

THE SMALL, PRIVATE BANKER IN NEW YORK AND REGULATORY CHANGE, 1893-1933

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This essay traces a movement in New York State in the late 19th and early 20th centuries to protect depositors in small, private banks. These depositors were often located in immigrant communities that did not possess the local level of capital to support a national or state-chartered bank. Small private banks, the only entities that often served certain poor areas, were less regulated than state-chartered or national banks, especially with regard to capital levels and quality of assets. The fact that bank managers possessed the ability and incentives to assume additional risk exposed depositors in these small private banks to an increased danger of moral hazard. Implicitly recognizing this risk, state officials in New York after the Panic of 1893 began a movement that spanned three decades to reduce the incentives for moral hazard and increase the protection for depositors in these immigrant communities.

Modern banking regulation centers on reducing asymmetric information and protecting depositors. Focusing on the period from 1893 to 1933, this essay traces the development and implementation of regulations, of small, private banks in New York State, regulations that aimed to protect depositors, especially recent immigrants. At the start of the period under consideration, private banks in New York State were more loosely regulated than state or national banks. With little regulation of their asset quality and their capital levels, these institutions could, and often did, develop into investment and loan vehicles for the owners at the expense of their depositors. Sometimes, too, bank owners fraudulently appropriated depositor funds. Economists today refer to these issues as "moral hazard" and the principal-agent problem. In this situation, the principals (depositors) are unable to observe the actions of the agent (bank managers). This allows the agent potentially to engage in risky behavior that may benefit the agent at the expense of the principal whose deposits are at stake. 107

Deposits due on demand in licensed private banks in New York increased from \$156,000 in 1901 to more than \$30 million in 1924. Much of the rapid rise in deposits stemmed from an influx of new customers who were primarily immigrants of a low socioeconomic status. Indeed, many small private banks often deliberately targeted heavily immigrant, urban areas. Due to low levels of wealth and incomes, these areas often could not raise the necessary capital for a state or nationally chartered bank. As a result, small, private banks filled the void. While on the one hand, some of these banks provided a much-needed service to immigrants, on the other hand, many of these banks were less than reputable and attempted (often successfully) to exploit the opportunity presented by the regulatory vacuum. In addition, since small, private bankers contributed very little of their own funds to paid-in capital, they had high incentives to invest depositors' funds in risky assets or use the funds for personal loans. Low levels of capital exacerbated the situation. Not surprisingly, bank insolvency often resulted, thereby creating substantial losses for depositors.

Fearing the rise in small, private banks and the potential threats they could pose to the vulnerable communities they served, the New York State Banking Department in 1924 began to enact laws to restrict private bank incorporation and raise the legal requirements for capital levels and asset quality. This process of regulatory reform accelerated after the well-publicized failure in June 1929 of the Clarke Brothers Bank, a failure that stemmed from bank managers engaging in fraudulent loan and investment activity with depositor funds. While the size of the Clarke Brothers' banking house was relatively small, the scandal highlighted to many New York regulators the urgent need to enact legislation to protect depositors, particularly from the seemingly less respectable small, private banks in the state.

This essay is divided as follows: the first section describes the purpose and function of the small, private banker prior to the Great Depression. The second through the fourth sections focus on the changes in legislation in New York State aimed at the small private banker from 1893 to 1933. The fifth section discusses the failure of the Clarke Brothers' banking house in 1929 that led to the decision to eradicate the small private banker from the financial landscape of New York State. The sixth section examines the portfolio allocation of the state-regulated private banks in the speculative run-up in the stock market from 1924 to 1929. The seventh section concludes the essay.

