

Finance, Advertising and Fraud: The Rise and Fall of the Freedman's Savings Bank*

Claire Célérier[†] Purnoor Tak[‡]

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Abstract

This paper investigates how the Freedman's Savings Bank, the first bank targeting African Americans following Emancipation, gained legitimacy and collected close to \$100 million dollars from the recently freed population. Using a comprehensive dataset of newspaper items, we find that the bank promoted itself more than any other bank at this time. A textual analysis unveils the specificities of the bank's advertising, which largely relied on false promises and moral statements. Finally, we document how the fraudulent use of the deposit funds, and the subsequent bank failure, lead to a transfer of wealth from African Americans to elite white networks.

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[†]Rotman School of Management, University of Toronto, 105 St. George Street, Toronto ON M5S 3E6, Canada; *E-mail:* claire.celerier@rotman.utoronto.ca

[‡]London Business School, Regent's Park, London NW1 4SA, United Kingdom; *E-mail:* ptak@london.edu.

“This was an institution designed to furnish a place of security and profit for the hard earnings of the coloured people, especially of the South. (...) There was something missionary in its composition, and it dealt largely in exhortations as well as promises. (...) Circulars, tracts, and other papers were scattered like snowflakes in winter by this benevolent institution among the sable millions, and they were told to “look” to the Freedmen’s Bank and “live.””

Frederick Douglass, 1882

1 Introduction

Policy makers and academics have pointed to disparities in financial markets between Black and white populations as a driver of the wide and persistent racial wealth gap in the United States. These racial disparities span many dimensions, from access to credit and borrowing costs, to misselling by banks and the use of costly alternative financial services.¹ For example, while accounting for 13% of the population, African Americans represent one third of the unbanked in the United States, and cite mistrust as a primary reason.² This paper gives a historical perspective on these racial disparities in financial markets, investigating the rapid and broad expansion of the first formal financial institution serving African Americans after Emancipation, and its collapse.

The Freedman’s Savings Bank, created in the aftermath of the Civil War as a nominally benevolent institution, opened 37 branches across 17 states from 1865 to 1872. The founders of the Freedman’s Savings Bank – distinguished white church members, businessmen, reformers, and abolitionists – organized the bank with the stated objective of bringing economic independence to the 4 million African Americans just released from slavery. Within 7 years, the bank collected close to \$100 million 2021 dollars of deposits from around 100,000 African American households. With a branch in almost all the main cities in the South, as well as strong connections with schools for the freedmen, federal institutions, and prominent political and military figures of the Civil War and Reconstruction Era, the bank was salient to many African Americans.

¹On racial disparities in mortgage approvals, see Munnell et al. (1996); Black et al. (1978); Giacoletti et al. (2021), on borrowing costs, see Ambrose et al. (2020); Bayer et al. (2018); Butler et al. (2022); Charles et al. (2008); Reid et al. (2017), on the use of fringe banks, see Cohen-Cole (2011), on the quality of financial services, see Begley and Purnanandam (2021); Financial Consumer Agency of Canada (2022)

²2021 FDIC National Survey of Unbanked and Underbanked Households

However, in 1874, mismanagement and fraud led to the collapse of the Freedman’s Savings Bank. The failure of the bank “not only ruined thousands of colored men, but taught to thousands more a lesson of distrust which it will take them years to unlearn.”³ About the bank, Du Bois wrote “Not even ten additional years of slavery could have done so much to throttle the thrift of the freedmen as the mismanagement and bankruptcy” (Du Bois 1903).⁴ How did the bank build legitimacy and trust among recently freed African Americans, while being governed by only white directors? How did this nominally benevolent institution subsequently turn into “the Black man’s cow, but the white man’s milk,” as Frederick Douglass wrote in 1874?

We address these questions investigating the role of the advertising. To do so, we build an exhaustive dataset of all articles and ads mentioning any financial institutions across a sample of digitized newspapers over the 1865-1874 period. We focus on 17 newspapers distributed nationally and in five of the main states where the bank collected deposits, i.e. Georgia, South Carolina, Washington, DC, New York and Virginia. We then manually transcribe each newspaper item to perform a textual analysis on their content. In total, we collect, manually transcribe, and analyze more than 3,200 articles and advertisements mentioning more than 60 different banks. Then, we explore the wealth impact on African Americans using unique individual data on depositors, borrowers and loans.

We first show that the Freedman’s Savings Bank advertised extensively, and significantly more than any other financial institutions at this time. All African American newspapers, as well as 90% of the newspapers with a large audience, covered the Freedman’s Savings Bank. The *New National Era*, the main national newspaper with an African American audience over the 1870-1874 period, included half a page out of four pages on the Freedman’s Savings Bank alone. The advertis-

³State Charities Aid Association, *Postal Savings Banks for the United States of America*, no. 41 (New York: State Charities Aid Association, 1885).

⁴William Edward Burghardt Du Bois (1868 – 1963) was a prominent American sociologist, historian and civil rights activist. While particularly striking, this quote is consistent with both the perception of this episode of history among African American intellectuals after the failure and today’s consensus among historians. John Mercer Langston, a prominent abolitionist and politician who was a trustee of the bank for a brief time before its collapse, wrote “Perhaps the failure of no institution in the country, however extended its relations, however generally it enjoyed popular confidence and popular patronage, has ever wrought larger disappointment and more disastrous results to those interested in its creation, management and support than that of the Freedmen’s Savings and Trust Company” (Langston 1894). Frederick Douglass claimed that he was brought “an amount of abuse and detraction greater than any encountered in any other part of my life” after serving as the bank’s president (Douglass 1882). See also Osthaus (1976), Levy (2012), Osborne (2014), Baradaran (2015), Baradaran (2017) and Todd et al. (2019) for views on the Freedman’s Savings Bank from contemporary academics in law and history. Baradaran (2015), for example, wrote “The Freedman’s Savings Bank serves as a cautionary tale for government support of banking for the poor when that support is just a facade.”

ing intensity correlates with the collection of new deposits. Within a branch area, an increase in the number of publications related to the Freedman's Savings Bank in local journals is followed by an increase in new accounts.

Second, we find that the Freedman's Savings Bank's advertising largely relied on false promises, while the advertising of other banks was more informational. We use the Harvard Inquirer Dictionary and a textual analysis algorithm to identify items relating to promises and overstatements. We complement this automated categorization with a manual identification of articles with false promises. The bank misleadingly promoted itself as benefiting from a government guarantee, as reflected by this circular that the bank published in 1865: "This then, being a National Institution in the hands of these good men, it is as safe as the Government can make it, and, therefore, there can be no safer place in the country to deposit."⁵ False promises also related to the safe use of funds, while the bank started using the deposit funds to make risky loans as early as 1867, and the prosperity of the bank, while it was almost always in deficit. Even after controlling for year, state and fixed effects for the type of newspaper items – article, advertising or notice – and the newspaper audience – African American or general –, the Freedman's Savings Bank used false promises more than any other bank.

Third, the Freedman's Savings Bank's advertising made extensive use of racial stereotyping, largely through moral statements. These statements would take the form of references to duty and vices, representing African Americans as lazy, drinkers, gamblers and wasting their money. The *New National Era* was publishing the following ad every week from June 1871 to July 1873: "Cut off your vices - don't smoke - don't drink - don't buy lottery tickets. Put the money you save into the FREEDMAN'S SAVINGS BANK." ⁶ As another illustration, in a circular from 1865, the Freedman's Savings Bank wrote: "Reasons why you should all put money in the Savings Bank (...) Because, being your own masters, it is your duty to provide for your settlement in life, for your families, for sickness, and for old age (...) It teaches you the value of money, and prevents you from spending it foolishly (...) The holy Scriptures require you to be saving."⁷ We find no other bank advertising itself as a necessary component to a moral life.

Fourth, the use of false promises and moral statements in the advertising increased when the bank fraudulent lending activities intensified. From 1867, the bank's directors started using the deposits to make loans, hence violating the

⁵"Circular of the National Freedmen's Savings & Trust Co. to the Freedmen of Richmond, Va, and Vicinity." *The Freedman's Savings Bank*, September 1865.

⁶"The Freedman's Savings and Trust Company" *New National Era*, June 22, 1871, p. 4.

