



Malfeasance or Theft? What Really Happened at the Middlebury Branch of the Vermont State Bank

What actually took place at the Middlebury Branch of the Vermont State Bank that contributed to the bank's collapse supports an interpretation of events much different from the legend.

By KENNETH A. DEGREE

John F. Kennedy once stated that the great enemy of the truth is very often not the lie, but the myth. Historians would be the first to vouch for the wisdom of his statement. In Vermont, where folklore and legend have been relied upon for much of what we know about our past, apocrypha and tradition sometimes spin a yarn that, although taken as gospel, has no foundation in fact. One such yarn concerns the Middlebury branch of the Vermont State Bank.¹

It remains one of the town's most enduring tales. The branch is said to have been broken into and robbed in the dead of a June night in 1809 through the use of a false key. The deed was allegedly performed by a Middlebury merchant, Joshua Henshaw, who, being in desperate financial straits, heisted about \$14,000 in specie and bills and then lit out for Canada. The dastardly act was said to have been the pivotal cause for the bank's failure. The directors of the branch, all leading men in town, were publicly embarrassed by the incident and were held liable until exonerated by the General Assembly. Later, hard evidence was produced implicating Henshaw. The false key was found hidden in the rafters of the scoundrel's former home and it now remains a proud possession of Middlebury's renowned Sheldon Museum.

This tale, filled as it is with intrigue and excitement, has been passed on for more than a century, gaining more elaborate twists with each tell-

ing. Yet, under close scrutiny, it seems but weakly supported by the facts. I have revisited the scene of this infamous purported crime to uncover the origins of the myth. My account begins with the founding of the Vermont State Bank and concludes with its downfall. I have found that what actually took place at the Middlebury branch that contributed to the bank's collapse supports an interpretation of events much different from the legend.

A HOPEFUL EXPERIMENT GONE BAD

For many years after the organization of their government, Vermonters remained stubbornly averse to the establishment of banks. Even during the dark economic times that followed the Treaty of Yorktown, an era spawning unrest within the state and Shays's rebellion without, settlers held firm.² It wasn't until the dawn of a new century and the ascendancy of a new political party that the issue would become more palatable.

In 1803, petitions for private banks were received for Burlington and Windsor and bills to create these institutions passed the House, due to a coalition of pragmatic Republicans in the southern part of the state and citizens from the towns bordering on Lake Champlain and Canada. Banking was seen as vital to these northern towns, for they purchased their goods in the American market while selling their produce in Canada. The Jeffersonians to the south hoped to satisfy their constituents' clamor for credit and currency while simultaneously tying the fortunes of the northern frontier to their party. However, the plans were squelched by the men of the Revolutionary generation who presided in the Council. They rejected the bank bills and gave the members of the House a stern lecture on the evils of banking.³

This deadlock lasted for three years, until outside events made it plain to all reasonable men that something had to be done. Neighboring states were now flooding Vermont with bills from the banks they had created, some of which were of dubious quality. Further, a band of counterfeiters had set up shop in Canada, churning out notes of no value. It now became clear that some type of banking was needed, but what kind? In 1806, a compromise was finally reached. The new institution was to be wholly a creature of the state. The bank would then "be in the hands[,] not of a corps of soulless individuals, but of the true friends of the people."⁴

The architects of the Vermont State Bank buttressed their creation with a number of stringent provisions. Before issuing bills, the branches had to build a capital in gold, silver, or copper coins equaling \$25,000. After meeting this condition, they could circulate bills in the amount of three times the sum of deposits. By not permitting capital to exceed \$300,000,

the legislature placed a cap on the money supply. The board of directors consisted of thirteen men: six men from the eastern congressional districts, six from the western districts, and the other “where prudence may dictate.” The whole board made all decisions, even the appointment of clerks and cashiers of the individual branches. The only power granted to the branches was the ability to borrow money to fill their vaults on their own credit. Rewarded for his leadership on the nettlesome issue, Titus Hutchinson of Woodstock became the first president.⁵

Despite the reassurances of men like Hutchinson that the state bank lay in the hands “of the true friends of the people,” many Vermonters remained wary of the new institution. The creating legislation provided regulations but little in the way of oversight. The bill had included a provision allowing the legislature to appoint a committee to inspect the financial health of the institution, *if it thought proper*. Most troubling to the dissenters was the question of whether the directors had any real stake in being vigilant of the bank if they had no investment in it themselves. The editor of the *Vermont Journal* explained it this way:

Where there is no personal interest or responsibility it will be suspected that the Directors will lend bills as caprice or prejudice may dictate; *and as they can lose nothing themselves* in the overflowing of their humanity, often lend to needy dependents and favorites, who will never repay their principal or interest. Such is the conduct of [man], *where his private interest is not concerned*.⁶

The prescience of these words would quickly become clear.

The bank began to issue bills to an eager public on February 23, 1807, and the institution initially proved to be a huge success. By the sitting of the next legislature, the directors presented a glowing report. “The high credit and extensive circulation of our bills, we trust are sufficient to inspire the public confidence, and to ensure a continuance of their patronage.” They were certain, that, under the guiding hand of the legislature, “this institution may become highly inducive to the convenience of the citizens, and a productive source of revenue to the state.” Impressed, the assembly passed new measures to reward and expand its good work. They began by creating two more branches: one in Burlington, to satisfy the northern towns, and the other in Westminster, with three directors now made responsible for each branch. They then put the financial resources of the state behind the fledgling currency, passing a provision directing the state treasurer to deposit all state revenues in the bank. In an attempt to drive out competition, the legislature also made it illegal to bring bills of foreign banks into the state for the purpose of making loans.⁷

The opening and subsequent expansion of the Vermont State Bank

touched off a cyclone of entrepreneurial activity throughout the state. The enthusiasm with which Vermont citizens took to the new currency allowed the board of directors to conveniently ignore the rule that required that bills in circulation be no more than three times the specie on hand. With no financial stake in the institution themselves, they gladly bent to the will of the people. By the sitting of the 1808 legislature, the Vermont State Bank had issued more than \$500,000 worth of currency, with a ratio of five to one.⁸ Yet no one seemed concerned. Public confidence was high and the state bank had the complete support of the assembly.

The Vermont State Bank and the booming economy that sustained it would soon become unhinged by events transpiring on the world stage. As the conflict begun in 1803 between Great Britain and France became a standoff, American shipping eventually became a prisoner of war. Anglo-American relations continued to sour until the notorious Chesapeake affair in June of 1807 made British treatment of American merchant men totally unpalatable to the citizens of the United States. President Jefferson responded to the clamor by pushing through the Embargo Act in December, which was further expanded by Congress the following March to include all exports “in any manner whatever, any goods, wares or merchandise.”⁹ The measures chilled economic activity throughout the state. Vermont’s southern counties felt the impact on the seaboard states, but the northern towns, weaned away from their predominant market and major source of specie, were facing devastation. The embargo placed banking in New York and New England in serious jeopardy.

By the 1808 legislative session, the Vermont State Bank, much like the state economy, was already showing signs of financial strain. According to reports, the branches in Middlebury and Westminster, which had been dangerously exceeding their bills to specie ratio, failed to redeem their bills promptly. The actions of the directors of the Westminster branch brought so many complaints to the new capital in Montpelier that the legislature formed a committee to look into them. Their report highlighted a number of questionable practices, most egregious of which was redemption. They stalled individuals bringing in bills by giving them the option of paying a discount for the service or accepting a draft on distant banks payable in thirty to sixty days. These actions shook public confidence, but being badly overextended, the branch had little choice. Yet the House, which had grown enamored of its institution, refused to take any action. The representatives rejected the disturbing report of the committee by one vote.¹⁰

However, it was the Woodstock branch, the most overextended of the four, that took the most novel approach. When Jireh Durkee of Boston

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presented \$9,000 of the bank's notes there for payment, they sought an indictment against him in Windsor County Court. The fact that a bank note, like any promissory note, was a promise to pay money was immaterial to the branch directors. They accused Durkee of "being an evil-minded person" whose insidious efforts "diminish and destroy the resources of the state of Vermont" by making "it difficult and impossible for the good citizens thereof to obtain money." In the eyes of these directors, it was not that they had issued too many bills, rather it was that Durkee was attempting "to realize a filthy gain" that would curtail the branches' ability to grant loans to its needy citizens!¹¹

