.

Mr. E. J. Forstall was, moreover, president of the Citizen's Bank; in other words, the bank president was the agent for the bank's agent.

With the Act passed in January, 1836, the conditional contract with Hope and Company became an actual contract. Post haste the directors of the Citizens' Bank commenced to draw against the $3,000,000 of bonds; that was in February, 1836.22

No more bonds were sold during 1836. The next news of another sale was received February 20, 1827, when Francois

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22CBIC, 1842, p. 2.
Delizardi advised that Hope and Company had purchased 3,375 more bonds, or $1,499,985 at face value. The payments were to be one-third on February 28, one-third on April 30, and one-third on May 31. This sale brought about a series of events which beclouded without end the ensuing transactions between the Citizens’ Bank and the English banking houses. Then, too, it brought no small amount of friction and disharmony among the directors and officers of the Citizens’ Bank.

What the Citizens’ Bank expected from the sale to Hope and Company was to have funds in the hands of its agents upon which it could draw bills of exchange. Therefore, after Francois delizardi notified the Citizens’ Bank of the sale, the New Orleans institution proceeded to draw many drafts on the European agents, mostly on Lizardi Hermanos of Paris. Much to its surprise, however, the bank found many of the drafts protested which had been drawn on Lizardi Hermanos. The Paris house pleaded that the bills were protested because they had not been informed by Francois delizardi of London that the bank was to draw on them, and that funds had not been forwarded to Paris by London to take care of the drafts. Actually, what the Paris house had done was to use the Citizens’ Bank funds to take care of the difficulties they were encountering in

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23 CHIC, 1838, No. 1, p. 13.
Hope and Company made its one-third payment on the purchase of bonds and it was effected through Lizardi Hermanos even though the sale took place through Francois deLizardi. Lizardi Hermanos took the funds for their own purposes, that is, to honor their own obligations, instead of placing the funds on account of the Citizens' Bank. When an avalanche of drafts drawn by the Citizens' Bank arrived in Paris they were protested on the pretense that the negotiations took place through Francois deLizardi, and, therefore, they were not authorized to honor the bills because they had not been advised to do so by the London firm.

This action by Lizardi Hermanos, not to mention the protests by other bankers, nearly precipitated an immediate crisis in New Orleans. Many houses failed, but the crisis was averted.

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24 The March episode on the European money market had its root in England, or rather Ireland. In November of 1836, the Agricultural and Commercial Bank of Ireland failed and a run started in other Ireland banks; fortunately this was stopped by the Bank of England. During the same month the Northern and Central Bank of Manchester with its thirty-nine branches faced difficulty and called upon the Bank of England for help. These incidents resulted in the Bank of England's placing restrictions on Anglo-American relations. The crisis occurred in March of 1837 when three Anglo-American houses—T. Wilson & Co., G. Wildes & Co., and T. Wiggins & Co. (the three W's)—found themselves unable to meet their engagements. This had enormous repercussions—the Paris firm of Lizardi Hermanos being involved. (Cf., R. C. McGrane, op. cit., p. 14).

25 ORIC, 1838, Nos. 8, 9, 10, 11, 12, pp. 13 and 14.
until May when the panic was nation-wide. Lizardi Hermanos, according to a letter written by Francois deLizardi on May 29, finally accepted the drafts, but by then the damage had been done. The result of the affair was that the bank changed its agency in Paris to Andre and Cottier Company. That was in October, 1837, and it created quite a stir in the affairs of the Citizens' Bank which increased in intensity as time went on. Edmund J. Forstall, president of the bank and agent for de Lizardi, offered his resignation; and while it was not accepted, it remained a chafing incident.26

The Lizardi Hermanos episode, the Panic, and the dismissal of the Paris agency, however, did not disrupt the negotiations. Bonds continued to be sold, and for a time Francois deLizardi continued to act as agents for the Citizens' Bank.

In July, 1837, Hope and Company purchased another 300 bonds at the same rate as before the crisis27 and within a month had sold them at par.28 On July 26, 1,175 bonds were sold by Francois deLizardi to Marquis Casa Riera; the agents, however, claimed that they had to give up all commissions to effect the sale within the limits set by the bank.29 Between the 23rd and 30th of October Mr. P. J. Tricou, in behalf of the Citizens' Bank, entered into a contract with Mr. E. J.

26 Ibid., No. 29, pp. 17-18.
27 Ibid., No. 27, p. 17, and No. 33, p. 22.
28 Ibid., No. 28, p. 17.
29 Ibid.
Forstall, agent for Francois deLizardi, to sell to the London firm 300 bonds of each of the five series, that is, 1,500 bonds. The price offered was £703,333.33. The face value of the bonds was £666,660. In brief, it was an advantage or premium for the Citizens' Bank to the amount of £36,673.33. Thus ended 1837 with the New Orleans institution having disposed the face-value sum of £5,300,000 in State pledged bonds.

The year 1838 began with another sale of £360,000 of bonds. In January, Hope and Company agreed to purchase 825 bonds for £348,500. Two months later they acquired £500,000 more. On the seventh of March, Hope & Company wrote to F. deLizardi of their intention to purchase 1,125 bonds more on the same terms as those of January and the bonds were transmitted to them on the ninth. The price paid was £105,847.6.0, or about $469,960.

Another 400 bonds were taken in May for £37,955, or nearly

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30 CBIC, 1836, No. 31, p. 21.
31 Ibid.; CBIC, 1836, Nos. 41 and 43, pp. 24 and 25.
32 CBIC, 1842, p. 4.
33 Ibid.; CBIC, 1838, Nos. 41 and 43, pp. 24 and 25.
34 CBIC, 1842, p. 4.
35 CBIC, 1838, No. 44, p. 25.
36 Ibid.
$168,889. The remaining 725 bonds of their series was taken on June 30. This resulted in there being a negotiated capital by the Citizens' Bank of $6,666,666.67 at the end of August, 1838. What the New Orleans bank actually received on the sale of the bonds, however, cannot be ascertained because the bank kept no records; that is, no entries appeared on its books in relation to this matter.

In September, 1838, the friction existing within the Direction of the Citizens' Bank grew into a cleavage; which became a wide-open break that came near assuming catastrophic proportions. It nearly destroyed the bank itself, not to mention the effects on the market of Louisiana securities. On the surface the claim was that the majority of the directors was opposed to the multitude of irregularities committed by Francois deLizardi for whom Mr. E. J. Forstall, president of the bank, was the American agent. Underneath it was a rebellion against the strict and regular operations of the bank when "easy-credit" under any terms was in demand. It was also a jealous rebellion against the president, cashier, and a few of the directors. The result of this affair was that Mr. Forstall resigned and Francois deLizardi & Company ceased to be agents for the bank. The affair opened the way for grandiose schemes and unsound practices—the beginning of the end of the

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37 Ibid., No. 50, p. 28.
38 CHIC, 1842, p. 6.
39 CHIC, 1838, No. 65, pp. 35-36.
Citizens' Bank. A change of agency was voted September 24; the reasons for the change were:

1. That in May, 1837, F. deLizardi & Co., in consequence of their imprudent operations, became unable to pay the sum of $157,000, accruing from the sale of Bonds of the Bank, and of which they had received the amount.

2. That in May, 1837, the Bills of the Bank of Paris were protested for non-acceptance, and that this is as much the fault of F. deLizardi & Co. as that of Lizardi Hermanos, and perhaps more blame is to be attached to the former than to the latter. By this circumstance the credit of the Bank was necessarily very much impaired.

3. That F. deLizardi & Co. sold 1175 Bonds below the limits, and in violation of the Instructions prescribed by the bank.

4. That F. deLizardi & Co. borrowed $43,000 on protested Bills, the property of the Bank.

5. That F. deLizardi & Co. were wanting in sincerity when they sought to excuse Lizardi Hermanos by pretending that there had been no transfer of funds from London to Paris.

6. That on the 23d of July last (1838), F. deLizardi & Co. did not take measures to pay in full at maturity, a note of $234,444.44, accruing from the sale of 1500 Bonds (including the 1175 Bonds sold in violation of the Instructions of the Bank), although the Bank granted them, for reimbursement of this sum, all the time that they had themselves asked for.

7. Lastly, the majority of the Committee are of opinion, that the Bank is selecting as their agent in London, some other House, older and better known, than that of F. deLizardi & Co. which is of recent formation, would find it easier to negotiate the remainder of the Bonds: a result desired by all the stockholders.

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40 Ibid., No. 61, p. 29. This change of agency was finally voted on October 22, 1838.
Reid, Irving and Company was selected to replace Francois deLizardi and Company. They and Andre and Cottier of Paris acted as agents of the Bank for the remainder of the bonds that were sold.41

By the end of 1838 Andre & Cottier sold 250 bonds, payable in post-notes at fifty per cent discount. That brought the total of bonds sold by January 1, 1839, to $6,777,777.78.42 From then until the middle of 1842 both new agents proceeded to sell small amounts at various prices and terms. In July of 1839, the total capital by sale of bonds amounted to $6,822,000. A bond sale of only $44,222 had been made in six months. From July, 1839, to July, 1840, another $44,000 of bonds was sold, bringing the total to $6,866,000. From July, 1840, to July, 1841, the amount rose to $6,927,000.00, and by July, 1842, the bonds sold amounted to $7,188,888. After that time no more bonds were sold, for the bank went into liquidation in October.43

Operations of the Citizens' Bank, 1836-1842

The Citizens' Bank commenced operations in March, 1836. Inasmuch as the Act of January had made the conditional contract with Hope and Company a legal and accepted contract, the firm was in a position to draw on its new accounts with the London agents handling the sale of bonds with the Amsterdam

41CBIC, 1842, p. 6.
42Ibid., p. 8.
43Ibid., p. 22.
company. Against these accounts the officers of the bank, therefore, proceeded to discount commercial paper, and within two months; that is, by May 15, these discounts equaled the then existing capital. Loans were also granted to the stockholders as soon as funds became available; each stockholder was permitted $25.00 per share. Business was soaring during these early months and the bank was extremely active.

Scarcely six months had passed when difficulties appeared on the horizon. Along with the other banks of the city, the new Citizens' Bank was feeling the tremendous drain on the specie reserves. Unlike most of the other banks, however, this property bank had the means of acquiring specie. The bank's bonds continued to sell in Europe and these sales built the firm's accounts with the European agents; these accounts permitted the bank to draw bills of exchange with which necessary specie could be purchased from Havana and Mexico.

Most of the bankers of the city were of the opinion that by offering a premium for specie it would check the flow out and even encourage it to return in sufficient amount to meet the demands. Mr. Forstall, president of the Citizens' Bank, however, was opposed to the move. To him, such a policy would be tantamount to an acknowledgement of a depreciation of the paper currency. He proposed in its stead to have his bank import such amounts of specie as might be needed. The Association of Bank Presidents took to the idea.

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44 Ibid., p. 2.
At first, it was thought that $3,000,000 would be needed, but as discussions progressed among the bank presidents, it was felt that the immediate importation of $1,500,000 would suffice. 46 Therefore, the Citizens' Bank was authorized to import $1,650,000, which would be taken by the various banks as a loan, according to the terms of the agreement signed by the bank presidents. 47

To obtain the importation of gold and silver, Messrs. M. de Lizardi and Company of New Orleans were requested to issue their domestic bills for sale in Havana and Mexico to purchase specie there. This specie, Messrs. de Lizardi were to deliver to the bank when received, and to reimburse themselves they were to draw against the bank's account with F. de Lizardi of London. 48

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46 CAML, Citizens' Bank to Consolidated Association, New Orleans, October 11, 1838.
47 The orders for specie by the various banks were as follows:

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canal and Banking Co.</td>
<td>$200,000</td>
</tr>
<tr>
<td>Bank of Orleans</td>
<td>100,000</td>
</tr>
<tr>
<td>Consolidated Association</td>
<td>100,000</td>
</tr>
<tr>
<td>City Bank</td>
<td>200,000</td>
</tr>
<tr>
<td>Mechanic and Traders</td>
<td>150,000</td>
</tr>
<tr>
<td>Improvement &amp; Banking Co.</td>
<td>200,000</td>
</tr>
<tr>
<td>Gas-Light and Banking Co.</td>
<td>300,000</td>
</tr>
<tr>
<td>Commercial Bank</td>
<td>100,000</td>
</tr>
<tr>
<td>Carrollton Bank</td>
<td>100,000</td>
</tr>
<tr>
<td>Bank of Louisiana</td>
<td>100,000</td>
</tr>
<tr>
<td>Atchafalaya Bank</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>$1,650,000</td>
</tr>
</tbody>
</table>

Mr. Forstall, who was taking an active part in the meetings of the Association of Bank Presidents during September and October, offered several sound suggestions on banking practices and principles. Not too much attention, however, was paid to them at the time, but the Citizens' Bank was following them, which probably accounted for the strong financial position of the bank, a financial strength which remained even through and after the crisis which followed.