⁷"Circular of the National Freedmen's Savings & Trust Co. to the Freedmen of Richmond, Va, and Vicinity." *The Freedman's Savings Bank*, September 1865.

bank's charter. In May 1870, Congress passed a bill to permit loans backed by real estate collateral twice the loan value.⁸ After this charter's amendment, the Finance Committee engaged even more in speculative investments and misleading advertising. In a differences-in-differences model, we document an increase in the intensity of the use of moral statements and promises of more than 25% after the charter's amendment. This result suggests that advertising can play a role in racial disparities in financial markets.^s

We show that the bank's success in collecting deposits and the fraudulent lending led to a transfer of wealth from African Americans to white populations. We build an exhaustive loan-level dataset and manually collect information on borrowers' identity, occupation and race for 60% of the loan volume. While white individuals account for only 8% of the depositors, they represent more than 80% of the loan volume. 50% of the borrowers were part of the bank directors' white elite networks in Washington, DC and 15% of the loan volumes were to elected officials, such as senators and representative. Almost all loans violated the criteria for lending in the bank's charter and over 95% of the loans past due were not paid, suggesting strategic default by borrowers. As a result, with no equity on the balance sheet and a majority of loans with a non-performing status, the bank was insolvent within a few years of its formation, well before the 1873 panic and the failure of the bank in July 1874.⁹ The failure led to depositor losses that have rarely been matched in the history of of bank failures in the United States, amounting to more than 80% of their deposits on average in present value terms.

Finally, we investigate whether, in the short term, the advertising nudged African Americans to save more for education and future investments, improving literacy, school attendance, entrepreneurship or home ownership. We link the 1870 full census to the registers of bank depositors to address this question. As there is no statistical difference in 1870 outcomes between depositors who opened an account before or after 1870, we find no evidence of any positive short run effects of the Freedman's Savings Bank. Here, we challenge the findings of Stein and Yannelis (2020) – henceforth SY2020 – that argues that the institution had dramatic positive effects on the freedmen's education, income, employment and wealth within five years.^{10,11} We discuss SY2020 historical statements, sample construc-

⁸U.S. Congress. 41st Congress, 2nd Session 1871

⁹Less than 2% of deposits were invested in cash or United States securities at the date of the failure.

¹⁰According to Tables 2 and 7 in SY2020, the Freedman's Savings Bank lead to an increase in the probability to attend school by 14 percentage points (+ 300%), to be literate by 13-19 percentage points (+ 100%), and to work by 3-6 percentage points (+10%), up from respectively 3.9%, 15% and 39%.

¹¹Our comments on SY2020 are available in the Internet Appendix <https://papers.ssrn.>

tion, linking methodology and instrumental variable analysis. As we can replicate SY2020 findings using randomly generated data with the same instrumental variable analysis, we conclude that the bias of the instruments, which correlate with proxies for access to wealth and education, drives SY2020 large estimates.

This paper contributes to the literature on the racial wealth gap and racial disparities in finance (Hjort 2014; Fisman et al. 2020). A growing literature investigates racial discrimination in the markets for mortgages (Ambrose et al. 2020; Bayer et al. 2018; Reid et al. 2017), consumer and auto loans (Butler et al. 2022; Charles et al. 2008; Cohen-Cole 2011; Dobbie et al. 2021) and small business loans (Cavalluzzo et al. 2002; Howell et al. 2021; Fei 2022), as well as the impact of financial innovation on racial disparities in credit markets (Bartlett et al. 2022; Fuster et al. 2022; Morse and Pence 2021). We add to this literature showing how financial institutions can discriminate not only through price and quantity, but also through advertising and misselling, consistent with the literature on consumer exploitation by financial institutions (Gurun et al. 2016; Célérier and Vallée 2017; Begley and Purnanandam 2021). We also contribute to the literature on bank insider lending in elite networks (Haselmann et al. 2018), showing that it can be at the expense of racial minorities.

Our paper also relates to the literature documenting racial advertising. Racial advertising can have large welfare implications, for example if it pushes more expensive products to minorities, encourages investment mistakes, exploits behavioral biases, or further reinforce stereotypes (Shuey et al. 1953; Pollay 1986; Bristol et al. 1995; Bailey 2006). While an emerging literature investigates the role of race-based advertising, for example, in the market for tobacco and alcohol (Wailoo 2021), this paper documents the use of racial advertising by a financial institution and shows how it ultimately led to a transfer of wealth away from minorities. Our results point to potential policy implications for the regulation of targeted advertising by banks and FinTech companies.

Third, this paper complements the literature on the transition from enslavement to Emancipation in the United States and the implementation of the racial structures before the Jim Crow era (Darity Jr and Mullen 2020), focusing on the Freedman’s Savings Bank’s development, collapse and impact on depositors. Osthaus (1976) recollects the history of the bank through an extensive analysis of historical archives and primary sources.¹² More recently, Traweek and Wardlaw

[com/sol3/papers.cfm?abstract_id=4139771](https://www.federalreserve.gov/com/sol3/papers.cfm?abstract_id=4139771) We raise concerns about SY2020’s historical statements used to support the assumptions of the identification strategy, the data construction methodology, the replicability of the sample, and the validity of the instrumental variable analysis.

¹²This literature also includes Josiah (2004), which shows how community-based mutual aid

(2021) investigate the behavior of depositors around race riots and sociopolitical events. By identifying the abuse of trust and quantifying the transfer of wealth from African Americans to white populations, this paper highlights how the persistence of racial discrimination has affected economic opportunities for African Americans after the Civil War (Darity Jr and Mullen 2020).

Finally, this paper contributes to the literature on the costs and benefits of financial inclusion, suggesting possible adverse effects for minorities in a context with weak governance. Evidence on whether saving money at a bank as opposed to saving cash at home can benefit households is mixed (Prina 2015; Brune et al. 2016; Dupas et al. 2018). Potential advantages of formal savings include safety from theft, interest accumulation, and reduced impulse spending or family and friend pressure (Dupas and Robinson 2013; Karlan et al. 2014; Brune et al. 2016), which might foster overall savings and wealth accumulation (Célerier and Matray 2019; Bachas et al. 2021). However, one also has to consider the implications of delegating the management of savings to formal financial institutions. Information asymmetries within financial institutions and improper governance create risks of rent extraction, which are risks that racial minorities may be particularly vulnerable to.¹³ This paper shows how governance issues can lead to a transfer of wealth from discriminated populations to other more privileged groups. It hence raises the question of the possible benefits of Black-owned banks and on the optimal governance of banks catering to minorities.¹⁴

The rest of this paper proceeds as follows. In Section 2, we provide historical background on the formation of the Freedman’s Savings Bank and its collapse. In Section 3, we describe the data. Section 4 shows how the advertising was a channel of discrimination and exploitation, contributing to the bank’s success in

and financial institutions existed long before the creation of the Freedman’s Savings Bank among African American populations, Gilbert (1972), which describes the work of the Comptroller of the Currency to investigate the failure of the Freedman’s Savings Bank for 40 years after the collapse and defend the rights of the depositors, Giedeman (2011), which draws a comparative study of the Freedman’s Savings Bank with Fannie Mae and Freddie Mac during the financial crisis highlighting management issues in institutions managed by congress. See also Levy (2012), Osborne (2014), Baradaran (2015), Baradaran (2017) and Todd et al. (2019) for views on the Freedman’s Savings Bank from contemporary historians.

¹³See also the literature on predatory lending (Allcott et al. 2021; Morgan 2007; Melzer 2011; Carrell and Zinman 2014; Melzer 2018; Bachas et al. 2021).

¹⁴After the failure of the Freedman’s Savings Bank, between 1888 and 1934, 134 Black-owned banks were created (Okonkwo 2003). While racial minorities might suffer less from discrimination in these institutions, minority-owned banks face the challenge of serving a clientele with liquidity constraints or less stable income profiles in low-income neighbourhoods, in an environment where they might also be discriminated against as institutions (Bates and Bradford, 1980). For example, the costs of funding on markets may be higher for minority-owned banks, hence only shifting the underlying problem to a higher institutional level rather than addressing it. (see Dougal et al. (2019) on Black colleges).

collecting deposits. Section 5 provides evidence of a transfer of wealth away from the freedmen and quantify the depositor losses. Finally, Section 6 discusses the short run effects of the Freedman’s Savings Bank on African Americans. Section 7 concludes.

2 Historical Background

On March 3, 1865, in the aftermath of the Civil War and following Emancipation, Congress chartered the Freedman’s Savings Bank to collect deposits from African Americans. By 1874, before its collapse, the bank had opened 37 branches across 17 states and the District of Columbia, and collected up to \$100 million (2021 dollars) from 100,000 accounts. Figure 1 displays a timeline of the key events.¹⁵

INSERT FIGURE 1 HERE

Figure 2 plots the outstanding amount of deposits and number of new accounts opened at the Freedman’s Savings Bank from 1865 to 1874.