The report of the Supreme Court, chosen as a committee to examine the condition of the bank, depicted the problem. Job Lyman, cashier of the Woodstock branch, was one of the few not able to overlook it. Writing later about the precarious situation, he said,

By these reports the monstrous disproportion was clearly seen between the capital of the bank and the amount of its notes in circulation. If, for instance, a bank has at one of its branches [he is describing the financial condition of the Woodstock branch in 1808] one hundred and fifty-one thousand dollars in circulation, and can show only twenty thousand dollars and a little moonshine stored away in its vaults to meet so large an obligation, no wonder its bills fall below par.¹²

When a motion adopting the report of the judges came from the floor, Lewis Morris, the irascible Springfield Federalist, rose to make a resolution. Concerned by what he saw in the reports and by the legislature's ignorance of the accusations by citizens against the bank, he asked that all this information be referred to a committee of three. They would then report a bill repealing the act passed last session "making the state responsible for the said bank, so far as may relate to any future emissions or loans to be negotiated by said bank; as well as to repeal the act directing the treasurer of this state, to deposit the monies belonging to the state, in the different branches of said bank." With the storm clouds of the embargo on the horizon, Morris wanted the state to distance itself from any future problems that might arise with the bank. However, the rest of the legislature failed to see the urgency and overwhelmingly defeated the measure 152–20. The lure of easy money coupled with their faith in the support of the state had blinded the majority to the dangers that lay ahead.¹³

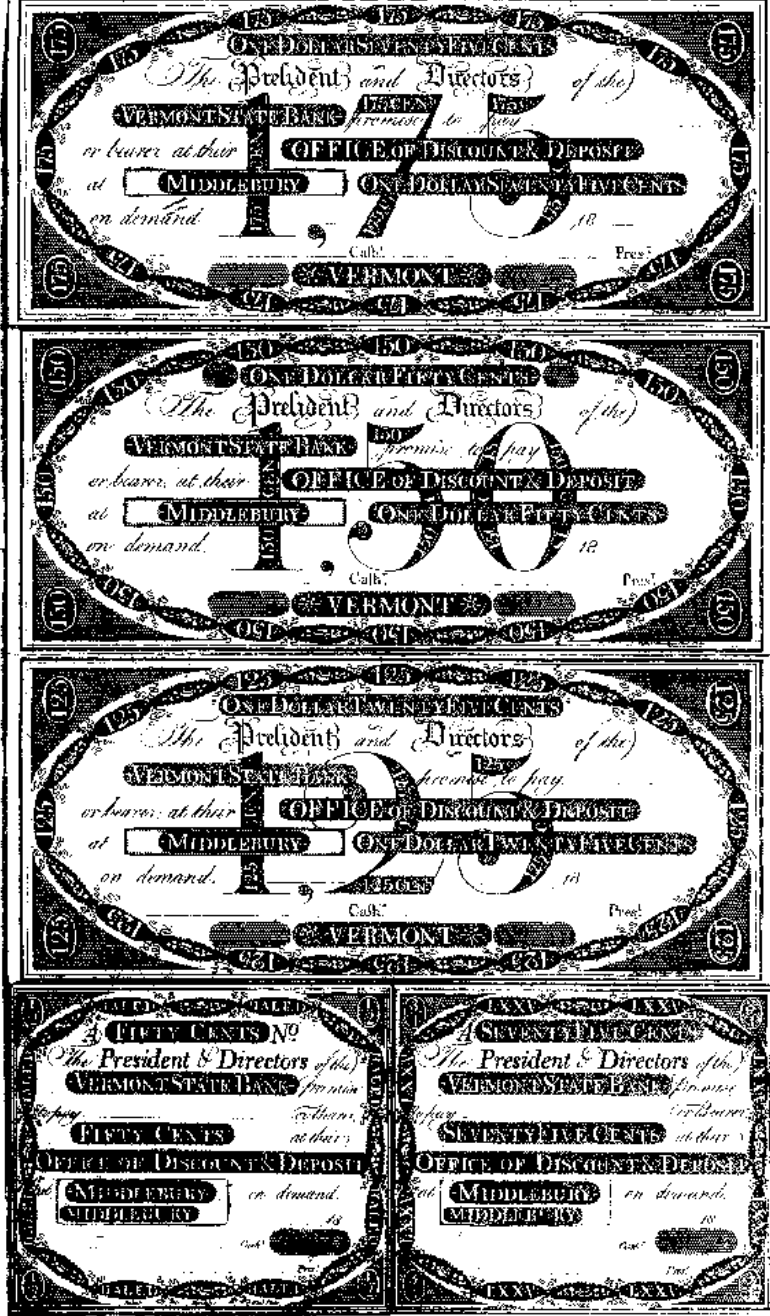
The public confidence that had buttressed banking throughout New England dissipated in 1809. Prior to this time, no American bank had failed, despite the dire consequences predicted for the embargo. Then, in the spring of that year, the Farmers Exchange Bank of Rhode Island, owned by an accomplished swindler by the name of Andrew Dexter, Jr.,

collapsed in spectacular fashion. Dexter also controlled the Boston Exchange Office and the Berkshire Bank of Pittsfield. Through these three institutions, he perpetuated a fraud of immense proportions, issuing bills as fast as his clerk could sign them, and then exchanging them with speculators as far away from his banks as possible to prevent their return for redemption. He maintained his charade for a year until, with creditors and the authorities closing in on him, he closed up the banks and vanished.¹⁴

After this spectacular incident received wide coverage, many other institutions tottering on the edge of ruin became unable to redeem the bills of a nervous public. The Vermont State Bank was no exception. Thus, when the legislature returned to Montpelier that fall, they had a grave predicament on their hands. In his speech to the joint assembly, Governor Jonas Galusha warned that the banking crisis had become an impediment to commerce between the states. After conveniently reminding his audience that as councilor, "I was not among those that favored the instituting of country banks," he offered his opinion that in view of the current situation, the creation of the state bank saved Vermonters from total ruin, for "in lieu of our own Vermont bank bills, our citizens would, on the late bankruptcies, have been possessed of large sums of the depreciated paper of the failing private banks." He tried to reassure the holders of State Bank bills that they remained "perfectly secure."¹⁵

As a committee chosen to author a legislative response, Vermont State Bank President and Woodstock representative Titus Hutchinson, James Fisk, and Charles Rich echoed the governor's sentiments. After admitting a "temporary suspension of that prompt redemption of our bills" had occurred, they regarded "as phantoms all apprehensions of a final loss by the holders of these bills." To back up this claim and to bolster sagging faith, they announced that they stood "ready to adopt every measure which may be necessary to remove any real or imaginary obstacles to the prosperity of the institution." However, their first attempt, the yearly examination of the bank, was nothing but subterfuge. Instead of being prepared by the Supreme Court, a legislative committee drew up a report noteworthy only for its lack of substantive information. It was impossible from the material presented to determine the ratio of bills in circulation to specie, and the committee amazingly found no loans based on "doubtful security."¹⁶

The members of the House rallied to redeem themselves as the session went on. They knew that the only way to prop up the value of the bills was to drive down the ratio, by reducing the number in circulation and by obtaining coin by more ruthlessly collecting on loans. The legislature of 1809 accelerated these efforts. They began by passing an act giving the bank extraordinary powers to collect notes due. The cashier



An uncut sheet of bills from the Middlebury branch of the Vermont State Bank. After the bank was chartered by the legislature in 1806, the two branches were each given unique currency. Middlebury had denominations of \$0.50, \$0.75, \$1.25, \$1.50, and \$1.75. Woodstock bills were either \$1.00, \$2.00, or \$3.00.

of each branch, by order of the directors, received the power to issue an “extent” against any note unpaid three days after it had become due. These extents had virtually the force of an execution against the borrower, and were sufficient, in and of themselves, to place the debtor in prison or to seize his real estate for payment. By allowing the bank to sidestep a potentially lengthy legal process, the legislature put teeth behind its desire to more swiftly deal with delinquent loans.¹⁷

To reduce the number of bills in circulation, the legislature made the bills of the State Bank lawful tender for all land taxes levied by the state. This was a dangerous gambit, for, if they could not turn the bank’s delicate situation around, the treasury would fill up with worthless paper. The assembly also enacted a law forcing the board of directors at their annual meeting to determine the sum each branch could borrow and the amount of bills each could put into circulation in the year ahead.¹⁸ Although these were bold measures, they were too late. The nervous holders of these bills did not want reassurances that the bills would eventually be redeemed. They wanted them redeemed now. To make matters more difficult, the return of the political jousting between the Republicans and Federalists that intensified concurrently with the travails of the bank would quickly undercut these actions.