Purpose and Functions of the Small, Private Banker in New York

While relatively little historical attention has been paid to the role of small, private bankers in American history, many scholars, such as Ron Chernow, have probed the ascent of large, private bankers. These prominent bankers served large corporations, individual investors, and fellow bankers throughout the world. Holding immense political sway, they financed the largest mergers and acquisitions of their time. These bankers also underwrote large securities

issues for corporations in the central money market of New York City. The most famous of them all was John Pierpont (J.P.) Morgan, Sr. In 1871, J.P. Morgan and Anthony Drexel formed the banking firm Drexel, Morgan, and Company. While the name of the firm changed over time, it was responsible for creating, through mergers, the corporate behemoths of General Electric and United States Steel Corporation. John Pierpont Morgan, Sr. himself also preserved the gold standard in 1895 and bailed out the trust companies of New York City during the Panic of 1907. While large banking houses such as Drexel, Morgan, and Company did accept deposits (prior to 1934), these deposits were mainly from large investors who wanted this service as an additional option to investment opportunities.¹

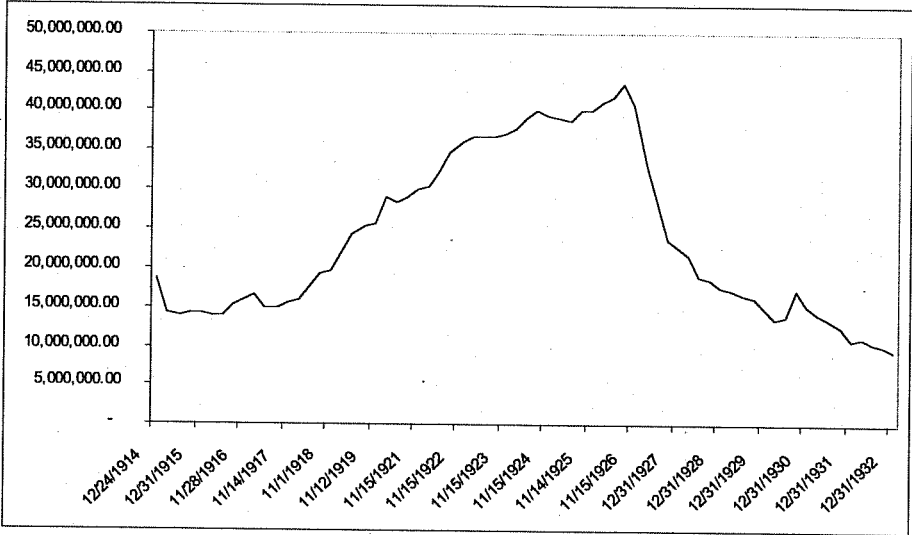
Small, private bankers served a much different purpose and clientele. Most were engaged in taking small deposits from immigrants, serving as a depository for revenues, and issuing paychecks for small businesses. For a private banker to fall under state supervision, the bank had to pay interest on deposits and had to have an average account size of less than \$500. If a bank met these criteria, it had to apply for a license from the New York State Banking Department. Also, the bank had to deposit with the State Comptroller at least \$5,000, which would be used to repay depositors in the event of insolvency. The New York State Banking Department required banks to keep records of all assets and liabilities and undergo examination four times a year. Moreover, banks needed to make available their records to their depositors year-round or else their license was subject to revocation. Despite these restrictions, however, small, private licensed banks in this period were not constrained on the type of assets that they needed to hold.²

According to historian Eugene White, private bankers in large cities served mainly as competitors to brokerage firms, while those in rural areas served primarily as alternatives to national banks in communities where raising the required level of capital for a national charter was not feasible.³ Yet, based on the evidence provided in this essay, small, private banks also served as alternatives to national banks in urban areas, such as poor, immigrant communities within New York City. These areas did not have enough funds to support the capital requirements of a state or national charter. In these communities, small, private banks served an important intermediary function that other types of financial institutions could not fulfill. Without small, private banks, members of these communities would have had fewer savings and lending opportunities.

The number of private banks and the amount of assets held in them began to decline nationally in 1904.⁴ In that year, several states began to reduce capital requirements for state charters to allow private banks to apply. Many private bankers did apply and converted to state-chartered banks.⁵ New York State, however, did not succumb to this national trend, either in regard to looser capital requirements for state charters or (relatedly) dwindling assets held in private banks. Instead, the number of unincorporated banks in the state rose in the early 1900s, peaking in 1920 at 490 banks with a value of assets over \$5 109

billion.⁶ Figure 1 plots the total liabilities of private banks under supervision of the Superintendent of Banks of New York from 1914 to 1933.

Figure 1. Total Liabilities of Private Banks, New York State, 1914–1933



Source: Author's calculations, Superintendent of Banks for the State of New York, *Annual Report of the Superintendent of Banks, 1914-1933*.