INSERT FIGURE 2 HERE

2.1 The Creation of the Bank

The founders of the Freedman’s Savings Bank – prominent church members, businessmen, reformers, and abolitionists, all white – initially organized the bank following the principles of the savings bank movement of the 19th century.¹⁶ This movement promoted work and thrift as the way for the working classes to exit poverty.¹⁷ By 1873, a wide network of savings banks had flourished in the US, mostly in Northern states, collecting deposits from around 2 million individuals, or around 5% of the US population, and accounting for close to 20% of total financial institution assets (Keyes 1878; Wadhvani 2011). In line with the savings bank

¹⁵We collect these key events from primary sources such as senate and congressional reports, including U.S. Senate. 42nd Congress, 3rd Session (1873); U.S. Senate. 43rd Congress, 2nd Session (1874); U.S. Senate. 43rd Congress 1st Session (1874); U.S. Senate. 44th Congress, 1st Session (1876); U.S. Senate. 46th Congress 2nd Session (1880), and newspapers’ articles. We also rely on Osthaus (1976).

¹⁶“Circular of the National Freedmen’s Savings & Trust Co. to the Freedmen of Richmond, Va, and Vicinity.” *The Freedman’s Savings Bank*, September 1865.

¹⁷On September 1865, a circular of the Freedman’s Savings Bank detailed the benefit of savings banks and wrote: “The Savings Banks at the North, of which there are many, have been the chief source of prosperity to the poorer class, thousands of whom have become rich men by reason of the start this Institution has given them.” “Circular of the National Freedmen’s Savings & Trust Co. to the Freedmen of Richmond, Va, and Vicinity.” *The Freedman’s Savings Bank*, 1865.

movement and the “free-labor ideology,” which considered that free labor, rather than government support, would result in the economic independence of the 4 million newly freed slaves, the Freedman’s Savings Bank had a broad social agenda (Foner 1988).¹⁸ Hence, its “whole influence (...) is intended to be educating and elevating, assisting in self-support, and forming a permanent and most important aid in the advancement of the colored population of our country.”

The Freedman’s Savings Bank was a pioneer institution in many dimensions. It was a savings bank that operated largely in the South, in areas of the country that had never before seen such organizations. The Freedman’s Savings Bank was also the only institution offering banking services to emancipated slaves, the first bank branching across states since the Second Bank of the United States (1816-1833) and one of the only banks chartered and supervised by Congress. The other federally chartered institutions, the national banks, were chartered by the US government and supervised by the Office of the Comptroller of the Currency (OCC).^{19,20}

The directors of the Freedman’s Savings Bank opened the first branches where Black troops were located, following the model of military savings banks that collected the wages of Black Union soldiers during the Civil War.^{21,22} From 1868, the directors extended the bank network, opening branches across states following local requests and taking into account the “amount of capital and coloured population,” their prosperity, occupations and real estate ownership as Figure 3 illustrates (Osthaus 1976, p. 80). Requests to open a branch were sometimes rejected, when the directors “felt that the proposed branches could not pay their expenses” (Osthaus 1976, p. 81).²³ The bank shared locations and personnel with

¹⁸While initially Congress promised 40 acres and a mule to the freedmen and created the Freedmen’s Bureau to provide food, shelter, clothing, medical services, and education, it quickly retracted from any form of direct federal support. The most notable success of the Freedmen’s Bureau was the creation of close to 2,000 schools with the support of the American Missionary Association (AMA), a Christian organization that had long advocated for abolition. However, in the midst of an environment of growing resentment and opposition to any government support to African Americans, the Bureau was closed in 1872. Instead, free-labor and self-sufficiency was considered as the best solution by the political majority.

¹⁹The 1863 and 1864 National Banking Acts established both the dollar as a national currency and the status of these national banks, whose notes were backed with US government securities. However, these national banks were “national” only in the sense that their charter was granted by the federal government, as interstate branching was still prohibited. Savings banks were also mostly unit state-chartered banks with no branches.

²⁰By 1865, when the Freedman’s Savings Bank was created, there were 349 state banks, 317 savings banks and 1,294 national banks in the country.

²¹General Saxton created the first military savings bank for Black soldiers on August 1864 in Beaufort, South Carolina, while General Benjamin Butler established a second one in Norfolk, Virginia in the Fall of 1864 (U.S. Senate. 46th Congress 2nd Session 1880).

²²“Origin and Progress of the Freedmen’s Savings Bank.” *New Era*, March 31, 1870, p. 3..

²³For example, these are the Superintendent of Education from the Freedmen’s Bureau who

two institutions that played an important role in African Americans' access to wealth and education during the Reconstruction Era: the Freedmen's Bureau and the American Missionary Association.^{24,25} Table 2 in the Internet Appendix lists the opening date and context for all the branches.

INSERT FIGURE 3 HERE

The governance of the Freedman's Savings Bank presented some important weaknesses from the beginning. First, at the bank creation, all fifty original directors were white, and none of them resided in Washington.²⁶ Second, the bank directors had no financial or legal incentives to govern the bank. The charter required neither any direct investment in the bank from the directors, nor any penal clauses to align their incentives with the interests of the depositors.²⁷ This is in stark contrast with the governance of the national banks, which required directors to be stockholders, subject to the "double liability", and to reside in the state of the bank (Koudijs et al. 2021; Aldunate et al. 2021).²⁸ Third, the bank charter was ambiguous about the allocation of the deposit funds, which gave significant discretionary power to the directors. While two-thirds of the deposits were initially required to be invested in government securities only, as it was the standard for savings banks at this time, the remaining available funds did not have any clear restrictions for their use. Fourth, as one of the only institutions supervised by Congress, supervision was very limited: inspections were very infrequent and not until 1872 did an adequate system of daily branch reports start (U.S. Senate. 46th Congress 2nd Session 1880). Finally, paying wages often below the one of a schoolteacher, the bank was also mostly hiring workers with missionary rather than banking or accounting credentials to foster the collection of deposits (New York Sun, April 30 1874).²⁹

requested branches in Atlanta and Little Rock (Osthaus 1976). In some other cities, the local communities would consider opening a branch because one has been recently opened in the area, like in Louisville for the Lexington branch or in Mobile for the Montgomery branch.

²⁴J. W. Alvord, "Letters from the South, Relating to the Condition of Freedmen, Addressed to Major General O. O. Howard, Commissioner Bureau R., F., and A. L. by J. W. Alvord, Gen. Sup't Education, Bureau R., F., & A. L." Washington, DC: Howard University Press, 1870.

²⁵John Alvord, the founder of the bank, was a close friend of both the founder of the Bureau, General O.O Howard and the executive secretary of the AMA, Reverend George Whipple.

²⁶Freedman's Savings and Trust Company. Charter and by-laws. New York, Wm. C. Bryant & Co., Printers, 1865.

²⁷Freedman's Savings and Trust Company, and African American Pamphlet Collection. Freedman's Savings and Trust Company. Charter and by-laws. New York, Wm. C. Bryant & Co., Printers, 1865.

²⁸The system of double liability remained the norm until 1933, when the American banking system was restructured see (see Koudijs et al. (2021) and Aldunate et al. (2021) on the system of double liability in the national banking era).

²⁹The untrained cashiers, who often doubled as Freedmen's Bureau, AMA or government

2.2 The Advertising

From the early years, the Freedman's Savings Bank carefully planned an extensive and visionary advertising strategy. In addition to publishing cards, pamphlets and circulars, the bank was extensively using newspapers to promote the bank across states. In 1867, the bank management drew a list of all the African American journals to target.³⁰ The most important outlet for the bank was the *New National Era*, the main national journal targeting African Americans. Figure 4 displays the Freedman's Savings Bank's advertisement that the *New National Era* published weekly from June 1871 to July 1873. From 1868 to 1872, the bank also distributed its own monthly newspaper, the *National Savings Bank*, with a circulation the bank officials claimed to be of around 15,000 copies per month.³¹ Branch cashiers also actively promoted the bank, giving public talks in branches, churches, schools and beneficial societies to highlight the benefits of the institution and solicit more depositors.³² Finally, the bank largely counted on teachers to distribute the bank's advertising in freedmen schools and collect deposits from the children.³³ The Internet Appendix includes a sample of representative advertisements of the Freedman's Savings Bank.

INSERT FIGURE 4 HERE

employees, were overworked. Sperry provides an excellent example of the limitation of the bank personnel. While he was well-intentioned and actively collecting deposit, he lacked qualifications. When he attempted to balance the books at Washington, he found a \$600 shortage, while the national bank examiners assessed the deficiency to amount to \$40,000 a few months later (U.S. Senate. 43rd Congress, 2nd Session 1874). Sperry usually certified the balances as "correct, E & O. E.", standing for "Errors and Omissions Expected" (Osthaus 1976, p. 174).

