

Banking in Houston, 1840-1914

Banking in Houston between the years 1840 and 1914 reflected the evolution of the regional economy, as well as the growing regulation of banking activities by both the state and national government. Merchants dominated banking before the Civil War and throughout much of the late nineteenth century. However, the instability of currency issue and the lack of financing mechanisms among the private banks threatened to hinder the expanding national economy. State and Federal legislation sought to remedy these shortcomings. The passage of national and state banking laws, in 1863 and 1905 respectively, helped to regulate and to professionalize banking. The culmination of this trend occurred with the passage of the Carter-Glass Act which established the Federal Reserve system in 1914.

During the years from the absorption of Texas into the United States in 1845 through the Civil War, merchants and cotton factors conducted most banking in Texas. They benefited from the state constitution of 1845 which forbade the chartering of banks, a reflection of the suspicions many Texans harbored toward banks. Living in an agricultural economy, borrowers frequently used cotton as a form of collateral for loans.

For information on banking in Houston and Texas, see Joseph A. Pratt and Walter L. Buenger, *But Also Good Business: Texas Commerce Banks and the Financing of Houston and Texas, 1886-1906* (College Station, 1986); William A. Kirkland, *Old Bank-New Bank: The First National Bank of Houston, 1866-1956* (Houston, 1975); Avery Luvere Carlson, *A Monetary and Banking History of Texas* (Ft. Worth, 1980); Joseph M. Grant and Lawrence L. Crum, *The Development of State-Chartered Banking in Texas* (Austin, 1978); Edmund T. Miller, *A Financial History of Texas*, Bulletin of the University of Texas, 1916: No. 37 (Austin, 1916); Joe E. Ericson, *Banks and Bankers in Early Texas, 1835-1875* (New Orleans, 1976); Jack W. Cashin, *History of Savings and Loan in Texas* (Austin, 1956); and *Texas Bankers Journal*.

The Houston Metropolitan Research Center, Houston Public Library, holds a number of archival and manuscript collections relating to banking in Houston. Archival materials include First City National Bank of Houston Records; Gordon-Sewall & Co. Records (South Texas National Bank); Guardian Trust Co. Records; Imperial Sugar Co. Records; InterFirst Bank Records (Houston Land and Trust Co., Houston Bank and Trust Co., Citizens State Bank, Houston Citizens Bank, and Interfirst Bank); Second National Bank Photographic Collection; South Texas Commercial National Bank Records; and Union National Bank Records. Manuscript collections of interest include Joseph W. Evans Papers (First National Bank of Houston); Fred A. Heitmann Papers (Continental Trust Co.); T. W. House Papers; House Family Papers; Robert W. Kneebone Papers (Union National Bank); J. W. and J. R. Neal Papers (Second National Bank); Benjamin A. Shepherd Papers.

Galveston served as the primary banking center of Texas during the nineteenth century, but Houston was not far behind. A number of Houston merchants acted as bankers. Thomas William House, Sr., an English immigrant, arrived in Houston in 1838. Originally a baker, House later became a prominent cotton factor and private banker. In 1840, he founded T. W. House & Co., a banking house which conducted business until its demise during the Panic of 1907. The company also sold dry goods and groceries. Upon his arrival in Houston in 1840, Benjamin A. Shepherd, another important figure in the history of Houston banking, began a mercantile company, Shepherd & Burke. In 1854, Shepherd became the first person in Texas to act exclusively as a banker. His mercantile partner, A. J. Burke, also established banking facilities in 1860. John Dickinson, William J. Hutchins, and R. P. Pulliam also acted as bankers in the 1860s. Henry S. Fox and Alfred Wettermark formed a private banking company around 1874. Fox later became the president of the Houston National Bank. Many private merchant-bankers would become founders, major stockholders, and officers of chartered banks. Even after the advent of chartered banks, however, private banking continued to play an important role in Texas until the passage of the 1905 state banking act, especially in the rural areas.

In 1863 and 1864, Congress passed legislation allowing the chartering of national banks. It intended the National Banking Acts to provide some sorely needed banking regulation and stability, in particular by ensuring a safe and uniform currency. Although the law did not immediately affect the South because of the Civil War, after 1865 banks throughout the region applied for national charters. A group of Houston businessmen established the First National Bank in 1866. A year later, merchant-banker Benjamin A. Shepherd took over the presidency from cotton factor Thomas Bagby. Shepherd merged his private banking operations with those of the new organization. In the early years, cotton merchants representing a number of local firms maintained a prominent presence on the bank's Board of Directors. Over time, President Shepherd gained increasing control over First National's affairs and stock, and it became popularly known as "Shepherd's bank." Well into the twentieth century, members of the Shepherd family continued to control First National Bank, which still exists as First City National Bank.