In a letter written to the bank presidents, October 11, 1836, Mr. Forstall suggested a principle for sound currency and banking which was later incorporated in the Bank Act of 1842. His idea, of which he did not claim to be the originator, was that good commercial paper served as a sound basis for a stable and elastic currency provided there was sufficient specie backing the currency in order to prevent sudden expansions and contractions. By having the circulating notes backed by two-thirds commercial paper these notes could vary in amounts of circulation according to the demand and market conditions. Nevertheless, currency needed an equilibrator to prevent sudden and dangerous fluctuations and a one-third specie reserve, therefore, was essential in order that the currency might also follow the movements of the metallics. His statement was:

"Experience has proved that with a circulation of paper of no less a denomination than $5.00, each Bank ought to regulate its operations so as to have in its vaults an amount of specie equal to one-third of its Cash responsibilities. Were this Rule strictly adhered to, and made a fundamental
part of the Constitution of all monied Institutions, the Currency of the Country could never be disturbed—to extend or curtail suddenly is equally dangerous—a good medium will always be obtained by following the movement of the metallics. 49

The members of the Association of Bank Presidents agreed with Mr. Forstall's idea and they authorized the Citizens' Bank to acquire the necessary specie for their respective banks. After operations had begun on the acquisition of specie, however, there was a change of attitude on the part of the bank officials, which change reflected the feeling on the part of the public. The people did not care for money which was readily convertible; they were suffering from a lack of currency, even paper notes, and they wanted plenty of money and cheap money. A maintenance of specie redemption of paper currency could only serve to further contract the amount of notes in circulation. Both the banks and the public—with a false illusion—were now looking at a suspension in specie redemption as a means of relief. The imported specie, therefore, was not employed by the banks and Messrs. M. del Lizardi were left with the bulk of it.

50 GBL 1333, No. 67, p. 49. The importations from Havana and Mexico were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1836</td>
<td>October</td>
<td>$137,121</td>
</tr>
<tr>
<td></td>
<td>November</td>
<td>$324,000</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>$247,848</td>
</tr>
<tr>
<td>1837</td>
<td>January</td>
<td>$185,611</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>$113,975</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>$188,181</td>
</tr>
<tr>
<td></td>
<td>April</td>
<td>$128,612</td>
</tr>
<tr>
<td></td>
<td>May</td>
<td>$63,106</td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>$15,000</td>
</tr>
<tr>
<td></td>
<td>July</td>
<td>$124,200</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>$94,394</td>
</tr>
</tbody>
</table>

$1,626,048
The May crisis of 1837 occurred scarcely a year after the bank had begun its operations and its activities were temporarily disrupted in spite of the fact that it was doing "more to facilitate the commerce in the Mississippi Valley than any of the Banks in New Orleans." And, too, the crisis threatened the financial status of an institution which at that time was in an excellent condition, according to a legislative examining committee. From the chaos first created by the Panic, however, the bank was soon able to resume near-normal operations though it continued a suspension of specie payments. The continuation of the sale of bonds enabled the institution through the sale of bills of exchange on their London and Paris agents, to discount notes, and to grant loans.

By December, 1837, specie payments, to a limited extent, were resumed. The shock had been resisted, and the firm had $372,000 of specie in its vaults against a specie-paying liability of $65,000. It had $1,275,000 in capital funds, and a portfolio of commercial paper amounting to $4,000,000. Against these it had a $1,750,000 debt, much of which was payable in local bank notes.

A fatal step was taken in April, 1838, however. It was the first move toward the decadence of the Citizens' Bank, and, actually, it was a violation of the provisions of the charters. The directors, with the consent of the Attorney General, voted

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51 S. A. Caldwell, op. cit., p. 50.
52 Citizens Bank and Trust Company of Louisiana, p. 18.
53 OHIO, 1848, p. 4.
unanimously to emit post-notes in favor of the stockholders. 54

The eleventh section of the Act of 1833, stated that the stockholders had a right to a credit equal to one-half the value of their stocks. The interpretation of the law was, furthermore, that the loans on stocks be proportionate to the amount of capital negotiated. That would have meant that the stock loans were to be limited to 60 per cent of the capital received, and that interpretation had been followed by the officers until this time: $3,600,000 had been loaned on stocks with the negotiated capital to the amount of $6,000,000. In April, 1838, it was ordered that $3,600,000 of post notes, payable in 3, 4, and 5 years, and bearing 5% per cent interest, 55 could be issued in order to make available a means of circulation so badly needed.

The April resolution called for an emission of post-notes. During a period of nine months a total of $1,495,000 in post-notes was issued. Of this total, $784,300 of post-notes was bought back by the bank from the stockholders in order to resell them to F. deLizardi and Andre and Cottier, and a total value of only $216,700 was sold by these European agents, and on account of this small rate $567,600 had to be kept by the bank. 56

Strength remained with the bank, however, after the move was taken. The President continued to adhere to sound principles in spite of the desires of many of the stockholders.

54 Ibid., p. 5.
55 Ibid.
56 Ibid.
One error, which was not foreseen when committed, was the acceptance of the Federal Government's offer to use the bank as a depository, and that misgiving was caused by the imprudence of a later administration. The bank felt strong and there was serious talk of resuming specie payments in June, 1838. It had $300,000 in specie in the vaults, and $300,000 more was being imported from Havana. The circulation had been reduced to $1,860,000. That was about a one-third reserve on the circulation.

Good management ceased in September of 1838 when E. J. Forstall resigned, and after that the gross irregularities committed by the new administration started the bank toward its downfall. They simply refused to listen to Mr. Forstall's sound advice which he gave upon departing. Had they done so, the picture might have been different.

One year after the firm had issued post-notes, it had $882,700 of them on hand; they had been returned because no market could be found for them. These post-notes which had been issued to help the hard-pressed stockholders and debtors had failed to be of substantial assistance. Therefore, another plan was proposed—that of granting an additional loan of $15.00 per share to the stockholders. A strong minority arose against the measure but it passed.

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57 Ibid., pp. 6 and 7.
58 CHIC, 1838, pp. 5-7.
The minority objected to the new grant because it felt the consequences would be disastrous. It submitted convincing data to prove its point. According to the report, the bank's portfolio (not including stock loans) was $3,805,990; that is, $1,796,500 in notes from stockholders and $2,009,590 in other promissory notes. These were payable as follows:

- Renewable at 10 per cent discount $950,665
- Renewable at 20 per cent discount $2,487,790
- Payable in full at maturity $367,435

In addition to the portfolio, the bank held $733,000 in specie, $59,700 in foreign deposits and drafts, and $138,400 in local bank notes (then at a discount); in other words, current assets to the total of $4,786,590. Against these were current liabilities of $2,277,000, circulation of $536,000, individual deposits of $1,286,100, and a government deposit of $404,900.

Taking the specie, notes of other banks, and deposits with other banks, as against the current liabilities, the excess of active debts was $1,296,000. Furthermore, along with these figures, must be taken into consideration the fact that the bank already had reached $4,365,736.57 in loans to its stockholders—$300,000 above the legal limit. The stockholders in turn owed the bank in principal, interest, and otherwise, an amount of $6,162,036.57, that is, a sum equal to 90 per cent of the negotiated capital. The $15.00 per share grant in post notes, therefore, if all the stockholders availed themselves of the privilege, would increase the current liabilities
over the bank's resources by $810,000. Moreover, there was the matter of interest payments to be met in August, and that sum was $8,527,261. On the other hand, all the bank had in its portfolio that would mature within the period before August was the paltry sum of $745,963.

However convincing was the argument against the grant of an additional loan of $15.00 per share, the majority was not convinced. Even the advice to invest only in short-maturity commercial paper failed. Instead, the policy chosen was to renew discounted paper in full at the time of maturity, provided additional security was given.

It was mentioned above that the Citizens' Bank became a depository for the Federal Government in 1838, and that it became a source of great trouble for the bank. The Nolte affair and what followed it were the cause of the difficulty—Vincent Nolte was a New Orleans cotton broker who had been doing business with the Citizens' Bank.

After the crisis in 1837 the cotton market fell and it remained low for some time. The bank's policy, therefore, was to avoid making loans on cotton. But by 1839 the price of cotton was regaining its former level, and there were signs that the increase would continue. Therefore, the bank was tempted, persuaded to be exact, by Mr. Nolte to grant him a loan on cotton.

The Directors, nevertheless, took precautions and did not permit the loan to exceed two-thirds the cost price of
cotton, and the transactions were considered very sound. Mr. Nolte's transactions in cotton became speculative, however, and so fast were his dealings that he claimed he could not wait for the execution of the necessary forms demanded by law and custom before approaching the bank for additional credit. He asked the bank, therefore, to grant him advances or a loan on the simple deposit of certificates from the cotton presses and insurance policies until he could furnish the necessary documents. The bank granted him his wish, which was the very source of the trouble that followed and an imprudent act on the part of the officers.

When they realized the danger involved, the Directors became frantic. In their frenzy and haste, they seized everything of Nolte's that they could lay their hands on. Every legal device imaginable was thrust at Vincent Nolte. Wherever they found cotton which belonged or had belonged to Mr. Nolte they seized it. It so happened that others had granted Mr. Nolte credit on the same cotton and they too were seizing the cotton; sometimes as many as three or four had claims on the same cotton.

The whole affair was extremely complicated and many were involved. Only part of what occurred is included herein; it is simply an isolated case out of several others. Other transactions were just as fantastic.

Messrs. Yeatman and Company had sold cotton to Mr. Nolte on credit. On this cotton Mr. Nolte then secured a loan from
Messrs. A. and J. Denistoun and from the Citizens' Bank; the Messrs. Denistoun had the warehouse receipts. Thus, three concerns had claims on the same cotton.

The cost price of the cotton was $334,000. The Citizens' Bank loan on the cotton was $271,117. The total claims against Mr. Nolte on this cotton was $375,000. What did the Citizens' Bank do when it found that Mr. Nolte had obtained credit from three concerns on the same security? The behavior of the directors was astounding; they displayed a lack of judgment, foresight, and financial understanding.

All three creditors were fighting for the possession of the cotton. Finally, the Citizens' Bank agreed to pay both claims in order to get the cotton in its possession. Messrs. Yeatman and Company's claim was $143,698, and Messrs. A. and J. Denistoun's claim amounted to $92,000, a total of $235,698. The market value of the sequestered cotton was $170,000. The Citizens' Bank cleared its claim on the cotton at a price of $65,689 more than cotton could be bought on the market. Furthermore, the value of the cotton did not cover the $271,117 loan that was made on it.

In its frenzy over the unsound loans it had granted the Citizens' Bank seized everything that it thought to be a security, even that to which it had no rightful claims. However, it was not certain of itself on the claims, not certain of its priority rights contested by Mr. Nolte's creditors. Therefore, a compromise was offered to put an end to the
difficulties and the bank accepted it. The result was catastrophic.

The bank ceded its claims against those items which were claimed by Mr. Nolte's other creditors. Then it agreed to let Mr. Nolte transfer to the bank all his non-appropriated balances, $467,057 in cotton. This cotton was to be sold in Europe and the bank selected Mr. Nolte to sell it, advancing him $392,000 upon a personal guarantee from his creditors. Once in England, the cotton was seized by the Bank of England because Mr. Nolte had received a loan from it on the same cotton. To get the Bank of England to release the cotton the Citizens' Bank sunk more money. In all it spent $660,000 to sell cotton which had been accepted at a value of $467,057.

As soon as speculators found out about the generosity of the Citizens' Bank and what could be obtained therefrom, they flocked to its window: insurance companies, cotton presses, brokers, and boat captains received loans on cotton which the bank sent to England for sale.

Soon afterwards, cotton prices fell. A new disaster occurred. More litigations and more legal fees were involved; and what is more, instead of making a profit from the Federal deposits in its vaults, the Citizens' Bank became involved in the improper use of those funds; that is, it used the deposits for its speculative activities, and suffered a considerable loss there, too.

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59 CHIC, 1842, pp. 9-12.
The bank was to keep specie in special reserve for payment of the Federal Government deposits, but this it did not do. When orders came in June, 1839, for the bank to remit $350,000 of the Federal deposit to New York between June 30 and September 30, this caught the Citizens' Bank at a bad time. It had made large advances on cotton and it had little specie at its disposal. What current resources it did have were needed to pay the August interest on bonds and to meet the promissory notes discounted with other banks in the West. Deductions made, it had but $146,000 of current resources at its disposal and the specie it held amounted to $320,000.

The idea of sending the specie was rejected because it was rare and it would imperil the bank. After all, some specie had to be kept in the vaults to maintain a semblance of security for the circulation and deposits.

Another way out would have been to draw on its agents in Europe, or secure a loan. That was not tried, however.

Instead, a scheme was devised to buy cotton for shipment and sale—speculation. Cotton costing $237,000 was bought and sold with expectation of a handsome profit, but instead of making a profit, the bank lost $37,000.60

Largely on account of its speculative activities throughout 1839, 1840, and 1841, this New Orleans institution remained

in a state of legal proceedings, unsound credit expansion, and unlawful activities.

Before April, 1836, the stockholders had received $25.00 per share on their stocks and by the post-note policy these same stockholders had received an additional $15.00 per share, making $40.00 in all. The owners of stock had not benefited from the $15.00 post-note grant, but in May, 1841, the policy of post-notes was resumed again. The officers ordered another issue of $10.00 per share in post-notes with the obligation on the part of the bank to repurchase them at 3 per cent discount. Post-notes to the amount of $624,900 were issued: $150,000 sold in Europe; $184,900 were given to and repurchased from the stockholders; and $350,000 were not negotiated. 61

The Association of Bank Presidents in New Orleans, in December, 1841, presented a resolution to resume specie payments one year later. The president of the Citizens' Bank refused to concur on this resolution because he felt that a prolongation of suspension would hinder the bank's progress in the negotiation of bonds in Europe. Therefore, this institution left the Association and established itself on a specie basis. Unfortunately, the situation of the bank was not such as to justify the move:

The current assets were:

Due from other banks --------- $673,416.70

Local bank notes ------------ $162,051.00
Municipality notes --------- 19,958.00
Other bank notes ----------  470.00
Specie ---------------------- 570,196.00
Total $1,686,091.70

The current liabilities were:
Due to other banks -------------- $961,396.17
Post-notes ---------------------- 241,700.00
Circulation ---------------------- 361,810.00
Government deposit -------------- 13,906.82
Special deposits ----------------- 45,502.00
Individual deposits ------------- 795,291.37
Deposits at interest ----------- 1,189,518.30
Deposits on certificates --------  7,076.00
Deposits on certificates at interest 10,800.00
Total $3,431,950.67

In other words, the current liabilities exceeded the current assets by $1,805,858.68.

