RAMSEY COUNTY
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The 108-Year History of Norwest St. Paul—

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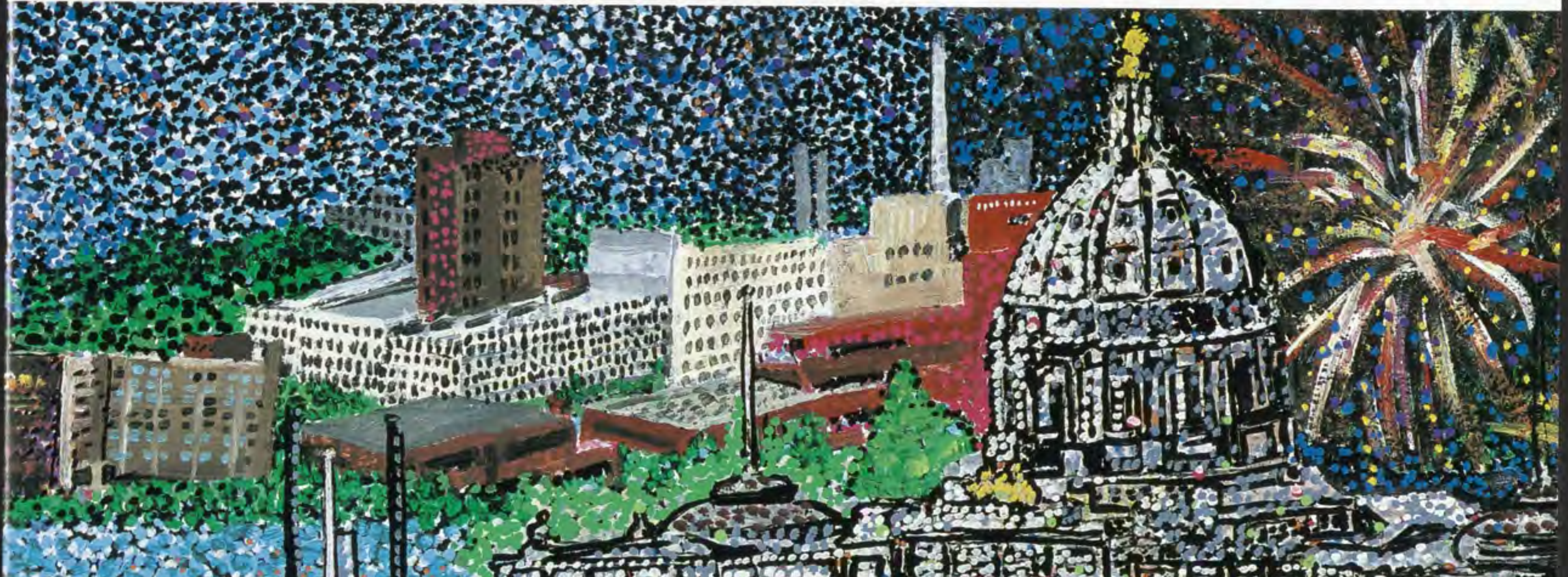

A portion of Ta-coumba Aiken's mural for Norwest Bank St. Paul. See pages 3 and 17.

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Publication of *Ramsey County History* is supported in part by a gift from Clara M. Claussen and Frieda H. Claussen in memory of Henry H. Cowie, Jr.

Ta-coumba Aiken and "The Spirit of St. Paul"

St. Paul painter, sculptor and muralist Ta-coumba Aiken painted the mural, a portion of which graces the cover of this issue of *Ramsey County History,* for Norwest Bank St. Paul's sparkling new retail banking superstore. On page 17 he speaks of how he envisioned his work, "The Spirit of St. Paul—Now and Forever."

