

POSTAL SAVINGS BANK

HEARINGS

BEFORE

SUBCOMMITTEE NO. 2 OF THE COMMITTEE ON THE POST-OFFICE AND POST-ROADS, HOUSE OF REPRESENTATIVES

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APPENDIX B.

THE FREEDMEN'S BANK.

Investigation of the bank.

[House Report No. 502, 44th Cong., 1st sess., from the report of a committee of Congress, signed by Democrats and Republicans, 1876.]

As a befitting introduction to their report your committee offer the following brief account of the origin, structure, and early history of the institution commonly known as the Freedmen's Bank, from which * * * it will be easy to discern how naturally it degenerated into a monstrous swindle and justifies a suspicion that it was * * * merely a scheme of selfishness under the guise of philanthropy, and to its confiding victims an incorporate body of false pretenses. While the civil war was still in progress it had occurred to some of the generals of the federal armies that depositories for receiving and keeping the pay and bounties of the colored Union soldiers would be a convenient and necessary provision for their benefit, and accordingly military savings banks were established at Norfolk, Va., and at Beaufort, S. C. They seemed to have been well timed and suitable to the object in view, as the colored soldiers eagerly availed themselves for depositing therein such portions of their pay and bounties as they did not need for their own immediate use, and large sums were found to have accumulated in them when hostilities ceased. From some cause or other, but doubtless by the death of many, the dispersion of the survivors, and the prevailing ignorance of the class of depositors, this money remained uncalled for. * * * To utilize this fund and to collect and turn to profit the large sums still due and to be paid by the Government seemed to have led to the conception of the idea of a freedmen's savings and trust company. * * * The Freedmen's Bureau, so redolent of evil under specious guise, and an adept in the ways and means of squandering money, readily supplied the personal agencies for the undertaking. Of these the chief and founder of the so-called Freedmen's Bank was one John W. Alvord, an attache of the bureau, and superintendent of its educational department. This man * * * abounding in pious platitudes about the good of mankind in general, but with a keen eye to the main chance * * * having proved a failure in both lay and clerical pursuits * * * now turned his benevolent regards to the confiding and ignorant black element of the South. He got up the charter for the bank, a charter so singular in its array of high and eminent names for corporators, for its business organization, whereby 9 out of 50 trustees were constituted a quorum, and so utterly and entirely without safeguards or protection for those who were to become its patrons and depositors that it is hard to believe that its author, whatever might have been his other deficiencies, did not thoroughly understand how to organize cunning against simplicity and make it pay for the pleasure of being cheated.

As no intentional injustice is designed by your committee in their search for and exposure of the men who are responsible for the outrages perpetrated upon the colored people by the bank, we desire to say right here that many of the distinguished and eminently worthy gentlemen who figure in the charter never gave the use of their names and never accepted or took to execute the trust it created. They were thrust in for appearance's sake and to make the delusion attractive and complete. Some who really believed in the good professions of the projectors of the scheme and its adaptability to promote the welfare of those for whose benefit it was apparently intended, and who at first took seats at the board of trustees, quickly vacated them in disgust and the whole management soon devolved, as was manifestly the intention that it should do, upon a cabal in Washington, consisting of a small minority of the acting trustees. * * *

Theoretically the design and the structure of the bank were admirable. The pecuniary benefit of the freedmen, and the moral and social advantages which attend upon material prosperity, were the avowed objects. The various benefits of this beneficent scheme were so divided and allotted out to boards and committees as seemingly to insure efficiency and fidelity in the officers and agents and proper guarantees to depositors. But the human instrumentalities on which the system depended for its successful

operation were lamentably defective. * * * The law lent no efficacy to the moral obligations assumed by the trustees, officers, and agents, and the whole concern inevitably became as a "white sepulchre." * * * The inspectors * * * were of little or no value, either through the connivance and ignorance of the inspectors or the indifference of the trustees to their reports. * * * The committee of examination * * * were still more careless and inefficient, while the board of trustees, as a supervising and administrative body, intrusted with the fullest power of general control over the management, proved utterly faithless to the trust imposed in them. Everything was left to the actuary and finance committee. Such was the practical working of the machine. * * *

