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Blue-Collar Banking

Against government opposition, Americans created savings vehicles to boost the working class

BY EVAN SPARKS

A cool November day in 1816 Philadelphia found Condy Raguet strolling down Chestnut Street, reflecting on ideas he had just read about the "friendly societies" and mutually owned savings banks popping up all over Great Britain to promote thrift among the poor.

A handsome, well-traveled, well-read 32-year-old merchant, Raguet bumped into a few friends and asked if they had heard of the concept. "Would you unite with me," he asked, "to establish one?" The friends—one of them a scion of Philadelphia's wealthy Biddle family—had indeed heard of the savings-bank concept and wanted to cooperate with Raguet. They decided to call their new institution the Philadelphia Savings Fund Society.

On December 2—less than two weeks from conception to operation—the fund opened for business at the office of one of the founders. Deposits were accepted on Mondays and withdrawals paid out on Thursdays. Raguet's African-American servant Curtis Roberts became the bank's first depositor, bringing five dollars.

Meanwhile in Boston, merchant James Savage had read similar reports from London and decided that a savings bank would be of value in the Bay State. By an odd twist of history, Savage and Raguet had much in common. Savage was also 32 and, like Raguet, had cut his teeth in Caribbean trade. He sold blocks of New England pond ice to tropical islanders. Both men were intrepid local philanthropists who married their business careers with civic service and charitable entrepreneurship.

Like Raguet, Savage sought to help Boston's poor help themselves "by supplying to the industrious poor a place of safe deposit for their savings," as one biographer relates. "In this way, habits of economy would be gradually formed and encouraged." Savage spread the word among his peers, and not two weeks after the Philadelphia Savings Fund Society opened for business, 48 leading Bostonians incorporated the Provident Institution for Savings in their own town.

New York philanthropists Thomas Eddy and John Griscom had also gotten word of the friendly societies in Britain. They sought to establish one in their hometown. The banking-skeptical legislature took its time in approving a charter, though. Eddy and Griscom had to wait until 1819.

After this, a savings-bank wave swept through the cities and towns of the young republic, especially in New England and the Mid-Atlantic states. Savings banks were established in Baltimore and Salem, Massachusetts, in 1818; in Hartford, Connecticut, and Providence and Newport, Rhode Island, in 1819; and Albany, New York, in 1820. They collaborated often; the Baltimore bank founders essentially copied the founding documents of the Philadelphia bank. The mutual savings bank was a perfect fit for the America of its time, and it would fundamentally transform the way Americans thought about their money.

The first "philanthrocapitalists"

Although they aimed to be self-sustaining from deposits, the first savings banks were philanthropic enterprises, initially capitalized by contributions from leading citizens for the benefit of the less well-off. In Philadelphia, each of the bank's 25 incorporators paid $10 to cover administrative expenses; those who wished to contribute more gave to an auxiliary fund. These first savings banks were mutually owned by depositors—the trustees held no ownership and took no dividend.

To make the dollars contributed by trustees and the pennies accumulated by depositors stretch further, most of the staffing was by volunteers. It was not until the mid-nineteenth century that banking professionals started to take charge—and, in smaller towns, savings banks were often volunteer-run well into the twentieth century. To prevent conflicts of interest and maintain their focus on their provident mission, most banks were prohibited from lending money to trustees.

At the Bank for Savings in the City of New York, the trustees took turns "attending" at the bank each month, taking deposits and keeping the books—which helped them get to know their clientele, built up confidence in the bank, and gave depositors access to the trustees' free advice and counsel. Trustees took their duties quite seriously. In Philadelphia, Savings Fund Society treasurer George Billington is said to have sometimes slept with the deposits and a revolver under his pillow.

The mission of savings banks was clear to their founders. James Savage noted that the Provident in Boston did its "greatest good" in affording laborers, servants, and artisans, "who constitute two thirds of our population, a secure disposal of their little earnings." Leaders of the New York Bank for Savings said the habits built by saving "inspire a spirit of independence…encourage industry, frugality, cleanliness, and self-respect." New York Governor DeWitt Clinton ranked savings banks with schools and orphanages, which "prevent or alleviate the evils of pauperism," contrasting them to almshouses and soup kitchens which remove "incentives to labor."

