

BANKING IN THE BRIGHTON AREA (Cont.)

The "Free Banking" law, passed by the Michigan legislature January, 1837, was an attempt to speed the state's economic development which was based on agriculture. To encourage local manufacturing businesses and improve transportation, which could be financed by local bank credit, general incorporation statutes regulating commercial ventures were enacted, including banking corporations.

Banking was "Free" in that the bank charter requirement of 2/3 vote of the Legislature was largely ignored; only 30% of its stock was necessary in "Good and sufficient security" to protect its bank notes; and county clerks and treasurers (who had a vested interest in the development of their county) were influential in the approval process.

"Free" banks, for short term investment projects, were successful in normal times. However, hard times caused bank investors and customers to request specie and the banks would be forced to sell land (the principal collateral) and other capital, at a loss. This often resulted in bank failures.

By June, 1837, the "Panic of 1837" was underway and the Legislature ruled that a bank did not have to pay in specie. Thanks to the "Wild Cat" banking laws of the state at the time, banks were started on a shoestring throughout the populated areas of Michigan. Since it would be another 11 months (May, 1838) before the general banking law governing the issuance of bank notes would go into effect, "Wild Cat" banks proliferated in the interlude. Of the 46 in the state the Bank of Kensington was as wild as any of them. (The bank note pictured below is from a private, local collection. By Marieanna Bair. To be continued.)



BRIGHTON AREA HISTORICAL SOCIETY
P.O. Box 481
Brighton, MI 48116

ADDRESS
CORRECTION
REQUESTED