The Federalists had been steadily losing clout in Vermont until the measures of Jefferson suddenly gave them new life. They shrewdly attacked the embargo and trumpeted its deleterious effects on the northern towns for whom Canadian trade was vital. Many citizens of this region, who had turned to the Republicans for economic reasons, now switched to the opposition when the disruption of their lifeline gave them the choice between smuggling and ruin. The powerful pull of the Canadian market helped the Federalists recapture the state government in 1808 and, throughout the struggle with the British, the two parties returned to their vicious political warfare.¹⁹ As Republicans and Federalists grappled for advantage, any opportunity to embarrass the other party proved to be fair game. It wasn’t long before the Vermont State Bank came into their sights. The two combatants had remained remarkably united concerning the institution as late as the 1808 legislative session. However, as the political struggle grew more bitter and the fate of the bank grew more precarious, the parties began to blame each other for its sad condition.

It wasn’t enough for Federalists to point out that it was the Republicans’ irrational response to international pressure that was ruining the State Bank. Their party newspapers began to circulate rumors that the directors were speculating with the specie needed to redeem bills. By 1810, with the Bank’s notes being discounted by as much as twelve and

one-half percent, the editor of the newest Federalist sheet, *The Washingtonian*, offered his stern opinion on the situation.

It is time the people should know whether a *Vermont Bank Bill* is in fact *Vermont* money. It is time the imposition of suffering these Bills to pass *at a discount* should cease. Either they are *good*, and ought to be *current* at PAR—or they are *good for nothing*—and ought to be *BURNT*.²⁰

It was tough for the Republicans to respond, for the bank was their initiative. When they tried to explain that the institution was still profitable, the Federalists countered that they were making this gain by passing questionable currency to overburdened farmers. The Republicans then conjured a vast conspiracy of Federalist lawyers and merchants. They charged these vipers with borrowing large sums from the bank, after which they combined with others to discredit and depreciate the bills, bought them up at a discount, paid off their obligations, and pocketed a tidy profit.²¹ As this tragic game of political finger-pointing accelerated, it was the public's confidence in the Vermont State Bank that became the only casualty. Amid the swirl of rumor and innuendo, any faith left in the state's money was irretrievably lost.

By the legislative session of 1810, the Bank had reached the point of no return. The next few years would bring an unsuccessful attempt to delay the inevitable. Although it was successful in drastically driving down its circulation of bills to \$211,000, the Bank had but a handful of coins in its vaults to redeem them. The legislators passed an act restraining any branch from issuing bills or making loans until its ratio of bills to specie was two to one. Since the prospect of this criterion being met was remote, the act effectively placed a freeze on all banking activity save collections. To expedite this operation, shame was now the principal weapon. The lawmakers ordered the directors to collect the names of all those souls in arrears on their loans and submit them to the legislature. If any were behind eight months or more, they intended to print their names in a state newspaper. Looking for a scapegoat, they ordered President Hutchinson to inspect each branch annually and report any improprieties to the assembly.²²

The future looked no brighter when the legislature convened in 1811. The House had lost all confidence in the abilities of the president and the board of directors to turn the bank around. Further, they now had no faith that these men would provide them with an accurate depiction of the institution's balance sheet. Therefore, they appointed a committee to examine all branch activity previous to December 1, 1811 and then to audit activities previous to October 1, 1812. The Westminster branch

was ordered closed, its effects removed to the Woodstock office, and the committee granted the power to press a ruthless and indiscriminate collection of the remaining loans due. The three men chosen for this onerous task were Elihu Luce, who had first conceived of the State Bank, Samuel Crafts of Craftsbury, a member of the Executive Council, and a young Castleton attorney named Robert Temple, serving as clerk of the Rutland County Court.²³

When the committee submitted its report to the legislature in the fall of 1812, it did so under the shadow of impending hostilities. In June the Madison administration had adopted a message threatening war, and the state now found its treasury held hostage by its efforts to bolster the fortunes of the Bank. The bills of the Bank, having been accepted as legal tender in paying state taxes, now made up the predominant share of the balance on hand. With war on the horizon, and the Champlain valley a likely invasion route, the state suddenly found itself without the financial wherewithal to prepare fully. As Governor Galusha grimly stated in his address to the Joint Assembly, "The most favorable means ought to be resorted to, to replenish the Treasury with a medium that will answer all the public purposes of the State, and secure its credit on a basis that cannot easily be shaken." The committee was able to provide a little good news. They were able to determine that three of the branches would safely be able to meet their obligations. Despite having their share of bad loans and bookkeeping irregularities, the offices in Burlington, Woodstock, and the former branch in Westminster would



Samuel Crafts was a member of the Executive Council when he was chosen for the committee to examine the financial records of the Vermont State Bank. He would go on to serve as Vermont's governor, U.S. Congressman, and U.S. Senator.

eventually be able to redeem all their bills and provide the state with a profit. The branch at Middlebury could not meet this standard, but the combined profits of the other three branches would be more than enough to cover those losses.²⁴

The Finance Committee, after hearing this report, decided that the monetary affairs of the state had become so enmeshed with those of the Bank that, with this institution on its last legs, steps needed to be taken to sever the relationship. With this in mind, their chairman, Ezra Butler, proposed a series of resolutions to put the Bank on the road to its eventual extinction. He suggested that the present board of directors be replaced with a group of three men, one of whom would be the state treasurer, vested with the power to wind up operations. The Bank would issue no more bills, and the treasurer would be authorized to receive all outstanding bills and in lieu thereof, issue treasury bills bearing six per cent interest.²⁵

These moves were too late to forestall Vermont's fiscal emergency. With the coffers predominantly filled with useless bank bills, the state would be unable to meet its current and upcoming military obligations. Butler argued that the meager sum of acceptable money left in the treasury and any recovered from the Bank should be used to prepare for war first, and that any and all expenses above that sum also be covered by notes bearing six percent payable on demand. Butler suggested a tax of one cent per acre to meet this liability. However, in this hour of need, the finance committee displayed its mistrust of banks, ordering that the tax be paid in hard money, unless landowners had state orders or notes due and payable at the treasury. The full House rejected the hard money provision, allowing the tax to be paid in discredited State Bank bills. However, they agreed to close down the troubled institution, granting Crafts, Luce, and Temple the power to remove all branches and their effects to Woodstock and to burn all bills in hand and those they received thereafter. The Vermont State Bank, after a troubled existence, was to be put out of its misery.²⁶

MALFEASANCE OR THEFT?

As for the wayward branch at Middlebury, the situation was horrifying. Some of the banking practices were not only questionable, they at times appeared to defy the law and the board of directors. The books kept of the dealings of the office were all but indecipherable. Large sums of money were unaccounted for. An unacceptable number of loans were not only bad, but unsecured. The situation was so flagrant, the investigating committee recommended that the directors responsible for this branch be made to forfeit their bonds and that suits be instituted



The able lawyer and ardent Federalist Daniel Chipman represented Middlebury in the state legislature for eight years, twice serving as speaker. He served as U.S. Congressman from 1815 to 1817, was a longtime Addison County state's attorney, and attended five constitutional conventions. From Samuel Swift, History of the Town of Middlebury (1859).

against them.²⁷ These three men, Daniel Chipman, Horatio Seymour, and John Willard, all resided in Middlebury and were politically powerful men. When the state added branches in Burlington and Westminster in 1807, it made Middlebury the only branch managed wholly by town residents. With no personal stake in the success of the bank, it left these directors with the potential conflict of interest of using the bank to further the interests of their town.

Daniel Chipman was an attorney with a prestigious reputation and a vast practice. A devout Federalist, he came under the political spell of his brother, Nathaniel, one of the state's early leaders. Daniel moved to Middlebury, a Federalist enclave, in 1794 in order to centralize his sprawling law practice. He repeatedly served the town in various political capacities and was currently serving as town representative for the ninth time. He used these opportunities not only for espousing his political beliefs, but for bolstering his vision of Middlebury as the state's premier town. He was instrumental in securing the charters for Middlebury College, for whom he served as law professor, and the Addison County Grammar School in 1800. He most likely also played a role in securing the bank branch in Middlebury, as town representative in 1806.²⁸

Horatio Seymour was also an eminently successful attorney. In 1797, two years after graduating from Yale, he came to Middlebury, where he continued his law studies under Mr. Chipman until admitted to the bar.