Banking on Minnesota's Unfettered Frontier—When Barter was the Name of the Only Game in Town

The complex and colorful history of banking practices in Minnesota between 1835 and 1914 formed the foundations of Norwest Bank St. Paul, but the bank's many predecessors had their faltering beginnings in a robust, unfettered pioneer economy that was typical of the frontier between the 1830s and the 1850s. At first, banks in the region of Minnesota did not exist, credit facilities were scanty, specie was scarce, and barter was not only common but essential.

Indeed, during the 1830s, 1840s and 1850s trade by barter rendered the exchange of money unnecessary. Even in some later years when the barter system declined after settlement began, examples still could be found. It's not surprising, then, that the continual scarcity of specie strongly influenced the early history of banking in the region.

Before Minnesota became a territory in March, 1849, banking was carried on at Mendota, the regional headquarters the American Fur Company established in 1834 under Henry H. Sibley. For more than a decade thereafter, the fur company, its trade, commerce and financial network linked with eastern cities, particularly New York, was the region's banker. Native Americans and their trading partners exchanged furs for guns, ammunition, blankets, calico, knives, tobacco, rum and other articles.

In 1837, with the opening to settlement of the Indian lands between the Mississippi and the St. Croix rivers, the fur company's business expanded beyond furs to other transactions. The transition from barter to money, credits, checks, drafts and other modern financial mediums had begun.

The Native Americans no longer found it necessary to barter furs for goods, but instead paid the traders in

William R. Marshall, president of the St. Paul Board of Trade, founded in 1849 to counteract currency fraud. From a portrait by Evelyn C. Russell, Minnesota Historical Society photo.

money at regular gatherings to receive government payments. The traders took care to be present, bringing goods to sell. Accordingly, the fur company began to deal not only in furs, but also sold goods on credit—a basic retail business. As more settlers arrived, this retail operation expanded to serve the growing community and the fur company found itself in competition with other businesses.

While new settlers required banking services, their needs in the early years were too irregular and small and they, too, turned to the fur company at first, along with the explorers, missionaries, and others who used it as a fiscal agent. The company made loans, cashed drafts on eastern cities and St. Louis, and sold exchange on its offices in New York.

It carried some of these loans on its books as credits (checking accounts) and honored drafts drawn against them; it collected customers' notes falling due in other sections of the country and acted as agent for Easterners in collecting notes from local inhabitants. All of this was greatly helped by the company's trading posts throughout the Indian country, by its foreign operations, and by its main office in New York.

Before 1849 the few scattered white inhabitants had managed very well without any banking institutions, for the simple reason that they didn't need them. But after Minnesota became a territory, banking entered a new phase. Incoming merchants began to look to other institutions. Some of the businessmen in the growing villages carried accounts on banks in other cities, and many had lines of credit with eastern firms. St. Paul and St. Anthony businessmen began to lend locally for short periods, and the fur company's prestige gradually diminished.

With population, trade, and business expanding, the lack of a genuine banking institution became more apparent in St. Paul. Settlers needed clothing, tools, house furnishings and, for a time, even food. They could send back only furs and, after about 1840, lumber. As a result, what little specie did find its way into the region had to be sent back East to maintain the balance of trade.

Barter continued to be helpful, with logs, cordwood, agricultural products, and cranberries willingly accepted in exchange, even, on occasion, after 1860, but it is little wonder that there was strong sentiment in St. Paul for establishment of a bank. People needed an agency to deal in exchange and deposits.

In June, 1849, Alexander Ramsey took office as the first governor of Minnesota Territory, and the first territorial legislative session was held the following September in St. Paul, the territorial capital. Its population was 840.

