The Scandalous Failure of the Birmingham Penny Bank

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Bank failures were common in the mid-nineteenth century, but it was still shocking when Birmingham's Attwood, Spooner and Marshall Bank failed on 10 March 1865. This "great private bank" had been in business since 1791. It collapsed with liabilities of a million pounds leading to widespread turmoil in the town.

There was further alarm just a week later, when the Birmingham Penny Bank suspended payment, leaving more than seven thousand working-class people facing the loss of their hard-earned savings. The Attwood's Bank failure may have been the proximate cause of a run on the Penny Bank but, in truth, the maladministration of its managers was to blame. As the committee charged with investigating the Penny Bank's failure was to conclude, an unchallenged façade of success had combined with lack of oversight to enable a culture of unethical behaviour and fiscal recklessness.

Penny Banks

"There ought to be such a bank in every poor district, and there is no sensible and active gentleman who has a kind heart and a tolerable business facility, by whom such a Bank may not be established in some place where it is wanted."
– *All The Year Round*, 30 July 1859, p.334

"The penny bank is emphatically the poor man's purse … The penny bank reaches a class of persons of very small means, whose ability to save is much less than that of the highly paid workman, and who, if the money were left in their pockets, would in most cases spend it in the nearest public house."
- Samuel Smiles, *Thrift* (1875), p.157.

Early Timeline
1847: Greenock – Renfrewshire, Scotland
1848: London - St George's in the East
1849: (i) Hull and (ii) Selby, Yorkshire
1851: Birmingham

Penny banks were wholly unregulated. From the late 1840s, they were established to encourage thrift among the poor by enabling the saving of small amounts of money. They were usually associated with another institution, such as a school or church. The recommended operating model was conservative: the penny bank would receive small deposits, hold its accumulated funds in an account at a respectable local bank, and return money to savers as they needed it. Overhead costs were to be kept to a minimum, and largely covered by any interest received from the larger savings bank.

“The money of people in the humble ranks of life ought to be guarded with the utmost care.”

– George Matthews, *Little by Little; or The Penny Bank with Rules and Methods of Working* (London, 1868), p.27

From the outset, it seems that the founders of the Birmingham Penny Bank were resistant to this simple model, for when they corresponded with James M. Scott, the founder of early penny banks in Greenock and Hull, they judged his advice “unsatisfactory”. The Birmingham committee embarked on their own version of the penny bank which, unfortunately, made the fundamental mistake of believing that a penny bank was actually a bank - which it was not, for it had no capital.

The Founders/Directors

- George Barlow, coach builder and painter
- Job Brake, tailor (d.1858)
- James Granger, stationer (Secretary and later the first Manager of the BPB)
- George Battison Haines, brickmaker and secretary to several property-related organizations
- Benjamin Hawkes, hairdresser, perfumer, and toy dealer; former business partner of Wallington
- James McBryde, glass cutter (d.1863)
- George Wallington, hairdresser, perfumer, and toy dealer; former business partner of Hawkes
  - Thomas Luckman Johnson, grocer and dealer in tea and coffee (Added 31 Dec 1850)
  - William Churley, secretary of the Birmingham & General Loan Society (Added 11 Apr 1851)
  - Henry Suckling, book-keeper at the Birmingham Banking Company (Added 11 Apr 1851)

The founders proposed two layers of management: the first was themselves, a committee of directors which would be responsible for the day-to-day business, and one of whom would volunteer to be the superintendent of operations. As you can see, the founders were on the lower end of the middle class: not men of large means, and certainly lacking the capital typical of private bankers. Barlow and Brake were sole traders. McBryde was a waged employee; while Churley, Suckling, and Haines were employees of financial organizations.

Slater's General & Classified Directory of Birmingham, 1852-53

Granger, Hawkes, Johnson, and Wallington were in the business of providing retail goods and services.

By 1851, some of them were already active participants in public life, especially in the promotion of freehold land which had arisen as part of the campaign to extend the franchise. The creation of the Birmingham Penny Bank may have seemed a logical next step, bringing together their business interests with a desire to enhance their public profile - and perhaps even help their working-class neighbours.

The Trustees as Proposed in January 1851

President: William Scholefield MP (first mayor of the borough)

Vice-President: William Chance, Jnr (glass manufacturer)

Vice-President: John F. Winfield (metal goods manufacturer)

Treasurer: Henry Edmunds (Manager, Birmingham and Midland Bank)

Trustees:
John Aston (button manufacturer),
James Baldwin (paper manufacturer, alderman)
George Goodrick (rope manufacturer, alderman)
James Taylor Jnr (secretary, Freehold Building Society)
Charles Hinks (secretary, Birmingham Freehold Land Society)
W. Sharpe (unidentified).