Notably, the Superintendent of Banks only exercised some formal jurisdiction over these private banks beginning in 1914 and even then, only over a certain type of private banker. Therefore, while the banks represented in Figure 1 constitute a minority of the total number of private banks or institutions approaching their functions, the data can still be useful. These likely were the more prudent and sound private bankers, as they were subject to some level of oversight and examination by the State Banking Department.

Private Bank Law in New York, 1893-1907

In New York State, efforts to increase the regulation of private banks began in earnest after the Panic of 1893, when 157 of the 503 total bank suspensions in the country (31 percent) were private banks.⁷ These private banks accounted for 12 percent of all liabilities in suspended banks, with over \$18 million in failed liabilities. According to historian Elmus Wicker, bank suspensions were concentrated in Kansas City, Denver, Louisville, Milwaukee, and Portland. New York State was relatively spared during this panic, with only five banks suspending operations.⁸ However, the large rate of failures for private banks in the interior heightened New York regulators' sensitivity to the risk that

private banks posed to their depositors. Moreover, officials resented the fact that the public was tarnishing state banks with the same brush as unlicensed private banks. As New York State Superintendent of Banks Charles Preston lamented, many media reports on the 1893 Crisis lumped state and private bank failures into the same category. Preston warned that such poor reporting "does great injustice to the State banks of this State, in classifying them with private banks. Any person or persons may engage in banking in this State.... They [private banks] may or may not have capital, they are subject to no supervision, and the amount of their business depends on the favor of the community in which they reside."⁹

The Panic of 1893 therefore became a turning point in the attitude of regulators toward private banks — an area with which they previously had not been overly concerned.¹⁰ Following the wave of interior private bank failures, Superintendent of Banks Charles Preston began to comment frequently on the deficiencies of private banks and their relatively low level of regulation in contrast to state banks.

Four years after the Panic, in the 1897 *Annual Report*, the Superintendent recommended that the state legislature amend the Banking Act to require all individual bankers to maintain paid-in capital levels similar to those of state banks. The Superintendent also recommended that "the law be so amended as to forbid in distinct terms the authorization of any new individual banker to transact business."¹¹ If the Act were amended to incorporate his suggestions, it would have added protection to depositors in the event of a bank insolvency. In addition, it would have encouraged more deposits at the currently licensed private banks, which presumably were more sound than unlicensed banks.

By 1897, New York State Senator Timothy Sullivan, a politician known for successfully cultivating the immigrant vote, had also emerged as a firm proponent of private bank reform. In January 1897, he introduced a bill to require all private bankers conducting business in the state to deposit \$15,000 with the Comptroller of the State every February. The idea was that these funds could be used to repay any deposit claims should the bank fail. As the bill passed through the state legislature, it was amended to apply strictly to the small, private banks. Banks that had total deposits over \$500,000 or were admitted to the New York State Bankers' Association were exempt from the new law. Desiring to "escape the provisions of the Sullivan bill," the larger banking houses quickly made applications to be admitted to the State Bankers' Association.¹² Importantly, the bill's modification illustrates the legislature's intent to apply the bill mainly to the small banker who could not be admitted to the State Banking Association. Furthermore, the bill was a means to require the small private banker to pay-in a level of capital that would protect depositors in the event of insolvency. Since many of these banks were not under the jurisdiction of the Superintendent of Banks, there could be no examinations to verify any level or adequacy of bank capital. This was an early attempt to transfer some of the burden of small, private bank failures from depositors to bank owners.

Five years later, in 1902, the state again pursued efforts to bring the private banker under the umbrella of the Superintendent. State Senator Edgar Brackett introduced a bill in January of that year that sought to extend all banking laws that applied to state banks to private bankers, as well as to apply the penal code of New York to cover private bankers. The motivation behind the bill was to "prevent frauds, especially on the East Side, but it would seem to apply to all persons who advertise as bankers or do banking business."¹³ While the final version of the bill (passed in February) lacked specifics on just how much control the Superintendent had over private banks, it did allow him to recommend criminal charges against private bankers in the event that they defrauded depositors.

