



NH, Lancaster

## ***\*Lancaster Bank***

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[1832-1853]

[Closed due to poor management and losses]

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*A remarkably profitable and very curious bank*

### **History and Commentary**

#### **LANCASTER BANK**

#### **Lancaster Bank Formed**

In December 1832 a petition was made to the State Legislature for the formation of a bank in *Littleton*. For reasons that are not clear today, the proposal was soon altered for a bank in another town. In any event, the incorporators of the Lancaster Bank had no particular connections to Littleton, and that town was not to have a commercial or discount bank until decades later in 1871, a latecomer in the state banking scenario.

On January 1, 1833, the Lancaster Bank was chartered.<sup>1</sup> Capital was authorized to be no less than \$50,000 and no more than \$100,000, to be divided into shares of \$100 each. Unlike the typical charter in recent decades for other banks, for Lancaster there was no requirement that the shares be paid for in specie. The authorization was to be effective on June 1, 1833 and continue for 20 years.

Incorporators included James B. Sumner (who later became president of another institution, the White Mountain Bank), Moses White, Ephraim Cross, Royal Joyslin, William Sampson, Guy C. Cargill, John H. White, John Pendexter, Jr., John McIntire, John Willson, and Frederick G. Messer—a roster that included some of the most prominent men in the district.

Currency circulation was permitted up to the actual value of the *paid-in* stock, never mind that the payment could be made in the form of IOUs, rather than specie. Bills were required to be signed by the president and countersigned by the cashier. Other terms were normal for bank charters of the era.

The directors, seven in number, were required to be citizens and residents of the state.

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<sup>1</sup> *Laws of New Hampshire*, Volume Ten, 1922, pp. 388-391; Acts, vol. 29, 234.

No stockholder could have more than 15 votes no matter how many shares he owned. The annual meeting date was not specified, this being atypical of charters of the era, signaling a change in policy. Special meetings could be called placing an advertising notice in the *Democratic Republican* newspaper printed in Haverhill.<sup>2</sup>

### The Early Days

The Lancaster Bank commenced business on July 1, 1833, with premises in the residence and tavern of cashier Gen. John Willson at the northern end of Main Street.<sup>3</sup> By this arrangement, not unusual in state banking history, the cashier and his family could keep security watch on the business during off-hours and other periods when the office was closed. John H. White was named as president, and remained in the post for several years afterward.



Detail showing Willson's Tavern (here spelled Wilson's) from the 1826 map drawn at a later date by James W. Weeks. The newly established Lancaster Bank was kept here until July 1835. (*History of Coos County*, 1888)

Two years later, on July 1, 1835, the bank moved into a room in the so-called Green Store, on Main Street near the bridge crossing Israel's River. Richard P. Kent, who kept his store at the other end of the building, became cashier about this time and no doubt also helped with security.

Although the capital stock of \$50,000 was considered as paid in, only \$12,500 in actual cash had been received, the balance of \$37,500 being in promissory notes. In time,

<sup>2</sup> Lancaster's first newspaper, the *White Mountain Aegis*, was not established until 1838, and lasted in town for only about a year. See narrative history.

<sup>3</sup> A.N. Somers, *History of Lancaster, New Hampshire*, 1899, pp. 392, 393.

to obscure the fact that money was still due for the stock, these loans were juggled, different signatures were added, and they were placed in the category of commercial discount loans, as if to outside customers. Few residents of Lancaster were aware that the bank was 25% cash and 75% thin air. Amazingly, and as will be related, most of the capital stock loan was never paid—thus making this a \$12,500 bank, not a \$50,000 one.<sup>4</sup>

In the meantime, bills were issued in large amounts, just as if the \$50,000 capital had been paid in full. The public was none the wiser, and almanacs and listings of the day gave every indication that this was a fine \$50,000 bank, with some listings, such as in the *Annual Register*, giving \$50,000 to \$100,000.

Also in the meantime, in 1835 the Lancaster Bank paid an incredibly high 8% dividend to stockholders, based on \$50,000 capitalization, this really amounting to a 32% dividend in terms of cash paid in! Even using the figure of 8%, this dividend rate placed the Lancaster Bank in the front rank of all banks in the state. Seemingly, profits were rolling in!