The year 1642 was the fatal year for this property bank. Its portfolio—current assets—became exhausted and all that was left were the eight and a half millions in loans to the stockholders. Every action of the bank, therefore, gave signs that it was faltering, and the indecision became apparent even to the general public. It was seen that the bank was in a weak financial position and a run was started. On May 30, with
its resources exhausted the Citizens' Bank was the first to suspend specie payments. By the end of 1842 a decree of forfeiture was rendered at the instance of the State, thus the property bank was forced into liquidation. 62

Liquidation of the Citizens' Bank

Because the Citizens' Bank was unable and refused to conform to the Bank Act of February 5, 1842, and because the State wanted to prevent waste and expensive litigation, a decree of forfeiture was rendered at the instance of the State on October 18, 1842. Thus the property bank entered into a state of liquidation which lasted until 1902. From 1853 on, however, this liquidation was carried on by the new State bank of the same name. Throughout, however, the State had its problems with the bonds issued for and in favor of this original Citizens' Bank.

The history of this liquidation and how the State attempted to rid itself of its liability—contingent liability, it was called—is somewhat analogous in many respects to that of the Consolidated Association, but it possesses peculiarities all its own. Furthermore, the management of the insolvent company was not as improperly carried on as that of the sister bank which was also being liquidated.

The Governor with advice and consent of the Senate appointed a Board of Managers which was to take over the affairs

of the bank, and it started its duties October 27, 1842. It met jointly with the Board of Directors on November 5, and it was decided that the books, assets, et cetera, be placed in the hands of these managers on the twenty-first of the month after an inventory had been completed. In so far as this inventory was not finished by them, however, the transfer did not occur until December 10. The first business the new administration undertook consisted of the interest payment and the reimbursement on the bonds. 63

Bonds and Interest on Bonds during the Period of Liquidation. — Redemption of bonds was not a problem in 1842 because the first series still had eight more years before maturity, but interest payment on the securities was a pressing problem. With the current assets exhausted there was no effective means of making payment. About $190,000 was needed for February, 1843, and a like amount for August, not to mention the amount that was still due on the partial non-payment in August, 1842. 64 Therefore, on December 10, the Governor and Hope and Company were informed that the bank was unable to meet the February 1 interest.

The next step taken by the Managers was to request Hope and Company to return 6,325 State bonds amounting to $2,811,111.11 65 issued in favor of the bank, the unsold por-

63 Ibid., 43, p. 1.
64 Ibid., p. 14.
65 Ibid., p. 2; Leg. Doc., 1843; CBBM, 1844; and New Orleans Courier, November 27, 1843.
tion of the bonds issued by the State. Also, it was ordered that the unsold post-notes be returned. To accomplish these two things, Colonel John Winthrop was sent to Europe as agent for the bank, and he returned in November, 1843, with $3,400,000 of bonds and post-notes.66

Many acts were passed during 1842 to place the Louisiana banks on a sound basis. Namely they were: Act No. 1767 to prevent violation of the law by banks, (1) Act No. 22 of February 5, (2) Act No. 47 relative to banks, (3) Act No. 59 to supplement former Acts, (4) Act No. 93 to amend Act No. 22, (5) Act. No. 95 to prevent suits against the banks, (6) and Act No. 98 to provide for liquidation of banks. All these acts were considered insufficient to cope with the liquidation of the insolvent property banks—the Citizens' Bank and the Consolidated Association—and another act was passed April 5, 1843.68 This Act firmly established the management of the Citizen's Bank in the hands of the State through the existing Board of Managers, and the bill defined its powers. Furthermore, to facilitate commerce and the paying of debt by the stockholders, a provision was made whereby the bank was to accept bonds in cancellation of debt. Through this last pro-

66 New Orleans Courier, November 27, 1843.
Niles Weekly Register, Vol. XV, p. 240.


68 Ibid., 1843, pp. 56-59. Cf. Chapter III, pp. 130-133
vision the bank managed by the end of 1843 to reduce the 
amount of bonds outstanding by $184,442.60, leaving the cap-
ital debt at $7,004,446.29. By 1848, through this means, the 
bonds had been reduced to $6,466,007.21.

Edmund J. Forstall again was elected president of the 
bank in 1843, and under his management, the institution was 
able to materialize on its resources and to pay the interest 
as it fell due. Unfortunately, Mr. Forstall remained as 
president only for a year. In 1844, he was replaced by Mr. 
James B. Hulin; and under his administration the affairs were 
not conducted so soundly as under the previous president. 
Nevertheless, the bank did continue to pay interest 
after the first three defaults.

Having resources to meet the interest payments was one 
matter; having resources sufficient to meet the payment of 
the maturing first series of bonds (due in 1850) was another. 
While the current assets were sufficient to meet the half-
year dividend coupons on bonds, they were by no means ade-
quate for the reimbursement of the 1850 series of bonds. 
Therefore, in 1847 the State authorized the Citizens' Bank 
to extend the maturity date from one to four years.

70 Ibid., 1849.
71 CBBM, 1843, p. 10.
72 La. Acts, 1847, No. 100, pp. 76-78.
By this same Act of 1847, the State made a change in the method of administering the affairs of the Citizens' Bank. It considered the bank well enough advanced in the process of liquidation to permit the stockholders some say in the management. Exclusive management, therefore, was relinquished; and this was done by repealing the Act of April 5, 1843.73

The exclusive management was ceded, however, to "sugar coat a bitter pill." The State directed the bank officers to assess each stockholder for periodic payments for a period not to exceed seven years, in order to establish funds sufficient to pay current and post-due liabilities, interest and the like. The contribution decided as necessary was seven dollars per share, and they were to be made in seven one-year instalments starting from 1851 and continuing until 1857.74

After the 1847 Act was passed, the bank proceeded to set its records straight. The Directors paid the current liabilities out of their cash collections and from the sale of 55 State 6% bonds, and in June they entered into negotiations with the bondholders. Terms were reached in August, 1848. The 1850 bonds, amounting to $1,279,557.14 were extended in equal yearly instalments from February 1, 1851, to February 1, 1855. Bond interest in arrears, amounting to $675,000 (amount not paid in 1842 and 1843), was funded in seven yearly payments

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73Ibid., sections 1 and 2.
from August 1, 1849, to August 1, 1855.\textsuperscript{75}

Conditions began to change in 1849. Until then the assets of the Citizens' Bank exceeded its liabilities. After that time the liabilities exceeded the assets—much to the worry of the State.\textsuperscript{76}

Furthermore, not only was the bank showing a deficit in its assets to meet liabilities, but the default on extended debt of 1851 to 1855 was imminent. In all, the bank was faced with the need of meeting a current debt amounting to $1,573,800.02.\textsuperscript{77}

Moves were made, therefore, to devise a plan whereby the State could rid itself of the obvious need to make good its promise to pay in the event the bank could not. How best to extricate itself with as little loss as possible from the dilemma in which it found itself was a serious problem, and one which brought forth much controversy and disagreement.

Something had to be done to extricate the State, if possible, from its financially perilous position in respect to the bonds which, in an evil hour, it

\begin{tabular}{l l}
\hline
\textbf{Semi-annual interest} & \textbf{\$860,000.00} \\
\textbf{Interest on 1848 bonds} & \textbf{\$192,111.15} \\
\textbf{Installments on 1850 bonds extended from 1851 to 1855} & \textbf{\$521,683.87} \\
\hline
\end{tabular}


\textsuperscript{76}Ibid.

\textsuperscript{77}Leg. Doc., 1851, "Report of Board of Managers of Citizens' Bank":

\textsuperscript{\$1,573,800.02}
had issued in aid of the Bank. Something had to be done to advance successful liquidation of the Bank. If these things went on as they had been going the State would inevitable incur the great loss of having to pay the bonds with accrued and accruing interest. \(^78\)

That something was Act No. 141, entitled "An Act for the relief of Citizens' Bank of Louisiana," which was passed March 10, 1852, after much controversy. \(^79\)

The State, through the Act, released the Citizens' Bank from the decree of forfeiture rendered on October 18, 1842, and permitted it to resume operation with all the privileges originally granted by charter. The Bank, according to this Act, had to restore $800,000 of State bonds to the Governor, such bonds to be purchased by means of contributions from the stockholders not in excess of twelve dollars per share. \(^80\)

The sum of $800,000 was specified because that was the amount that had been estimated as the existing deficit in the findings of the Joint Committee on Banks. Real estates of the Citizens' Bank, they figured, were worth about $5,600,000, while the liabilities equalled $6,500,000. \(^81\)

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\(^79\) House Jour., 1852, "Joint Committee on Banks," p. 46.


\(^81\) Such a deficit, however, the Joint Committee on Banks concluded, was only temporary because the stock mortgages which secured the State obligations were worth considerably more than the bonds outstanding. In other words, they estimated the real value of plantations and city properties mortgaged at $11,160,000; with other assets included, $12,300,000 stood to pledge $6,500,000.
"The Act for the Relief of the Citizens' Bank," however, was vetoed by the Governor after it has passed both Houses of the Legislature, but the Legislators did not give up the plan. The bill was reintroduced and it was bitterly fought into passage over the veto.82

Even though the majority of the Legislators were successful in enacting the bill, the act did not meet the approval of the stockholders. In the case of Pollard vs. Citizens' Bank it is stated, the "Act of March 10, 1952, having failed to resuscitate the defunct Citizens' Bank a more successful effort was made under the Act of April 28, 1853, No. 246, which introduced a radical change in the constitution of the bank and was accepted by a majority in number and amount of stockholders, and so came into effect."83

The "radical change" created by Act. No. 246 was that the defunct property bank was revived as a stock bank; it was an act to authorize the Citizens' Bank of Louisiana to convert shares secured by mortgage into cash shares. How such a change was to take place, nevertheless, was left extremely vague and ambiguous:

House Jour., 1852, pp. 46-47.
House Deb., 1852, p. 63.

... the Board of Directors ... shall have power to raise one million of dollars, by obtaining the payment in cash of 10,000 out of the 144,000 shares composing the capital stock of said Bank, and for that purpose the said Board of Directors are hereby authorized to set apart, to be disposed of as hereinafter stated, a proportion of the stock held by each stockholder, not exceeding one out of every fifteen shares; which shares are set apart, together with such proportion of the stock held by the Bank as will make up for 10,000 shares, are to be paid in full at the time and in the manner to be determined by the Board, in order to constitute a cash stock; Provided the mortgages existing against the stockholders to secure the portion of the stock so set apart, shall not be considered as raised, and the contribution due on the same shall remain as heretofore, payable by each of them respectively.

What was actually done was apparently a little different from what was intended by law, if the law can be interpreted.

From what appears in writing, it seems as if the Legislators wanted the existing stockholders to relinquish one out of fifteen shares held without altering the debt owed, the mortgages held as security, or the seven dollars per share contribution previously assessed. This share contribution by the stockholders would have given the bank 10,000 shares which it could sell for cash at $100 per share. That was not the interpretation given, however.