Horatio Seymour was a renowned attorney who served variously as Middlebury postmaster, state's attorney, and councillor before being elected to the U.S. Senate in 1820, where he would represent Vermont for twelve years. From Samuel Swift, History of the Town of Middlebury (1859).

He was an extremely popular man and was continually having positions of trust thrust upon him, which he would never turn down. For instance, he earned appointment as postmaster in 1800, a position he would hold for nine years. Seymour accepted the post, but, since his law practice was so extensive, he left its superintendence in other hands. In politics, Seymour attempted manfully to stay unaligned. Despite siding with the Republicans, he demonstrated an unusual impartiality during these turbulent times. He was serving as a member of the executive council when the committee made its report in 1812.²⁹

Orphaned as a child and repelled by the drudgery of farm work, John Willard decided as a young man to go to sea. Taken by the British from an American privateer during the Revolution, he was confined to one of the dreaded Jersey prison ships. Surviving the war, Willard returned to his home and took up the study of medicine. He came to Middlebury in 1787, commencing his practice as the town's first doctor while it was still a wilderness. He began dabbling in politics a decade later, where his hatred of the British led him to support Jefferson. For several years, he served as the chairman of Vermont's central committee of the Republican party. As reward for his efforts, he won appointment as United States marshal of Vermont from 1801 to 1810, whereupon he gave up his medical practice. In 1812, he served as sheriff of Addison County.³⁰

The investigating committee had consulted counsel and made ready



John Willard was Middlebury's first physician. One of the founders, and chairman of the central committee, of the fledgling Republican party, he was rewarded by being appointed U.S. marshal for Vermont from 1801 to 1810. From Samuel Swift, History of the Town of Middlebury (1859).

to institute suits against these directors of the Middlebury branch. However, Chipman, Seymour, and Willard offered another proposal. They agreed to submit the affair to, and abide by the decision of, a board composed of such persons that the legislature would appoint for that purpose. Feeling that the overture would not only meet the approbation of the legislature, but prove to be less expensive, more thorough, and more expedient than a court case, the commissioners agreed. The legislature appointed the members of the Vermont Supreme Court to be the board to look into these allegations and cast the bank examiners in the role of prosecutors. The hearings would begin in Middlebury on December 16, 1812.³¹ The political and personal reputations of three of Middlebury's most able citizens hung in the balance.

The hearing lasted until the next legislative session. The defendants, prosecutors, and witnesses traveled the circuit around the state, following the members of the court as they made their judicial rounds. The examination would convene, hear arguments, and then adjourn to the next shire town. Although the journal of the proceedings is missing, enough information exists to put a modicum of flesh on the bones of the trial. The state's case consisted of ten charges against the directors. The case jumped from allegation to allegation, instead of presenting the charges

in any order. Therefore, I take the liberty of coupling together like charges for the sake of clarity.³²

Two of the more minor charges were the easiest to take care of. They accused Chipman, Seymour, and Willard of not taking bonds of their cashiers after December 1, 1809. Further, when they changed cashiers, or at any time for that matter, they did not ascertain the true fiscal situation of the branch. The defendants responded to the first of these charges by citing state law. The bill creating the Vermont State Bank explicitly gave the responsibility for taking bonds from the cashiers and clerks to the full board. When it became clear that the defendants were correct, the prosecutors tried to fashion an eleventh charge, hoping to hold the Middlebury directors liable for permitting a cashier without a bond. However, the court found this negligence also lay with the full board and dismissed the charge. Likewise, they rejected the notion that the directors should have examined the condition of the bank after changing cashiers. Again, that responsibility remained with the full board. Although repeatedly asked to do so, the president never conducted a thorough audit of any branch. If he had, the Middlebury mess might have been averted.³³

The remaining accusations were far more serious. Two of the charges concerned the establishment of offices of discount and deposit at Boston and St. Albans. Beginning in 1808, the directors of the Middlebury branch created such an office in Boston under the direction of Deacon Isaac Warren and placed in his hands upwards of \$250,000 in bills to sell at a discount or loan to such persons as he thought proper. The commissioners accused the directors of abrogating their authority by “delegating the trust reposed in them to another person.” And because the directors maintained this arrangement until 1811, the commissioners charged them with sustaining a loss of \$15,000. The directors responded that the agreement was “indispensibly necessary” to sustain the credit of the branch and to enable it to dispose of bills drawn on eastern banks to their best advantage. It was Warren’s duty to lend out all of these bills accumulated by the branch for sixty to ninety days with repayment expected in specie or Boston money. By this maneuver, they helped keep up a larger circulation of bills and the directors argued that the scheme was successful until the failure of the same eastern banks ignited a general financial alarm.³⁴

It may have been plausible that Warren acted as a “runner,” a person who collected payment on bank bills drawn on another institution. However, the evidence presented by the committee demonstrated that it was more likely that his mission was to help bail out an overextended branch. After the passing of the land embargo, the Middlebury branch was

quickly in trouble, unable to redeem its bills promptly. Therefore the directors' actions seemed more like those of Andrew Dexter, as they used Warren to bring their bills as far away from redemption as possible.

The intent of Warren's employment being a matter of interpretation and speculation, and therefore possibly weak grounds for prosecution, the commissioners focused instead on what they thought were more serious matters. From June 1808 until July 1811, the directors of the branch at Middlebury furnished Isaac Warren with bills in the amount of \$253,116, during which time Warren paid in return specie, bills, and drafts totaling \$238,959. Throughout the length of his contract with the Bank, Warren constantly maintained a balance in his favor of at least \$12,000. In the summer of 1811, the two sides settled up their accounts, an arrangement wholly to Warren's advantage. He paid his balance due in various notes drawn on residents of Boston, many of which turned out to be bad. Warren also persuaded the directors to take bills drawn on a failing bank at par although he had purchased them at half their value. Middlebury's cashier compounded the mistake by lending out \$1,000 of these bills, for when the loan went bad and the bank directors sued for repayment, they lost the case when the borrower proved the bills to be worthless.³⁵

It was an expensive undertaking. Warren paid no interest on this vast sum of money funneling through his hands. The commissioners calculated the interest foregone to be almost \$4,000. The commissioners thought certain expenses unnecessary, from the directors' incessant trips to Boston to meet with Warren to the costs of drafts drawn on his behalf. However, it was the "delegating the trust reposed in them" on the part of Chipman, Seymour, and Willard that the prosecutors found most unacceptable. Placing such a vast amount of money into the hands of another person left the directors at Warren's mercy. In November of 1811, shortly after he had been relieved of his position as director, Daniel Chipman wrote a telling letter to Isaac Warren. In it the Middlebury attorney provided a damning indictment of himself and his colleagues by revealing how much they had been in the dark about the nature of these transactions. After quibbling with Warren over a particular loan, Chipman followed with this startling confession: "with respect to the collections of the remainder of the bank debts [held by Warren], we can only say that having no information except what we have read through you we must at the present leave it with you wholly[.]" After admitting that a large portion of the bank's business was being conducted out of his reach, Chipman alerted Warren that he and Willard no longer were directors and that he should communicate only with Seymour, for their successors "do not reside in the village." For the most part, the judges

agreed with the commissioners. They found the arrangement to be not only unwarranted, but fiscally foolhardy. They held the directors liable on these charges for the sum of \$6,145.57, which did not include any of the interest foregone.³⁶

Another set of charges drew attention to a similar agreement creating an office of discount along the Canadian border, called the St. Albans Exchange Company. In a manner akin to their business with Deacon Warren in Boston, the Middlebury branch ran \$75,948.52 through this discount house, with \$71,698.64 repaid, leaving a balance outstanding of \$4,249.88, much of which was the remnant of loans now in the hands of attorney Asa Aldis for collection. The directors did not deny establishing such an office, admitting that they maintained it until the full board of the Vermont State Bank ordered it discontinued in March of 1809. Arguing that “the law establishing the bank contemplated the vaults of the bank being resupplied with specie,” Chipman, Seymour, and Willard felt that it was within their discretion to devise the means, and the most reliable source of specie was Canada.³⁷