### **Bundle of Bank Bills**

A historian told of two men in Littleton who had some business at the Lancaster Bank:<sup>5</sup>

One day in 1837, Henry A. Bellows and Truman Stevens drove to Lancaster, where they had a note for \$2,000 discounted at the bank. The day was rainy, and on their return they encountered some difficulty in crossing Johns River in Dalton,<sup>6</sup> but finally made the passage. They reached home well along in the night, when they discovered that their currency was missing.

Thinking the package had been dropped at the passage of the river in Dalton, Mr. Stevens in the early morning drove to that place, but failed to discover any trace of the money, and he supposed it was then either floating down the Connecticut River or torn to shreds in the passage of the Fifteen Mile Falls.

At the end of the return journey he learned that the funds were in the possession of Mr. Bellows, having been picked up in the street by Lyman Heath the night before, as he walked from his singing-school held in Brackett's Hall to his home.

### **A Scheme is Averted**

In October 1837, Governor Isaac Hill, responding to “private information” of a disturbing nature received from Charles Bellows, a local businessman and member of a prominent family, ordered that the affairs of the Lancaster Bank be investigated.<sup>7</sup> It had been alleged that controlling stockholders in the Lancaster Bank were contemplating

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<sup>4</sup> For an even more dramatic difference of paid-in cash vs. capital see the history of the Wolfborough (Wolfeboro) Bank.

<sup>5</sup> James R. Jackson, *History of Littleton, New Hampshire*, Vol. II, 1905, pp. 75-76.

<sup>6</sup> Named for John Glines, whose brother Israel also lent his first name to a local river.

<sup>7</sup> Norman Walker Smith, *A History of Commercial Banking in New Hampshire 1792-1843*, 1967, p. 215, citing state records; Charles Bellows to Hill, September 27, 1837; communication of Hill to the General Court, June 12, 1838.

selling out to “a group of New York City bank speculators with intentions of broadcasting Lancaster notes in the West and South.”

This was a time-honored method, although of questionable propriety, of deceiving the public, not as much in New Hampshire as in other sections of the country. However, even the early Concord Bank, circa 1806-7, had been introduced to the possibilities of such a scheme, and, unknown to Governor Hill, at this same time in Wolfeboro in 1837, New York City speculators (actually, crooks) were laying strategy involving the Wolfborough Bank.

Two state bank commissioners arrived in Lancaster, encountered much local excitement concerning the bank’s situation, and confirmed that the information was correct, or had been recently. However, it seems that proper warnings had been sounded in town, and just before the first bank commissioner arrived the stock negotiations with the New Yorkers had been terminated.<sup>8</sup>

### **Curious Capitalization Continues**

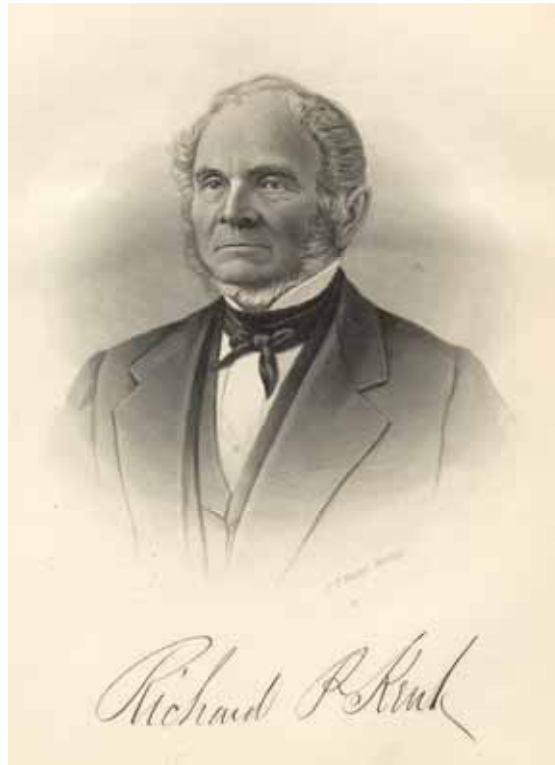
The Lancaster Bank continued to be weakly capitalized at the time, still with only 25% of its capital being paid in cash, the rest in notes the cashier repeatedly stated were “good.” However, the directors and others owing the money refused to pay for their shares, never mind that they were among the most honored people in town. The principals, whatever their other talents in life and commerce may have been, either had little experience in banking or had poor judgment, or both. Or, perhaps they were *very smart* and realized that they could control a bank with very little in the way of cash investment.