Events remained relatively calm until the Panic of 1907 shook the foundations of the money market banks in New York City.¹⁴ Since trust companies did not clear through the New York City Clearinghouse, no formal remedy existed for a liquidity crisis emanating from this type of institution. Establishing a money pool between the New York banks and the trust companies, J.P. Morgan famously intervened to lead the rescue of the trust companies. While successful, Morgan's large intervention generated widespread concern that one man could have so much influence over the banking system. Morgan's actions also raised concern about the extent to which private cooperation should and could be relied upon to mitigate banking crises. Public unease about influence and bank survival diverted attention from regulating small, private bankers for several years.

Private Bank Law in New York, 1910-1923

In May 1910, New York State finally initiated a movement to license all private bankers operating in New York City. The bill, introduced by Senator Sullivan, was designed to "supervise the workings of private bankers through whose defalcations large sums representing savings of the ignorant immigrants have been lost."¹⁵ Like the earlier Sullivan Bill, this bill sought to require bankers to deposit with the Comptroller a sum between \$10,000 and \$50,000, depending on the amount of their total deposits. Governor Hughes signed a modified version of the bill into law later that month, with the main alteration being that only private banks whose average deposit account was less than \$500 needed to adhere to the new regulation. Besides New York City, the purview of the bill also extended to the cities of Buffalo, Albany, and Rochester. If a bank fell under the supervision of the new statutes, then it had to file an application for a license from the state, deposit the amount required based on its level of deposits, or cease operations immediately. In essence, the bill sought to protect small depositors who resided in a community that could not support a larger bank and had not the knowledge to monitor their bank's practices. The private bankers affected by the law resented the higher degree of scrutiny, and lobbied vigorously to have the law repealed. Ultimately, however, the State

Supreme Court ruled that the law was indeed constitutional and, therefore, the Superintendent was free to enforce it. In 1911, the State Senate sought to extend the bill's reach to all private banks in the state. However, Governor Hughes vetoed the bill, objecting to the fact that it would apply to banks outside the scope of those whom the original bill sought to protect. He argued that the original law was justified because private banks in larger cities might be preying on recent immigrants. However, since small, private banks in less-populated areas typically were serving communities that simply did not have a large enough deposit base to support a state or nationally-chartered bank, there was no need to extend the higher level of scrutiny to these banks.

The Superintendent of Banks actively pursued the campaign against private banks in New York City. In 1912, his office conducted a large number of special investigations of businesses "making illegal use of the words 'bank' and 'savings' and of corporations doing an unauthorized banking business."¹⁶ For a business to legally post a sign or issue a deposit receipt with the word "bank" on it, it had to be licensed by the Superintendent of Banks. As regulators well understood, some fraudulent banks tried to quickly establish operations, accepting deposits, only to disappear suddenly with those funds. By barring any unlicensed institution from using the word "bank," the Superintendent hoped to curtail one method used to defraud mostly recent immigrants in New York City.

In 1913, efforts to regulate private banks in much the same way as state banks gathered momentum. A bill was introduced to require private banks to maintain a cash reserve against deposits, reduce the amount of speculative investments that they could hold, and require them to hold a certain percentage of their assets in investments that could be quickly liquidated in the case of failure. While the bill failed to pass immediately, the movement continued to gain strength. In 1914, the failure of the Henry Siegel Bank due to the fraudulent actions of its owner gave the Superintendent the necessary leverage to request more control over the functions and practices of private bankers. The bill's final version allowed the Superintendent to assess the condition of all existing private bankers in large cities, established a required reserve ratio of 15 percent of deposits, required a deposit of \$15,000 with the state as insurance, barred real estate investments, and placed limits on the percentage of assets that could be made on loans with real estate as collateral. These new regulations placed the private banker under regulations similar to those of savings banks in the state, with annual call reports to be filed with the State Superintendent of Banks. The first report, containing conditions at the close of business on December 24, 1914, for sixty-nine banks, found that the private banks under the new supervision were larger than expected. Funds on deposit totaled \$9,882,000. This unexpected amount compelled the state to act on regulating all private bankers in the state. Three months after the publication of those figures, the Superintendent requested authority over all private banks in the state that accepted deposits, not just those in the large cities.