Although the directors suggested that the discount house in St. Albans ran at a smart profit to the branch, the evidence shows otherwise. Once again, they charged no interest on monies lying in the hands of these agents, an amount the commissioners estimated at \$4,400. Again, the directors admitted that they had no idea how secure the loans in the hands of Aldis actually were. Most shocking, in their frenzied search for specie, the directors of the Middlebury branch carried on currency trading and made loans encouraging trade with Canada during the controversial land embargo, when such activity was illegal. After hearing the arguments, the Supreme Court held the directors liable on this charge for the sum of \$1,567.04, which consisted only of losses due to bad loans, rather than due to interest foregone.³⁸

Four of the remaining charges dealt with the operation of the branch at Middlebury. The prosecutors charged Chipman, Seymour, and Willard with lending money to irresponsible and speculating men and causing the branch to sustain huge losses as a result. The defendants responded that they had honestly exercised all the prudence which “Providence had favored them with,” and that although they made some foolish loans to disreputable characters, the judges had to admit they were really no more guilty of this than any other branch. They were also charged with making loans in violation of the votes of the full board of directors, “thereby augmenting the amount of bills in circulation at a time when they were fast depreciating and when the bank did not possess the means of redemption,” and with not speedily collecting on loans when they needed the money so desperately.³⁹

Unlike establishing houses of discount, through which the wily Middlebury directors took advantage of murky language in the law, these two charges depicted them as deliberately disobeying orders. They clearly had continued to lend out money after orders from both the president of the bank and the legislature itself had forbidden it. The most notorious violation came on February 22, 1811, when the directors loaned \$5,000 to John Meriam, a man already in arrears to the Vermont State Bank for more than \$10,000. Furthermore, at a time when the sinking of the institution urged more aggressive collections, Chipman, Seymour, and Willard made this loan to a known bad risk, secured by a mortgage payable in three years.⁴⁰

As for their own collection process, it was a conflict of interest at its most brazen. The directors at Middlebury defied standard procedures requiring that loans be secured by mortgages on property. A letter from Heman Allen to Horatio Seymour provides a good example. Allen had taken out a loan at the branch that he had been unable to pay on time and told Seymour that he expected legal action, “as you do not attach property or require bail.” If the branch would be patient, Allen offered to “pay it off by New York notes against lumber on the banks of the Mississquoi, But NO SPECIE.”⁴¹ Not only did the Middlebury directors eschew security on the loans they issued, inexplicably they rarely used the power of extents.

The reason was simple. The directors preferred to sue for payment, with Chipman and Seymour representing the bank. With no financial stake in the bank, the directors were willing to make questionable loans since, when the payment wasn’t timely, the two attorneys benefited financially by piling up legal fees. As late as May 1, 1813, Seymour was still handling the prosecution of twenty-seven notes, Chipman had seventeen. No other branch used the legal avenue so frequently. The money collected from fees came in handy for Chipman and Seymour when they faced the charge of being indebted to the bank by about \$10,000 each. Although there is no evidence that the attorneys were that heavily in debt, they were able to parlay fees due into earning small judgments in their favor on this charge. John Willard, however, was another story. He had indeed taken advantage of his position at the bank to procure loans with a balance then outstanding of almost \$3,000, an amount that the judges ordered repaid quickly. The directors explained that the laxity in collection was due not only to their predilection for the slower judicial method. They also felt that it was impossible to follow the directive of the legislature “without absolutely sacrificing the interests of individuals,”⁴² truly an odd statement for bank directors.

The most damaging charge, that the Middlebury branch was seriously

deficient by the amount of \$13,750, was the one that took the longest to resolve. It also turned out to be the stuff of legends. The commissioners suggested that the directors were not only unable, but unwilling to give a full accounting of the shortage. However, the directors did have an explanation. Someone had broken into the bank and absconded with the money.

The tale went like this: On a Saturday at the end of June, 1809, the cashier of the Middlebury branch, Adonijah Schuyler, was working diligently at his post. The bank was in a large brick building owned by Joshua Henshaw, who ran a dry goods store on the other side. A wall of brick from floor to ceiling completely separated the two businesses. The bank had but one door secured by two locks. The upper lock had two bolts and the lower, one. Late in the day, Schuyler left the bank for what he expected would be a brief interval; therefore, he testified, he locked only the lower lock of the door. Yet instead of returning that day, the cashier did not return until Monday morning.⁴³ The cashier made it clear before the judges that he routinely bolted both locks, this being the only time that this ritual did not occur.

As Adonijah Schuyler reopened the bank for business, he found to his surprise both locks secured. He swore that he had left the key for the upper lock on the counter inside the bank. The distressed young man hurried to call upon Horatio Seymour, who returned with Mr. Schuyler and a local blacksmith, who cut off the heads of the rivets holding the lock in place. When they entered, they testified that they found the key right where the cashier had left it. After performing a cursory examination, they left satisfied nothing had been disturbed. Only afterwards did they discover a significant loss of money, and the suspicions of the directors fell upon Joshua Henshaw.⁴⁴

Joshua Henshaw came to Middlebury around 1797 with his brother Daniel after both had served short stints as merchants in Albany. Around 1800, they secured a lease on land along the falls from Stillman Foot, with whom they had a prior business arrangement. While his brother developed millsites, Joshua erected in 1807 a building along the creek that housed the bank as well as his dry goods store. The cost of construction combined with the cost of purchasing the inventory for his new enterprise created a heavy burden and, within a few years, he was in serious financial trouble. He owed two different groups of Boston merchants sizable sums of money and by January 1811, one had obtained a decree of foreclosure. The other group shortly thereafter gained the same satisfaction, which forced Henshaw to sell his home. Within two months of these rulings, he had fled to Canada to escape his creditors.⁴⁵ His financial troubles had become well known in Middlebury, and thus he became the perfect scapegoat for the supposed crime.

However, a check of the expenses of the branch appears to provide enough evidence to exonerate Henshaw. Sometime between November 30, 1809, and November 30, 1810, the directors paid Joshua the sum of \$125.36 for building a vault in the bank.⁴⁶ If the directors were so sure that Henshaw was the culprit in the alleged theft, why would they employ him to build a new vault and perhaps have access to a second set of keys? Why, for that matter, would they have remained in the same building? The remainder of the flimsy explanation offered by the directors of the Middlebury branch strained credulity as well. Why didn't they tell anyone, particularly the full board, of the missing money after the incident occurred? It is one thing not to accuse a suspect without evidence, but the directors had a fiduciary responsibility to the citizens of the state to report the crime. The notion that the cashier on this fateful night would secure only one lock also seems pure folly. Yet this explanation was crucial to their story, for this was the only way possible that the cashier would have known someone had entered the vault without going in himself. Since Schuyler testified that this was the one instance in which this error took place, what a coincidence that the thief chose this night to rob the bank. If the thief had access to a set of keys to the bank and could enter at any time, why did he wait until the very night that the vault was only partially secured?

The judges also took a skeptical view of the directors' account. They rejected the tale and instead directed their line of questioning at the cashier, Adonijah Schuyler, investigating his reputation, character, and his handling of various transactions. Since the theft was the most serious charge, the fate of the missing money dominated the hearing. As the examination dragged on into the fall, Horatio Seymour, smelling defeat, asked for postponement until the opening of the legislative session. The Supreme Court rejected the request. Then, as proceedings were coming to a close, the directors came forward with an offer to furnish new evidence, which the justices turned down as well. Judgment was rendered against the plaintiffs for the sum of \$13,869.68.⁴⁷

For Daniel Chipman, Horatio Seymour, and John Willard, the hearing was an unmitigated disaster. The judges of the Vermont Supreme Court brought their report to the legislature in the fall of 1813, finding the directors liable for the sum of \$22,826.13 as a result of their malfeasance at the Middlebury branch of the Vermont State Bank. There is no doubt that the entire institution failed to live up to the lofty standards set for it in 1806. The full board routinely ignored the regulations set up as safeguards on its behalf, most notably the ratio of bills to specie, preferring to sate the appetite of a currency hungry populace. However, the conduct of the directors of the Middlebury branch went even further be-

yond the pale. The creation of offices of discount and deposit, manned by agents beyond their control, had deleterious effects on the institution. Their flagrant ignorance of legislative authority, their failure to use extents, and their continued loan activity and money creation after being told to cease, resulted in heavy losses. They had until April 1, 1814, to pay the debt, with John Willard personally liable for another \$2,953.98 in loans outstanding. Almost as a mockery, they received the full benefit of certain questionable promissory notes taken on behalf of the branch totaling \$5,568.04 to help pay their arrearage, if they were fortunate enough to collect on them.⁴⁸ The judgment left three of Middlebury's most prestigious citizens with a grim future of tattered reputations and financial embarrassment.