As noted, this curious situation of unpaid capital was not *specifically* mentioned in required reports submitted by the bank’s cashier to the state. A simple reading of financial data, for example the sworn report of the bank’s condition as of August 1, 1837, showed that stockholders and directors had huge loans from the bank, but not earmarked as being unpaid balances on stock subscriptions. Among other banks in the state it was not unusual for loans to be made to stockholders for legitimate business purposes. At that time, \$77,558.13 in loans had been placed, including \$17,563.60 with directors and a further \$35,760.57 with other stockholders, this being far more than the \$37,500 still due for stock purchases. Bills in circulation totaled \$38,548, against specie on hand of just \$807.09 and \$12,546.51 deposited in other banks for note redemption. Other reports filed during the early part of the Hard Times era of 1837 and 1838 show similar large loans.

Although the lack of financial strength of the Lancaster Bank may not have been known to local citizens and, in a wider circle, to the readers of newspapers and almanacs, in Boston, the financial center of New England, bills of this bank were received only at a deep 25% discount, whereas all other current bills issued in the state were received at close to par, save for the star-crossed Wolfborough Bank. Obviously, bankers in Boston, the prime money center of New England, were very suspicious.

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<sup>8</sup> For a related situation involving New York City speculators see the history of the Wolfborough Bank of Wolfeboro.



**Richard Peabody Kent, long-time cashier of the Lancaster Bank, kept a journal of town activities for more than 50 years, furnishing the best record we have today of life in the town from 1825 onward. (*History of Coos County, New Hampshire, 1888*)**

The notarized report of the condition of May 7, 1838, signed by cashier Richard P. Kent and directors Ephraim Cross, Royal Joyslin, John Willson, David Burnside, Benjamin Stephenson, Turner Stephenson, and Richard P. Kent, showed \$23,007 in bills outstanding, but a paltry \$2,944.58 in combined specie and deposits in Boston for the redemption of currency, the curiously combined figure probably reflecting that there was not much money in Boston to exchange for bills, perhaps precipitating the aforementioned 25% discount.

Obviously, even the smallest “run” on the bank would close it down. It is likely that in Lancaster at the time the bank did not pay out coins, or at least not in significant amounts, for this was the era in which nearly all banks in the East had suspended specie payments. Thus, someone tendering a \$10 bill from the Lancaster Bank might receive two \$5 bills from the Cheshire Bank of Keene in exchange, but there was little possibility of obtaining a handful of silver half dollars or quarters or a couple of gold half eagles.

On September 13, 1838, the directors of the Lancaster Bank met and instructed the cashier to have the shareholders pay the balance due on their stock purchases of long ago. This action was not immediately successful, perhaps due at least in part to the stringent national financial conditions following the Panic of 1837, but more likely because the stockholders were content to let the matter ride—which they seemed to do in unison.

Recommendations by bank directors had no legal force behind them.

Amazingly, the Lancaster Bank kept up its appearance of profitability, or tried to, and from 1835 through and including 1837, and possibly in 1838 and 1839 as well, it declared annual dividends of 8%,<sup>9</sup> a figure that continued to stand out as an incredibly high amount in relation to what other state banks were paying their shareholders. Moreover, as the dividend was declared on the face value of the stock, and as only a quarter of the face value had been paid, this payout continued to be a windfall really amounting to 32%.

### **Commissioner Wilcox Pays a Visit in 1841**

On June 2, 1841, bank commissioner Leonard Wilcox, a lawyer who lived in Orford, traveled to Lancaster to pay a visit to the bank. Afterward he wrote the following to Gov. John Page:<sup>10</sup>

I have the honor to submit to Your Excellency the following statement of the condition of the Lancaster Bank on the 2nd day of June 1841, as appearing upon an examination made by me pursuant to law.