When reorganized, the Citizens' Bank had two departments: a mortgage department which included the "dead weight," or the fixed assets and liabilities of the old corporation; and

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a banking department which took over the liquid resources of the old firm upon the agreement to make up any difference occurring in the mortgage department. The banking department became the active part of the bank and the stockholders controlled its affairs along with those of the mortgage department, but they were not the same stockholders as before. According to the interpretation given the law, one-third of the shares of the old corporation became part of the stock of the new company, that is, five thousand shares were under the control of the mortgage stockholders. Ten thousand new shares of stock were issued and sold for cash, and this gave the new stockholders control of two-thirds of all the stock of the bank. 85

The plan of 1853 was accepted by 380 mortgage stockholders owning 88,992 shares, rejected by three owning 458 shares, and not voted upon by 313 owning 54,442 shares--there were 143,892 shares in total. 86 Therefore, the new bank started business as an active bank in February, 1854, with a stock capital of $1,500,000. 87

If the opinions of the Courts of Louisiana were correct, the Act of 1853 was of great benefit to the State and its people. For instance, the case of Hope and Company vs. Citizens' Bank has the following statement:

87 Citizens' Bank and Trust Company of Louisiana, p. 52.
The evidence established that during the period from 1853 to 1880 the banking department paid the mortgage stock department alone on the half million stock held by the latter department in the former, $1,065,000, which was applied in payment of the interest on the bonds of the State. This amount would doubtless have been much longer, but for the Civil War and its resulting demoralization of business and destruction of values, both in landed property and slaves. In addition to the $1,065,000 so paid as profits, to the mortgage stock department, the banking department advanced its sister department the further sum of $682,000 which was applied to the bonded indebtedness and which was under the terms of the compact of 1853, to be reimbursed.88

In 1866, shortly after the Civil War, the State once more saw the possibility of having to make good its pledge. Chaos had disrupted the activities of business to the point where the Citizens' Bank was facing the problems of meeting interest payments, and reimbursement as well. The bonds of the third series were maturing in two years, and there were bonds of the 1850 and 1856 series that had not been redeemed as yet. Therefore, the 1850, 1856, 1868, 1877, and 1886 bonds were extended to mature on February 1, 1901, 1902, 1908, 1911.89 Throughout this period, however, the banking department was reducing the bonded debt of the Mortgage Stock Department, though the reduction was not great. Where the debt was $6,253,533.25 in 1853,90 it was

90 Leg. Doc., 1853, "Proceedings of the Board of Currency."
reduced to $4,803,683.33 by 1872;\textsuperscript{91} in almost twenty years, scarcely $1,500,000 was paid off. It must be added, however, that during this interim, the banking department had issued $800,177.77 of its own bank bonds in exchange for State bonds and this amount had been reduced to $633,333.33.\textsuperscript{92} In 1866 when the extension was granted, the Citizens' Bank State bonds totaled $3,797,333.33, a reduction of $2,466,199.98 from 1833.\textsuperscript{93}

In 1874 the Funding Act was passed whereby the bonded indebtedness of the State was combined into a consolidated bonded debt, and, as was stated with reference to the bonds of the Consolidated Association,\textsuperscript{94} This Act created some question as to the legality and the State's obligation toward the bonds it had issued for and in favor of the property banks. As in the case of the Consolidated Association, the bonds of the Citizen's Bank were not included as fundable. Legal action on the part of the European investors was undertaken, therefore, through Hope and Company of Amsterdam. In 1889 representatives of the Dutch concern brought suit against the State for a conversion of the bonds into consols, and the lower courts declared that they were not fundable on the ground that they were not included as part of the bonds fundable in the Act of 1874. This


\textsuperscript{93}Ibid., 1867, p. 31.

Bonds payable Feb. 1, 1868 $1,265,333.33
" " " 1, 1867 1,264,888.89
" " " 1, 1886 1,267,111.11

\textsuperscript{94}Chapter III, pp. 170-183
decision was reversed by a higher court in 1890, but the court dismissed the case because the Amsterdam Company had not followed the proper procedure for the funding of their bonds. When it was brought before the court again in 1891, the decision was rendered that the Citizens' Bank Louisiana Bonds were fundable into consols as provided by the Law of 1874, that is it held that:

The limit of the bonded indebtedness of the State is not exceeded by funding the balance due plaintiff. At the time that the amount of securities collected was imputable, and at the present, the State's interest was, and is now, to pay its consolidated bonds and coupons.

Instructions were given, therefore, to the Board of Liquidation to fund the bonds in accordance with the law of 1874, that is, to issue consols on the basis of 60 cents on the dollar of old debt. It was ordered, also, that the company be awarded interest on the consols at the rate of 7 per cent for six years, 2 per cent for five years, and 4 per cent from 1885 to the time of the funding. From the amount of the principal and interest, however, the following items were to be deducted:

96 Ibid.
1. Payments already made - $2,060,466.35
2. Interest on the payments - (not given)
3. Amount already paid by bank on coupons 300,000.00
4. Cash in bank's sinking fund for the retirement of bonds -------------- 85,000.00
5. Amount of Hope & Co.'s stock in Citizens' Bank ---------------------- 133,000.00
6. Stockholders' Mortgages guaranteeing the bonds ---------------------- 800,000.00

Nevertheless, the court's decision did not meet the approval of Hope and Company and they demanded a re-hearing. This was refused and the final liquidation was retarded until 1902. At that time the remaining $230,999.22 of bonds were converted into consols on the basis of 60 cents on the dollar, according to the Act of 1874 and ensuing amendments. The end of the bonded debt came seventy years after the inception of the third and last property bank incorporated by the Legislature of the State of Louisiana.

Operation during the Period of Liquidation

The business operations of the Citizens' Bank did not cease in October, 1842, when a decree of forfeiture was rendered at the instance of the State against the institution for

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98 S. A. Caldwell, op. cit., p. 110.
not abiding by the provisions of the laws of February 5 and March 12. Outwardly, business proceeded somewhat as before. The chief difference was that the power to issue bank notes was revoked. Policies with reference to loans and discounts were not altered by the decree. Management, however, was placed in the hands of officials selected by the Governor; and the reason for the change in the administration was that the financial condition of the property bank was bad. Because of mismanagement and expensive litigations, the State felt it necessary to take control of the affairs of the institution in order to protect itself on the pledge it had made to the bondholders and, also, to protect the stockholders who were at the mercy of the previous beligerent directors and officers.

As the Law of March 12 made provision for the selection of a Board of Managers for banks which were to go into liquidation, the Governor appointed six men to constitute that board after the Fifth District Court of Louisiana rendered the decree. These men were: Messrs. E. J. Forstall, J. B. Lepretre, A. Hoa, W. Freret, E. Rousseau, and R. Currell; and they took their oath of office October 27, 1842. Soon after they were installed these new members formulated and adopted rules and regulations for the future operation of the bank now in the

10043. La. Ann. 738, Hope and Co. vs. Board of Liquidation; and H. Leck, op. cit., p. 34.
state of liquidation; and under the leadership of Mr. Forstall, president of the Citizens' Bank from 1836 to 1858, the institution was reorganized in order to operate along sound policies and practices.101

Because a large number of stockholders had been in arrears for several years, and because these arrears had deprived the bank of the means to pay interest on bonds and other obligations, the Board of Managers voted upon measures to force payment. The bank's attorney was instructed to notify all stockholders in arrears that unless the arrears were fully paid in cash, or in deposits of produce at a valuation of two-thirds of their marketable value, or by additional satisfactory security, it would be necessary to institute foreclosure proceedings. Furthermore, if produce were deposited, the bank reserved the right to dispose of it at any time within ninety days by order of the depositor, or by the bank's own pleasure after ninety days, provided it was disposed of at the current market price.102

Early in 1843, Mr. Edmund J. Forstall was elected president of the Board of Managers for the Citizens' Bank, while he continued to represent Hope and Company of Amsterdam, bondholders and agents for bondholders of the firm's securities; and thus he was in a peculiar position. Actually, Mr. Forstall

was acting for two separate and opposite groups simultaneously. Strange as this might have been, however, he served to the good interest of both, although not without conflict and complication—but it was typical of Mr. Forstall. Under his supervision, the bank restricted its previously lax discount practices, refrained from placing its income in 'frozen' assets, and insisted upon prompt payment on loan instalments. Such policies were to the good interest of the State, the stockholders, the bondholders, and the bank. That was because it was sound banking. Nevertheless, queer situations were soon to arise. For instance, after the Board of Managers observed the financial situation of the firm it was decided to notify the Governor, and Hope and Company that the Citizens' Bank could not meet its February 1, 1843, interest payment on the bonds, and this notice was given by Mr. Forstall. Being the representative for Hope and Company, Mr. Forstall found that he had to deliver a protest to the president of the bank—Mr. Forstall—and to the Governor because of non-fulfillment of a contractual agreement. Mr. Forstall complained in the "Memorial for Hope and Company in Behalf of the Holders of the Citizens' Bank State Bonds" that this protest was completely ignored by the president of the Board of Managers (who was Mr. Forstall). Obviously, however, these absurdities were for legal purposes and not too serious in nature. Defaults con-

103Ibid., p. 9; Leg. Doc., 1843-1844; and R. C. McGrane, op. cit., p. 185.
tinued and more protests were made without either group indicating worry over the situation. Nevertheless, that there was pressure cannot be doubted for Mr. Forstall found it necessary to resign as president in 1844. 104

April 5, 1843, the State passed an act to facilitate the liquidation of the Citizens' Bank, along with that of the Consolidated Association. Again the law stated that the assets of the bank were to go into the possession and exclusive management of the State, and the powers of the Board of Managers were redefined and broadened. To facilitate the payment of arrears on loans and other debts, the act provided that these debtors could offset or partly offset such loans or debts by offering in payment any bonds of the State issued in favor of banks. 105 This provision, as has been discussed in detail with respect to the Consolidated Association, permitted the cotton factors and the planters with a means of breaking the English boycott on American cotton. It did not, however, place the bank on a sound footing. 106 It did not provide the institution with a badly needed portfolio—liquid assets.

Despite the management under the supervision of the State, and despite the provisions of Act No. 92, losses continued to mount—especially after Mr. Forstall ceased being president. By 1845, therefore, the Finance Committee of the

104 Ibid.
106 Supra.
State Legislature was delegated to investigate the financial situation of the Citizens' Bank. They found the losses to be considerable, but they felt that if the stockholders were assessed not more than twenty-five dollars per share, it would be sufficient to cover the bank's liabilities adequately without forcing the State to assume any loss whatever. In order to make this assessment, the committee suggested, therefore, that the stockholders be allowed to elect members on the Board of Managers and Directors of the Citizens' Bank in order to represent their interest in the liquidation. Furthermore, the committee advised an extension for the bonds falling due in 1850 so as to give the institution sufficient time to collect the assessments from the stockholders. 107

Therefore, in 1847, the suggestions of the Finance Committee were enacted into law, and the State relinquished its exclusive management in the affairs of the Citizens' Bank. Instead of there being a Board of Managers for the Citizens' Bank selected by the Governor, the State designed a Board of Bank Managers which was to function in conjunction with the Directors elected by the stockholders; that is, three men selected by the Governor were to assist in the management but were not to have exclusive administrative control: one member of the board was to be President of the Board of Bank Managers; the

other, President of the Consolidated Association; and the third, President of the Citizens' Bank. The directors were to be elected in the manner specified by the charter. 108

While this Act No. 100 of 1847 did provide for an assessment, the amount was not stated, the only provision being that the instalments not extend beyond seven years. 109 The amount of the assessment was left to be ascertained by the managers and directors of the bank, and it took them three years to decide. Finally, in 1850, it was figured that seven dollars per share payable one dollar per year would be sufficient to meet all claims against the bank. 110 That was considerably less than what the Finance Committee had suggested; but why this assessment was placed so low is difficult to visualize, because the managers and directors knew that the firm was not adequately prepared to meet even the current obligations from the portfolio and the one dollar yearly instalment. 111

Small as the assessment was, however, the stockholders, for the most part refused to pay. The reason given for the non-payment was that the property owners were facing unusual difficulties during 1851 and 1852.

The real difficulty encountered by the bank in not being able to meet its obligations from the funds that should have

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108 "Acts, 1847, No. 100, pp. 76-78.
109 "Ibid."
110 "Ibid.
been available was not because the stockholders refused to pay their instalments or assessments, although that was a factor that limited the working capital of the bank. The more basic cause of the difficulty was that the bank invested its working funds in "frozen" assets, instead of keeping the funds liquid, or readily convertible. The Board of Bank Managers gives an illustration of this fact in a report to the State Legislature. In the report is described the action taken by the Directors when the St. Charles Hotel was destroyed by fire. 113

Included as part of the fixed assets of the Citizens' Bank was the St. Louis building in New Orleans which had been in a state of depreciation for several years and had been an untenanted and unprofitable establishment—a "dead weight." When the St. Charles Hotel burned, it was though a good opportunity to make a paying affair out of the St. Louis building. The directors converted the edifice into a hotel, and at a considerable expense. 114 The revenues therefrom were not what had been expected and the investment amounted to another "sinking" of liquid funds in "frozen" assets, a good example of what the bank was doing with funds which were to go toward the payment of interest and principal on their bonds. No wonder the institution was not in a

113 Ibid., 1851, op. cit.
114 The size of the building was enlarged, and it was made completely modern in order to make it equal to or rival any hotel in New Orleans.
prosperous situation; no wonder the State became fearful of having to pay the interest and principal on bonds it had issued in favor of the bank; and no wonder plans were being devised to change the characteristic nature of the firm in order to establish a stock bank instead of a property bank.

New blood was introduced when the Citizens' Bank was re-organized by the provisions of Act No. 246 in 1853. When the mortgage stockholders accepted the plan of dividing the bank into two separate departments they ceased to have exclusive control of the institution. By the sale of 10,000 shares for cash in order to create a banking department, the control went to the new stockholders, with the mortgage stockholders retaining but one-third active interest. Thus, the cash stockholders operated the firm to their best interest in order to keep the company solvent and reap profits. Furthermore, the banking department was anxious to rid itself of the obligations it had assumed when it had accepted the resources of the property bank. Therefore, for a few years the apparently wild scheme devised by the State Legislators was operating to the good interest of every party concerned.

The Panic of October 14, 1857, however, disrupted the successful operation which had been in evidence since February, 1854, when the reorganized bank opened for business. On October 14, the banking department suspended payments on its de-

posits, but continued to meet payments on its circulation. That suspension, fortunately, did not last long. Timely and judicious assistance from the other New Orleans banks which had been reestablished on a sound basis after the passage of the Bank Act of 1842, enabled the Citizens' Bank to resume payments on all obligations by November 3. Nevertheless, it was evident that the financial status of the bank was not such as to permit future payments of interest and principal on the bonds. The Board of Currency upon examining the affairs of the institution found that very few bonds had been redeemed from 1854 and 1857 and that there was the second series of bonds coming due in 1859. The Board of Managers felt that assistance was necessary.\(^{116}\) An extension of the maturity dates, therefore, was considered, but no extension was voted by the Legislature.