The depositors were of small account now compared with the personal interest of the political jobbers, real-estate pools, and fancy-stock speculators, who were organizing a raid upon the freedmen's money and resorted to * * * amendment of the charter to facilitate their operations. The District (of Columbia) government, too, came in to hasten and profit by the work of spoliation thus inaugurated. Its treasury was wholly unequal to the task of sustaining the magnificent expenditures of the board of public works, presided over by H. D. Cooke and controlled by Mr. A. R. Shepherd. Some exchequer must be found to advance upon the depreciated bonds and worthless auditor's certificates of the District, or the contracts must fail and the speculation of the pool and of Shepherd and his friends in out-of-the-way and unimproved town lots come to grief. This mass of putridity, the District government, now abhorred of all men and abandoned and repudiated even by the political authors of its being, was represented in the bank by no less than five of its high officers, viz, H. D. Cooke, George W. Balloch, William S. Huntington, D. L. Eaton, and Z. B. Richards, all of whom were in one way or another concerned in speculations (involving) a free use of the funds of the Freedmen's Bank. They were high in power, too, with the dominant influence in Congress, as the legislation they asked or sanctioned and obtained fully demonstrated. Thus it was that without consulting the wishes or regarding the interests of those most concerned—the depositors—the vaults of the bank were literally thrown open to unscrupulous greed and rapacity. The toilsome savings of the poor negroes, hoarded and laid by for a rainy day, through the carelessness and dishonest connivance of those self-constituted guardians melted away. * * *

Your committee call attention to the books of the bank. Their condition indicates a settled purpose, running through a series of years, to muddle and confuse accounts, so as to make them unintelligible. * * * If nothing more than an occasional mistake or slight "irregularity" occurred it might be set down, perhaps, to the inexperience of the bookkeepers or the want of clerical force to write up the book properly. But it is far otherwise. The books are mutilated and defaced—leaves cut out in some places and firmly pasted together in others—without proper indexes to guide and direct the searcher into their hidden mysteries—abounding in false entries and forced balances. * * *

Full of gratitude to the Government for his emancipation the negro was easily approached by and gave unheeding credence to any adventurer who declared himself his friend and professed a desire to aid his moral, intellectual, and social elevation. * * * He believed, and was deceived; trusted, and was betrayed. Taught, to his ruin and that of the whites among whom he lives * * * and between whom and himself there must be mutual trust and confidence before prosperity can be restored to his section, to hate and distrust the "old master classes," he is now derided * * * for his credulity and told that those who dragged him out of slavery have by that one act canceled every obligation to deal with him on principles of common honesty. Upon no one of the originators and trustees of the bank did so great a responsibility rest as upon John W. Alvord, but yet he permitted all the misdoings described in this report to go on from year to year without any vigorous protest or effort to correct them, and so far from giving warning to those who had so trusted the concern through his persuasion, he helped to keep up the delusion by praising it, enlarging upon its benefits, giving assurance of its ability, and soliciting increase of depositors and deposits.

During the progress of the civil war, when the colored soldiers became a considerable element in the military service of the United States, it was deemed necessary to make some provision for the safekeeping of their pay and bounty moneys for the benefit of themselves and their families. To meet this exigency a military savings bank was established at Beaufort, S. C., and another at Norfolk, Va., centers at that time of colored troops.

The subsequent emancipation of the race increased the necessity for and suggested the advisability of establishing some financial agency which would more fully meet this demand, and Congress, under date of March 3, 1865, passed an act constituting Messrs. Peter Cooper, William C. Bryant, A. A. Low, S. B. Chittenden, Charles F. Marshall, William A. Booth, and 44 others a body corporate, under the title of the

"Freedmen's Savings and Trust Company, to receive on deposit such sums of money as may from time to time be offered therefor, by or on behalf of persons heretofore held in slavery in the United States, or their descendants, and to invest the same in stocks, bonds, Treasury notes or other securities of the United States."