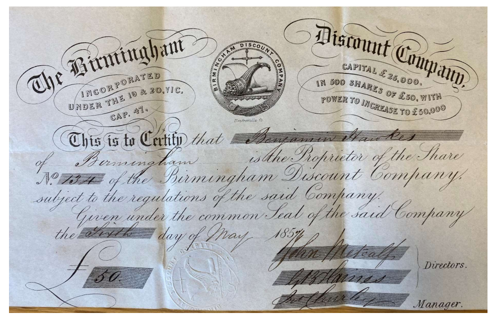
Building on their existing connections, the founders solicited some of the town's establishment figures to form a second layer of management for the new penny bank: a Board of Trustees, presumably to increase the credibility and social standing of the new establishment. The *Morning Advertiser* reported that "many of the most respectable inhabitants" had become "the principal officers".

A philanthropic institution run by enthusiastic townsmen guided by knowledgeable entrepreneurs looked set for success; but appearances were deceiving. The involvement of the trustees was minimal: Aston attended one meeting, Baldwin and Goodrick just two; while Scholefield, Chance, and Winfield attended none at all. By April 1852, just fifteen months after the commencement of the penny bank, all of the listed trustees and officers had either resigned or quietly stepped away. No resignations were publicly announced, and no efforts were made to find replacements. The managing committee were on their own and accountable to no one.

Why the trustees decided to part company with the Birmingham Penny Bank is unclear. Perhaps poor management practices by the directors created alarm at the risks to the trustees' reputations; certainly, things did not go well right from the outset. But the trustees made no concerns public, and the bank's minutes suggest no interventions by the trustees which could have put the institution on a better footing. That the trustees effectively washed their hands of responsibility for the bank would be raised as a severe criticism during the investigation which followed the failure in 1865.

The Investments

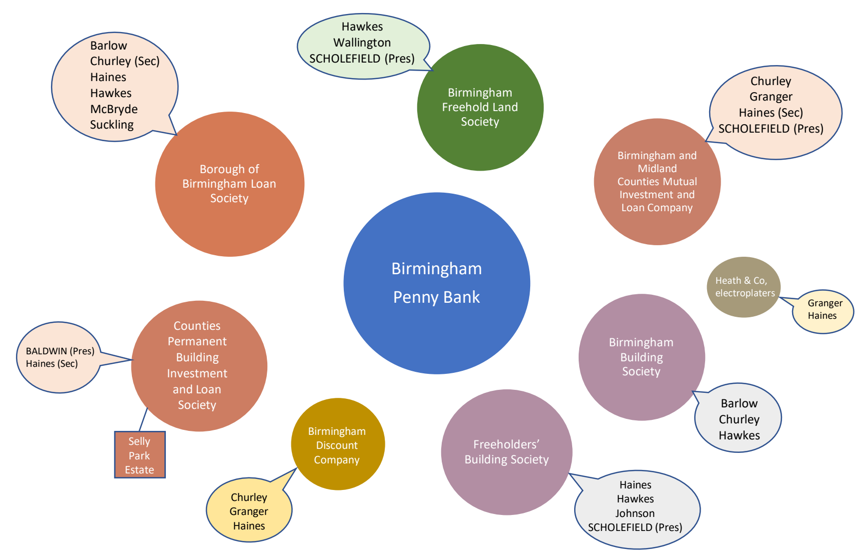
- Birmingham and Midland Counties Mutual Investment and Loan Society (1851-1853)
- Birmingham Freehold Land Society (1851-1859)
- Borough of Birmingham Loan Society (1852-1857)
- Birmingham General Loan and Deposit Company (1854)
- Selly Park Estate (1856 land purchase)
- Birmingham Discount Company (1857-1858)
- Birmingham and Midland Counties Benefit Building, Investment and Land Society (1858-1860)



MS 163/9, Birmingham Discount Company share certificate in name of Benjamin Hawkes, 1857 (Reproduced with the permission of the Library of Birmingham)

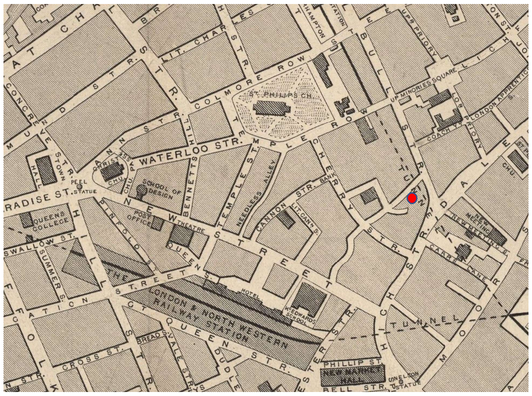
The remaining directors engaged in three practices which doomed the penny bank to failure. The first was making frequent personal loans and mortgages to themselves, their friends, and business associates. It is not easy to tell from the surviving minutes the whole extent of these loans but, as an example, in May 1855, finding itself unable to meet the withdrawal requirements of its customers, the bank urgently called in parts of loans made to Hawkes, Suckling, Barlow, Churley, and Haines amounting to £325. In 1858, Granger and Haines went bankrupt because of ill-advised business involvement with Richard Heath, an electroplater. Heath owed money to the penny bank which was lost in the failure of his venture. On occasion the penny bank also received loans from its directors to help with cash flow, including £250 from Thomas Luckman Johnson in April 1858 which was subject to repayments with 6% interest.