The Civil War disrupted all the activities of the Citizens' Bank, and when it was over the revenue-producing properties were virtually destroyed, or extremely deflated in value. What was the bank to do to meet its obligations, past due and coming due? The State, therefore, made an effort in 1866 to relieve some of the pressure by extending the maturity dates of the bonds due in 1859 and coming due in 1868, 1877, and 1886 to 1901, 1902, 1908, and 1911.\(^{117}\) Nevertheless, the extension did not solve the immediate problem of meeting current obliga-


\(^{117}\) 743 La. Ann. 738, Ho-e and Co. vs. Board of Liquidation.
tions; interest payments and other debts were paid whenever possible, but the revenues were not always sufficient.\footnote{118} To obtain the necessary funds, therefore, the directors took stronger measures to force payments on the mortgage stock loans; and when payments were not forthcoming, they instituted foreclosure proceedings.

The bank's policy of foreclosing on mortgage loans brought to the front many controversies. Some of the properties which carried with them mortgage stocks had been sold or transferred and the new owners refused to recognize any obligation to the bank. Other property owners maintained that all their obligations had been fulfilled and that they were no longer responsible for any debt on the mortgage stocks; \textit{et cetera}. Court action after court action, therefore, took place between 1866 and 1880.\footnote{119}

Finally, in 1880, the State Legislature passed an act "to enable the Citizens' Bank of Louisiana to make a compromise and settlement with its mortgage stockholders; to enable said stockholders to free their real estate from said mortgages; to secure the application of the amounts realized from said mort-

\footnote{118} \textit{La. Doc.}, 1867, 1869, 1872, and 1874, "Report of the Auditor of Public Accounts."

gages to the payment of the State bonds issued in aid of the Bank, and to the legal liabilities and necessary expenses of said mortgage stock department; ..." That compromise was reached in July, and by its terms the mortgage stockholders were to have returned to them their titles on the mortgaged property upon payment of their obligations to the bank, and their stocks were to be returned and canceled. Also by this compromise, which required the assent of the bondholders, arrangements were made to have Hope and Company of Amsterdam become as stockholder in payment of interest in arrears on the bonds. 121

Thus, the Compromise of 1880 with the mortgage stockholders opened the way for the bank to free itself from the burdensome mortgage stock department, and by 1911, when the bank was again reorganized, there were no longer any mortgage stockholders.
CHAPTER VI

INFLUENCE AND IMPORTANCE OF LOUISIANA PROPERTY BANKS

The degree and emphasis that should be placed on the influence and importance of the Louisiana property banks in Louisiana, the South, and the Nation is difficult to determine or ascertain because they were but a part of a far greater movement which in itself was complicated and not too specific. These three Louisiana mortgage banks were neither the cause of the optimism and the inflationary practices existing during that period, nor the cause of the crisis that followed, even though they were contributing factors in both instances. They were more the result of the general attitude and behavior toward economic conditions. These banks existed in a period of wild and speculative optimism when everyone—farmers, business men, speculators, and lawmakers included—operated under the assumption that prosperity was permanent, and each individual had, it appears, a different idea on how to proceed to reap quick profits while expanding to achieve greater income and more self-sufficiency. Louisiana's property banks represent one of these ideas; they are but an incident out of a multitude of events.
From 1804 to 1824 Louisiana had been somewhat moderate in its banking. During this twenty-year period the State granted but four charters for stock-banks, and of these only two were in existence in 1824. No state assistance had been given to any of these corporations; the capital had been supplied locally.

By 1824 commerce had expanded so rapidly, largely because the steamboat monopoly had been broken by the 1817 Shreve vs. Livingston case, that the commercial interests and the lawmakers felt that the two banks with a nominal capital of $2,500,000 were extremely inadequate to meet the existing needs for development. Inasmuch as local private capital was insufficient to undertake a large banking program, and inasmuch as there existed much hesitancy on the part of foreign capitalists to acquire stocks which would entitle them to control the affairs of the banks, the State was persuaded to enter actively into the field of banking. In order to entice the foreign capital without relinquishing control over the proposed company, the State became a stockholder in the Bank of Louisiana and it issued bonds for and in favor of the corporation in payment for the stocks received; the bonds were sold to provide the necessary funds for operation.

This Bank of Louisiana venture opened the avenue of banking through which the State could participate for the pur-

1 Supra., p. 40.
2 Supra., pp. 16, 18.
pose of development. The venturesome legislators with but a hazy conception of economic and governmental problems felt that their young and growing State could be made self-sufficient and prosperous through investments in various enterprises by the media of banks. Their faulty conceptions concerning the functions and purposes of banks led them to attempts at creating wealth through the excessive use of banking privileges. Their wild dreams told them that there could never be too much capital; the proceeds from the sale of bonds could always be employed at a profit, and the earnings from the use of the capital funds would undoubtedly be sufficient to pay the interest on the bonds and eventually to retire the principal. Most of the experiments, however, proved to be costly and unduly burdensome on the State and its people.

In so far as the commercial interests were not the only ones witnessing the possibilities of large profits from the expansion of commerce, and in so far as commerce was not the only activity in which the lawmakers were interested, other pressure groups were soon actively demanding assistance and privileges. The State was induced to venture into fields now considered to be reserved to private enterprise and to be outside the realm of a government function.

The most influential pressure group was the plantation owners, especially the sugar planters. It was considered

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3 According to F. L. Martin, Louisiana was furnishing at the time almost half of the sugar consumed in the United States and it was bidding fair to supply a good portion of the remainder. (Op. cit., p. 436.)
the most prosperous class in society and the members had consider­able influence in the Legislature; many of them were legislators in one or the other branch of the legislative body. It was not surprising, therefore, to have this group exert its influence to obtain assistance, and it was not surprising either to see it obtain more privileges and assistance than any other group.

The other groups to demand State help were the improve­ment interests. The railroad, canal, hotel, public utilities, and trade promoters were active in persuading the members of the Legislature that their programs needed privileges and assistance to be carried into effect for the further development and benefit of Louisiana. They, too, wanted banking privileges. Some of the improvement companies were even successful in obtaining direct assistance by receiving State bonds issued for and in their favor, although the amount of such bonds was in no way comparable to the amount received by the property banks.

From 1827 to 1837 new banks were created for many groups that promised to promote an improvement undertaking; the majority of these institutions were organized between 1833 and 1836. During the decade prior to 1837 no less than thirteen banks were incorporated, and three of these were property banks. Thus, in 1837 there were no less than sixteen banking companies, all situated in New Orleans, and some of them had several branches in other important cities within the State.
Altogether, these institutions had a nominal capital of approximately $55,000,000 and a paid-up capital of nearly $39,000,000. The State became part owner in seven different banks, and on their account had incurred a bonded debt of about $24,000,000.

To determine the relative importance of the mortgage banking firms, it is necessary to make a comparison on other bases than the number of banks. Foremost, it is essential to compare the capital of the institutions with that of the ordinary stock corporations engaged in banking. The nominal authorized capital of the three property banks was:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Association</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Union Bank</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Citizens' Bank</td>
<td>$12,000,000</td>
</tr>
</tbody>
</table>

Of this amount approximately $14,000,000 in bonds had been negotiated by May, 1837. On the other hand, the nominal capital of the stock banks was:

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4 There is no definite data which gives the nominal and paid-up capital of the sixteen banks as of or before May, 1837. The nearest date for such information is December 23, 1837, at which time Edmund J. Forstall, chairman of the Senate Banking Committee, presented a chart on the banks of New Orleans (cf. S. A. Trufant, op. cit., p. 8). For substantiating data see also 24 Cong. 2 Sess. Ex. Doc. No. 65, pp. 152-163, and 25 Cong. 2 Sess. Ex. Doc. No. 79, pp. 654-655.

5 Cf. S. A. Caldwell, op. cit., p. 52.
Of this amount authorized only about $18,000,000 was paid up by May, 1837. Thus, the capitalization for the ten stock
banks created during the decade was slightly more than for the
property banks; it was $5,500,000 more in the amount of au­
thorized capital, and approximately $4,000,000 more in paid-up
capital. For the purpose of comparison, however, it is neces­
sary to include in the analysis the three stock banks in ex­
istence prior to 1827, and their capital was:

| Bank of Orleans | $500,000 |
| Louisiana State Bank | $2,000,000 |
| Bank of Louisiana | $4,500,000 |

Total: $6,500,000

Most of their authorized capitalization was paid-up.

The relative importance of the three property banks
is evidenced partially by comparing their nominal and paid-up
capital with that of the thirteen stock banks. The mortgage
banking establishments were capitalized at $21,500,000 while
the others had $33,500,000. On a percentage basis the mort­
gage banks had nearly forty per cent of the authorized capi­

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No. 79, pp. 654-655.
ital while the stock banks had slightly more than sixty per cent; roughly, one fifth of the New Orleans banks—the property banks—had approximately two-fifths of the nominal capital. On the basis of what had actually been paid-up, the mortgage banking firms held about twenty-seven per cent, or somewhere around three-eighths of the total paid-up capital.

The amount of capital of a particular group of institutions, however, does not determine conclusively their importance in relation with other banking establishments. More convincing as a determining factor is the type and volume of business of each group.

Foremost to remember concerning property banks is that they employed a unique system to entice the capital for their operations. The stockholders did not supply the funds. Instead, they were the ones that wanted capital funds, and the mortgage banks were organized to assist them and the other property owners. All that these stockholders contributed were mortgages that served as security for the bonds that were issued to acquire the capital; the scheme was not an orthodox one whereby operating funds are procured by the sale of stocks.

The other banks were regular stock corporations wherein the subscribers supplied the capital, and the majority of these institutions were chartered to foster some definite im-

7 The mathematical calculation is 39.09 and 60.91 per cent.
provement program. Through the Gas Light Company, New Orleans was equipped with a gas light system which gave the city the best street lights in the United States, and so successful was the enterprise that the State granted the company banking privileges to facilitate the establishment of a lighting system in Springfield, Napoleonville, Harrisonburg, Alexandria, and Port Hudson. Through the Canal and Banking Company a navigable canal was constructed from Lake Ponchartrain to Rampart Street. Through the Improvement and Banking Company the Saint Louis Hotel was built. Through the Exchange and Banking Company the Saint Charles Hotel was constructed. The Atchafalaya Rail Road and Banking Company was chartered to build a railroad to act as a "feeder" to the Mississippi River traffic. Most of the other banks too were created to foster particular developments.

The capital for the majority of these improvement banks was obtained either in Louisiana or in the United States. Comparatively little came from abroad; what was induced from Europe came by means of the sale of bonds which had been issued by the State for and in favor of the corporations, not from the sale of stocks. The bonds, however, were not secured in the same manner as for those of the property banks.

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8S. A. Caldwell, op. cit., pp. 51-52.
Banking privileges were desired by the Louisiana improvement companies chiefly as a means of obtaining revenue to foster the development and as a means of facilitating payments on the construction under way. For the most part, they were interested in issuing certificates of indebtedness which could be used as circulating notes in discounting commercial paper, in handling domestic exchange, and in accepting deposits. The primary interest of most of the improvement banking companies was not in granting loans to people, except as such credit was beneficial to the immediate building program. The majority of them did not deal extensively in foreign bills of exchange,
at least not to the extent as did the commercial and prop-
erty bank.

With the property banks circulation was less important
than it was for the improvement banks. These institutions
were primarily interested in granting loans and in discounting
commercial paper offered by the cotton and sugar factors and
growers. Dealings in foreign bills of exchange were impor-
tant for the mortgage banks because clients, whom they served
in an effort to encourage agricultural developments and im-
provements, demanded an agency which dealt in foreign drafts
in order to facilitate the sale of their products abroad and
to provide the means of acquiring the equipment and the com-
modities desired.

While there are no figures available to verify the be-
lief that the property banks were more important than the
regular stock banks in the granting of loans and in the deal-
ings in foreign exchange, the very nature of their organiza-
tion and purpose indicates that they were. There are figures,
however, to substantiate the fact that they were relatively
more important than these other companies in the usual fields
of business activity—discounts, individual deposits, and
domestic exchange.
**A COMPARATIVE STATEMENT ON THE BANKS OF NEW ORLEANS, September, 1836**

<table>
<thead>
<tr>
<th>Type of Activity</th>
<th>Stock Banks(^1)</th>
<th>Property Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discounts</strong></td>
<td>$22,715,005</td>
<td>$13,415,879</td>
</tr>
<tr>
<td>Domestic Exchange</td>
<td>7,011,963</td>
<td>3,211,000</td>
</tr>
<tr>
<td>Circulation</td>
<td>3,957,400</td>
<td>1,966,000</td>
</tr>
<tr>
<td>Individual Deposits</td>
<td>2,966,828</td>
<td>1,524,500</td>
</tr>
<tr>
<td>Government Deposits</td>
<td>1,892,516(^*)</td>
<td>2,650,000(^**)</td>
</tr>
</tbody>
</table>

*Includes ten of the eleven stock banks existing at said date; no report from the Orleans Bank.\(^*\)
**The Commercial Bank and the Union Bank.\(^**\)

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The three mortgage establishments handled thirty-three per cent of the discounts, while the regular banks handled fifty-six per cent.\(^10\) Property banks dealt in twenty-nine per cent of the domestic exchange, while the other banks dealt in sixty-one per cent.\(^11\) Property banks had thirty-four per cent of the individual deposits and the other banking companies had sixty-six per cent. Thirty-three per cent of the bank notes were issued by the three mortgage firms and the others issued sixty-seven per cent. Summarily, one-fifth of the banking establishments in New Orleans—the three property banks—handled about one-third of the banking affairs of the city.