A number of other nationally-chartered banks formed in Houston in the years between the Civil War and World War I, reflecting the growth of the regional economy and of Houston as a financial and processing center. The National Exchange Bank of Houston became the next local bank to receive a national charter, opening in 1873. Its founders included William J. Hutchins, an ex-mayor of Houston with extensive interests in local railroads, the cotton processing industry, and wholesaling activities.

From its founding in 1886, the Commercial National Bank found its

fortunes closely tied to the cotton trade. Early directors included Henry Gardes, a New Orleans cotton factor and banker, and local cotton merchants William B. Chew, who served as president of the bank, and William D. Cleveland. In the twentieth century, Commercial National acted as the Southern Pacific Railroad's local bank.

In the last two decades of the nineteenth century, the lumber industry became a major economic base in East Texas. Houston benefited from this development by acting as the regional financial center for lumbering activities. The South Texas National Bank formed in 1890 with lumber interests dominating its direction. Martin Tilford Jones, president of the M. T. Jones Lumber Company, served as its first president. After his death in 1898, his nephew, Jesse H. Jones, came to Houston from East Texas, where he had worked in his uncle's lumber company, to manage the M. T. Jones estate. Within several years after arriving in Houston, Jones had made a fortune of his own and expanded his business activities to include construction and banking. Galveston banker I. H. Kempner organized the Merchants National Bank in 1901. Hard hit by the Panic of 1907, the bank came under Jesse Jones's control. In 1910, Union National Bank purchased it from Jones. Lumberman James M. West organized the National City Bank in 1906, another bank to fall under Jones's control. In 1908, Jones became its president.

The Lumbermen's National Bank, founded in 1907 by Samuel Fain Carter, specialized in loans to lumbermen, saw mills, and foresters. Carter began his business life in the east Texas lumber industry in the 1880s. In 1892, he moved to Houston to assume the vice presidency of the M. T. Jones Lumber Company. Carter and M. T. Jones formed the Emporia Lumber Company in 1893 which Carter operated between 1897 to 1906 before organizing Lumbermen's National Bank. Later, Carter expanded his business interests to include railroad and land development.

Along with the expansion of banking activities in Houston, the nineteenth century saw increased government regulation at the state level. In the state constitution of 1869, the Texas legislature temporarily overcame traditional anti-bank prejudice and allowed the chartering of state banks. Although the new constitution did not expressly allow for the chartering of banks by the state, it did not prohibit their creation either. Through its silence on the issue, the legislature created an opening for the formation of new banks. The City Bank of Houston, founded in 1870, became one of the few Houston banks known to have formed under the new law. Its stockholders included William J. Hutchins, William Marsh Rice, A. J. Burke, Houston *Telegraph* editor Edward H. Cushing, and lawyers Peter F. Gray and Benjamin A. Botts. In 1886, the bank passed into receivership.

In 1871 and 1874, the legislature passed general incorporation laws which allowed the creation of savings banks. The establishment of banking

facilities for small savers formed part of a nationwide trend, reflecting the growing, if uneven, prosperity brought to the nation by industrialization. Local banks chartered for private customers included the Harris County Savings Bank, the Houston Dollar Savings Bank, and the Houston Savings Bank.

The Constitution of 1875 once again prohibited the chartering of state banks. No new state banks would be chartered again until 1905. Existing state-chartered banks continued to operate under a grandfather clause, however, and other types of financial institutions remained functioning under other laws, such as the 1887 act authorizing incorporation of "lending companies" for purposes of "accumulation and loan of money" but not including banking or discounting services.

As more and more people flocked to Houston, housing and commercial building increased. A number of institutions formed which concentrated on mortgage lending. The establishment of savings and loans and building and loans reflected this trend. Until the 1880s, such institutions doubled as real estate investment companies. The Young Men's Mutual Real Estate and Building Association, founded by a group of Houston businessmen and chartered by special act of the legislature in 1866, became the earliest known example in Texas. The Houston Homestead and Loan Association, chartered in 1879, lent only to those purchasing stock from it for \$5.00 a share.¹

Trust companies also developed to perform services necessary in an expanding economy, such as marketing and registering securities, as well as holding mortgages and financial instruments in trust. Owen L. Cochran, Benjamin A. Shepherd's son-in-law, established the Houston Land and Trust Company in 1875. The Continental Trust Company incorporated in 1912. Its principals had interests in life insurance, land, and a financial brokerage firm, all of which needed the services of a trust company.