No capital stock was required, but in lieu thereof the charter permitted not exceeding one-third of the deposits to be retained in a readily convertible form, for the purpose of meeting withdrawals and to defray the operating expenses of the bank.

The principal office of this institution was located in Washington, opposite the north front of the Treasury Department, in a four-story brownstone building. After the failure of the bank, this building was purchased by the Government for the sum of \$250,000, and has since been demolished.

At the date of the failure of this banking company in June, 1874, it had 34 branches or agencies in active operation, which were located at centers of colored population throughout the Southern States, except one each in New York, Philadelphia, and Baltimore.

During the ten years of its active existence the deposits in this institution aggregated over \$57,000,000 and its depositors numbered over 70,000.

From 1865 to 1870 the bank seemed to have been honestly and judiciously conducted by the trustees in charge of its affairs, and apparently to have enjoyed the full confidence of its depositors, in the knowledge and belief that their moneys were required by the charter act to be safely invested in the stocks, bonds, Treasury notes, and other securities of the United States.

In May, 1870, however, Congress amended the act of incorporation, empowering the trustees to invest one-half of the deposits received "in bonds or other notes secured by mortgage on real estate in double the value of the loan." This amendment opened the door to the wild speculation in real estate which immediately followed its passage, and to other culpable transactions, which soon absorbed the funds of the bank and led to the failure of the institution.

When this proposed amendment was under discussion in the Senate, Senator Cameron, of Pennsylvania, strenuously opposed its adoption, and declared that it would lead to the disruption of the institution, as the funds of the bank, he said, once invested in real estate, would be difficult to get back. He contended that the principle proposed was a dangerous one, and one which should not be incorporated into any banking institution. He said that his experience had been whenever a bank of that character invested its funds in real estate it went to destruction. This prophecy was fulfilled four years later.

At the time this radical change was authorized in the character of securities to be taken for loans the deposits amounted to at least \$2,000,000. Had the original act been allowed to remain as it was and its requirements with respect to investments been complied with, the face value of the United States securities which the bank should have then held would have exceeded the sum stated by a very large percentage and their market value would have been much greater, but at the date of the failure of the bank only \$400 in United States securities were found among its assets.

The same amendatory act provided for the winding up of the bank and all of its branches, whenever the trustees might deem it advisable, by the appointment by them of three commissioners, to be approved by the Secretary of the Treasury, one of whom should be a colored man.

On June 29, 1874, the bank having been ascertained to be insolvent, was closed by a vote of the trustees, who appointed three commissioners to wind up its affairs. These commissioners served from July 11, 1874, to February 21, 1881, on which later date, by act of Congress, all the remaining assets of the bank were transferred to the custody and supervision of the Comptroller of the Currency, who since that time has had charge of the liquidation of its affairs.

At the time of the failure of the bank there were 61,131 depositors, to whom there was due \$2,939,925.22. Between November 1, 1875, and May 12, 1883, five dividends were declared, amounting to 62 per cent, and aggregating \$1,822,753.62. Of this amount there was called for and paid \$1,638,259.49, leaving \$184,494.13 unpaid and barred by the act approved February 21, 1881, which act required all claims against the trust to be presented within six months from the date of its passage and all dividends to be called for within two years from the date of their declaration.

The act of March 3, 1899, removed all bar to the presentation of claims and the payment of depositors who had not yet received the full 62 per cent of dividends declared, and there has been paid to date under this latter act and the act of February 18, 1883, including special deposits and preferred claims, \$1,730,290.80, leaving a cash balance to the credit of the trust in the United States Treasury on December 1, 1907, of \$5,693.03.