The increased level of scrutiny in New York City led to a higher level 113

of involuntary liquidations and prosecutions for fraud. For instance, in one notable private bank examination, the Superintendent deemed A. Grochowski and Co. unfit to continue operations. A trial later revealed that after the bank was deemed insolvent, the manager had allowed some favored depositors to remove cash. Dwelling on the danger these types of banks posed to the public good, the Superintendent emphasized the necessity of taking protective action in "the interest of the depositors, who are mainly Polish, Lithuanian, and Czech workmen... to give them the benefit of an efficient and inexpensive liquidation." The following year, in 1916, the number of private banks under state supervision rose to seventy-seven and the cash-to-deposits ratio increased as these banks liquidated securities and real estate.

Private Bank Law in New York, 1924–1929

New York began its final push to reform the small, private banker in 1924. Governor Al Smith signed a bill into power in May of that year that required all private bank owners to invest \$100,000 of their own money in their bank. Having a large portion of owners' personal wealth invested in their bank reduced the propensity for moral hazard. The bill's author, Assemblyman Frank Galgano, declared that the bill would "eventually drive out of business so-called bankers who have been doing business without capital and who have been using the funds of their depositors to conduct their private financial schemes. Many of these banks have taken the money of poor immigrants, paying them no interest, and in many cases have closed their business and disappeared."¹⁸ As the Superintendent of Banks commented, this new capital requirement likely discouraged some applications for new private banks, but most of those discouraged were "not equipped financially or by experience to conduct a private banking business."¹⁹ The Superintendent also encouraged private bankers to transfer to corporate banks with a state charter. As a result of the higher capital requirements and the push for the more sound institutions to obtain state charters, the number of private bankers and the amount of assets held by these banks dwindled. In 1925, no new private banks were authorized, and two existing private banks converted into corporate institutions. The following year, in 1926, eight private bankers either converted to corporations or sold their businesses, while five had their licenses revoked and their businesses liquidated. The State Banking Department continued its push for incorporation in 1927, and, by 1928, only forty-six private bankers still conducted business in New York. Despite a significant increase in applications, the state issued few new private bank charters.²⁰ Superintendent Broderick justified the low issuance rate, explaining that new private bank charters were only awarded if there were a pressing need for a new bank in a particular community and that the person applying for the charter was of "recognized financial strength and standing in the community."²¹ Contending that this stringency represented a commitment to a stronger banking system in New York, Superintendent Broderick warned that

“deviating from this policy would be dangerous... to depositors and others who entrust their savings and other funds and property to banking institutions, their faith being largely predicated on the belief that the State has placed its stamp of approval on the organization and safeguarding their interests.”²² To Broderick, the private banker symbolized the speculative excesses of the 1920s. Moreover, in his eyes, the private banking field attracted individuals who were either ill prepared to run a bank or who were of unsound character.

The Final Blow: The Clarke Brothers Failure and the Regulatory Reaction, 1929–1933

The final nail in the coffin of the private banker in New York was the failure of the Clarke Brothers banking house. On June 29, 1929, the banking house did not open.²³ According to initial reports, the bank, founded in 1845, had engaged in loans to speculative enterprises that had soured. The majority of the bank’s depositors were small businessmen (who used the bank to meet payrolls and obtain business loans) and other small depositors in the community. The original founders, Hudson and James Clarke, had retired in 1927, and their sons had recently assumed the bank’s operation. As regulators later discovered, the sons had loaned themselves funds in excess of \$404,000, and had invested in bonds and securities that were worthless on the day of closing.²⁴

The failure of this particular banking house was not large enough to cause instability in the central money market, nor was it sufficiently large to cause a run on other banks in the city. The failure, however, highlighted the danger of unregulated, private banking houses defrauding their own depositors and customers.

With depositors demanding redress, the State Superintendent used the incident to remind the public that institutions such as Clarke Brothers did not fall under any regulatory jurisdiction of the state or national regulators. He emphasized, “The law is so arranged as to render the State Banking Department powerless. Such is the case also with a number of other downtown firms.”²⁵ Since the jurisdiction of the Superintendent in this case was unclear, U.S. Attorney Charles Tuttle investigated the reasons behind the firm’s closure. Convicted of mail fraud, the bank managers each received jail sentences of eight years. Eventually, the depositors received 10 cents on the dollar for their deposits on the day of closing and shares of stock in a newly formed bank that replaced the Clarke Brothers Banking House.