CHIPMAN'S GAMBIT

Fate soon intervened to rescue this aggrieved trio. The continuing troubles with Great Britain, which had partially been the undoing of the bank in the first place, now ironically came to the rescue of the bank directors from Middlebury. Hostilities turned to war, and the year of 1813 was a miserable one for the administration party. The Champlain valley was the site of a demoralizing British raid, and a direct federal tax to fund the war effort fell upon a citizenry already burdened by disruption of trade. In statewide elections, the Federalist party was able to win back the legislature, although the governor's race remained too close to call.⁴⁹

The General Assembly organized by selecting Daniel Chipman, returned once again to the legislature by Middlebury, as Speaker of the House. Neither major candidate for governor garnered a majority. So, as one of his first acts, Chipman appointed members of the canvassing committee, whose duty it was to verify the results of the election. The new Speaker packed this committee with Federalists, ensuring a partisan outlook on their review. Thus, when the group examined the controversial results from the town of Colchester, where it was reported that out-of-state soldiers had voted, they chose to throw out the tallies. This decision, combined with other curious conclusions on the vote totals from other towns, changed the statewide totals enough to take the seats away from three Republican councilors and give them to Federalists. The work of the canvassing committee had the result that, in the joint meeting of the assembly and council needed to select the next governor, each party would have 112 votes.⁵⁰

This turn of events drove the indignant Republicans to histrionics. Many felt that a joint assembly of the legislature and council should have the opportunity to review the results of the committee. However,

Daniel Chipman knew his law. He knew that this joint assembly had no power to canvass the votes, or to act in any manner other than to elect the governor by their joint ballots. He brooked no opposition and held up the vote until the three Federalist councilors arrived. When the vote for governor finally took place, Federalist candidate Martin Chittenden defeated the incumbent, Jonas Galusha 112 to 111.⁵¹ Charges once again flew that one vote had been either lost, uncounted, or bought off. However, they were to no avail. The Speaker had secured his candidate for governor. Next he would go to work rescuing his reputation.

Shortly after receiving the report of the Supreme Court justices holding his colleagues and himself liable for their conduct as directors, Daniel Chipman presented a resolution to the House members. Despite the fact that in 1812 the three directors agreed to abide by the decisions of the arbiters selected by the legislature, the results caused Chipman to feel that another review was necessary. Therefore, he moved that a joint committee of the House and Council be appointed to examine the newly issued report. They would be instructed to rehear the evidence and counsel, both from the state and the directors, relative to the merits of the judgment rendered. The resolution passed and, on motion, Henry Olin, Republican from Leicester, was ordered to appoint the five House committee members in the Speaker's stead.⁵²

This new gathering took less than two weeks to review the evidence acquired over a year's time. The result of their effort was a jaw-dropping account, to say the least. They exonerated the directors of the Middlebury branch of all liability accruing to their stewardship of the bank, save the paltry sum of \$1,200. On the question of the defalcation, they willingly accepted the story of the theft. Their sole grounds for changing this ruling lay in the new evidence that the directors procured too late to present to the justices, the deposition of a fourteen year-old boy, Udney Hay Penniman.

Penniman testified that in October of 1810, he was returning home to Colchester in the company of his mother when they stopped at the Henshaw house where they were guests for two or three days.⁵³ During this stay, when Joshua Henshaw was away on business, Joshua Jr., also fourteen, informed his friend of a secret. While searching for something in a cupboard in a lower room of their house, young Henshaw discovered a box. When he opened it, he found several packages of bills, amounting to \$13,000 to \$14,000, as Udney understood him. Joshua, Jr. took the box to his mother, who expressed surprise when she saw the money. Saying she knew nothing of it, Mrs. Henshaw took the box from her son, and he never heard anything more of it.⁵⁴

On the basis of young Mr. Penniman's testimony, the committee felt

that proof was at hand that a theft actually had occurred, and the directors were faultless. However, the decision left the obvious question begging. If Joshua Henshaw stole the money, why didn't he use it to save himself from his financial troubles? If the theft occurred in June of 1809, why did the money lie dormant in an unused cupboard for over a year as his world collapsed around him? A more pertinent question may have been, what was the motivation of Udney Penniman? Could the fact that his father, former U.S. Customs Collector Jabez Penniman, was overdue on a loan to the branch that was now in the hands of Horatio Seymour for collection have been an extenuating factor?⁵⁵ Should this one bit of *ex parte* evidence, even if true, have been enough to exonerate these directors? To the legislature of 1813, even the Republicans, who tired of the banking affair and wished it to go away, it was more than enough.

The committee was also lenient with the defendants when inspecting their dealings in St. Albans and Boston. They found nothing out of the ordinary with these houses of discount, rather they found the efforts heroic. The rationale of the committee, that it was the responsibility of the directors to devise the means for procuring specie and to sustain the credit of their bills, was almost a verbatim reiteration of the directors' defense in front of the Supreme Court. While the explanations didn't wash with the justices, they were perfectly acceptable to the members of this select group. They completed their report by arguing that all bad notes incurred by this branch were the onus of the state, not of the directors, and again cleansed them of all responsibility. The full House then sheepishly followed suit, by accepting this review.⁵⁶ Daniel Chipman had done it. He had redeemed his reputation as well as the reputations of his colleagues. Yet the Federalists and their Speaker were far from done on this issue, not as long as there was an ounce of political capital left to extract from the Vermont State Bank.

The report exonerating the behavior of the directors of the Middlebury branch would not be the last vote taken on the Vermont State Bank. The effects of stubbornly standing behind the bills of the bank in these hard times had devastating consequences. When the Finance Committee of 1813 examined the health of the State Treasury, they reported that, of the \$55,000 on hand, \$45,000 was in Vermont State Bank bills, which at that point were impossible to redeem. The committee suggested in their report to the full House that it again would be prudent not to take them into consideration when making an estimate of the sum necessary to defray the expenses for the coming year.⁵⁷

The expenses for the current year were calculated to be \$33,000, with another \$25,000 required to pay the militia of the state as granted by the

legislature of 1812. The committee therefore advised that two taxes of one cent each be laid on the polls. However, the Republicans saw this as an attempt to further embarrass them for their support of the institution and offered countermeasures. Caleb Hendee moved to amend the bill by incorporating the two tax bills into one. The maneuver was defeated along strict party lines, 94–84. When the bill to fund the militia came up for consideration, Henry Olin moved to strike out the section “for the purpose of paying the sums due the militia of this state, in the service of the United States, in the year 1812;” inserting in its stead “for the purpose of redeeming the bills of the Vermont State Bank.” Olin hoped to use the money to redeem the bills lying in the state treasury and simultaneously provide it with hard currency, but the amendment also fell, 113–61.⁵⁸

Although the legislature exonerated Daniel Chipman for his sorry conduct as director of the Middlebury branch, he wasn’t finished trying to use it to the advantage of his hometown. In 1814, Chipman once again returned to the legislature and once more was Speaker of the House. During this session, the House received several petitions pertaining to Middlebury College, which Chipman had been instrumental in bringing into existence and where he currently served as professor of law. The college had plans to erect a new student building but, being short on funds, looked to the government for help. The situation provided the Speaker with a brilliant idea. He appointed a committee to receive these petitions and to examine the expediency of sending the assets of the Vermont State Bank to the struggling school as financial support. The committee not surprisingly issued a report looking favorably on the proposal. However, the full House was wary of such a measure, because of Chipman’s connection to the ill-fated institution and due to the competition between the college and the University of Vermont, and they voted to refer the matter to the next session. Another motion that would have granted the school a \$12,000 loan received the same fate.⁵⁹ Although his plan failed, it depicted clearly enough in what light Daniel Chipman saw the Vermont State Bank; merely a vehicle to enhance the development of his hometown of Middlebury.