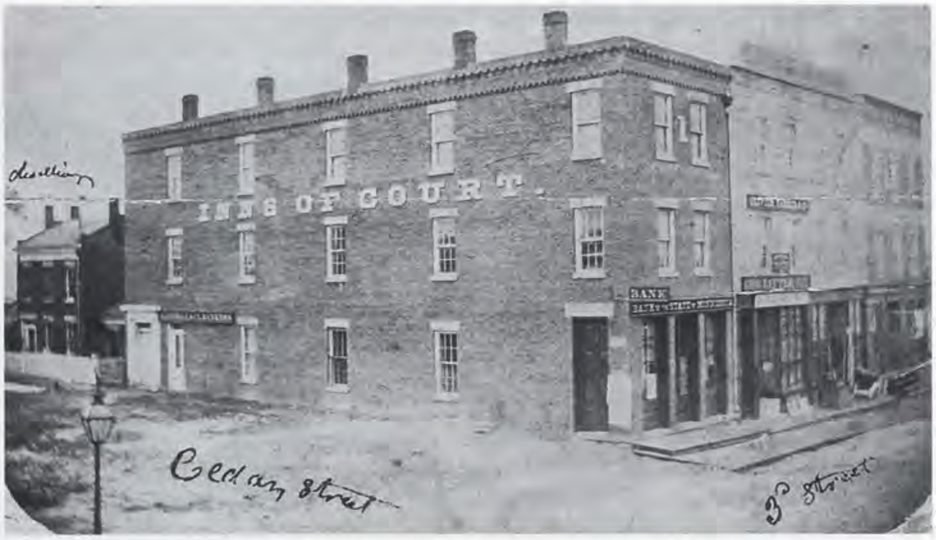
From then on, through the gubernatorial campaigns of the 1850s, the creation of banks of issue was a lively and perennial political issue. The more conservative, especially those who knew the evils often ascribed to banking operations, strongly opposed them and kept them from gaining as strong a foothold as they did in many other parts of the country.

There was an attempt to establish a bank in 1849, but it evidently was a fraudulent effort to promote worthless paper. As the territorial Legislature was meeting, bank notes were circulated by one Isaac Young, a stranger in St. Paul, who induced a resident to sign notes purporting to be drawn on the "Bank of St. Croix, Saint Paul, Minnesota," a bank which didn't exist. Young left town with the notes and tried to circulate them in other cities. The *Minnesota Pioneer* and the Galena, Illinois, newspaper announced that the notes were fraudulent, and that the Legislature hadn't granted a charter to such a bank.

Several meetings of St. Paul merchants were called in an attempt to counteract the "bank's" activities. The result was the organization of the first commercial body in Minnesota, a Board of Trade. Its officers were William R. Marshall (a future governor), president; Thomas Foster, vice president; Samuel Walker, secretary; and Alexander H. Cathcart, treasurer.

It was, however, the employees of the American Fur Company who formed the first legitimate, substantial bank in Minnesota Territory. Charles W.W. Borup, a native of Denmark, a pioneer physician, and an American Fur Company employee, arrived in St. Paul in 1848 and three years later, in May, 1851, began dealing in bills of exchange and drafts on all parts of the United States. By this time St. Paul was a thriving, busy town of nearly 5,000 residents. In June, 1852, Charles H. Oakes, Borup's brother-in-law who also worked for the fur company, opened a loan office with branches in other parts of the region.

Borup and Oakes formed a partnership. The American Fur Company name gave it standing and even those most bitterly opposed to banks of issue heartily supported the new firm. Other banks followed: Charles H. Parker, William Brewster & Company; and Smith, Newell & Company. A bank was established in 1853 about ten miles up the Mississippi at the thriving lumbering village of St. Anthony. Two years later the first bank in Minneapolis opened on the west side of the river across from St. Anthony.



The Bank of Minnesota at St. Paul, the first bank formed under an 1858 legislative act that created the basis of all subsequent banking legislation in Minnesota. The bank occupied the ground floor corner in this 1858 photograph of Lambert's Block at Third and Cedar Streets. Minnesota Historical Society photo.

* * * *

These early banks, before the passage of the state's banking law in 1858, were private banks, having no fixed capital and unregulated by law. Commercial honor was their only safeguard. In general, they conducted a commercial banking business and dealt in real estate.