The second bad practice was the making of investments that were both risky and illiquid. Rejecting the usual practice of keeping the depositors’ money in a secure bank account, the Birmingham Penny Bank used that money to buy shares in, and make loans to, a number of other financial organizations. Research reveals that the directors were deeply involved with many of them.



OVERLAPPING FINANCIAL INTERESTS

In essence, the Penny Bank directors used the funds of their working-class depositors to support themselves and their other business interests. It was a severe conflict of interest, a situation not lost on Henry Suckling who resigned as a director in August 1858 on the grounds that the other directors did not accept personal responsibility for the money invested in the recently failed Birmingham Discount Company, the principal shareholders of which included George Battison Haines, James Granger, and William Churley.



J & F Tallis map of Birmingham, 1851
- *Red dot marks probable position of Birmingham Penny Bank building (now covered by Martineau Place development)*

Library of Birmingham: MS 163/5, passbook front cover (reproduced with the permission of the Library of Birmingham)

Birmingham Penny Bank:
Building erected in 1854
in Union Passage

In 1854, the directors spent £888 on buying land in Union Passage and erecting a new office building, with plans to lease space to other businesses; but this project became another financial burden, as maintenance costs mounted and tenants were tardy in paying rent, leading to legal fees. To avoid having the building put at risk in the Granger and Haines bankruptcy in 1858, the directors sold it to their fellow director Thomas Luckman Johnson for £1,000, and he agreed to lease it back to them for £60 per annum. The investigation committee flagged this as a dishonest transaction which was, in truth, a loan from Johnson to the bank.

The purchase of ten acres of land in the Selly Park Estate – a sale handled by George Haines as secretary of the Counties Permanent Building Investment and Loan Society - turned out to be particularly ill-considered. The land was advertised in February 1856 at £400 per acre, suggesting that the penny bank directors invested a huge £4,000. Yet, far from enabling the erection of valuable villas for discerning gentlemen, the penny bank's acreage remained undeveloped and in 1859 was let for grazing. The title to the land was also problematic: in 1864, Hawkes and Wallington, by then the last remaining directors, were engaged in legal struggle with Thomas Luckman Johnson over who actually owned it.

"I am by no means prepared to say that the bank was a trading concern from its very commencement."
– W.S. Allen, solicitor, reporting to the Birmingham Penny Bank investigation committee, June 1865.

" … they entered into all sorts of speculations, and they were great fools, for the committee could not find that a single one of their transactions had resulted in benefit to themselves or anybody else. All their speculations turned out badly – all their investments ruinously. … Their affairs became such a muddled mass of error, loss, and misappropriation, that the like was never laid before the country."
– Thomas Lloyd, chair of the investigation committee, June 1865.

It was a cascade of bad decisions made worse by the third practice: poor record-keeping. We can't know exactly how bad, because none of the bank's financial records survive; but the investigation committee appointed to explore the failure noted that they were "confused", "meagre" and "in a lamentable state of incompleteness." The depositors' ledger was incomplete to a point where it was impossible to understand exactly how many accounts the bank held, nor exactly what money was owed to savers. It also appeared that up to £1,700 had been lost through fraud, but by whom could not be determined – and the apparent loss might even have been an accounting error. It was all a terrible mess.

The remaining directors, Hawkes and Wallington, together with Thomas Luckman Johnson and George Barlow (who had sought to resign just before the bank's failure) were brought into the bankruptcy court. It was eventually concluded that almost £9,000 was owed to around 7,000 depositors, and that, due to their unlimited liability, the directors of the penny bank were responsible for it all. But, alas, they did not have sufficient funds to pay.

In the end, the matter was dealt with outside the bankruptcy court. The four directors made limited contributions from their personal assets. The bank building and the Selly Park land was sold. A subscription was got up in the town, including a working men's fund, which eventually enabled the penny bank's depositors to receive 11s 3d in the pound. The losses were shocking and regrettable. Even more shocking to the investigation committee was the reluctance of the former trustees to agreed they shared responsibility for the penny bank's failure. Scholefield, Aston, Baldwin, and others eventually contributed money to the subscription, but admitted no liability. No criminal proceedings were ever brought against any person connected with the penny bank.

Sources

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MS 163 - Birmingham Penny Bank collection (images reproduced with permission).
MS 1344/22 - Birmingham Penny Bank, Investigation Committee, minute book 1865-1866.

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Tallis map 1851: courtesy of the David Rumsey Map Collection, David Rumsey Map Center, Stanford Libraries (https://library.stanford.edu/Rumsey)

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The story of the Birmingham Penny Bank's failure is one of tension between expectations of moral rectitude and lack of regulation, with the veneer of good public reputations masking immoral behaviour. Any initial philanthropic intent was quickly undermined by a cavalier attitude towards conflict of interest and a willingness to make risky investments and ill-considered expenditures.

As for consequences, as a result of this astonishing mismanagement, working-class people in Birmingham lost their savings, the reputations of the former trustees were damaged, and the directors themselves were bankrupted. No proposals for tighter regulation followed; but the widely discussed scandal may have increased scrutiny of other penny banks and promoted interest in the new Post Office Savings Bank. And perhaps Birmingham's public men took the advice of the investigation committee to be more thoughtful about where they bestowed their patronage in future.