Despite the formation of these specialized financial institutions, the number of banking facilities remained inadequate in the late nineteenth century. In areas lacking sufficient capital to establish a nationally-chartered bank, unregulated private banks offered the only alternative. In 1885, bankers formed the Texas Bankers Association, the first state banking organization in the United States. Lobbying for state-chartered banks became one of their primary goals. In the twentieth century, regulation of banking activity increased. In 1900, Congress lowered the minimum capital requirement to charter national banks from \$50,000 to \$25,000 in an attempt to encourage the formation of national banks in small towns. In Texas, a constitutional amendment to permit the chartering of state banks passed in the 1904 general election. The State Banking Act of 1905 made specific provision for banks, savings banks, and banking and trust companies.

¹Houston Homestead and Loan Association, *Charter and By-Laws* (n.p.: Ed Smallwood, 1879), Eugene C. Barker Texas History Center, University of Texas at Austin.

Union Bank and Trust Company, under the presidency of Jonas S. Rice, received the first state charter under the 1905 act. Previously, Rice had operated a lumber company in East Texas with his brother, William M. Rice II. In 1910, after absorbing Merchants National Bank, the bank gained a national charter and became Union National Bank. The American Bank and Trust Company also formed in Houston under the 1905 state act. In 1908, it became the American National Bank. Prominent Houstonians sat on its board of directors, including merchants Gustave A. Mistrot and T. Arthur Cargill, undertaker J. J. Settegast, Jr., and attorney Sterling Myer.

The Panic of 1907, a result of inadequate currency flow between banks in New York and the rest of the country, caused the failure of many banks, particularly private ones. In Houston, the venerable T. W. House Bank closed its doors when creditors' demands for payment pushed it into bankruptcy. In reaction to the Panic, many midwestern and southern states, including Texas in 1909, adopted deposit insurance programs to protect local banking institutions against failure.

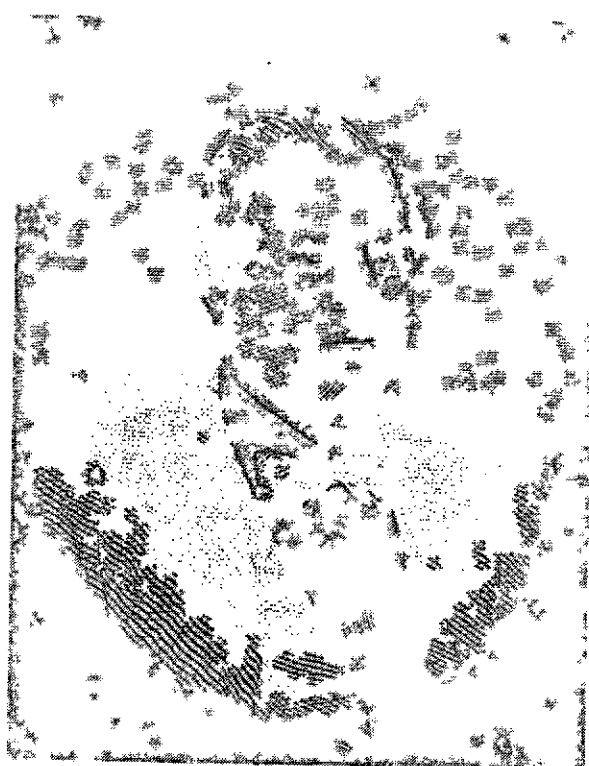
In reaction to the Panic of 1907, Congress passed the Carter-Glass Act in 1913 which established the Federal Reserve system. The new system, which took effect in 1914, allowed Federal authorities to regulate the flow of currency and banking standards of all nationally-chartered banks. Houston bankers and city officials lobbied hard to obtain the regional Federal Reserve deposit bank, but Dallas ultimately won the contest.

Banking in Houston had grown with the city. By 1910, per capita bank deposits for the city were nearly double the national rate, a direct result of the economic bounty brought by oil. The *Houston City Directory* of 1915 proudly announced the existence of thirteen banks and trust companies in the city, with a combined capital of over \$10 million, a surplus of over \$5 million, and deposits of nearly \$43 million. But banking had changed in more significant ways than sheer size alone. The period from 1860 to 1914 saw increased sophistication and specialization of banking operations, as well as greater regulation by both the Federal and state governments. These changes enabled Houston's banks to fund the phenomenal oil-inspired growth of the city and the regional economy in the twentieth century.