One observer noted that banking operations were difficult. Minnesota's remoteness and lack of currency placed bankers at a decided disadvantage. The rate of exchange on eastern banks varied from 1 to 5 percent, and, since production of goods couldn't satisfy the needs of the territory's rapidly growing population, exports were virtually non-existent; exchange had to be created by shipments of gold and currency. Since the nearest railroad lines ended at La Crosse and Prairie du Chien, currency had to be shipped by steamboat in summer and by stage in winter.

The quality of the currency was another problem. For a short time in the early 1850s, the limited amount of currency was almost entirely specie, but counterfeit and irredeemable bank notes soon appeared. Close scrutiny was necessary and so were bank note detectors. Bankers and newspapers published lists of counterfeit and worthless notes. Recognizing the splendid opportunities to circulate their notes, banks sent agents to Minnesota with large quantities of small bills to be used for speculation and profit.

Merchants and the public alike suffered large losses from these spurious and unstable issues. The situation was so serious by the winter of 1853–1854 that St. Paul businessmen urged the Legislature to forbid the circulation of bills under ten dollars, with heavy penalties for violating the law. The measure failed.

Borup & Oakes made a more successful attempt to establish a bank of issue, which operated from January, 1854, until the Panic of 1857 forced it to suspend. With the region flooded with millions of dollars of paper issues from unknown banks in Maine, Georgia, Indiana, among other states, the only familiar issue was that of Borup & Oakes.

At first the Whigs in the Legislature advocated a banking system regulated by the territory, while the Democrats opposed all banks of whatever description, but as paper money continued to flood into the territory and the very basis of its financial stability crumbled, the currency question was taken out of politics.

The boom which swept the country in the mid-1850s included Minnesota in an intense degree. St. Paul became a boom town. Immigration was so enormous that the Mississippi steamboats couldn't handle all the travelers and immigrants heading into the territory. Borup & Oakes were putting out new issues, despite the passage of legislation against the establishment of banks of issue and the circulation of unauthorized bills as currency. But when other banks refused to accept them, the firm was forced, in self-defense, to redeem all outstanding bills and stop issuing more.

Even so, the need for funds for speculation or investment continued to increase and banking houses multiplied. By 1857 St. Paul had ten banks and Minnesota Territory an estimated thirty. Local bankers organized themselves into a Board of Brokers "to obtain the most valuable information as to the condition of such banks as are circulating their paper in our community, and also to receive the earliest possible news by telegraph or otherwise, of anticipated or actual failure of such banks."

The interest and exchange rates throughout the Northwest indicate that these banks didn't satisfy the demand for capital. At least until 1860, 10 percent per annum was a reasonable rate of interest and 20 to 25 percent was common. These rates were due in part to uncertainty of collection, but also, perhaps, to scarce capital. Even large loans from the East didn't make capital more available.

Opinion was widespread early in 1857 that Minnesota must have a regulated banking system like that in Wisconsin and Illinois. The Constitutional Convention, organized as Minnesota approached statehood, was to assemble that July and people were anticipating constitutional provisions for establishing a stable currency. As it turned out, far greater problems lay just ahead.

Speculation in real estate, farm properties and infant industries, with high interest rates eating away profits and advances, could have but one effect. The capitalistic East grew nervous and began to withhold its financial support. Transactions in inflated western real estate became few and fewer. Then came the bursting of the bubble and the cascading business failures which fell upon St. Paul and the nation.

The Convention, which met on July 13, 1857, and adjouned August 29, did draft a banking law for the Legislature to consider when it next met the following December. However, the financial storm from the East broke the day before the Convention adjourned.

On August 28, 1857, a telegram reached St. Paul announcing the suspension of several eastern banking institutions, including the Ohio Life Insurance and Trust Company, which had closed its doors on August 24. Within a week, real estate transactions and business in general were almost at a standstill in St. Paul. Gold disappeared from circulation. Early in October the banks suspended payment. Stores and warehouses were full of goods but there were no buyers.