*Assets:*

Debts due to the bank: \$86,501.86

Property of the bank: \$500

Specie: \$882.12

Bills of other banks: \$74

Funds in Boston: \$8,747

Total: \$96,704.98

*Liabilities:*

Capital stock: \$50,000

Deposits made by customers: \$8,324.21

Bills in circulation: \$34,811

Undivided profits: \$3,569.77

Total: \$96,704.98

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<sup>9</sup> Figure uncertain; data for years 1838 and 1839 subject to interpretation (cf. Norman Walker Smith, *A History of Commercial Banking in New Hampshire 1792-1843*, 1967, p. 265, source for certain dividend figures given here).

<sup>10</sup> Edited, excerpted. • Charles H. Bell, *The Bench and Bar of New Hampshire*, 1894, pp. 93, 94, includes a biography of Wilcox (1799-1850). In the year after the quoted letter was written, Wilcox in 1842 became a United States senator.

A dividend is made annually on the first of July. Due from directors as principal: \$22,658.09. Due from directors as sureties: \$7,800.40. Due from stockholders other than directors, as principals: \$30,761.75. Debts secured by pledge of stock, \$2,182.65, which is included in the above sum due from stockholders.

The above includes, it is believed, all the liabilities of the bank of any amount.

The figure for bills in circulation as above stated does not include the sum of \$8,200 redeemed by their agent in Boston, as appears by his account rendered, but which have not been returned to the bank. It is probable that a portion of the above funds in Boston have already been applied in redemption of bills of the bank.

If the debts due the bank are all good and collectable, the above account presents a favorable view of the condition of the bank and such as to enable them to make their usual dividend the coming month. And the officers of the bank consider all their debts good and in the end available to their full amount. The undersigned does not feel authorized to say such is not the fact, but he is constrained to say that, in his view, a portion of their debts must be regarded as unavailable for the present. There are seven directors of the bank & each director appears to be indebted to the bank as principal more than the amount of his stock.

The undersigned made an actual examination of most of the securities of the bank, including those given by the directors—and so far as he can speak from his knowledge of the men, he thinks the securities given by the directors are good and collectable....

In this bank as in many others, the directors seem to have been somewhat negligent of their duties and have devolved too much of business of the bank and of its responsibilities upon the cashier. If the Legislature in its wisdom should add to the personal liabilities of directors, it might quicken their vigilance.

Total amount of bills signed by the officers of the bank is \$82,500.

All of which is respectively submitted.

L. Wilcox, Bank Examiner

Concord, June 10, 1841.

At this time, and for long thereafter, bank commissioners were appointed by politicians, and the wrong thing said about a director or bank officer who had a strong friend in the State Senate or State House of Representatives could result in the ouster of the examiner. As can be seen by the report from Wilcox, this examiner was careful in his suggesting that there might be a problem with the Lancaster Bank, and Wilcox did not discover that loans to directors were for “payment” of stock.

### **Financial Manipulations Disclosed in 1844**

At long last, and years overdue, on August 1843 the State Bank Commission finally conducted a special examination of the Lancaster Bank, and found its basic liabilities to the public to be \$41,020 (\$18,946 of bills in circulation and \$22,074 due to depositors), while its liquid assets were a trifling \$4,437.32 (\$431.23 in specie, \$903 in other bank bills, and \$3,103.09 deposited in Boston). An injunction was obtained against the directors, a very unusual situation in the annals of state banking. They were directed to reduce their liabilities to the public.

Sometime in May 1844 the bank was visited by Amos Tuck, an examiner who was

later to achieve great fame in the state.<sup>11</sup> He found cashier George A. Cossitt to be ill, and the audit was curtailed. Later, on May 30, James M. Rix called on Cossitt, whose main business was the practice of law, and completed the task. It was found that obligations to the public had been reduced to \$37,571.28, seemingly by a reduction in customer deposits, and liquid assets had risen to \$5,897.19. Examiner Rix noted that after deducting liquid assets, there still was an exposure, and asked rhetorically in his report: “Has the bank such means in its possession as will in all probability secure the public against the loss of any part of the balance of \$31,692.10?”