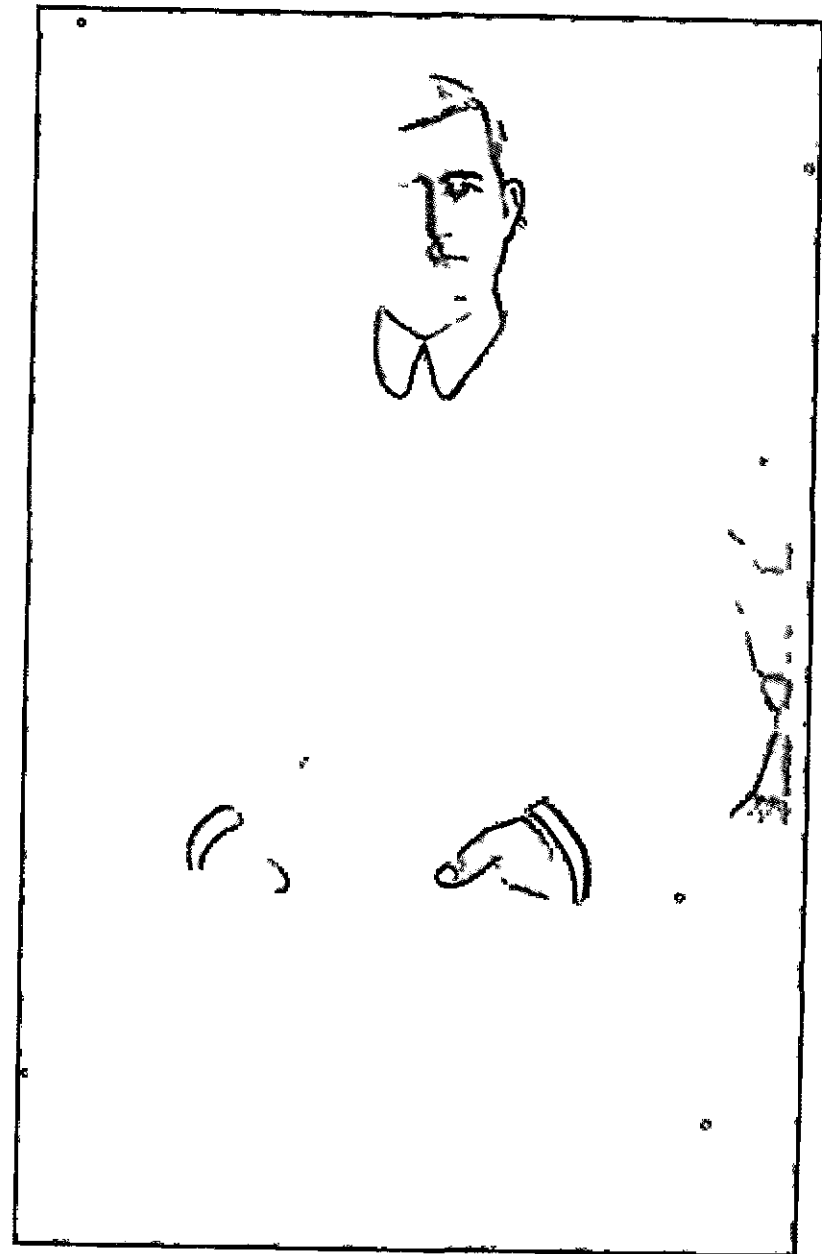
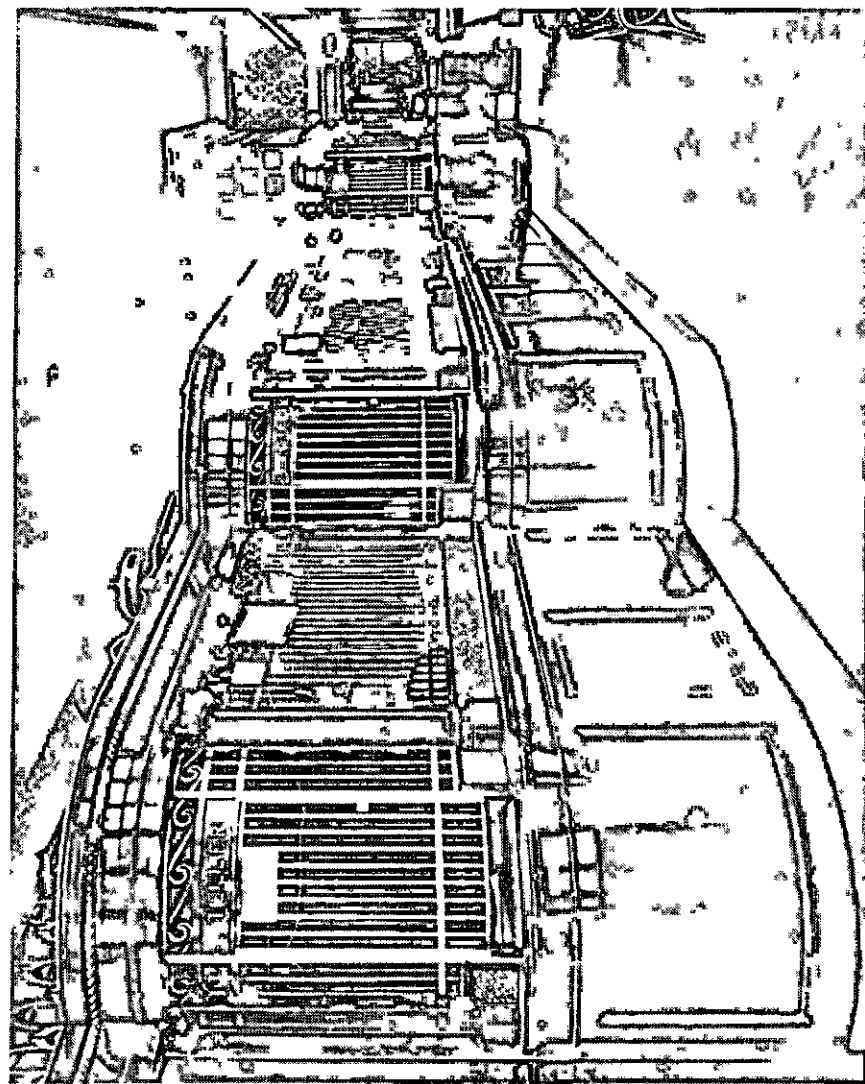
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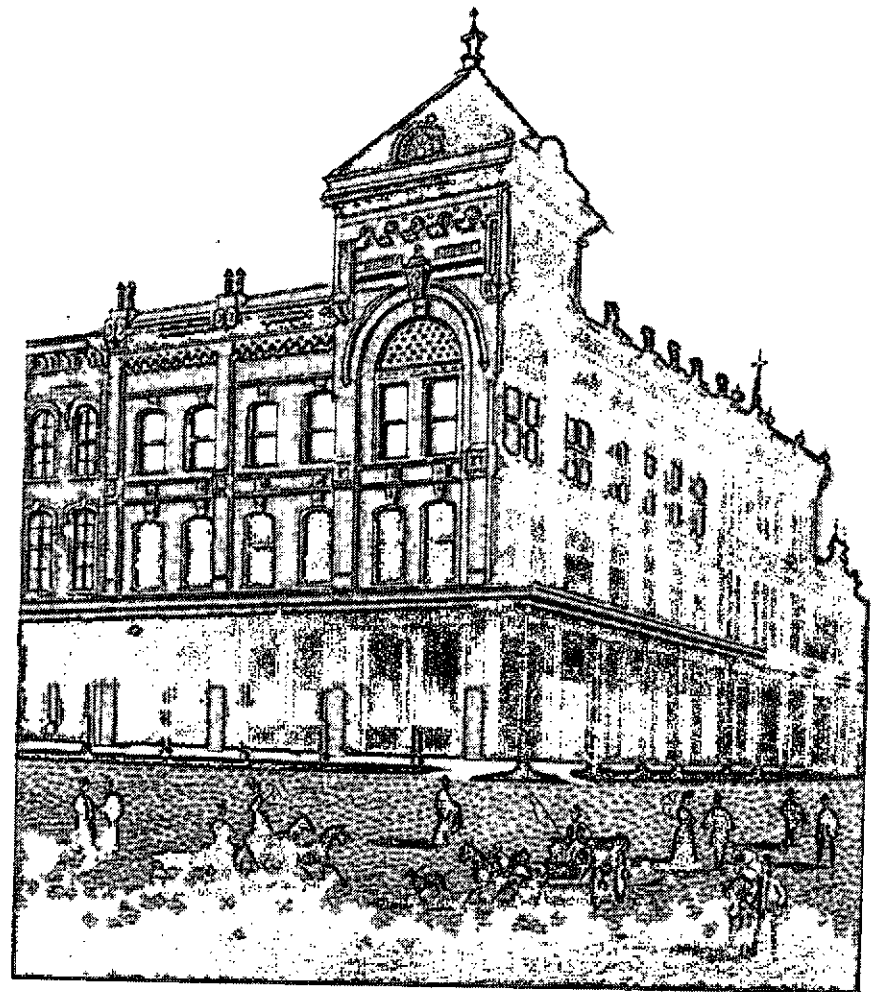