³⁰Alvord, 1867, Semi-annual Report on Schools for Freedmen. The list included *Elevator* (San Francisco), *Pacific Appeal* (San Francisco), *New Orleans Tribune*, *South Carolina Leader* (Charleston), *True Communicator* (Baltimore), *Standard and Weekly Review* (New York), *Christian Recorder* (Philadelphia), *People's Journal* (Brooklyn), and *Colored Citizen* (Cincinnati). Among these newspapers, only the *South Carolina Leader* is digitized as of June, 2022.

³¹"Our Paper as a Sheet to Advertise In." *New Era*, October 27, 1870.

³²"Baltimore Branch, Section: Reports from the Branches." *New Era*, October 27, 1870.

³³For example, a 1867 pamphlet of the Freedman's Savings Bank described the following strategy for teachers to collect deposits: "There is a way for little children in the schools to have a part in the Bank. Let teachers take some pretty envelopes from us, on which is printed "Savings Bank", and have one for each scholar; then let all the spare pennies, five cent and ten cent bills which the children can earn, be put in the envelope until they amount to one dollar. This dollar will then be brought, by the teacher, to the cashier of the bank. The cashier will take the children's dollar and give them a bank book for it, and when they get another dollar in the same way to put in, it will be two dollars, and so on." Source: "Pamphlet." The Freedman's Savings Bank, 1867.

2.3 Insider Lending, Fraud and Bank Failure

Within a few years after its creation, the Freedman's Savings Bank ended under the influence of politically connected white businessmen. As the bank was struggling financially after the rapid expansion of its network, the directors decided to move its headquarters to Washington, DC in 1867 to get the support of politicians and financiers. Many directors resigned, while Henry D. Cooke, William S. Huntington and the actuary D. L. Eaton took the control of the "Finance Committee." The three men were close to Jay Cooke, the investment banker who subscribed and distributed the US treasury bonds during the Civil War, and were actively involved in the management of national banks, in railroad and real estate speculation, and in politics.³⁴

From 1867, the Finance Committee started using the deposits to make loans, hence violating the bank's charter, while actively lobbying Congress to legalize these lending activities.³⁵ In May 1870, Congress passed a bill to permit loans backed by real estate collateral twice the loan value (U.S. Congress. 41st Congress, 2nd Session 1871). After this charter's amendment, the Finance Committee engaged even more aggressively in speculative investments, still violating the bank's charter despite its increased permissiveness.³⁶

Concerns about the bank's solvency led to a drop in confidence starting from January 1873, to runs after the September 1873 panic, and finally to the closure of the bank in July 1874. The bank's misreporting and mismanagement was scrutinized for the first time by a neutral party, the OCC, only in January 1873. In its 1873 report, the OCC noted numerous issues at the Freedman's Savings Bank. The bank had operated a deficit until 1873, accounting mistakes were prevalent, the books were practically impossible to prove, the investments were largely illiquid, and the bank was likely insolvent. This is the failure of the investment bank Jay Cooke and Company in September 1873 that led to a permanent drop in confidence (U.S. Senate. 43rd Congress, 2nd Session 1874).³⁷

After the closure, in July 1874, Congress appointed the OCC to liquidate the

³⁴Henry David Cooke (1825-1881) was a member of the Republican party, the first territorial governor of the District of Columbia and Jay Cooke's brother.

³⁵The first loan, to our knowledge, was a 1,000 dollars loan in 1867 to the actuary Eaton himself.

³⁶In the 19th century in the US, insider lending was an integral aspect of commercial banking, as determining credit worthiness was challenging. However, commercial banks were funded mostly with equity and the bank directors were shareholders, which ensured a relatively efficient governance (Lamoreaux 1996)

³⁷In the last months of the bank, the directors unsuccessfully attempted to restore confidence changing the personnel, leading to a greater representation of African Americans in the bank leadership. Hence, in March 1874, they decided to elect Frederick Douglass as the new president, who later said he was "married to a corpse" (Douglass 1882).

bank’s assets and repay depositors, with a limited success. Only in November 1875, did depositors receive a first payment which was supposed to amount to 20% of their deposits. During the proceedings before Congress concerning the collapse of the bank, the investigation committee recommended to indict Henry Cooke and other directors: “...so gross a fraud and conspiracy to defraud, that, in the opinion of your committee, everyone of the survivors in the transaction, viz, Henry D. Cooke, Lewis Clephane, Hallet Kilbourn, and John O. Evans, should be indicted, tried, and punished to the extent of the law,” (U.S. Senate. 44th Congress, 1st Session 1876). However, ultimately, none were held responsible.

3 Data

We collect data at the newspaper item level – collecting all articles and advertisements referring to banks in a sample of digitized newspapers over the 1865-1874 period –, at the individual level – using the deposit and loan registers –, and finally at the bank level – gathering data on US bank failures from 1865 to the creation of the FDIC.

3.1 Advertising

3.1.1 Sample of Newspapers

To build a comprehensive sample of newspapers, we focus on the main states with branches and available registers, i.e. Georgia, South Carolina, Virginia, Washington, DC, as well as New York, as New York City was the hub of savings banks at this time (Olmstead 1976). These five states account for more than 50% of bank depositors listed in the registers.

For these five states, we build a sample of digitized newspapers that includes all digitized newspapers targeting African Americans as well as one to three general audience newspapers. We identify these newspapers using the archives from Newspaper.com, the Chronicling America from the Library of Congress, the Readex’s America’s Historical Newspaper Archive, the Proquest Historical Newspapers, as well as the Georgia Historic Newspapers archives from the Digital Library of Georgia.³⁸ Hence, we cover the main sources for digitized newspaper archives for this period (Beach and Hanlon 2022). We also get a list of newspapers edited and

³⁸These sources are available here: <https://chroniclingamerica.loc.gov/>, <https://gahistoricnewspapers.galileo.usg.edu/>, <https://www.readex.com/>, <https://about.proquest.com/en/products-services/pq-hist-news/>

supported by African Americans during this period from the *Trubner's American and Oriental Literary Record*.³⁹ Some of these newspapers, such as Frederick Douglass's newspaper *The New National Era*, had a broad coverage and were distributed across states, claiming as many subscribers as other significant white-owned journals, while others were local journals. We complete our sample of newspaper with the *Beaufort Republican*, which was issued in Memphis but distributed also in other Southern states such as Georgia.

INSERT TABLE 1 HERE

Table 1 lists the newspapers in our sample and provides information on the readership, state, frequency and period.

3.1.2 Advertising Items

To build our sample of articles and advertisements on financial institutions, we screen each page of each digitized issue of each newspaper of our sample and collect any articles, notices, reports and advertisements mentioning banks or financial institutions.⁴⁰ For each newspaper item, we record the page, title, the type of article or advertisement and the author.

To complement our analysis, we also focus on the advertising of two savings banks collecting deposits from minorities: the Emigrant Industrial Savings Bank, chartered in 1850, and the German Savings Bank, chartered in 1859. The Emigrant Industrial Savings Bank was one of the 24 mutual savings banks established in New York State before the Civil War (Olmstead 1976). A group of prominent Irish citizens founded the bank in 1850 to collect deposits from the Irish immigrant populations. By 1860 it had over 10,000 accounts and held over \$2 million on deposit (Olmstead 1976; Kelly and O Grada 2000). In comparison, the German Savings Bank had around 5,000 accounts and \$800,000 in deposits at this time. For both banks, we collect all advertising we identified across all digitized newspapers issued in the state of New York and available the Chronicling America database from the Library of Congress.

Table 1 lists the number of issues we screen for each newspaper and the number of articles we collect on the Freedman's Savings Bank and any other bank.⁴¹ Table

³⁹"Newspapers published in the United States, Edited and Supported by Colored Men." *Trubner's American and Oriental Literary Record*, September 2, 1862.

⁴⁰For two newspapers, the *New York Times* and the *New York Daily Tribune*, we screen only one newspaper per month because of the large abundance of ads and articles referring to banks. We pick the date of the month randomly to avoid selection issues.

⁴¹The number of issues we screen corresponds to the number of issues that are digitized. Some issues published during the coverage period might not be digitized. For example, for the *Beaufort Republican*, only one issue is available in 1870.

?? in the Internet Appendix provides summary statistics on the 126 banks in our final sample of newspaper items. On top of savings banks, our sample includes advertising from national banks, such as the Atlanta National Bank, and state commercial banks, such as the Bank of Charleston and Jay Cooke Investment Bank.