AFTERMATH

The creation, troubled life, and sordid demise of the Vermont State Bank was one of those subtle but significant turning points in Vermont history. The bitter two-party struggle that offered no help to the situation dissolved after the war. As the Federalist party faded away, the Republicans remained divided over the role the state needed to play in economic development, banks in particular. The pragmatists felt that

they had now learned their lesson. State-run financial institutions were a thing of the past, for such a risky operation as a bank needed the vigilance that only private interest could provide. Yet the old-line Jeffersonians were still skeptics. To them, the problem was not that the bank was state-run, but rather that the men placed in charge were bereft of sufficient public virtue to be up to the task. They had betrayed the trust of the citizens of the state. Therefore, no new private banks could secure a charter until 1818, and then only Burlington and Windsor received them. After the national bank-induced Panic of 1819, Richard Skinner, governor of Vermont from 1820 to 1823, took a dim view of any new applications, believing them to have had a “ruinous effect” on the interior of the country.⁶⁰ It wasn’t until the opening of the Champlain Canal, which finally tied the fortunes of the northern tier to those of the rest of Vermont, and the triumph of the pragmatists under Cornelius Peter Van Ness, that banking would again be well received.

During this era, the legislature reached a tenuous consensus, allowing one bank charter per county. When siting the private bank in Addison County, the town of Middlebury found how much of a millstone the conduct of its branch of the Vermont State Bank turned out to be. The city of Vergennes, newly energized by the opening of the canal, vied with Middlebury for the honor of being the site for the bank, but then secretly hammered out a deal in which they would both ostensibly have a branch. The Council rejected the arrangement and the representatives brought their cause to the floor of the House. Robert Bates, who was representing Middlebury, ironically was formerly Daniel Chipman’s law partner, continuing the Congressman’s extensive practice while he was in Washington. Bates and Vergennes Representative Amos Barnum pleaded with their colleagues to place the bank in Vergennes and a branch in Middlebury, and, after their persuasive arguments, all involved expected the vote to be close.⁶¹

However, Titus Hutchinson, again representing Woodstock, rose to speak against the amendment. The former bank president had never forgotten the conduct of the Middlebury branch directors and lashed out at this peculiar arrangement. Speaking as if hoping to settle an old score, Hutchinson dismissed the plan for two banks in Addison county, stating that one institution located in Vergennes would more than suffice. He warned the assembly that the citizens of Middlebury had “a grasping disposition, never ready to cry enough.” After being accused by Bates of “interfering with a family quarrel,” Hutchinson responded by retelling the tragic story of the Vermont State Bank and Middlebury’s pivotal role in its demise. It is difficult to say whether this speech changed the vote, but, after this bitter debate, the arrangement lost by a narrow mar-

gin. Vergennes eventually gained the county bank, and Middlebury had to wait until 1831 before receiving a charter for one of its own.⁶² By then, the town's economic fortunes, once so rosy, began to wane in comparison with those of mighty Burlington.

What happened to the directors of the Middlebury branch? Daniel Chipman, while serving his second term as Speaker, was elected by the people to serve as representative to the United States Congress. Yet, as if through some form of divine justice, Chipman was ill for much of the first session and totally incapacitated for the second. During his stay in the nation's capital, his elegant mansion, considered the finest in Middlebury, was destroyed by fire. The calamity forced his family to move into the building across the street that Chipman erected for a law school. Shortly after returning home, he retired from public life. He filled his remaining days writing essays on legal issues and biographies of notable early Vermonters, including his brother, and fulfilling his dream of establishing a state senate.⁶³

The unfortunate stint as bank director had little effect on Horatio Seymour's political career. After having lost his seat on the Council in 1814, he rebounded the next year, when he was selected as Addison County State's Attorney. His law practice flourished, and he bragged, as he erected his large new home in 1816 and 1817, that he would be able to pay for it with income derived during those years alone. In 1821, the joint assembly sent him to the United States Senate where he would serve uninspiringly for the next twelve years.⁶⁴

John Willard suffered the most for his tenure as bank director. He continually petitioned the legislature to relieve him of his personal debt to the bank, but his efforts proved unsuccessful. He had given up his profession, and by 1814 had also lost his positions as bank director and county sheriff, so his financial prospects looked grave. However, even in Willard's case, there was a silver lining. His personal misfortune provided the impetus for his wife's trailblazing education career. Emma Willard had taken charge of the town's female seminary before her marriage to Mr. Willard, after which she resigned her post. The family's sudden money woes persuaded her to begin another school at her own residence in the spring of 1814. The resignation of her husband helped to germinate the seed that within a few years would sprout into her famed Troy Female Seminary.⁶⁵

Whither Joshua Henshaw? After crossing the border to escape his creditors, the accused thief settled into a life in Montreal more typical of a man trying to gain a fresh start than one flush with cash. Information about Henshaw is sketchy, but we know that by 1819 he returned to the merchant's trade with a home in a modest section of town, moving

to better quarters the next year. Henshaw remained in Montreal for the rest of his days, dying in 1840. It appears he never again returned to Middlebury.⁶⁶

The last question that remains concerns the formation of the myth as we know it today. The story had its origins in Horatio Seymour's reelection campaign against Cornelius Peter Van Ness in 1826. The race was one of the most bitter in Vermont history, for little separated the two men on the issues. Therefore, the election would be decided on character. Although the challenger was talented and capable, his enemies charged that he was loyal to nothing but his own ambitions. Seymour, on the other hand, confirmed his loyalty to the Adams administration through his actions in the Senate. He had been tested and was found worthy.

Opponents of the incumbent rarely attacked his moral character, rather they felt he was not as politically talented as Van Ness. However, late in the campaign, the ghosts of the Vermont State Bank rose again to haunt Seymour. How could he have such a sterling character if he was responsible for the loss of thousands of dollars? A rebuttal by a writer under the pen name of TRUTH quickly circulated in area newspapers. The defender of the senator now proffered yet another explanation of the supposed theft. This version had the building entered by means of a *false key*, and, therefore, Seymour was not at fault. So the story now changed from the perpetrator being in possession of a second set of keys, the story told to the Supreme Court Justices, to his having fashioned a false key. However, the explanation also lacks credibility, for the bank door had *two* locks, requiring different keys.⁶⁷ In the heat of a barnburner campaign, the reasoning was sufficient for Seymour, and he narrowly won reelection.

The credit for putting the myth to print goes to Samuel Swift in his *History of the Town of Middlebury*, published in 1859. He suggested to his readers that the duplicate key emerged "in the attic story of a house, crowded in a rafter." However, Swift's story adds several new inconsistencies, including that the robbery took place in the summer of 1812, not 1809. What could have been Swift's motive for helping to alter the historical course of events? When Samuel turned twenty-one, he had just finished a two-year assignment as tutor in college, which he had hoped would be treated as two years in the study of law. Penniless, he was grateful to the Chipman family, who took him in, treated him as one of their own, and furnished a convenient room for the resumption of his legal studies. When he passed the bar in 1804, Mr. Chipman accepted him as a full partner into his own profitable practice. Swift continued with the law for six years, then turned to bookselling, and then to

the newspaper business, editing the Federalist *Vermont Mirror*.⁶⁸ It was clear from his book that Swift considered Chipman to be his mentor. It is unclear whether his explanation of the travails of the Vermont State Bank were due to failing memory or a conscious effort to clear the names of the defendants; but unfortunately, Swift's version is now considered fact.

The Roman historian Tacitus argued that one of history's responsibilities is to make sure that evil words and deeds fear an infamous reputation with posterity. Although it is difficult to term the malfeasance that occurred at the Middlebury branch of the Vermont State Bank evil, it is a historian's duty to correct the story. The preponderance of existing evidence seems to point away from Joshua Henshaw, away from a false key, away from a daring robbery. Rather, it points to the men in control of Vermont's early banking functions proving to be as inept at their task and as vulnerable to temptation as contemporaries in other states. The directors of the Middlebury branch, Daniel Chipman, Horatio Seymour, and John Willard, were by far the worst offenders and we would be remiss in our duties as historians if we did not add this chapter to their biographies.

NOTES

¹ This story had its genesis with my intention of doing research on another project: a biography of William Slade. While delving into the records at the Vermont State Archives, I stumbled upon the committee report of 1812 on the Middlebury branch of the Vermont State Bank, where Slade worked briefly as cashier, that was at odds with everything that I had heard or read about the institution. I want to thank State Archivist Gregory Sanford for hours of assistance, support, suggestions and good conversation, as well as the support of his staff. I also was aided invaluablely by Nancy Rucker and her staff at the Sheldon Museum in Middlebury. Glenn Andres helped in locating the source of the myth.