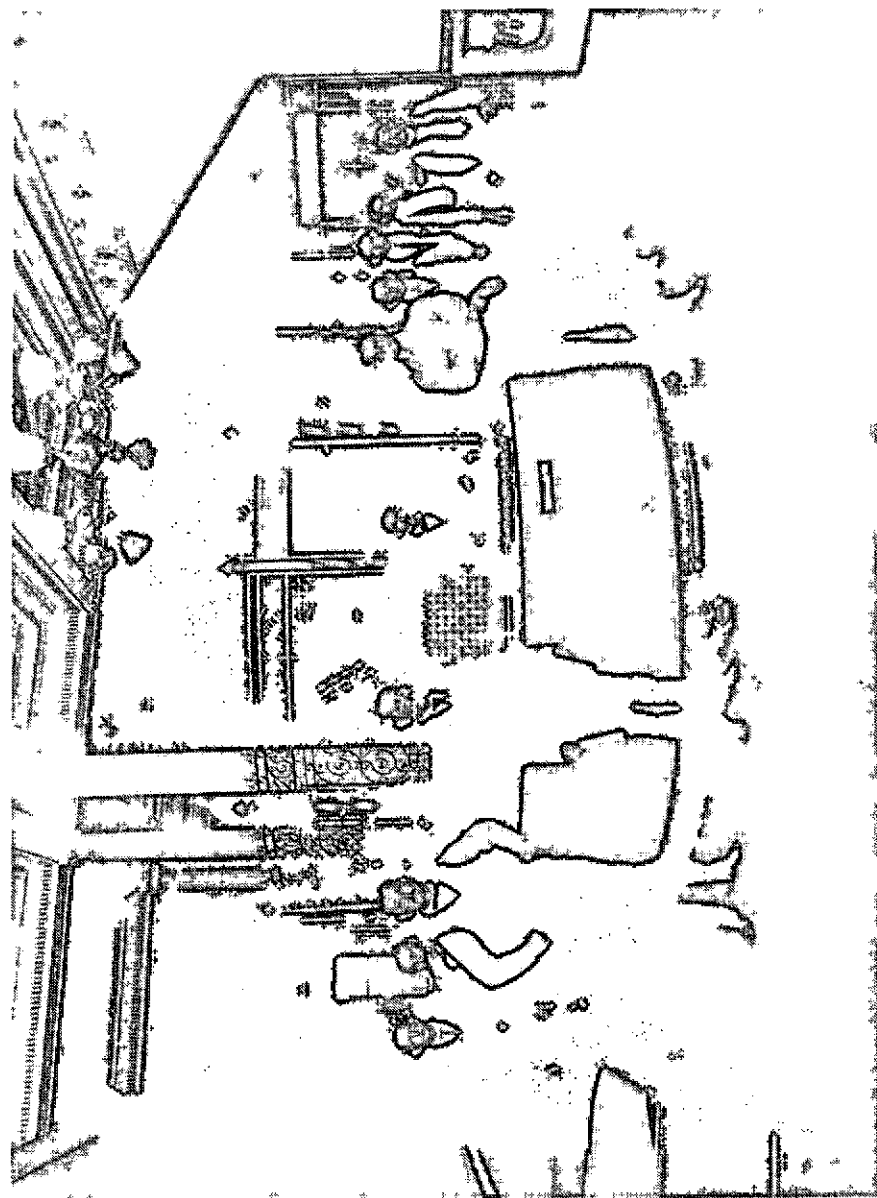
The original First National Bank building, on the corner of Main and Congress. The T. W. House Bank is to the right.