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\(^10\) The New Orleans Branch of the second Bank of the United States handled eleven per cent of the discounts.

\(^11\) The New Orleans Branch of the second Bank of the United States dealt in ten per cent of the domestic exchange.
Beyond the State lines the Louisiana property banks were also important and influential. These banks along with the other banking establishments in New Orleans served a wide area and they were essential to the newer regions of this country. The cotton-growing region was spreading through the Gulf States, and New Orleans came to replace Charleston as the leading cotton export center. "Moreover cotton was an export crop, as far as the South was concerned, and the services of middleman and banker were a necessity to the plantation."12 Fewer settlers inhabited these newer regions, but the demands for capital were heavy; New Orleans, as much as it was able to do so, was called up to assist in some measure to provide the necessary capital.

Cotton producers in surrounding states and territories like Arkansas, Mississippi, Alabama, and Mexican Texas shipped their cotton to New Orleans where they received bank notes for their produce. Cotton factors handled the cotton for export through the financial assistance of the New Orleans banking firms. Commercial, negotiable notes resulting from these cotton transactions were accepted by the New Orleans banks for discount. Besides, because of the city's position as a center, individuals from without the State had substantial deposits in the New Orleans banks. Furthermore, the inhabitants of the regions about Louisiana imported numerous European, Asiatic,

12 L. H. Jenks, op. cit., p. 75.
South American, and Eastern products which came through New Orleans and they were financed largely by the banks of this city. These imports were British manufactured goods, French wines, Brazilian coffee, Hong Kong tea and silk, et cetera, and when cotton was not sufficient to balance the payments, specie was called for and New Orleans was the source of supply through a redemption of bank notes or a demand of the payment of the deposits in specie.  

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13 For the period prior to 1837 Louisiana banks are sometimes accused of issuing excessive amounts of circulation notes. Had this been the case New Orleans banks would have been forced to suspend specie payments much before May of 1837. For the most part the Louisiana banking companies were careful not to flood the Southwestern region with their notes simply because it was more profitable and advantageous for them to maintain sufficient specie on reserve for redemption.

Some economic historians say that Louisiana learned its lesson from an excessive issuance of paper money and passed the Bank Act of 1842 to insure sound currency by providing that individual deposits and circulation be secured by at least one-third specie and two-thirds sound commercial paper. That statement is partly true, but it infers that Louisiana made no effort to control the issue of bank notes prior to 1842. Louisiana banks did come to issue more paper notes than was politic to do, but the banks did attempt voluntarily not to issue too many notes and to maintain an adequate specie reserve. Unfortunately the voluntary action on the part of the individual banks was not sufficient to behave properly when over-optimism took sway. Even then, however, it was not uncontrolled printing of paper money; the lack of control came after the suspension of payments in specie after May, 1837.

Up to the end of 1836 the New Orleans banks cannot be accused of "Greenbackism" or fiat money inflation. The Bank of Louisiana, the Louisiana State Bank, the Union Bank, the Citizens' Bank, and the Consolidated Association were quite careful to maintain a safe and adequate specie reserve. The other banks, either voluntarily or otherwise, found it expedient to have a substantial reserve for redemption purposes; if they had not, the stronger banks would have embarrassed them financially, the New Orleans branch of the second Bank of the (Continued on next page)
New Orleans and its banks not only served the cotton states surrounding it, but it served, also, a large area in the upper Mississippi basin, although it failed to take proper commercial advantage of this area and it was eventually taken by the East. Before the days of railroads the West was quite dependent upon the Mississippi River and its tributaries with New Orleans as the outlet for trade relations with the outside. The capital city of Louisiana found itself at the center of a large trading area which it took for granted.

"By 1821 the 'golden period of commerce' in New Orleans was well under way." At first the produce of the upper Mississippi region came down in boats that were dismantled for the lumber once New Orleans was reached because these boats were not powered to make the return trip. That meant that the Western producers sold their produce for bank notes and a few items which could be carried home easily. Later, when the steamboat was developed and perfected, the process did not change; the Westerners continued to get the bank notes and their ships were allowed to return almost empty. Louisiana

United States would have done the same, and the State could have forced them to forfeit their charters.

In 1835 the circulation and deposits totaled $8,248,382, while the specie held was $2,749,300, or a thirty-three and a third per cent reserve. Had the Louisiana banks continued this reserve policy toward the end of 1836, during 1837, and after, no crisis would have depressed business to the extent it did from 1857 to 1863. (Cf., 25 Cong. 2 Sess. Ex. Doc. No. 79, pp. 654-655.)

14 S. A. Caldwell, op. cit., p. 31.
15 Ibid., p. 34.
banks played a part in the process of distributing the produce, but they failed to stimulate the import trade of that new region; they were more concerned with the export and import trade of New Orleans and the vicinity. Such a behavior was caused by either a lack of foresight or a lack of banking capital.

That Louisiana lacked the necessary capital to amply encourage the course of Western trade through its port city appears improbable according to the statistical data and the economic historians. The banking capital of New Orleans from 1835 to 1842 exceeded that of any State in the United States with the exception of Pennsylvania if the capital of the United States Bank of Pennsylvania is included. Moreover,

BANKING CAPITAL OF CERTAIN STATES
January, 1838

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Banks</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>95</td>
<td>$36,611,460</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>124</td>
<td>37,080,000</td>
</tr>
<tr>
<td>Louisiana</td>
<td>16</td>
<td>39,943,832</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>--</td>
<td>24,944,435</td>
</tr>
<tr>
<td>Georgia</td>
<td>--</td>
<td>11,790,573</td>
</tr>
<tr>
<td>Alabama</td>
<td>3</td>
<td>10,150,523</td>
</tr>
<tr>
<td>Florida</td>
<td>6</td>
<td>2,367,585</td>
</tr>
<tr>
<td>Arkansas</td>
<td>1</td>
<td>413,105</td>
</tr>
<tr>
<td>Mississippi</td>
<td>11</td>
<td>19,231,123</td>
</tr>
</tbody>
</table>

Louisiana's State debt for the purpose of acquiring capital exceeded that of any State except Pennsylvania, and most of that debt was incurred for banks, property banks in particular.

DEBTS OF CERTAIN STATES UP TO 1838

<table>
<thead>
<tr>
<th>States</th>
<th>For Banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>$7,700,000</td>
<td>$10,800,000</td>
</tr>
<tr>
<td>Arkansas</td>
<td>3,000,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Illinois</td>
<td>3,100,000</td>
<td>11,600,000</td>
</tr>
<tr>
<td>Indiana</td>
<td>1,390,000</td>
<td>11,890,000</td>
</tr>
<tr>
<td>Kentucky</td>
<td>2,000,000</td>
<td>7,369,000</td>
</tr>
<tr>
<td>Louisiana</td>
<td>22,950,000</td>
<td>23,235,000</td>
</tr>
<tr>
<td>Maine</td>
<td></td>
<td>554,976</td>
</tr>
<tr>
<td>Maryland</td>
<td></td>
<td>11,492,980</td>
</tr>
<tr>
<td>Massachusetts</td>
<td></td>
<td>4,290,000</td>
</tr>
<tr>
<td>Mississippi</td>
<td>7,000,000</td>
<td>7,000,000</td>
</tr>
<tr>
<td>Missouri</td>
<td>2,500,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>New York</td>
<td></td>
<td>18,262,406</td>
</tr>
<tr>
<td>Ohio</td>
<td></td>
<td>6,101,000</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td></td>
<td>27,306,700</td>
</tr>
<tr>
<td>South Carolina</td>
<td></td>
<td>5,753,700</td>
</tr>
<tr>
<td>Tennessee</td>
<td>3,000,000</td>
<td>7,148,166</td>
</tr>
<tr>
<td>Virginia</td>
<td></td>
<td>6,662,189</td>
</tr>
</tbody>
</table>

According to the Niles Weekly Register the bank capital of the Southwest, of which the New Orleans banking capital was included, was $69,407,764 in 1837 and $81,943,086 in 1839. That was comparatively larger than for the more densely populated and industrialized regions of the Eastern and Middle Atlantic States.

L. L. Bogart, op. cit., p. 326.
Nevertheless, there is some justification for claiming that Louisiana lacked the necessary capital to develop the Western trade down the Mississippi River to New Orleans. One reason is that the banks in their optimism employed too much of the available capital to encourage the development of sugar and cotton at home. The immediate prospects of profits from the sale of these products and the importation of slaves and technical improvements concealed the losses that were incurred by neglecting the traffic of the Mississippi Valley.

Another reason is that the State employed a good portion of its credit facilities for the establishment of banks, and neither the State nor the banks had the necessary facilities to improve the river navigation system and to establish a system of railroads. The river by itself was not adequate to make transportation of the Western exports and imports simple

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and inexpensive. According to an article in the "Albany Argus" quoted in Hunt's Merchants' Magazine,

A farmer on the Ohio, at a point, say Cincinnati, equally or farther distant from New York than New Orleans, can transport his produce to New York and net as much profit as to carry it to New Orleans. In the one case, nature had provided him with a magnificent highway almost before his door, and art had provided ample steamers ready to carry it to New Orleans; yet, most perversely, he goes up the Ohio to Portsmouth; traverses a canal of three hundred miles by slow marches; comes to Lake Erie, unships his produce, and bears it 150 miles, on a boisterous lake, to Buffalo; unships it again, to a boat on the grand canal, and then toils along 360 miles, through a river 4 feet deep and 40 feet wide, to the Hudson; and then, after one more shipment, he floats it down to its destination, the New York market. All this can be done, and with as much profit to the producer, as to float it down a single river to New Orleans. 21

As long as the price of cotton and sugar remained high, and as long as the price of land remained inflated in value, the banks of New Orleans appeared prosperous; there was hope that the mortgage system of banking would be advantageous for Louisiana. When the bottom fell out of prices, however, the property banks were found to be unsound, and the credit bridge which they were maintaining between Europe and the Southwest region collapsed. After 1837, therefore, the Louisiana property banks ceased to be of constructive importance. The Consolidated Association of the Planters of Louisiana and the Citizens' Bank were reduced to a state of insolvency and they were

unable to conform with the more restrictive policies established by the Bank Act of 1842. Thus they were forced into liquidation. In the case of the Citizens' Bank it was deemed advisable to permit the creation of a regular stock department to take over the assets of the mortgage bank in order to facilitate the settlement of the affairs of the original concern. The Union Bank was the one property bank which had been more prudent in its affairs and did not become insolvent. For a time it continued to operate as a property bank under the provisions of the Act of 1842, but as soon as free banking laws were passed it was reorganized as a regular stock bank.

Beginning with the Crisis of May, 1837, and continuing until the time of final settlement or liquidation, property banks materially hampered Louisiana’s recovery and advancement. They were a yoke which could not be removed and they sapped the remaining vitality that could have rendered possible the resumption of profitable activity; mismanagement including dissipation of funds by the officers of the two insolvent concerns was a burden on society. The only two means of blotting out their unwanted existence were not employed: one would have been a repudiation on the State bonds issued for and in favor of these companies; the other would have been to clear the property owners from the mortgages held by these property banks. The State, however, felt that it could do neither.

If the bonds had been repudiated, the credit of the
State would have been seriously impaired. If the mortgages on the properties had been cleared to permit a fresh start, the banks would have lost their source of funds to meet the payments on the bonds, and the State would have had to assume the debt or repudiate it.

By doing neither, however, the State of Louisiana permitted the over-capitalized, revenue-producing properties to remain in a state of constant debt. If one property owner could not carry on with the burden, his property was sold. With the property went the mortgage because the security behind the bonds could not be impaired. Such a situation, therefore, further depressed land values, and it discouraged investments. Without being able to reduce the capitalization the possibilities of profits were reduced if not eliminated.
Inconsistency seems to appear between the study of the theory and principles of property banking, and the actual case histories of the Louisiana mortgage banks. In the discussion of the theory and principles involved it was stated, in Chapter II, that property banks were not inflationary in and of themselves, that they could not cause a spiral inflation. In the ensuing chapters it was indicated the Louisiana mortgage banks contributed to the existing inflation. The contentions seem contradictory, but they are not. Both are true. Property banks were not inflationary in their organization, but that does not preclude the existence or possibility of inflationary activities.

The reason property banks were not inflationary in and of themselves was that the appreciation in valuation of tangible property was not to serve as a base upon which they could increase credit through the issuance of additional mortgage stocks. The adherents of mortgage banking accepted the reasoning that property appreciated in value when it served as security for a medium of exchange, either credit or circulating notes, but they foresaw an inflationary spiral if
the appreciated value was permitted to serve as security for additional credit or notes. They devised their plans, therefore, whereby the amount of appreciation on tangible property serving as security for the mediums of exchange could not increase the medium of exchange itself. Once property was evaluated by appraisers it became the basis for the acquisition mortgage stocks and no additional stocks could be obtained on the same incumbered property because of any increase in its value; in so far as credit was granted on these stocks at a specified fraction of their face value, spiral inflation could not result.\(^1\)

The amount of credit extended and circulating notes issued, however, might be sufficiently great to increase appreciably the medium of exchange, and if this occurred without a corresponding increase in the amount of economic goods desired and available, prices had to rise and this in itself is inflation.