Finally, we manually transcribe all the newspaper items we have collected to perform a textual analysis on their content. In total, we manually transcribe more than 3,260 articles and advertisements from 17 newspapers over 9 years.

3.2 Depositors

The source for the depositors' information are the registers of signatures of the Freedman's Savings Bank. The registers cover 28 branches from 1865 to 1874 and include the first names, last names and race of the depositors at each of these branches. We access the digitized registers data through Familysearch.org.⁴² The digitized registers have 498,144 entries corresponding to 93,605 distinct account numbers.

We clean the data the following way. First, we drop accounts that are held by organizations, such as churches and various community societies (0.25%). We also drop accounts for which all the information, except the account identifier, is missing.⁴³

Second, we standardize the information on age, place of birth and names. For age, we drop alphabetical characters to convert the information into a number and compute the age in 1870. For place of birth, we convert county- or city-level information into state-level information. Concerning first names and last names, we standardize the information by dropping middle names or titles, removing any non-alphabetic characters, and accounting for common misspelling and first names, following the methodology of Abramitzky et al. (2020). The objective is to correct for transcription errors to the extent possible.

Third, we exploit the information on the identities of relatives to create four variables indicating the first and last names of a depositor's father and mother when available.

Finally, we keep only observations on depositors as most of the information on relatives is missing, and relatives might not be even part of the depositor's household. For example, 7% of the relatives are indicated as dead at the opening date of the account.

⁴²<https://www.familysearch.org/search/collection/1417695>

⁴³We also identify as distinct those accounts that have identical identifiers but different depositor identities, locations and opening dates.

After having dropped duplicates in terms of names, age, location and place of birth, we arrive at a dataset with information on 74,181 depositors who opened an account across 27 branches over the 1865-1874 period.⁴⁴

Table 9 in the Internet appendix provides summary statistics on the final sample of 74,181 depositors. We observe that 75% of the accounts are opened in 1870 or after. In addition, up to 17% of the depositors are less than 18 years old, which is consistent with schoolteachers actively promoting the Freedman’s Savings Bank to their students.

3.3 Borrowers

We build a loan and borrower dataset by exploiting the investigation reports on the failure of the Freedman’s Savings Bank published in U.S. Senate. 43rd Congress, 2nd Session (1874). This report lists all the loans on the balance sheet of the bank and provides the borrowers’ identity. We manually transcribe the branch that originated the loan, the face value, amount due, issuance date and borrower’s first and last names. We arrive at 1,797 outstanding loans issued to 1,108 unique borrowers. In total, the bank had more than \$3.5 million of loans in the balance sheet, equivalent to \$86 million in 2021 dollars.^{45,46}

INSERT TABLE 2 HERE

Table 2 provides summary statistics on the loans on the Freedman’s Bank balance sheet at the date of the failure. The average face value of the outstanding loans is \$2,024 or \$48,475 in 2021 dollars and the most had a maturity of one year or less. At the date of the failure, 83% of the loans are non-performing, i.e. only partially repaid, and 95% of the amount due is unpaid, suggesting that borrowers strategically defaulted.

3.4 Depositor Losses

To better understand the magnitude of the failure of the Freedman’s Savings Bank and its effects on depositors, we collect data on depositor losses at the Freedman’s

⁴⁴After cleaning the account holder data, no observations remain from the Philadelphia branch and hence the analysis is conducted on the remaining 27 branches.

⁴⁵We assume a base year of 1874 for our loan analysis, and convert to 2021 dollars using the historical CPI data of the Minneapolis Fed, available at <https://www.minneapolisfed.org/about-us/monetary-policy/inflation-calculator/consumer-price-index-1800->.

⁴⁶This is higher than the \$2.9 million of deposits the bank declared at the failure. The gap might be explained by an underestimation of amount due to depositors at the time of the failure, the sale of securities used as collateral to repay depositors, borrowing from other banks, and use of interest and principal payments.

Savings Bank and all the other federally chartered banks that failed from the Civil War up to 1933, the year of the creation of the Federal Deposit Insurance Corporation (FDIC).

Data on the failure of the Freedman’s Savings Bank come from the 1883 Annual Report of the Commissioners, which contains a summary of each of the dividends, as well as the amount and number of claims paid at each branch (U.S. Senate. 53rd Congress 2nd Session 1883). The total amount owed to depositors, \$2,833,251, is from U.S. Senate. 43rd Congress, 2nd Session (1874).

We obtain data on the failures of all federally chartered banks from 1863 to 1933 from the annual reports of the Office of the Comptroller of the Currency on National Banks. These reports were published from 1863 through to 1980 and are available from the Federal Reserve Archival System for Economic Research. Specifically, for each bank that failed and were marked as closed by the Office of the Comptroller of the Currency by 1933, we extract the bank name, failure date, amount owed to depositors, % repaid and length of the repayment period. To select a sample more comparable to the Freedman’s Savings Bank, we only consider those failed banks that had proved claims of over 1,000,000 current dollars. The final sample contains 70 failed federally chartered banks along with the Freedman’s Savings Bank. The first bank failure in this sample occurred in 1867, and the last in 1931.

To quantify the amounts owed to depositors at the time of the banks’ failure, we calculate it as a percent of GDP. We use historical GDP figures of the United States from the Maddison Project Database 2020.⁴⁷

4 The Bank’s Advertising

4.1 Magnitude

Within our sample of 18 newspapers, we find that no other bank advertised as extensively as the Freedman’s Savings Bank over the 1865-1874 period.

As Column 5 in Table 1 indicates, all newspapers, both with an African-American or general audience, mention the Freedman’s Savings Bank at least once over the period. If we focus on the main national newspaper with an African American audience over the 1870-1874 period, the *New National Era*, 100% of the weekly issues mention the Freedman’s Savings Bank and 90% include a half-page out of four pages on the bank. We find no institution or event with such a broad

⁴⁷<https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2020>.

coverage in the *New National Era* during this period, even when including the Freedmen Bureau and schools.⁴⁸

Second, the Freedman’s Savings Bank advertised extensively across all states we cover. While the Freedman’s Savings Bank accounts for 30% of all the newspaper items we collect, the second most advertised bank, the Bank of Charleston, accounts only for 7% of them. When excluding newspapers with an African American audience, the Freedman’s Savings Bank still accounts for 20% of all the newspaper items we collect.

4.2 Content: A Textual Analysis

4.2.1 Hypotheses

We design our textual analysis around the following two hypotheses.

First, we hypothesize that the advertising of the Freedman’s Savings Bank was promotional, using overstatements and positive language, and relied on promises, as some newspaper items suggest. Hence, advertisements of the bank explicitly conveyed the misleading message that the federal government fully guaranteed deposits. For example, on June 1, 1871, the *Semi-Weekly Louisianan* declared that “there is no possibility of loss, for the reason that the government of the United States is responsible for every dollar deposited.”⁴⁹ Another false promise concerned the safe investment of deposits in only government securities, despite the bank making risky loans from as early as 1867. Hence, the first publication of the bank’s Newspaper, *The National Savings Bank*, wrote on January 1, 1868 “I know it will be able to repay you for this reason; Whenever anyone lends it any money, that money is at once put into United States bonds. (...) Now as long as the United States pays its debts, you are sure of all the cash you can lend it. When you put your money in the Bank you lend it to the United States.” Finally, the bank misleadingly advertised itself as a prosperous institution paying 6% interest, while the bank was in deficit almost every year and never paid this level of interest, as Table ?? in the Internet Appendix shows. For example, the *Charleston Daily News* wrote on May 26, 1870: “A good Sign. The freedmen’s savings banks are reported to be in a prosperous condition.”

Second, we hypothesize that the advertising included moral statements to “instill into the minds of the untutored Africans lessons of sobriety, wisdom, and

⁴⁸The Freedman’s Savings Bank offered financial support to the *New National Era*, which was struggling financially, in the form of joint stock ownership and the printing of the journal (Douglass Brothers, “An Explanation.” *New National Era and Citizen*, 19 March 1874, p. 2).

⁴⁹“The advantages of a bank”, *Semi Weekly Louisianian*, June 1, 1871, p. 2

economy,” as Frederick Douglass wrote in his autobiography *Douglass* (1882). For example, on May 13, 1868, the *Weekly North-Carolina Standard* published an ad saying: ““ Mark this,” that industry, sobriety, economy, and a good moral character, lead to wealth, education, influence and power. Don’t hesitate, but come to the Saving’s Bank. Come every one, come, come.” Some articles also mention vices, hence reinforcing racial stereotyping: “Cut off your vices - don’t smoke - don’t drink - don’t buy lottery tickets. Put the money you save into the FREEDMAN’S SAVINGS BANK. ”⁵⁰ We also find references to religion: “The blessings of the savings bank system ought to be enjoyed by every person.”⁵¹ Finally, some advertisements refer to persons of authority, such as Benjamin Franklin, General O. Howard, Abraham Lincoln. The bank’s newspaper wrote on January, 1 1868: “The excellent General O. O. Howard is its friend as lie is the friend of all good things and good people. Judge 11. L. Bond, of Baltimore is its friend. Mr. H. D. Cooke, of Jay Cooke it Co. is also its friend, and so are good, true, and unprejudiced men everywhere in the country.”