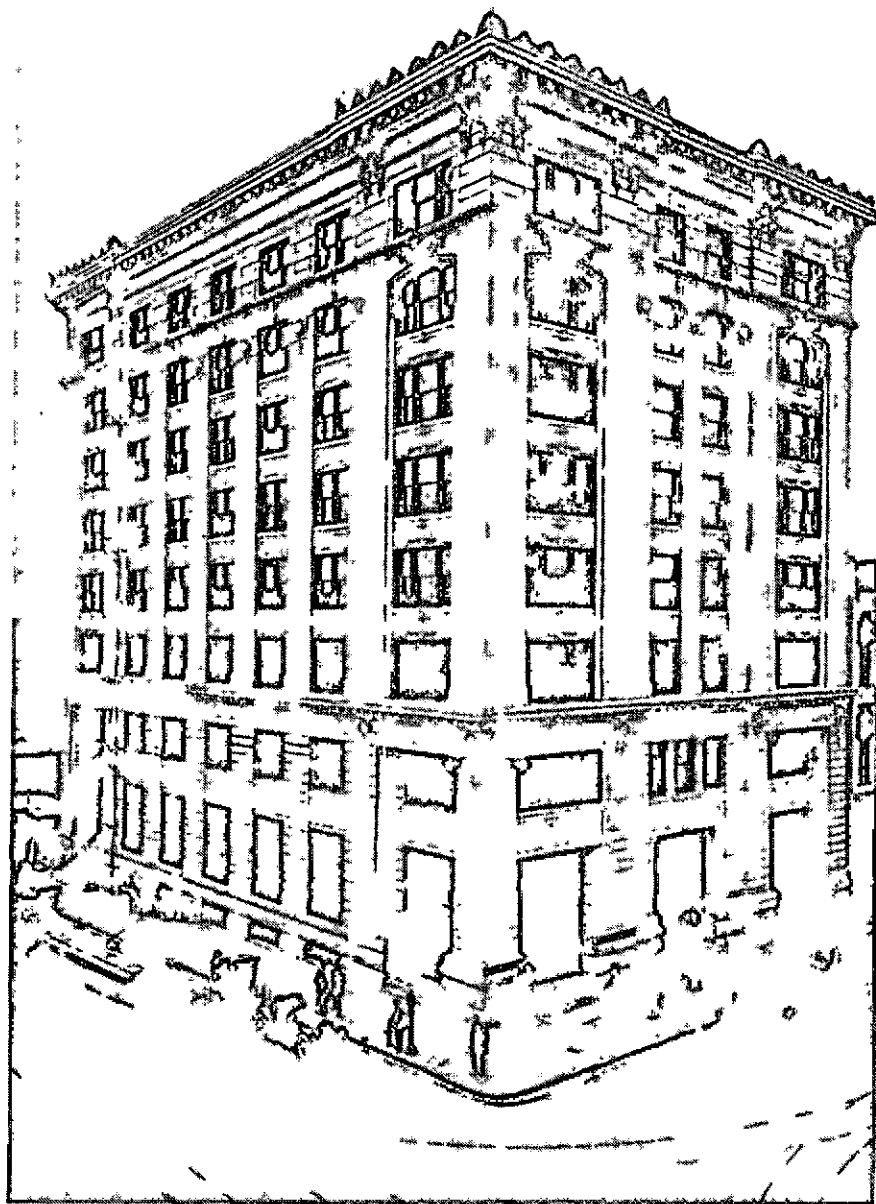
Thomas William House (*left*) began a private banking firm in 1840 which continued operations until the Panic of 1907. Benjamin A. Shepherd (*right*) became president of First National Bank in 1867 after working as a merchant and private banker.