It must be remembered that the Louisiana property banks came into existence during a period of inflation which was considered to be a period of prosperity; the banks were created to assist the property owners to take advantage of the prosperous, inflationary, economic conditions, especially the land boom, and their creation and existence contributed to the apparent prosperity and increasing inflation.

The "hard times" following the War of 1812 had barely

\(^1\)Supra, pp. 23-36.
passed when the country entered a period of prosperity and financial expansion, moderate at first with occasional minor setbacks, but resuming with increasing intensity toward inflationary optimism. By 1829, when Louisiana's first property bank—the Consolidated Association of the Planters of Louisiana—began operations, the mania was entering into a stage of speculative madness; land values had begun to soar upward and developments of numerous types were under way.

...Behind this financial expansion was the irresistible surge of a nation that was in the process of spanning a continent, that was already thinking of itself in terms of "manifest destiny." A glorious future constantly impinged upon an existing present. "Normalcy" itself included a factor of acceleration that rapidly propelled all financial activity into "prosperity," then into boom times.

During this period the entire country succumbed to a "bank madness." The number of banks increased from 329 in 1829 to 796 in 1837. Wild banking sprung from every locality, and it was the chosen media for developments in the South. The combined banking capital in 1829 was $110,200,000, by 1834 it was $200,000,000, and by 1837 it reached $290,000,000. It was nearly a two hundred and sixty-two per cent increase within a span of eight years. The circulation increased from $48,200,000 to $149,200,000 and loans increased from $137,000,000 to $525,100,000 during these same eight years,

\[2\] W. J. Shultz and M. R. Caine, op. cit., p. 189.
an increase of over three hundred per cent and approximately three hundred ninety-one per cent for each respective item. Discount more than doubled, and with some of the banks amounted to twice the bank capital. Furthermore, in paying

GROWTH OF BANKING, 1829-1837

<table>
<thead>
<tr>
<th>Date</th>
<th>Banks</th>
<th>Capital</th>
<th>Circulation</th>
<th>Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number:</td>
<td>Amount:</td>
<td>Amount:</td>
<td>Amount:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1839</td>
<td>329</td>
<td>110,200</td>
<td>48,200</td>
<td>137,000</td>
</tr>
<tr>
<td>1834</td>
<td>506</td>
<td>200,000</td>
<td>94,800</td>
<td>324,100</td>
</tr>
<tr>
<td>1837</td>
<td>778</td>
<td>290,800</td>
<td>149,200</td>
<td>525,100</td>
</tr>
</tbody>
</table>

The dollar figures are in thousands

off its indebtedness the Federal Government released millions of dollars available for investment or speculative placement. All this caused prices to rise and a corresponding business and speculative inflation. Easy credit resulted in speculative and business pyramiding to an unprecedented degree. This

5 J. Shultz and M. R. Caine, op. cit., pp. 221-222; R. L. Bogart, op. cit., p. 368. Contrary to some beliefs, the United States Government had no heavy debt during this period, rather there was a surplus in the treasury with which Congress did not know what to do.
credit went under the guise of wealth when, in reality, it was nothing but a "bath" of practically worthless promises. 6

Louisiana's property banks were no different from the other banks in their exuberance to foster developments and to reap profits and benefits from the prosperous times. They became involved in speculative activities based on optimistic expectations. They extended credit and froze their assets in near-too-liquid enterprises.

Precautionary measures had been devised by the organizers of these property banks to assure success. Stockholders were permitted to obtain loans equal to only one-half the face value of their mortgage certificates. This was because they desired to have more than adequate security behind any credit extended. Other property owners could obtain loans at only one-half the face value of their properties for the same reason. 7 Furthermore, to make certain that sufficient revenue would be available to meet obligations and to provide for continuing and expanding activity, these organizers provided for "reasonable" interest charges on loans and discounts and for the securing of capital funds at costs within the limit set by law in order that capital be repaid by the revenues received. 8

The first precaution to assure success might have proved

7Supra, p. 29.
8Supra, pp. 33, 36, 189, 231.
effective if the face value of the security or collateral had not been inflated. As it was, however, the appraisal was made on the existing and the anticipated earning power of the tangible property; value of a piece of land was determined by comparing it with the price of similar properties and by estimating the expected annual revenue of such property. Both the land prices and prices of agricultural products were estimated at far above what they actually could yield, however. Especially was this true toward the latter years of this inflationary and speculative period. By the closing months of 1836 the production of cotton and sugar, for instance, was beyond the capacity of their markets. Credit that had been extended upon future hopes, found the security vanish. With the failure of the sugar and cotton market, the banks were confronted with an impossible situation. Conditions had ripened for collapse and failure instead of success.

The severe jolt of President Jackson's ominous Specie Circular of July 11, 1836, burst the high prices of land, not immediately, but within six months. The speculative purchasers found that credit could no longer purchase new federal land, and since the movement of high prices had been fed by credit this threw land values as a whole spirally downward. This, accompanied by a scarcity of specie and foreign bills

9 W. J. Shultz and M. R. Caine, *op. cit.*, p. 222
of exchange, the raising of the discount rate by the Bank of England from two and a half to five per cent, the modified types of commercial paper to be used, and the fall of the price of cotton by twenty-five per cent, among numerous other contributing factors, threw the country into the throes of the Panic of 1837. The prosperity bubble inflated by fictitious wealth built on credit had been pricked and the imaginary security vanished. Property which was taken to be ever appreciating in value was no longer adequate security for freely granted credit. Louisiana's mortgage banks actually did not possess enough real security to assure success.

Optimism had been so great and the demand for credit had assumed such proportions that the officers of the Louisiana property banks had acquired capital funds in as large amounts as was possible and as rapidly as they could be obtained, even if it was necessary to circumvent the stipulated charter terms. Though the cost of securing these funds from abroad was considerable and though the sale of bonds usually had to be at a substantial discount, it was considered profitable and beneficial enough to justify the procedure. When the optimistic expectations did not materialize the burden of meeting the contractual obligations became a strain. The

11 Cf. CABL, Consolidated Association to Baring Brothers, New Orleans, February 4, 1836, and to T. Wilson and Co., January 5, 1836 and June 22, 1836 (Fr.).
12 A. Caldwell, op. cit., p. 60; CABL, Consolidated Association to Baring Brothers, New Orleans, March 30, 1837.
13 L. H. Jenks, op. cit., p. 87.
revenues of two of the property banks—the Consolidated Association and the Citizens' Bank—proved inadequate to meet these periodic payments and part of the assets was impaired. Insolvency instead of success was their fate.

The fiasco of the Panic, however, did not end the existence of Louisiana's property banks. The Consolidated Association and the Citizens' Bank, though insolvent, continued to operate, unhamppered by the State, until the end of 1842; afterwards they existed as liquidating banks until 1882 and 1902, respectively. The Union Bank continued as an operating property bank until 1857, when it was converted into a regular stock bank. Despite the severe blow from the speculation and inflation, these concerns continued to operate, adhering much to the same speculative and inflationary practices; they did not revert to cautious banking. The public still wanted easy credit: this time to curb the depression. These Louisiana banks did what was asked of them, thereby continuing to enjoy general good will for several years after the crisis. It was not until later that their existence was looked upon with disfavor, and many years afterwards when their prolonged existence was severely criticized; then, however, the criticism was against the two mortgage banks in the state of liquidation, not the Union Bank.

14 Subra, pp. 185, 236.
15 Subra, pp. 226-227.
The general history of these Louisiana concerns is here reviewed in order to ascertain more concretely the reasons for the change of attitude toward property banking in Louisiana. First, without presuming to give a complete and conclusive answer, it may be stated that prospective debtors, when they deem it essential to have money or credit to achieve a desired aim, usually look upon the creditor with favor. It is when the creditor demands repayment, when the debtors find it difficult to meet their contractual obligations, or when the debtors fail to achieve the desired aims from the funds received that debtors are more apt to have a disgruntled attitude toward creditors.

From 1827 to 1837 the Louisiana mortgage banks enjoyed the general good will and the approval of the public, and their existence seemed to be a solution to the State's perplexing problems of providing the plantation and property owners with much demanded capital. Through the system of employing property as security for State pledged bonds, capital was flowing into Louisiana by the media of mortgage banks which granted loans to their stockholders—the owners of the properties serving as collateral for the bonds—and to others. Mortgage banks assisted the development and purchase of land, the installation of modern machinery and equipment, the acquisition of more slaves, the building of beautiful homes, and the establishment of accessible markets for local and surrounding products. It was a "rose colored glass" through which perpetual prosperity could be imagined.
Prices in general were rising as result of economic conditions partially abetted by the additional credit extended. The situation gave rise to the belief that credit enabled the people to benefit from the good prices. The spirit of optimism was so general and the public so confident that prices would remain high and profitable, that many Louisiana property owners sought and obtained credit on the basis of the high prices for their products and properties. The cotton and sugar planters, for instance, usually calculated the anticipated revenues from their plantations and used the inflated values of land as the base in determining how much encumbrance was justifiable.

It did not take the Crisis of 1837 to indicate the fallacy of such a procedure. As early as 1831 the sugar planters indebted to the Consolidated Association were unable to pay their interest on account of crop failure.\textsuperscript{16} In 1832 the revenues of these debtors were not what had been anticipated and many had to default. Again in 1833 the sugar crop was a failure and more defaults followed.\textsuperscript{17} The cotton crop failure throughout a large portion of the South in 1835 was another severe blow; even with the good price and the increasing demand for cotton, the revenue was not forthcoming to meet the current contractual credit obligations.\textsuperscript{18}

\textsuperscript{16} Supra, pp. 99-101; CAHL Consolidated Association to Baring Brothers, New Orleans, April 6 and 15, 1832 (Fr.).
\textsuperscript{17} Supra, pp. 101, 228.
calamities, however, were regarded as temporary and the re-
establishment of "normalcy" was expected. No undue pressure
was exerted upon the debtors to cause dissatisfaction. These
banks were able to extend the time for interest payment and
annual instalments because they continued to receive capital
from Europe and the funds on hand were sufficient to meet the
current obligations on the bonds. Furthermore, the values
of the properties serving as security had not depreciated,
and, apparently, they saw no cause for alarm and no need to
alter their liberal credit policy. 19

When the Panic of 1837 occurred the property owners
found their supposedly "ever appreciating" properties depre-
ciating and the prices of agricultural commodities insufficient
to provide adequate revenues to pay off burdening debts. They
had no choice but to beg for an extension of time on their
payments or/and to become more heavily indebted in an effort
to meet or partially meet current and past due obligations.

The mortgage banks could not successfully force pay-
ments for at least two reasons: the debtors had no means of
paying, and to force collections under such difficult circum-
stances would bring forth irate criticism from both the public
and the State officials. Even if the officers had attempted
foreclosure the results might not have been satisfactory;
the security behind the loans and the discounted notes had

19 Supra, pp. 104, 117, and 222.
depreciated considerably, sometimes to a value which was less than the amount of the debt.

Under these depressing circumstances the property banks, instead of restricting the amount of credit extended, pursued a policy of granting more loans. Both they and the people calculated that if there was more lending it would provide a means of greater activity and better markets, which would stimulate business back to "normal" and would enable the debtors to acquire income for payments of debts in full. The reasoning appears to be illogical; the idea seems to be, in part, that if an additional loan was granted to the debtor so as to pay off his first debt it would ease his burden and enable him thereby to pay the entire debt. Nevertheless, the idea was practiced. The result was an accentuation of depressing circumstances.

In so far as the banks were able to continue selling bonds they did so in order to obtain the funds for more loans and discounts. When they could no longer acquire satisfactory amounts of capital through this means, they resorted to the issue of post-notes.

Debtors and stockholders of a property bank, desirous or under the necessity of borrowing more from the concern, offered mortgages on unencumbered property or and on existing and future crops. In return they received post-notes—one, two, or three years interest-bearing notes—which could be used to pay off debts with the bank and as circulation.
When in the bank's possession, these notes were usually sent to Europe for sale in the hope of obtaining more capital. Post-notes, however, did not sell too well abroad. Furthermore, the debtors and stockholders did not benefit from their credit as had been anticipated.  

From 1837 to 1842, therefore, when Louisiana's property banks might have reestablished themselves on a sounder financial basis, they failed to do so. Because of their easy credit policies they continued to maintain some degree of approval from the debtors. They behaved in harmony with the general belief of the period; people wanted more and easier credit to conquer the depression and the mortgage banks complied with their wishes. Toward 1840, 1841, and 1842, however, when the credit inflation failed to bring forth the expected relief, opposition to their practices increased.  

Prior to 1842 acrimonious disapproval of these and other State banks was expressed by those who wanted to achieve better economic conditions through a sounder banking system and more stable credit. The banks, however, enthralled these reformers. Most of them were indebted to the banks and opposition to the practices pursued was ordinarily met with foreclosure or a threat to do so. Such action, nevertheless, accentuated the growing acrimony. In spite of the resistance on the part of the banks the Bank Act of 1842 was passed.  

20 Supra, pp. 116-117.  
21 Supra, pp. 117-121.  
22 Supra, p. 122.
The State became somewhat uneasy toward the property banks for at least two reasons: one was that the fixed rate of interest on the bonds had to be paid irrespective of the depressed economic and financial situation; the other was that the financial affairs of these concerns were such that there existed a strong possibility that the State might be called upon to fulfill its pledge on a good portion of the bonds issued for and in favor of these companies, or at least on the interest payments.