² Michael A. Bellesiles, *Revolutionary Outlaws: Ethan Allen and the Struggle for Independence on the Early American Frontier* (Charlottesville, Va.: University Press of Virginia, 1993), 245–248; Walter Hill Crockett, *Vermont, The Green Mountain State* (New York: Century Publishing, 1921), vol. 2, 407–421; *Records of the Governor and Council*, 8 vols. (Montpelier: J. & J.M. Poland, 1873–1880), vol. 5, 443.

³ Chilton Williamson, *Vermont in Quandary 1763-1825* (Montpelier: Vermont Historical Society, 1949), 243–247, 258–259; *Governor and Council*, vol. 5, 443 and vol. 6, 390–391; *Journals of the General Assembly of the State of Vermont* (1803), 173–174.

⁴ George B. Reed, *Sketch of the Early History of Banking in Vermont* (Boston: n.p., 1879), 7–10; *Green Mountain Post Boy*, 4 November, 1806; Williamson, *Vermont in Quandary*, 254; Henry Swan Dana, *The History of Woodstock, Vermont* (Cambridge: Houghton, Mifflin and Co., 1889), 328–329; *Vermont General Assembly Journal* (1806), 110–111, 199–201.

⁵ *Laws of Vermont*, 1806, 164–169; *Governor and Council*, vol. 5, 446.

⁶ *Vermont Journal*, 24 November, 1806.

⁷ *Governor and Council*, vol. 5, 446–447; *Laws of Vermont*, 1807, 108, 151–152, 187–189.

⁸ *Vermont General Assembly Journal* (1808), 55–56. Burlington, which had hardly issued any loans, stood at a ratio of 1.4 to 1. Middlebury's ratio was 4 to 1, Westminster 4.3 to 1 and Woodstock's a whopping 6.8 to 1.

⁹ H. N. Muller, "How the Champlain Valley Defied Jefferson's Embargo," *Vermont History*, 38 (Winter 1970): 5–8.

¹⁰ *Vermont General Assembly Journal* (1808), 157–159; Frederick P. Smith, "Evolution of State and National Banking Supervision in Vermont," (Senior Thesis, Princeton University, 1937), 4.

¹¹ Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War* (Princeton, N.J.: Princeton University Press, 1957), 179–180. As Hammond stated, the redemption of these notes posed an interesting dilemma. If they weren't paid, the media would surely depreciate. If they

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were redeemed, specie would be gone and with it the ability to make loans, especially if the money went to strangers who came into town with valises to cart it away.

¹² Dana, *History of Woodstock*, 337.

¹³ *Vermont General Assembly Journal* (1808), 150.

¹⁴ Hammond, *Banks and Politics*, 172–176.

¹⁵ *Vermont General Assembly Journal* (1809), 16.

¹⁶ *Vermont General Assembly Journal* (1809), 58, 73–74.

¹⁷ *Laws of Vermont*, 1809, 119–122; Smith, “Evolution of Banking” 7–8.

¹⁸ *Laws of Vermont*, 1809, 86, 107.

¹⁹ Williamson, *Vermont in Quandary*, 258–268; Muller, “Champlain Valley Defied Embargo,” 5–21; Edward Brynn, “Patterns of Dissent: Vermont’s Opposition to the War of 1812,” *Vermont History*, 40 (Winter 1972): 10–27.

²⁰ *The Washingtonian*, 1 October, 1810; Dana, *History of Woodstock*, 335–336.

²¹ Dana, *History of Woodstock*, 337.

²² Reed, *Sketch of Early History*, 20–21; *Laws of Vermont*, 1810, 106–108, 158–159.

²³ *Governor and Council*, vol. 5, 448–449.

²⁴ *Vermont General Assembly Journal* (1812), 17, 62–96.

²⁵ *Vermont General Assembly Journal* (1812), 147–148.

²⁶ *Governor and Council*, vol. 5, 449–450; *Laws of Vermont*, 1812, 211; *Vermont General Assembly Journal* (1812), 196–197.

²⁷ *Vermont General Assembly Journal* (1812), 68–72.

²⁸ Samuel Swift, *History of the Town of Middlebury* (Middlebury: A. H. Copeland, 1859), 264–265, 376–385.

²⁹ Swift, *History of Middlebury*, 254–258.

³⁰ Swift, *History of Middlebury*, 250–251.

³¹ Crafts Family Papers, box 1, folder 34, Bailey-Howe Library, University of Vermont.

³² The main sources for this hearing and the day-to-day operations of the Middlebury branch come from the following sources: *Vermont General Assembly Journal* (1812), 62–96; Crafts Family Papers; Horatio Seymour Papers, box 1, folders 1 and 2, Sheldon Museum; and the Vermont State Papers, vol. 67, 6. (Seymour’s related papers are in folders which he labeled “more last words and dying speech of the Vermont State Bank.” The outline of the trial, as well as the charges and the responses from the directors, are found in the Crafts papers.

³³ Crafts papers.

³⁴ *Ibid.*

³⁵ *Vermont General Assembly Journal* (1812), 70–71.

³⁶ Daniel Chipman to Isaac Warren, 30 November, 1811. This letter can be found in the Seymour papers, box 3, folder 2; Crafts Papers.

³⁷ Crafts Papers; *Vermont General Assembly Journal* (1812), 69–70.

³⁸ *Ibid.*

³⁹ Crafts Papers.

⁴⁰ *Vermont General Assembly Journal* (1812), 69, 88.

⁴¹ Seymour Papers, box 6, folder 3; Vermont State Papers, vol. 67, 6.

⁴² Seymour Papers, box 3, folder 1; Crafts Papers.

⁴³ *Vermont General Assembly Journal* (1813), 164–165.

⁴⁴ *Ibid.*; Crafts Papers.

⁴⁵ Swift, *History of Middlebury*, 177, 273, 286; Middlebury Land Records, book 6, 413–416, 423, 441–443.

⁴⁶ *Vermont General Assembly Journal* (1812), 82–83.

⁴⁷ Crafts Papers.

⁴⁸ *Vermont General Assembly Journal* (1813), 64–65.

⁴⁹ H. N. Muller III, “A Traitorous and Diabolical Traffic: The Commerce of the Champlain-Richelieu Corridor During the War of 1812,” *Vermont History* 44 (Spring 1976): 78–83; Crockett, *Vermont*, vol. 3, 58–66.

⁵⁰ Crockett, *Vermont*, vol. 3, 70–71; Leonard Deming, *Catalogue of the Principal Officers of Vermont, 1778–1851* (Middlebury: the author, 1851), 11–12.

⁵¹ Swift, *History of Middlebury*, 265–266; Crockett, *Vermont*, vol. 3, 71–72.

⁵² *Vermont General Assembly Journal* (1813), 76–77.

⁵³ *Vermont General Assembly Journal* (1813), 164–165; Vermont State Papers, vol. 72, 20.

⁵⁴ Vermont State Papers, vol. 72, 20.

⁵⁵ Seymour Papers, box 3, folder 1.

⁵⁶ *Vermont General Assembly Journal* (1813), 164–165.

⁵⁷ *Vermont General Assembly Journal* (1813), 166.

⁵⁸ *Vermont General Assembly Journal* (1813), 168, 172–173.

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⁵⁹ Vermont State Papers, vol. 74, 51; *Vermont Watchman*, 27 October, 1814; *Vermont General Assembly Journal* (1814), 177–178.

⁶⁰ Crockett, *Vermont*, vol. 3, 182.

⁶¹ Kenneth A. Degree, *Vergennes in the Age of Jackson* (Vergennes: Precision, Print and Copy, 1996), 26–35.

⁶² Degree, *Vergennes*, 36–37; Swift, *History of Middlebury*, 327.

⁶³ Swift, *History of Middlebury*, 264–268.

⁶⁴ Swift, *History of Middlebury*, 254–258.

⁶⁵ Vermont State Papers, vol. 53, 93–149; Swift, *History of Middlebury*, 251, 392–397.

⁶⁶ I wish to thank Denise Paquet and Benoit Migneault from the Bibliothèque nationale de Québec for investigating Joshua Henshaw's life in Montreal and providing me with this information. Also *Montreal Gazette*, 17 November, 1840.

⁶⁷ *Rutland Herald*, 12 September, 1826; *The American Repertory*, 14 September, 1826.

⁶⁸ Swift, *History of Middlebury*, 268, 325–327; *Governor and Council*, vol. 6, 2–3.