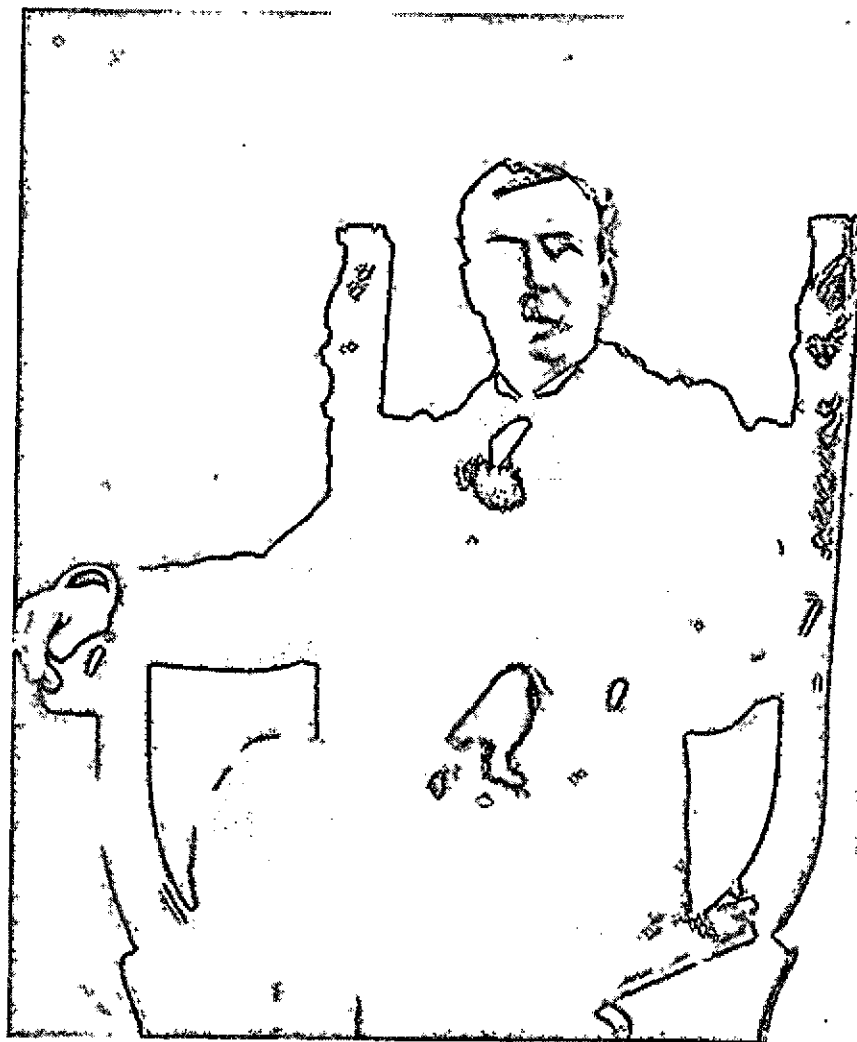
Jesse H. Jones (*above*) originally worked in the lumber industry, before becoming a prominent Houston banker and builder. He became president of the National City Bank (*opposite*) in 1908.