Before 1837 the general feeling of the legislators was that in spite of the fact that capital was secured from abroad, these foreign capitalists could not receive more than a fixed and specified rate of interest out of the income realized from the use of the funds; the profits over and above the interest cost were to remain in Louisiana and benefit the property owners. But after 1837 when the revenues, if any, realized were not great, the interest charges were looked upon as a burden. When the property banks were not making a profit, the necessity of meeting the semi-annual interest payments was considered as a drain upon the assets and income that could otherwise be employed to relieve somewhat the existing distress.

The losses of the Louisiana mortgage banks were mounting during the depression years; some of these institutions were or nearly were insolvent. That worried the State. The State

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pledged bonds of these corporations were certificates of indebtedness, not certificates of ownership. Non-payment of interest and principal could not be exercised at will with a claim that it was the result of an entrepreneuril risk assumed in organizing and operating the business. Non-payment of these obligations was a breach of contract. Inasmuch as the State was a party to the contract as a guarantor for its fulfillment, any breach by the banks affected the State. Therefore, the legislators were desirous of placing the property banks in a position where they could meet the terms of their contractual agreement and of ridding Louisiana as rapidly as possible of the contingent liability which was giving indications of becoming an actual debt of the State and which was threatening its credit standing.

The general banking reform introduced in 1842 was not directed specifically at the property banks, but it served to place the insolvent ones—the Consolidated Association and the Citizens' Bank—in a state of liquidation. The Union Bank was able to conform to the law, and, therefore, was entitled to continue as an active bank. These decrees of forfeiture rendered at the instance of the State against the two insolvent concerns was the first major effort by the State to deal with its contingent debt. It took over the assets of the two companies and the affairs were placed in the hands of

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officials appointed by the Governor with the advice and consent of the Senate. Such a move, however, was resented by the stockholders, mainly because they feared that liquidation would force them to meet the payments on their debts immediately. The bank officers were opposed to the action because it deprived them of the profitable privileges they had exercised in their administrative capacity. European bondholders were dissatisfied and they voiced strong opposition to liquidation on the ground that these concerns were sound; they disapproved, however, largely because the news of the liquidation had reduced the market value of the bonds.26

Upon assuming their duties in the liquidation of the Consolidated Association and the Citizens' Bank, the managers decided that these institutions had to default on their interest payment, and the defaults which came in 1843 placed the State in a position of becoming directly responsible for the debts. It was evident, too, that there were possibilities of having to become responsible for additional defaults on interest and probably on the principal. A series of measures were taken, therefore, to assist in the payment of interest, to reduce and fund the debts, and to provide for better economic conditions, especially in the cotton trade. Some of these measures met the approval of all concerned, but several were opposed by some group or other; disapproval of mortgage banking began to spread and became more intense.

26Supra, pp. 134-135.
If measures were not taken to better the market for cotton and thereby provide the banks with income whereby their bonded debts could be reduced, the State felt it might have a serious debt on its hands. Thus, in 1843 by an act to facilitate the liquidation of property banks, the State provided a means of improving the cotton market and a method by which the amount of bonds could be reduced.

Measures had to be taken to better the cotton market in order to provide the banks with income whereby their bonded debts could be reduced. An act was passed in 1843, therefore, to facilitate the liquidation of property banks, whereby these insolvent firms could acquire and retire part of their outstanding State pledged bonds. Cotton which had been boycotted because of American defaults on bonds served in a large measure to acquire the securities from the European bondholders. Debtors were permitted to present State pledged bank bonds and have them accepted at face value in payment of debts owed these banks. The bonds had a market value which was substantially less than their face value and it was profitable to acquire them from European bondholders. The exchange could be effected by offering cotton and an incentive for the exchange was to accept the Louisiana bonds at slightly above their market value. This policy helped the cotton interests, provided the banks with a means of reducing their bonded debts, assisted the State in reducing the amount of its con-

tingent liabilities, and quieted the European bondholders. Cotton moved to Europe and part of the bonds returned to Louisiana. The 1843 Law, nevertheless, was not wholly appreciated by the English bond agents. A storm of protests arose and they advised the bondholders not to relinquish their securities. They criticized Louisiana's action in both the American and English press. It started a series of English complaints against Louisiana's pledged securities.

Profitable as the 1843 scheme was, it did not complete the retirement and cancellation of the outstanding bonds issued for and in favor of the property banks. By 1847 $5,854,616.13-worth of these securities had been retired, leaving still outstanding a total of $12,395,333.37. The maturity dates of many of these outstanding State pledged bonds were soon approaching. Laws were passed, therefore, to extend these dates of maturity. Provisions were also made to assess the stockholders of the insolvent Citizens' Bank and Consolidated Association. These assessments, however, aroused the antagonism of the mortgage stockholders. They

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30 The debts stood at:
   Union Bank ------------  $3,234,000.00
   Consolidated Association  1,923,775.00
   Citizens' Bank ----------  7,237,808.87

January 1848, p. 10.
31 La. Acts, 1847, No. 100, pp. 76-78.
protested and some of them refused to pay the demanded contributions. Those who protested most vehemently were the property owners who claimed they were unaware that their purchased properties were mortgaged to the property banks for stocks. General criticism was heard against the lengthy liquidation and against the apparent mismanagement and dissipation of funds by the bank managers.

In 1852 the Legislature enacted a plan for the relief of the Citizens' Bank which provoked considerable controversy and severe criticism. This Act of March 10, 1852, waived the decree of forfeiture rendered in 1842, and permitted the concern in the process of liquidation to resume operation as a stock bank. By so doing the State relinquished its right to control the assets and affairs of the bank. Several members of the legislature, therefore, opposed the measure vigorously, but they were in the minority. The bill passed even over the Governor's veto. The stockholders, however, did not approve the bill. They wanted more favorable terms.

22 Supra, pp. 143-154; Leg. Doc. 1852, "Report of the Board of Managers of the Citizens' Bank and the Consolidated Association of the Planters of Louisiana."
33 Supra, p. 163.
A new bill was passed, therefore, in 1853, and the Citizens' Bank was converted into a stock bank with the banking department assuming the bonds of the old mortgage bank maintained as a mortgage department of the Citizens' Bank. According to court opinion the act was a benefit to the State and the people. From 1853 to 1880 the operating banking department paid off more than a million dollars of the mortgage department's State pledged bonds. More would have been paid off had it not been for the disruption caused by the war between the States. The new stockholders were interested in sound operation motivated by the desire for dividends. As a result the squandering practices of the former administrations were abandoned. The criticism existing during the period of liquidation practically ceased.

In 1853 the State also released what control it had over the assets and affairs of the Consolidated Association because it was considered too expensive to maintain a State Board of Managers solely for this bank, but the State did not permit this insolvent concern to resume operation. The Consolidated Association under its new management was even worse than it had been under State supervision. With the

continued squandering of funds and the Civil War to disrupt economic activities, this bank was unable to terminate its liquidation in 1866 when its extended bonds were to mature. Instead, the bonded debt stood at $647,705.40, and the existing deficit amounted to $38,592.92. Another extension had to be granted and another assessment had to be made.

Displeasure at the bank's failure to terminate its liquidation was intense. The stockholders were vehement in their protest against the additional assessment, especially since the court had granted the right of receivership to representatives of bondholders. Collectively, they took the matter of additional assessments to court and eventually won a decision that they could not be held for more assessments beyond the 1847 contribution demands.

The Funding Act of 1874, accompanied with its amendments, had for its purpose to consolidate the many outstanding direct debts of the State incurred within the $25,000,000 constitutional limit. The intent of the law was not to include the contingent bonds of the Consolidated Association and Citizens' Bank as part of the bonds fundable into "con- 

seals." The framers of the law recognized the bonds of the two banks as valid, but they felt that their redemption should be handled by the banks still in the process of liquidation--

40GABL, Forstall to Consolidated Association, New Orleans, May 7, 1866.
41La. Acts, 1866, No. 33, p. 66.
42Supra, pp. 184, 185.
it was not a repudiation by the State of its pledge. When the Louisiana courts rendered decisions requesting the Board of Liquidation in charge of the funding to accept the State pledged bonds of the two mortgage banks for conversion into "consols"—outright State obligations—strong disapproval was expressed. The citizens felt that they were being made to pay a debt which had been incurred for a privileged few many years previous and for which they had received no benefit. The episode was a bitter one. Over twenty years had elapsed since the liquidation of the two firms had begun and the bonds still outstanding when the conversion was ordered amounted to $4,505,083.33. Once the conversion of property bank bonds was settled, however, these banks ceased being an irritating thorn. The prolonged liquidation ended soon afterwards. The mortgage stockholders finally had their properties relieved from mortgage.

The termination of the mortgage banking episode in Louisiana was not a repudiation of bonded debt. All the bonds and interest thereon were honored, even if the portion remaining in 1874 was redeemed by a conversion at sixty cents on the dollar. The debts contracted during a moment of inebriated


44 The State pledged bank bonds outstanding in 1874 were:

<table>
<thead>
<tr>
<th>Bank</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizens' Bank</td>
<td>$4,296,633.35</td>
</tr>
<tr>
<td>Consolidated Association</td>
<td>$566,450.00</td>
</tr>
</tbody>
</table>

30 La. Ann., 611, Lasaseier and Binder vs Board of Liquidation.

prosperity were eventually settled at no loss to the bondholders, but after many years of depressing effects upon Louisiana. The semi-annual interest payments, repayments of principal, and the riotous misuse of funds by the bank officers and managers were oppressive drains upon the debtors and the State. Laxity of the State of Louisiana was largely responsible for such a state of affairs.

The failure of the Louisiana property banks to achieve the aim for which they were designed can be summarized as follows:

1. The credit extended to the property owners served to accentuate the credit inflation existing at the time rather than to provide the means for sound development. Louisiana needed capital, but it appears that the acquired funds were diverted toward fostering speculation instead of promoting sound and profitable economic improvements.

2. The enticed capital was acquired at a substantial cost to the property banks. The employment of this capital, however, failed to yield revenues that enabled punctual and easy repayment.

3. Poor management and the dissipation of funds were probably responsible in part for depriving these banks from being a success.

The reasons for failure appear neither to substantiate a contention that the Louisiana property banks were inherently
unsound, nor to prove that they were destined by nature to fail. That the Louisiana experiments failed can be attributed largely to the conditions of the period and the erroneous practices of their managers and officers.

Security is an important factor to consider when lending, but it is not the essential and primary requisite for credit. While it may indicate the earning capacity of the property upon which a loan is granted, it is not necessarily a good guide. The character and capability of the debtors are more important than the security itself. Had more attention been paid to these two factors the history of Louisiana's property banks might have been quite different, although it would not have assured success.

Furthermore, agricultural banks attempting to operate on the same basis practiced by commercial banks find themselves in difficult circumstances. Agricultural banking does not afford the same degree of liquidity in portfolio. This was later recognized, but at the time the Louisiana property banks were in existence these two forms of banking were not separated and were not recognized as having different functions. The present Federal Land Banks and the agricultural cooperative banks apply somewhat the general principles that were part of the Louisiana mortgage banks, but they were not permitted to operate as commercial banks.
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Bibliographical Note

The Consolidated Association of the Planters of Louisiana Collection was acquired by Louisiana State University in 1935 through the efforts of Mr. James A. McMillen, librarian. These manuscripts are now deposited in the Department of Archives and Manuscripts at the Louisiana State University Law Building.

The collection includes banking papers, account books, legal documents, land and slave sales, diaries, letter-books, plantation records, financial reports, and correspondence. There are 9,666 separate pieces and 84 volumes, covering a period from 1791 to 1912. The major portion of the manuscripts are handwritten and in French. Several documents are partially destroyed.

The bound volumes include: twelve bank deposit books, 1834-1884; two bond books, 1850-1867, and undated; four cash books, 1851-1879; three check books, 1878-1886; six index books, undated; three insurance books, 1875-1882; four journals, 1852-1882; five ledgers, 1833-1883; four mortgage-books, 1829-1878, and undated; five diaries, 1876-1882; two receipt-books, 1834-1876; ten stock books, 1829-1878, and undated; eleven letter books, 1829-1887; eight minute-books, 1827-1883; two note-books, undated; two miscellaneous account-books, undated; and one legal record-book, 1638-1883.
The unbound manuscript material consists of letters, protested bills, mortgage duplicates, property titles, receipts, official reports, financial accounts, and other memoranda. These are arranged in chronological order in boxes.
BIOGRAPHY

Emile P. Grenier was born in Manchester, New Hampshire, January 21, 1912. After receiving his primary education at a French parochial school, he attended Manchester High (Central) School where he was graduated in 1931. He entered the University of New Hampshire in 1931 and received the degree of Bachelor of Science in 1935. During the summer of 1937, he attended the Horace H. Rackham School of Graduate Studies at the University of Michigan. He was awarded a teaching fellowship at Louisiana State University where he received the degree of Master of Arts in Economics at the Commencement of June, 1938. Afterwards he continued his graduate work at Louisiana State University. During the summer of 1940, he attended Harvard University. He is now a candidate for the degree of Doctor of Philosophy in Economics.
EXAMINATION AND THESIS REPORT

Candidate:  Grenier, Emile P.

Major Field:  Economics

Title of Thesis:  Property Banks in Louisiana

Approved:

[Signatures]

Major Professor and Chairman

Dean of the Graduate School

EXAMINING COMMITTEE:

[Signatures]

Date of Examination:

April 29, 1942