The Clarke Brothers’ failure supplied Superintendent Broderick with the ammunition he needed to expand his control over private bankers. In August 1929, the state once again considered increasing the regulatory power of the Superintendent over private banks. The Joint Legislative Committee on Banking, convening at the Bar Association Building in Manhattan, called on Broderick for counsel. Broderick derided the existing private banking bill as “a disgrace to the State.”²⁶ The vague wording of the act, he complained,

prevented the Superintendent's office from undertaking any proactive actions concerning private banks. Under the existing statutes, the Superintendent had to request permission from the State Attorney General to inspect most private banks. As Broderick reminded the committee, while some private banks in the state were under his direct supervision, the overwhelming majority (more than 90 percent) were not.²⁷ Broderick requested the powers to inspect and audit any business in the state that issued anything resembling a bank receipt for a deposit or transaction. He also requested the power to further limit the ability of such institutions to place capital or deposits in speculative assets, explicitly referring to the need to prevent future failures stemming from frauds like that perpetuated by Clarke Brothers.²⁸ He also requested more funding for a larger staff size and higher salaries.

The state legislature responded by adding six new sections to the Banking Law that covered private bankers and amending eight others to grant Broderick all the powers he requested. The state even made the laws retroactive, allowing the Superintendent to inspect all private banks in the state and revoke their license if they did not quickly remedy any violations. Superintendent Broderick also opened and staffed the Investigations Bureau, whose sole purpose was to pursue any claims of illegal or irresponsible behavior of financial firms of any type in New York. By the end of 1930, the Superintendent had revoked the licenses of fifteen private bankers. He also increased the staff size of the Investigations Bureau, which conducted 254 special investigations of individual bankers in the state and found fifty-four violations.

The situation for small, private bankers in New York became even more intense in 1931. Following the failure of the Bank of the U.S. in December 1930, Broderick requested an even larger expansion of his powers.²⁹ He also requested immediate adherence for private banks to the same laws on loans that state banks currently faced. In addition, he requested that private banks that held deposits under \$500 cease accepting deposits by June 1931 and begin liquidating their businesses by December. The Superintendent made it clear that the desire was to "eliminate this category of banks entirely."³⁰

By the end of 1932, only eighteen private bankers remained under the Superintendent's supervision. The total liabilities of these remaining banks amounted to \$1,711,189, a mere fraction of the peak reached in 1926. Following the bank holiday in March 1933, all private banks had to apply for reopening under the same conditions as national and state banks. Many of the remaining small private banks could not meet these requirements. In fact, in New York City after the banking holiday, there were no private banks authorized to operate that held deposits less than \$300,000.³¹ Whatever means some small, private banks had employed to stay in business until 1933 were now removed. After March 1933, the only remaining private bankers were those who operated the large investment houses, yet their opportunities, too, soon would be seriously curtailed by the passage of the Glass-Steagall Act.

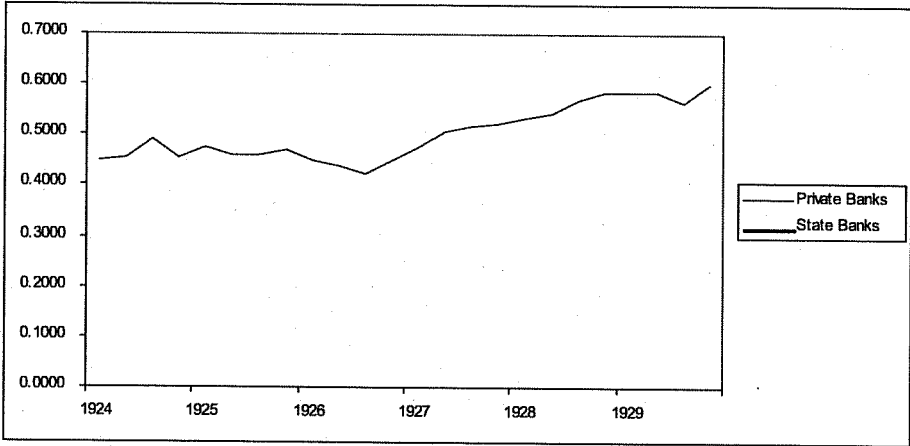
Portfolio Allocation of Incorporated Banks, 1924-1929