Marshall & Company and Truman Smith were forced to close, but the greatest shock to St. Paul came on October 21 when Borup & Oakes also suspended business. The community had to resort to temporary expedients until the Legislature could establish a state banking system.

St. Paul and Ramsey County issued scrip in denominations of not less than one dollar or more than twenty dollars. The Board of Brokers, however, refused to receive the city's scrip and provided its own currency by endorsing the notes of defunct eastern banks and agreeing to take them as deposits and circulate them.

The state Constitution, ratified in October, 1857, prohibited the Legislature from passing any law sanctioning the suspension of specie payments; required ample security in United States or state stocks to insure the redemption of all currency issues in specie; made bank stockholders individually liable to double the amount of the stock they owned, with that liability to continue for a year after any transfer or sale of stock; gave bill holders preference over other creditors; and provided for registration of the names of all bank stockholders and the stock they held.

The Legislature, which convened on December 2, 1857, passed a measure on March 17, 1858, that created a state banking system. Eight days later the Legislature recessed until June 2. When it reassembled, Minnesota had become a state with its admission into the Union that May. Dissatisfaction with the banking law already was manifest, especially as the interest rate on loans had been set at not more than 12 percent a year. Therefore, another act was passed on July 21, 1858, and finally provided the basis of all subsequent banking legislation.

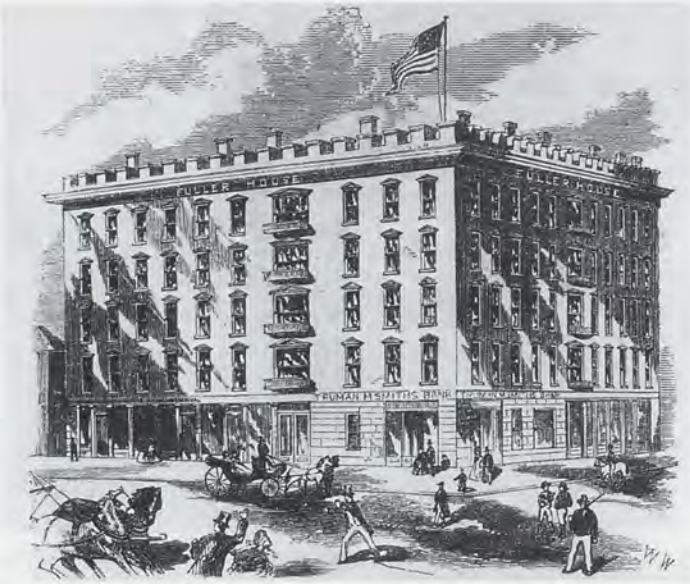
The new law placed the state's financial institutions on a sounder basis. It provided for the chartering of banks with $25,000 minimum capital and the usual privileges of commercial banks, including note issue. Bank notes were to be secured by United States or Minnesota bonds. Supervision of banking was transferred to the state auditor.

A general usury law fixing the maximum interest rate at 15 percent passed August 8, 1858. The governor vetoed it. (The bill presented for his signature wasn't the bill passed by the two houses.)

From 1858 to 1863 the banks ostensibly operated under the state's supervision. In reality, the supervision was of little value. State banks based the security of their notes on railroad bonds and, as these were of questionable value and finally were flatly discredited by the Minnesota Supreme Court, the new system tottered on its very foundations.

In November, 1858, the first banks began operation under the new law. In St. Paul the bank was known as the Bank of Minnesota at St. Paul. These banks were established by people who had large holdings of railroad bonds, although the bonds were essentially worthless until recognized by the state banking law as security for currency issues.