In May 1844 the bank had loans due to it of \$84,921.79, including \$47,248.07 in notes plus interest accumulated over a long period of years, including notes that were, in effect, for balances due on the capital stock. Rix estimated that \$9,845.41 of this was uncollectible, and the rest represented an unsatisfactory situation. A further part of the loan was to Littleton borrowers in bankruptcy, for \$17,770.75, nearly all of which he considered worthless. Rix also stated that there had been manipulations concerning the money due for stock: “These notes were afterward changed and generally signed by three persons, and made the form, *nominally* at least, the liabilities of ordinary discount paper. Thus, the truth was finally revealed—for years the bank had been reporting these due items in the form of loans or commercial paper. In the meantime the stockholders had received more in dividends than the deposit amounts they had paid toward their stock—yielding a profitable investment that, in effect, cost them nothing!

In July 1844, Amos Tuck and Titus Brown visited the bank and took away a bond in the sum of \$50,000 which had been secured, payable to the state, to guarantee the bank’s bills, another remarkable act of regulation.<sup>12</sup> Clearly, the Lancaster Bank was under very close scrutiny. Paper profits were no longer being paid out as “dividends,” and none had been disbursed since July 1842.

### **The Beginning of the End**

James M. Rix visited the bank in spring 1846. He found that a total of \$4,600 in bank stock has been transferred by Royal Joyslin, Turner Stephenson, David Burnside, and Ephraim Cross “to persons out of town, the transfers having been, there is every reason to believe, merely nominal, and with a view to [avoiding local] taxation.” Affairs of the bank continued to be less than satisfactory, no dividends had been paid in the preceding three years, and, “The cashier estimates, upon oath, the amount of bad and doubtful debts due the bank at \$18,000.”

Examiner Rix in a later report published in June 1848 recommended that a bond be obtained to guarantee redemption of bills, seemingly indicating that the old bond had expired. Although some small reductions in liability had been made, Rix continued to view the bank’s operations as bordering on insolvency.

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<sup>11</sup> As a founder of the Republican party. Through a gift from his son the Tuck School of Business Administration was established decades later at Dartmouth College. Also see the history of the Weare Bank of North Hampton.

<sup>12</sup> *Reports of the Bank Commissioners*, June 1845, p. 398.



A year later in his report of June 1849, Rix commented that despite injunctions against the bank, all or nearly all of the original stock loans remained unpaid, that no particular effort was being made to collect other loans, and that “its books have not been kept with such system and accuracy as to afford any very ready understanding of its affairs.” Then this: “Its charter will expire on the first of June, 1853. It is incumbent upon it to take prompt and most decisive steps to prepare for it.”

In other words, there was no prospect of having the charter renewed.

## The 1850s

The *Portsmouth Journal*, November 2, 1850, included this:

### Attempted Bank Robbery

*The Bee* states that an attempt was made on Friday, 25th ult. to rob the Lancaster Bank, at Lancaster, N.H., by two men recently discharged from the New Hampshire State Prison. A young man heard the fellows at work, and went and summoned two other men; the three then proceeded to the bank, and hailed the robbers, who, becoming frightened, jumped through the window and run away, without being molested by the three men who alarmed them. One of the latter had a loaded gun in his hand, and gave as a reason for not firing it, that he did not think of it soon enough.

The thieves had succeeded in forcing open one of the safe doors, and removed five or six bolts, and one or two bands from the other door of the safe, and ten minutes more would have been sufficient to have enabled them to have completed the job, and been away with the money. These same robbers attempted to rob the Wells River Bank, in Vermont, one night last week, and were frightened away, after they had commenced operations upon the safe, by the approach of a man.