4.2.2 Methodology

To identify and quantify the use of words that correspond to promotional advertising, promises and moral statements, we exploit nine Harvard Inquirer’s word lists. We first use the “positive” and “overstatement” word lists to identify promotional content. Second, we identify promises using the “rise” and “increase” word lists, as they suggest improvements. As the promises of the Freedman’s Savings Bank were about government support and a safe use of funds, we also include the “politics” and “sure” word lists. Finally, to identify and quantify the use of words that correspond to moral statements, we use the “religion,” the “ought,” and the “vice” word lists.

Following the literature (Berelson 1952; Loughran and McDonald 2011), we adjust these Harvard Inquirer’s word lists, which were developed for psychology and sociology studies, to our historical and financial context. To do so, we proceed as follows. First, we carefully examine whether each word identified as part of a list had a meaning that corresponds by reading a sample of sentences and articles that include this word. If the meaning does not correspond, we withdraw the word from the word list. For example, we drop words from the “positive” word list that are neutral in a finance context, such as *interest* or *capital*. Hence, we withdraw 1% of the words from the Harvard Inquirer’s Word lists we exploit.

⁵⁰“The Freedman’s Savings and Trust Company,” *New National Era*, June 22, 1871, p. 4.

⁵¹“Items from the Branches. Savannah Branch,” *New National Era*, September 29, 1870, p.3

Second, we follow Loughran and McDonald (2011) and build a dictionary of all words occurring in at least 5% of the documents to see whether we can match these words to a specific word list. Hence, we add words that fit well in a specific list but that the Harvard Inquirer omits because they had a different meaning in the 19th century. For example, we include *lottery* and *drinking* to the “vice” word list, as these words were considered as vices in Postbellum America. We also complete the “sure” list to refer better to the idea of safety in our context with the words *guarantee*, *stability*, *federal*, *safe*, *steady*, *promise*, *steadily*, *auspices*. Finally, we further identify the moral content adding one additional word list with the names of figures of authority in Postbellum America, such as *Benjamin Franklin*, *Abraham Lincoln*.

We classify our ten word lists into four categories: the “positive” and “overstatements” categories identify promotional content, while the “promise” and “moral statement” categories characterize the type of content. Our positive category includes 1,596 words and 99% of it overlaps with the initial Harvard Inquirer’s “positive” word list. Our overstatement category includes 537 words. The “promise” category groups the “increase,” “rise,” “sure” and “politics” word lists and includes 466 words. Finally, the “moral” category includes the “ought,” “vice,” “religion,” and “figures” word lists and a total of 766 words. The Internet Appendix provides our final 10 word lists, as well as the list of words we drop and add to the initial Harvard Inquirer’s word lists.

4.2.3 Results

Table 3 provides summary statistics on the occurrence of the four word categories in our sample of newspaper items on the Freedman’s Savings Bank versus other banks. In total, we examine more than 260,000 words across close to 3,200 newspaper items. For each word category and list, we observe the percentage of items that include the corresponding words in Columns 1 and 4, and within each item, the percentage of words they represent in Columns 2 and 5. Both the use of positive or overstatement words across articles and advertisements and the intensity *within* articles and advertisements is higher for the Freedman’s Savings Bank. Hence, articles and advertisements on the Freedman’s Savings include close to 2% of positive words on average, versus 1.1% for other banks. However, the gap is even larger when considering the use of moral statements and promises between the Freedman’s Savings Bank and other banks, both across and within newspaper items. Hence, 68%/31% of newspaper items relative to the Freedman’s Savings Bank include moral or promises words, versus 16%/6% for other banks.

INSERT TABLE 3 HERE

Next, we use a tf.idf weighting scheme to better capture the use intensity of each word lists, where tf – term frequency – represents the method used to account for the word frequency adjusting for the document length, and idf – inverse document frequency – denotes the method used to adjust for the importance of this word within the entire corpus. We follow Loughran and McDonald (2011) and use one of the most common tf.idf weighting schemes, where the weight of word i in the newspaper item j is defined as

$$w_{i,j} = \begin{cases} \frac{(1+\log(tf_{i,j}))}{1+\log(a_j)} \log \frac{N}{df_i} & \text{if } tf_{i,j} \geq 1 \\ 0 & \text{otherwise,} \end{cases}$$

where N is the total number of articles and ads in our sample, df_i the number of newspaper items including at least one occurrence of the word i , $tf_{i,j}$ the raw count of the word i in document j and a_j the average word count in the newspaper item.

Figure 5 plots the tf.idf-weighted frequency of our four word categories. It illustrates the uniqueness of the advertising of the Freedman’s Savings Bank in its use of not only positive words and overstatements, but also of words referring to promises and moral statements.

INSERT FIGURE 5 HERE

One concern could be that the advertising of the Freedman’s Savings Bank differs on average from other banks because it advertises in specific newspapers or because it is a savings bank. To address this concern, we estimate OLS regressions where the dependent variable is the tf.idf weighted frequency of the positive, overstatement, moral and promises word lists, in logs. We include bank type, year and newspaper fixed effects and control for the article length in number of words. We also investigate whether other banks targeting minorities were advertising in a similar way including a dummy indicating these banks, i.e. the German Savings Bank, the Emigrant Industrial Savings Bank and the Freedman’s Savings Bank.

Table 4 provides the results. The advertising of the Freedman’s Savings Bank is from 8 to 40% more intense in the use of words from the positive, overstatement, moral and promise word categories after controlling for newspaper fixed effects. Results are robust to clustering at the newspaper times year level.

In comparison, other minority banks that were managed by directors from the same ethnicity as the depositors, had a more neutral advertising, in line with other banks. This result suggests that the asymmetry between the white management

of the Freedman’s Savings Bank and the depositors, mostly African Americans, contributed to the use of false and moral statements in the advertising.

INSERT TABLE 4 HERE

Therefore, our empirical analysis not only shows that the Freedman’s Saving Bank’s advertising “largely delt with exhortations and promises,” as Frederick Douglass wrote in 1882, but also that it was doing so in a much higher intensity than any other banks at this time (Douglass 1882).

4.3 Advertising, Fraudulent Lending and Collection of Deposits

To investigate the relationship between the bank’s advertising and the bank’s fraudulent lending activities, Figure 7 plots the volumes of loans issued each year, the fraction not repaid at maturity, as well as the share of newspaper items referring to vices African Americans should avoid. The advertising was more likely to include statements warning African Americans on vices when the bank was offering loans, violating the charter. The references to vices, such as drinking or buying lottery tickets, was consistent with stereotypes about African Americans at the time and could have contributed to reinforce them.

INSERT FIGURE 7 HERE

Table 5 confirms that the bank’s advertising changed after the charter’s amendment. In a differences-in-differences model, we regress the weighted word list frequency on a dummy equal to one after May 1870, the date of the charter’s amendment, interacted with a dummy for the Freedman’s Savings Bank. The coefficient of the interaction indicates an increase in the intensity of the use of moral statements and promises of more than 25% after the charter’s amendment. This result suggests that the white management of the bank opted for a more aggressive advertising while exploiting the change in the charter to accelerate fraudulent lending activities.

INSERT TABLE 5 HERE

Figure 6 investigates whether the advertising strategy correlates with the collection of deposits, consistent with the management opting for a more aggressive advertising campaign when incentives to collect deposits are higher. We exploit the depositor database that we restrict to the six branches for which information is

available for the entire period. Figure 6 plots the number of new accounts opened each year in these branches, as well as the share of advertising using promises and moral statements. The use of promises and moral statement picked in 1870 and 1871, in line with the collection of deposits.⁵²

INSERT FIGURE 6 HERE

We further investigate the relationship between the advertising and the collection of deposits by estimating a panel model at the day and branch level. We link the deposit dataset to the newspaper dataset by state, and restrict our sample to branches in the five states where we have collected newspaper articles, i.e., New York, Virginia, Washington, DC, Georgia and South Carolina. The sample period covers the years 1865-1873 and we indicate information as missing when the registers are incomplete. We estimate the following model:

$$New\ Accounts_{b,t} = \alpha + \beta \sum_{t-14}^t Number\ Articles + Year_i + Month_j + Branch_b + \varepsilon_{b,t}, \quad (1)$$

where t refers to the day, *Number Articles* refers to sum of daily articles published over the last two weeks in the branch area, and $Year_i$ and $Branch_b$ are year and branch fixed effects, respectively. We also include month of the year fixed effects to control from seasonal effects.⁵³ Results are robust to using the number of articles published in the last week or last month.