By December, 1859, only seven of sixteen banks organized under the new law remained open, and the state auditor, and even the governor, recommended its repeal. Minnesota banks turned to Wisconsin and Illinois for their circulating medium, but when the Civil War broke out their securities, which were largely of Southern origin, were cut from under them. The three states suffered together



The Fuller House, at Seventh and Jackson, where Truman M. Smith's bank occupied corner space on the ground floor. The Fuller House later became the International Hotel. It burned down in 1869. Minnesota Historical Society photo.

in their currency complications.

As the practical workings of Minnesota's state banking system proved disastrous for the stability of its finances, a demand arose for a national system. A strong wing of the Democratic party opposed it, declaring that it would centralize dangerous power in the federal government. But by the mid-point of the Civil War, people had become so accustomed to relying upon the government that they strongly believed in its ability to establish a financial system that would relieve them of the states' uncoordinated efforts.

The act to establish a national banking system was approved by Congress on February 25, 1863, and amended in June, 1864. Because of its stringent requirements, Minnesota's bankers were cautious in using it. Times were prosperous in 1862 and 1863, despite the burdens of war, and in the year ending November 30, 1863, six banks were incorporated under Minnesota law.

However, the next Spring bankers were alarmed again at another flood of bills pouring into the state from Pennsylvania, New Jersey, and Michigan. In May they gave notice at a St. Paul convention that after July 1 they would circulate only national currency and the issues of Minnesota banks "which are redeemable in lawful money of the United States within the state." By October 1, 1866, fifteen national banks were operating in Minnesota and all the state banks had surrendered their charters.

* * * *

After the Civil War, railroad building progressed rapidly; the state's population moved toward the northwest; trade, industry, and agriculture expanded; and banking facilities multiplied everywhere. Up to the early 1870s the national banking system had virtually a monopoly on the country's finances. Practically every important town in southeastern Minnesota had at least one national bank, and in 1871 seven new national banks were established in the same region.

Between 1865 and 1871, only one attempt was made to establish a state bank. The City Bank of St. Paul was founded in April, 1869, but became a national bank four years later. In Minneapolis, in 1872, Northwestern National Bank was organized with a capital of $200,000. Nearly fifty years later this bank and its holding company would gain its long-desired presence in St. Paul by acquiring controlling interest in Empire National Bank of St. Paul, eventually renaming it Northwestern National Bank of St. Paul, then Norwest Bank St. Paul.

The failure of the New York banking house of Jay Cooke in September, 1873, caused another financial panic which spread throughout the United States. That financial conditions were sound in Minnesota was soon evident, for the effects of the crash were scarcely noticed around the state. It was a remarkable test, considering that the Cooke failure carried with it the threatened collapse of the Northern Pacific Railroad, and in the completion of that railroad the entire state was interested. Although its securities were comparatively worthless for a time, borrowers were unable to pay their notes, and lenders couldn't collect, only a few merchants failed and no Minnesota bank suspended.

There was, however, a lively two-day run on the First National Bank of Minneapolis, which nearly exhausted the cash reserves. Other local banks came to the rescue and the crisis passed. This was a great record for the Minnesota banks, since a large number of other financial institutions around the country were closing their doors.

The Panic of 1873 encouraged the state's bankers to adopt some measures of cooperation. Among the most important was the formation of clearing house associations in St. Paul, in 1874, and in Minneapolis.

In 1878 the Legislature created the office of public examiner to regulate the accounts of all public officers and examine the books of railroad, express, and telephone companies, as well as those of the state banks. As bank transactions increased and became more involved, the Legislature created a special department of banking in 1909. The examination of all moneyed institutions was transferred to the department, headed by a superintendent of banks.

Doubtless the most important event in American banking since the National Bank Act of 1863 has been the creation of the Federal Reserve system, which acts as an immense financial balance wheel for the country. Its establishment in 1914 marked a memorable milestone in the financial history of St. Paul, Minnesota, and the Upper Midwest.

James B. Bell

Sister Annette Relf who founded the Episcopal Church Home of Minnesota, now beginning its second century of service. See article beginning on page 22.

R.C.H.S.
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