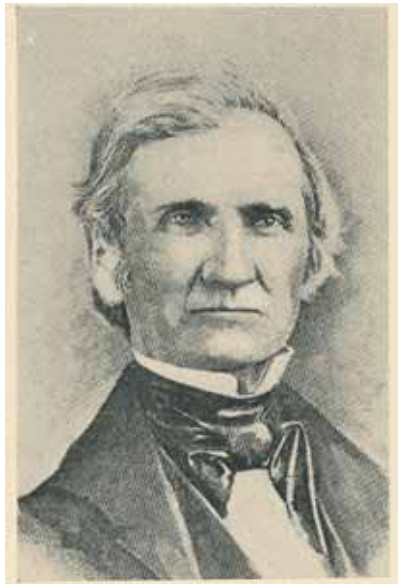
In early 1850 there was a major rearrangement of the Lancaster Bank board. When James M. Rix visited the bank on March 30, the directors included Royal Joyslin, Richard P. Kent, Reuben Stephenson, Joseph Colby, Thomas Montgomery. By the time his report was filed two months later in June, Reuben Stephenson had resigned from the board, and new directors George C. Williams, John G. Stephenson, and Jonathan Hovey had been added. Williams, the son of former governor Jared W. Williams, would play a memorable role in town banking in the next 15 years.

Examiner Henry F. French visited the Lancaster Bank on May 16 1851, but could find no financial statement of its condition, either in the bank’s books or elsewhere, except a notice that had been sent to the secretary of state. Although Cashier George A. Cossitt said that the directors had made investigation, French reported, “but no record or evidence of any recent examination was furnished or could be found.”

Moreover, “the books of the bank were not posted up to any modern date,” and



French found it “utterly impossible to ascertain from the books and papers of the bank, in their present situation, its true condition.” Loans unpaid for stock purchases of over 15 years earlier remained at \$35,649.58, plus interest of \$11,935.19, reached nearly the capital of the bank, \$50,000, which, of course, was really not the capital at all, nor had it ever been. In the meantime \$29,657 in the bank’s currency remained in circulation, with scarcely a clue as to how it could ever be redeemed.



**Royal Joyslin, prominent Lancaster merchant and entrepreneur, was president of the Lancaster Bank for many years. The institution was operated on a very casual basis with little in the way of standard banking practice with regard to stock issuance and the collecting of loans. (A.N. Somers, *History of Lancaster, New Hampshire, 1899*)**

Frederick Vose was the next examiner to visit, which he did on May 19, 1852, and, similar to his predecessor, he found the affairs of bank to be in a financially jumbled condition. However, he expressed the opinion that, somehow, the \$40,563 in outstanding bills would be made good once the \$43,770.76 in old loans for stock purchases and interest had been paid. Unsaid was how this would come to be, as the loan was 15 years old and, so far, there had been no indication that any of the debtors were the slightest bit interested in settling the matter!

“In the present situation of its resources, the interest of the stockholders, as well as of the public, requires that immediate and effective steps should be taken by the directors to put its affairs in proper train for seasonable liquidation.”

On May 12, 1853, it fell to examiner Frederick Vose to visit the Lancaster Bank. The business was beginning to close up, no new loans were being made, and bills were being redeemed at the rate of about \$5,000 per week at the Suffolk Bank in Boston.

It was commissioner James M. Rix’s turn at the bank on May 16, 1854, and he reported that “the institution is closing its affairs.” Only \$9,492 in bills remained

outstanding, with \$1,338.34 in specie on hand, \$769 in bills of other banks, and \$2,832.36 in bills of other banks. Some small part of the \$72,175.55 in loans was expected to be collected, and this and the cash assets, “allowing something for the bills of the bank which have been lost, will pay its indebtedness to the public, after which “the stockholders will withdraw their notes, after equalizing among themselves their payments of interest...” There was no listing of officers and directors in the 1854 report for this bank.

The last State Bank Commission report was made by John G. Sanborn, who visited the Lancaster Bank in May 1855 and found that \$1,900 in bills remained outstanding, “of which amount from the known numbers and dates of the bills, some \$1,500 is supposed to be lost.” Apparently, a block or serial number sequence was missing (a tantalizing numismatic tidbit, should these ever be discovered).

Thus the story of the Lancaster Bank ends. Probably more than anything else, it was run on a casual basis. The \$50,000 capital was never paid in full, or even close to it. The men involved, with cashier George A. Cossitt the most important, were well respected in and around Lancaster, and there is no evidence of outright fraud. However, the books were rearranged to disguise stock loans as regular loans. In the end no one lost any money, although whether the town of Lancaster benefited from the bank’s existence is questionable.