Much of the legislation aimed against private bankers stemmed from the realization of the risks such bankers posed to their often vulnerable depositors and communities. Most of the new restrictions placed on this group of bankers regarded the quality and amount of paid-up capital. Yet, as late as 1929, there were few restrictions on the *types* of assets these banks could hold. While state-chartered banks in New York had restrictions on the percentage of capital funds that could be loaned to any one individual or entity, used in real estate loans, or used in purchasing capital stock of other companies, private banks at the same time had no such restrictions.³²

In the areas where private bankers faced heightened regulation (with regard to the quality and amount of paid-up capital), it is questionable whether the higher level of scrutiny actually translated into sounder bank management. To answer this question authoritatively, we would need balance sheet data on the banks that fell under the supervision of the State Superintendent of Banks and those that were exempt from their control. Unfortunately, balance sheet data do not exist for the latter group. The Superintendent did publish balance sheet data on all private banks under his supervision. For 1924, the balance sheets of 68 private banks examined by the Superintendent revealed a total asset value of \$39,560,303. *All-Bank Statistics* lists 127 unincorporated banks in New York State in 1924 with an asset value of \$588,525,000. The Superintendent's figures contain data, then, on 53.5 percent of all unincorporated banks in the state that held 6.7 percent of all assets in that group of banks.

If the higher level of regulation did encourage these banks to behave more prudently, then one might expect the reporting banks to behave similarly to state-chartered banks. By comparing the balance sheets of the private banks to these state banks, we can make some general inferences regarding the efficacy of the state's actions at encouraging sound bank management to protect depositors. One aspect worth focusing on is the ratio of securities to assets. If private bankers were engaged in a higher level of speculation than state banks, we would expect to see a difference in the movement of the percentage of their assets held in securities. Figure 2 contains the ratio of public and private stocks and bonds to assets for private banks and state banks.

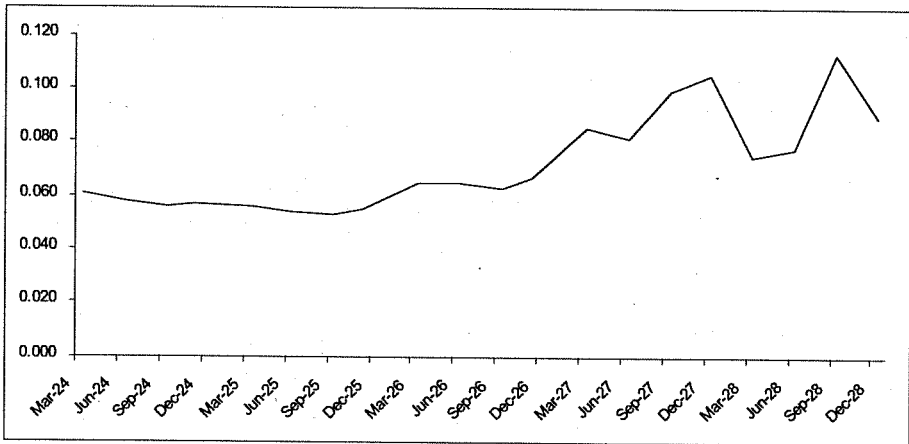
Figure 2. Stocks and Bonds to Assets, Private and State Banks, 1924–1933



Source: Superintendent of Banks for the State of New York, *Annual Report of the Superintendent of Banks, 1924-1933*.

As early as 1924, private banks had more than twice their assets in stocks and bonds as did state banks. Private bankers held 45 percent of their assets in stocks and bonds in March 1924. State banks, in contrast, held only 22 percent on the same call date in 1924. Moreover, from 1924 to 1929, private bankers increased this ratio to nearly 60 percent. State banks maintained their lower ratio of stocks and bonds to assets during the same period, ranging from 15 to 25 percent. While it is true that state banks were limited in the levels and types of securities

Figure 3. Equity to Deposits, Private Banks, New York State, 1924–1928



Source: Superintendent of Banks for the State of New York, *Annual Report of the Superintendent of Banks, 1924-1928*.

that they owned, and some bonds were less risky than certain types of loans, the higher ratio of stocks and bonds to assets suggests that private banks were engaging in greater speculative activities than were state-chartered banks.