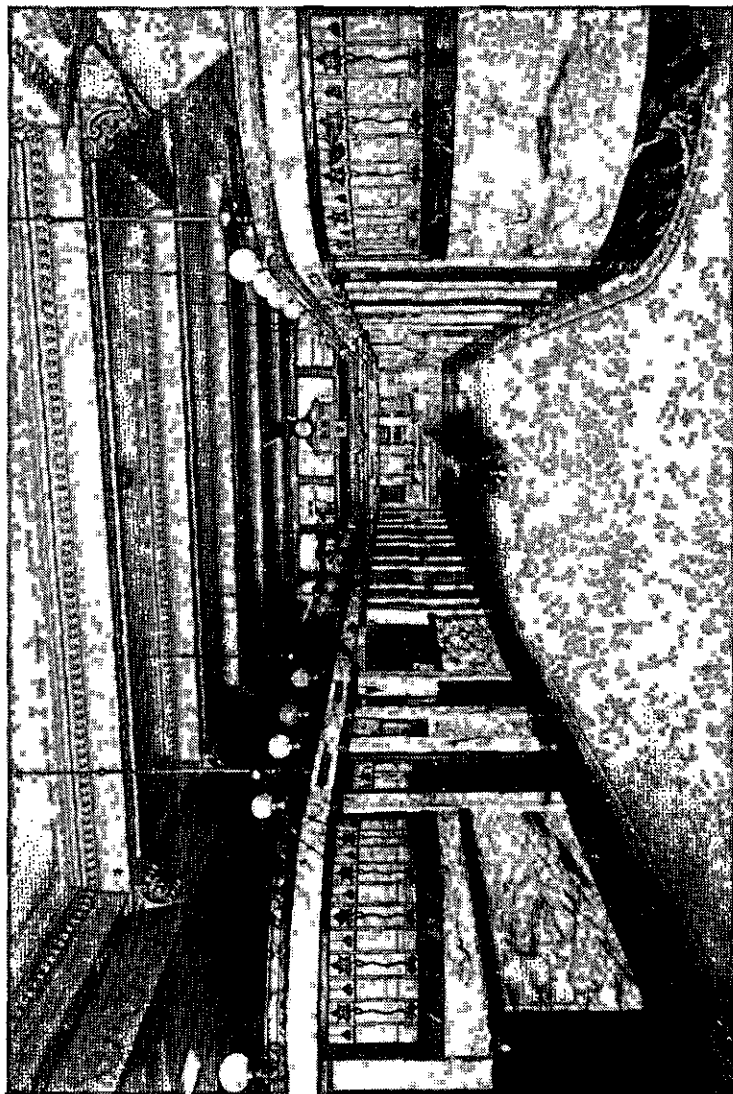
The South Texas National Bank occupied the corner of Main and Franklin. Both the view of the exterior (*above*) and the photograph of the interior with the bank's employees (*opposite*) date from about 1890.



The Union Bank and Trust Company received the first charter under the state banking law of 1905.



Jonas Shearn Rice, the descendent of a prominent Houston family, founded and ran the Union Bank and Trust Company, later the Union National Bank, until his death in 1931.



Other financial institutions sprang up in the late nineteenth century to provide services that banks did not. An example of this trend is the American Bank and Trust Company, founded in 1905.

Invisible Houston.
Robert D. Bullard
(College Station: T

Robert D. Bullard's study of economic expansion in Houston. The study attempts to explore the city's historical heritage since the late nineteenth century, a "more subtle form of racism," coupled with economic expansion, prevented city blacks from benefiting from Houston's economic growth. Racism also ensured that the city's economic downturn and racism are also the central themes remain constant in the black community.

Bullard's study is a study of the demographics of black Houston is not an in-depth history of the dynamics that made

According to Bullard, the South, are defined by economic inequality, underemployment, and public housing, discrimination, and federal economic structure of Houston. The reactive police force and economic advantages of the minority community since World War II, white flight to bisect black neighborhoods, and the sense of commu-