Table 6 provides the results. Column 1 indicates that the number of articles correlates with the number of new accounts opened in the cross section of branches. Column 2 shows that the link between the quantity of advertising and the number of new accounts is also significant in the time series within branches. The result is stronger when the advertising includes overstatements (Column 4) and promises (Column 6).

INSERT TABLE 6 HERE

5 Transfer of Wealth and Depositors' Losses

This section provides evidence suggesting a transfer of wealth from African American depositors to white elite networks in Washington, DC through fraudulent

⁵²While changes in the quantity of ads across years could be driven by the unbalanced coverage period of the newspapers in our sample, the content of the advertising itself does not suffer from this composition issue.

⁵³There are fewer new accounts during the summer.

lending. As borrowers strategically defaulted on the loans, the bank became insolvent as early as in 1872 and its failure lead to depositor losses rarely matched in the history of banking failure in the US.

5.1 From African American Depositors to White Elite Networks in Washington, DC

We exploit historical archives to investigate borrowers' race, occupation and network for 60% of the loan volumes. Our main sources are the Senate reports investigating the failure of the bank, newspaper archives and the history literature (Davis 2003).⁵⁴ Our borrower dataset in the Internet Appendix indicates the source we exploit for each loan to identify the borrower's identity.

Figure 8 illustrates the transfer of wealth from African American depositors spread across 17 states to white borrowers largely located in Washington, DC. The figure shows that while 92% of the depositors were African American, they account for less than 5% of the loan volumes issued.⁵⁵ In addition, the Washington, DC, branch issued 80% of the loans in volume, while it accounts for only 10% of the depositors.

INSERT FIGURE 8 HERE

Table 7 displays borrowers' occupations: more than 50% of the loan volumes were to real estate contractors, businessmen and financiers. To illustrate, the largest borrower, J.V.W Vanderburgh, was the white owner of a construction firm working for the Board of Public Works of the district of Washington, DC. Theophile E. Roessle, the manager of the most prestigious hotel in Washington, DC, at this time, borrowed more than \$78,000.

INSERT TABLE 7 HERE

Finally, at least 50% of the loans benefited elite networks composed of politicians, as well as friends, clients or relatives of the bank's finance committee.

⁵⁴U.S. Senate. 43rd Congress, 2nd Session (1874). Letter from the Commissioners of the Freedman's Savings and Trust Company, December 15. Government Printing Office. U.S. Senate. 44th Congress, 1st Session (1876). Freedman's Bank Report in the House of Representatives, January 5 (H.Rpt.502), Volume 1710. Government Printing Office. U.S. Senate. 46th Congress 2nd Session (1880). Report of the U.S. Congress, Senate, Select Committee on the Freedman's Savings and Trust Company (S.Rpt.440). Government Printing Office. U.S. Senate. 53rd Congress 2nd Session (1883). Annual Report of the Commissioner of the Freedman's Savings and Trust Company. Government Printing Office.

⁵⁵In addition to manually identifying the race of borrowers, we also link borrowers to the full 1870 census and estimate the probability of being Black using county-level name and race probabilities. We arrive at a similar result.

Elected officials, such as congressmen, senators and state governors, obtained 15% of the loans in volume. Hence, the Maryland state senator Samuel Taylor Suit (1832-1888) received a loan of \$50,000 dollars. The loans were also offered to public and real estate contractors (41%), many of whom worked for the DC Board of Public Work (19%) that Henry Cooke, the head of the finance committee but also the first governor of Washington, DC, governed. Hence, the largest total loan amount was issued to J. V. W. Vandenburg a contractor of the city of Washington, DC. Railroad investors, such as Jay Cooke, Henry Cooke’s brother, received 13% of the loan volumes. One of these loans, the largest individual loan recorded in the archives, was to Effingham H. Nichols, the treasurer of the Union Pacific Rail Road, which was involved in the Credit Mobilier scandal. In fact, railroad investment and the development of Washington, DC, were among the main sources of corruption, speculation and self-enrichment in the Post Civil War Era, or the “gilded age” (White 2017), with contractors charging the federal government for excessive amounts and bribing politicians to obtain contracts.

5.2 Evidence on Strategic Default

Figure 7 plots the yearly issuance of loans and the percentage that is not repaid at maturity. We observe that most of the loans were not repaid. As Table 2 indicates, borrowers repaid only 5% of loan face value at maturity, suggesting strategic default by borrowers.

INSERT FIGURE 7 HERE

We also find evidence that the bank was insolvent from as early as 1872, long before the September 1873 panic. In January 1873, the finance committee of the Freedman’s Savings Bank had already issued \$3 million of loans among which at least \$900,000 were mature but defaulting, with only 20% of the amount repaid. As the bank had no equity in the balance sheet, it suggests that it was not only illiquid but also insolvent.

One might suggest that transferring funds from African Americans to white businessmen was efficient, as the latter had more investment opportunities. However, African American depositors were not compensated for the increase in risk in the bank lending policy. In fact, the bank rarely paid interests on deposits after 1872. In addition, the bank was transferring money from populations with little access to capital to elite networks who already had access to banks. When depositors complained that branches could not make loans, the Freedman’s Savings Bank argued that “it is the experience of the trustees at Washington that the vigilance of

a finance committee of the strongest men in the board, the knowledge and watchfulness of president and actuary, as well as the aid of the solicitor of the bank, are all required to prevent losses.”⁵⁶ Third, with no congressional supervision until 1873, borrowers had little incentive to repay the loans, as suggested by the almost systematic default. Finally, the vast majority of the loans were fraudulent at issuance as they violated the collateral rules, which required loans to be backed by real estate worth twice the value of the loan.

5.3 Depositors’ Losses

When the Freedman’s Savings Bank failed, at least \$2.8 million dollars (\$75 million in 2021 dollars) were due to depositors. This accounts for 10% of the aggregate wealth of the targeted African American populations. We define the targeted populations as all African Americans living less than 30 miles from a branch, and estimate the wealth using the 1870 full census and following Derenoncourt et al. (2022).⁵⁷ More than 95% of the depositors had zero real estate or personal wealth in 1870, and on aggregate, the losses represented close to 100% of their total wealth.

While the Congress agreed to partly repay depositors, Table 8 shows that depositors recouped less than 20% of their deposits on average in present value term. This Table lists the five payments depositors received from 1875 to 1884 to compensate for their lost deposit. The first and largest payment amounted to 20% of the deposits and was paid only in late 1875 (Columns 1 and 2) to less than 50% of the depositors (Column 3). To compute how much depositors received on average in present value as of July 1874, we discount the five repayments using 6% as a discount rate, the interests promised on deposits at the Freedman’s Savings Bank but also at most banks at this time.⁵⁸

This estimate is conservative as the investigation committee, which reported the repayment amounts, had incentives to overestimate the amount received by depositors. In addition, as depositors had to send their deposit books to the headquarters in DC and prove their identity, it is possible that a much lower percentage of depositors did so in the climate of distrust that followed the failure. Third, a secondary market for deposit books suggest that the expected amount

⁵⁶*New National Era*, July, 1873.

⁵⁷See the Internet Appendix for more detail.

⁵⁸The average repayment received by a depositor in present value as of 1874 is equal to $\sum_{n=1}^5 \% \text{ Depositors Repaid}_n \times \frac{\% \text{ Amount Repaid}_n}{(1+6\%)^{Year_n-1874}}$, where $Year_n$ is the year of repayment n . When using the risk-free rate (5.5%) as the discount rate, the repayments would account for a bit more than 20% of the lost deposits in present value terms.

recouped was much lower, around 8%. Finally, we discount using the expected returns on deposits, which is a lower bound given how the funds were at risks after the failure.

INSERT TABLE 8 HERE

Finally, we show that the collapse of the Freedman’s Savings Bank stands out as one of the worst instances of bank failure in the banking history of the United States for depositors. We focus our attention on the total value of claims due to depositors at the time of failure for commercial banks over the 1865-1933 period. Panel B of Table 8 shows the summary statistics: across the 71 bank failures, the average total amount owed to depositors at the time of failure as a percent of GDP is 0.0004%, while for the Freedman’s Savings Bank this number amounts to 0.0013%. Figure ?? in the Internet Appendix plots the distribution. Relative to these banks, the Freedman’s Savings Bank owed a large amount to its depositors: the bank ranks in the 95th percentile. Only two other banks had larger claims at the time of their failure. Note that because of data availability constraints, the sample only includes commercial banks, which were by the charter riskier as funds could be invested in commercial loans.