Another important aspect of the private bankers' balance sheet was their equity-deposits ratio. One of the constant concerns of legislators was the inadequate capital levels of these banks in the event that they had to be liquidated and depositors needed to be paid their balances. Figure 3 presents the equity-deposits ratio for private bankers under the supervision of the Superintendent. The ratio starts extremely low, approximately 6 percent in 1924, and never rises above 11 percent. In contrast, state-chartered banks in New York averaged 18 percent from 1928 through 1929. The Superintendents of Banks frequently commented during this period that the more fraudulent bankers were evading inspection by the State Banking Department. If that were true, then the small, private banks not represented in the above figure likely had even lower levels of equity. Therefore, failure of those firms would have entailed depositors suffering substantial losses.

Conclusions

In the period from 1893 to 1929, a wide variety of New York State officials—including leading senators, governors, and eleven superintendents of banks—consistently endeavored to reign in the risky small, private banker. These steps were in direct contrast to the actions of most other states in regard to private bank regulation. When many states began to decrease capital requirements to entice private bankers to take out state charters, New York began its efforts to increase capital requirements and regulatory supervision over this same group of bankers.

This regulatory focus is even more striking when considering the client base that these banks served. Small, private banks held a minute portion of the total deposits in the city, and these deposits came mainly from recent immigrants. Yet for more than thirty years, the State Banking Department and legislators fought to increase the accountability of these institutions. The series of regulations aimed at small, private banks illustrates that bank regulators and state politicians understood the inefficiencies that asymmetric information created in the financial sector. Since there was not sufficient capital in these communities to support state-chartered or national banks, small, private banks were the only institutions that could serve as financial intermediaries under these conditions. By requiring private banks to produce information about their assets and liabilities, mandating that private bank owners invest in their businesses, and increasing criminal charges for fraudulent activities, regulators and legislators sought to reduce the incentives for moral hazard and increase the protection of small, immigrant depositors.

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NOTES

1. For detailed accounts of the large, private banker in the 19th and 20th centuries, see Ron Chernow, *The House of Morgan* (New York: Simon and Schuster, 1990) and Chernow, *The Death of the Banker: The Decline and Fall of the Great Financial Dynasties and the Triumph of the Small Investor* (New York: Knopf, 1997).
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3. Eugene White, *The Regulation and Reform of the American Banking System, 1900-1929* (Princeton: Princeton University Press, 1983), 35.
4. *Ibid.*, 37.
5. George Barnett, *State Banks and Trust Companies since the Passage of the National Bank Act* (Washington, D.C.: U.S. Government Printing Office, 1910), 210.
6. Board of Governors, *Banking and Monetary Statistics, 1914-1941* (Washington, D.C.: Federal Reserve System, 1943).
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8. "Bank Failures of the Last Eight Months," *New York Times*, 25 September, 1893. These numbers actually differ slightly from Wicker's tally. Since the *New York Times* must have had access to more detailed information than the accounts in the *Commercial and Financial Chronicle*, I chose the numbers from the *New York Times*.
9. "Bank Failures in New York," *New York Times*, 27 September, 1893.
10. Prior to the Panic of 1893, I find very few mentions of private banks, laws affecting such institutions, or their failures in the *New York Times*, the *Annual Report of the Superintendent of Banks of the State of New York*, or the *Wall Street Journal*.
11. Superintendent of Banks for the State of New York, *Annual Report of the Superintendent of Banks* (Albany: J.B. Lyon Company, 1897), xx.
12. "The Sullivan Bank Bill," *New York Times*, 23 April, 1897.
13. "Private Bankers," *Wall Street Journal*, 22 January, 1902.
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16. "Private Bankers Receive Warning from Van Tuyl," *Wall Street Journal*, 12 December, 1912.
17. "Schwenk's \$700,000 Private Bank Shuts," *New York Times*, 24 July, 1914.

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20. Superintendent of Banks for the State of New York, *Annual Report of the Superintendent of Banks* (Albany: J.B. Lyon Company, 1928), 6.
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