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Rising immigration to East Coast cities elevated the importance of savings banks. Irish immigrants established the Emigrant Savings Bank as a mutually owned institution in 1850. In 1911 William Knox of New York's Bowery Savings Bank described his bank's depositors as a "tower of Babel," but noted that "from whatever race they spring, they have one common motive in this land of ours, and that is the pursuit and capture of the elusive American dollar."

The business of savings

When banks were only available to the well-to-do, as in our nation's early years, the broader public was suspicious of them. The controversy between Federalists and Jeffersonians over the Bank of the United States deepened the idea that banks were not friends of the common man. When the financial panic of 1819 arrived there were heavy foreclosures amidst high unemployment. And during our period without a central bank, low-quality banknotes issued at the state level, and bouts of inflation, did nothing to make Americans fond of banks.

Savings banks were a first step to building trust. Today we tend to take the security of money for granted, but 200 years ago, few people had a safe place to store wealth—especially city dwellers who owned no land, and where thievery could wipe out a life's savings. Cities were also full of institutions—from theaters to taverns to gambling houses—designed to separate unwary laborers from their money. As managers at the New York Bank for Savings observed in an early report, "particularly in large cities, the difficulty of procuring the reward of labor is not so great as the power to preserve it."

The earliest savings banks focused entirely on the working classes. To maintain this focus, the bank in Baltimore capped total deposits at $500. They generally paid annual interest of around 4 to 5 percent. Answering a pressing need, these institutions grew fast. By 1840, the first Baltimore savings bank counted 10 percent of the population as customers. The managers of the New York bank optimistically expected $50,000 of deposits in their first year, and were shocked to attract *three times* that in just six months. After six years, 9,000 depositors were holding $1.4 million at the bank.

Mutual savings banks inspired other mutual efforts. In 1831, the first building and loan was chartered near Philadelphia and quickly spread through Pennsylvania and across the country to match the need for new housing stock. And the first credit unions took mutual banking to an even more micro scale.

Money and morals

Savings banks had moral effects as well as practical value. In addition to encouraging thrift and responsibility in individuals, historians credit them with infusing the broader U.S. banking sector with an emphasis on moral rectitude and good habits. James Manning wrote a century ago that "banks are abandoning their traditional attitude of mere passivity and are becoming active, effective stimulators of thrift among all classes of the people, thus fulfilling an educational function of the utmost importance."

The mutual savings bank legacy is also a reminder of the power of the human touch in banking. "Despite all our vastness and the intricacy of the apparatus we have devised for the transaction of business, whether it be that of a savings bank or of a merchant prince," wrote Manning, "the human factor—the individual personality in contact with other individuals—still holds the reins of power."

The twentieth century brought changes to savings banks. Customers who started out poor had become middle-class. Regulation and tax changes reduced distinctive features of savings banks, pushing many mutuals to convert to stock banks and diversify beyond their original missions. Deposit insurance, introduced in the 1930s, cut into the unique security of savings banks.

But the message of thrift remains embedded in savings banks and, through them, has been embedded in banks of all charter types. Today, most banks—regardless of origin or size—offer savings products for people of small or middling means. The nearly 350 officially designated savings banks remaining look very similar to other community and midsize banks, but that's in large part because of other banks taking on the spirit of savings banks.

The philanthropic tradition of the savings bank lives on as well. As savings banks became professionalized and less reliant on charitable backing, they turned the tables and became pioneers of corporate philanthropy. Boston-based Eastern Bank—America's oldest and largest mutual institution—practices a tithe, putting 10 percent of its net income into its charitable foundation. "As a mutual, we have no shareholders, so this is our sort of dividend," chairman and CEO Rich Holbrook says.

And while the savings bank is no longer as distinct a form as it once was, today's savings bank leaders cherish the legacy. In many cases, it's embodied in bank names like the Dime Community Bank in Brooklyn or the Cape Cod Five Cents Savings Bank.

"Some people allege that it was because it took five cents to open an account," says Cape Cod Five president, chair, and CEO Dorothy Savarese. "Another more common theory is that it was to encourage thrift, and that they were encouraging the fishermen and the cranberry farmers here to put five cents a week into their savings."

Cape Cod Five is today a full-service community bank offering deposit and payment products, mortgages, commercial loans, and wealth management. But the 161-year-old bank is sticking to its old-fashioned name. "We've maintained the name even though some people think it's an anachronism," says Savarese. "To us—it's a reminder."

The first savings banks were philanthropic enterprises, capitalized by donors and staffed by volunteers. In places, savings banks continued to be volunteer-run well into the twentieth century.