6 Discussion on the Short Term Effects

While depositors faced extensive losses and abuse of trust, one important question is whether they benefited from having an account at the Freedman’s Savings Bank *in the short term*. Did the advertising nudge African Americans to save more for education and future investments, improving literacy, school attendance, entrepreneurship or home ownership? We exploit the 1870 census to address this questions and find no evidence of any positive effects.

6.1 Evidence from the 1870 Full Census

Data

We use the 1870 full census to identify depositors and observe 1870 outcomes. Before linking individuals in the 1870 census to depositors from the bank registers, we restrict the 1870 census to all individuals living in counties within 50 miles of a branch.⁵⁹ To identify these counties, we use the NBER’s County Distance

⁵⁹50 miles might be considered as a relatively large distance, as it would correspond to two days of travel. However, the distance to the branch is one of the parameters of our linking algorithm when considering potential matches. It also corresponds to the distance in SY2020.

Database, which provides all the counties that are within 30 miles of each US county.⁶⁰

The 1870 census covers 38 million individuals and around 7.8 million households. When keeping only the counties within 50 miles of a branch that is available in the registers, we arrive at a sample of 7,772,291 individuals and 1,589,673 households. For each individual, we keep information on the first name, last name, age, gender, race, county location, place of birth, real estate wealth, personal wealth, literacy, school attendance, occupational score and relatives. When available, we create variables indicating the father’s and mother’s first names using the information on the relationship to the household head. We also create a variable indicating the closest Freedman’s Savings Bank branch. Finally, we standardize first names and last names using the same procedure as for the depositors’ data (Abramitzky et al. 2020).

Table 9 in the Internet Appendix provides summary statistics on Black individuals in our 1870 census sample. We arrive at a final sample that includes close to 2 million individuals.

Linking Methodology

We use information on names, location, age, place of birth and father and mother’s names to identify depositors in our 1870 census sample and build a linking algorithm, following Abramitzky et al. (2019). We describe the steps of the linking algorithm in the Internet Appendix.

Panel A in Table 9 in the Internet Appendix provides summary statistics on the sample of individuals we identify in the 1870 full census as primary account holders. We identify 20,241 primary account holders in our 1870 census, or 1% of the individuals. Primary account holders are much more likely to live in an urban area, to be literate, work and have a higher income score. Among depositors, 20% are children, and among the children, 32% attend school in 1870, compared to 12% in the rest of the population. All these discrepancies are statistically significant.

As having a bank account could benefit all members in the household, we identify as depositors all members of a household that includes a primary account holder. Panel B in Table 9 provides summary statistics at the household level.

⁶⁰<https://www.nber.org/research/data/county-distance-database>. Because the NBER distance database uses current county FIPS codes only, we manually adjust the county FIPS code to reflect the 1870 county composition.

Early versus Late Depositors

To investigate whether depositors benefited from having an account at the Freedman’s Savings Bank, we compare the 1870 outcomes of depositors who opened an account *before 1870* to depositors who opened an account *in 1870 or after*, estimating the following specification:

$$Outcome_{i,1870} = \alpha + \beta \mathbb{1}_{OpenYear < 1870} + \theta \mathbb{1}_{OpenYear \geq 1870} + \eta x_i + Branch_i + \varepsilon_i, \quad (2)$$

where $Outcome_{i,1870}$ is a dummy for school attendance, literacy, labor market participation or the log amount of income or real estate property for individual i in 1870, $\mathbb{1}_{OpenYear < 1870}$ $\mathbb{1}_{OpenYear \geq 1870}$ are dummies equal to 1 for accounts opened before and after 1870, respectively, $Branch_i$ are branch fixed effects and x_i are individual controls including age, gender, family status and household size.

Figure 9 plots the coefficients β and θ for each outcome. We find no statistical difference in 1870 outcomes between pre and post-1870 depositors. Table 11 in the Internet Appendix provides the coefficients and confirms they are not statistically different.

INSERT FIGURE 9 HERE

One could be concerned that this specification only partially account for selection effects, as “late” depositors – who opened an account after 1870 – might be ex-ante richer and more educated than “early” depositors – who opened an account before 1870 –. This selection effect would cancel out the positive effects of having an account on 1870 outcomes for early depositors. However, we find quantitative and qualitative evidence suggesting the opposite. First, as Figure 2 in the Internet Appendix illustrates, depositors were more likely to be children after 1870, suggesting the Freedman’s Savings Bank was recruiting depositors through schools extensively in this period. In addition, as Figure 7 illustrates, the directors accelerated fraudulent lending from 1870. In fact, as early as 1871 some information was available about the bank’s fragile financial situation, leading to rumours of run in November 1871.⁶¹ The increasing awareness of the bank’s financial situation challenged the Finance Committee, which resigned in February 1872. Finally,

⁶¹The Beaufort Republican, wrote in November 1871: “We are very sure that no paper of this city desired to injure an enterprise so worthy as the Freedman’s Savings Bank, yet the telegraphic report in all of the papers of October 17th, from Washington, stating that there was “a run on the Freedman’s Bank” in that city. It is true that on the 18th this falsehood was corrected, but yet one whole day was given for the mischief to work, and that in a time of general financial anxiety (...)”. *The Beaufort Republican*, November 9, 1871, Vol. 2 no. 7 “A False and Malicious Rumour.”

to account for this selection effects, we compare early depositors in early branches to early depositors in branches that opened after 1870, and also find no statistical differences.

6.2 Inconsistencies in SY2020

In line with our findings, SY2020 does not find statistically significant differences in 1870 outcomes between early and late depositors, as the placebo test in SY2020’s Table 11 indicates. However, based on its main analysis using a 1% sample of the 1870 census, SY2020 documents dramatic effects of the Freedman’s Savings Bank on literacy, school attendance, income, labor market participation and real estate wealth. We identify the following inconsistencies in SY2020’s main analysis that account for these dramatic effects.⁶²

SY2020’s identification strategy relies on incorrect historical statements, exploiting the “planned” roll-out of branches that would have been interrupted/delayed for “exogenous” reasons. However, in the bank charter, the bank was not meant to even have branches. The bank was largely opening branches following requests from local personalities, explicitly taking into consideration the wealth of the African American population. In addition, while the financial situation might have affected the timing of the branch expansion, it was not exogenous to the bank’s activities. The new wave of branch openings after 1870 might relate to the fraudulent lending activities rather than to easing political pressures on African Americans, as SY2020 suggests, as the Klux Klux Klan was thriving at this time. Finally, the directors not only considered wealth when deciding to open a branch or not, but also largely relied on schools to recruit depositors. This suggests that the timing and location of bank branches relate to African Americans’ access to both wealth and education.

As a result, SY2020’s four county level instruments, which relate to the location and opening date of the branches, are likely to correlate with African American’s ex-ante access to wealth and education. This is what Figure 10 suggests. The figure plots average ex-ante county characteristics that proxy for African Americans access to wealth and education across values of the four county level instruments – (1) a dummy indicating individuals living in the 19 pre-1870 branch counties considered by SY2020, (2) the distance to the nearest pre-1870 county branch, and, relating to the 1868 congressional election, (3) the number of Republican votes in the county, and (4) the share of Republican votes in the county – on a

⁶²The Internet Appendix provides a summary of issues SY2020, including our concerns about the historical statements, as well as additional analyses.

replication of SY2020 sample. County characteristics include the log of the average number of Black soldiers present in the county over the years 1865-1866, a dummy indicating a Freedmen’s Bureau office or school, the population, and the manufacturing output per capita.⁶³ Each county characteristic correlates with the county-level instruments used in SY2020’s specifications. Table 7 in the Internet Appendix provides the coefficient estimates for the corresponding regressions and shows that the instruments also correlate with dummies indicating an urban area and access to rail and water infrastructures.

INSERT FIGURE 10 HERE

Consistent with the instrument endogeneity driving the large estimates in SY2020, Figure 11 shows that we obtain similar estimates when running the same IV analysis in a randomly generated sample. Across 1,000 simulations, we identify depositors randomly in SY2020 census sample *within branch areas*, as in SY2020. This implies that in areas close to an early branch, the probability of identifying a depositor is higher, as early branches had more depositors, as well as access to wealth and education, hence driving the positive coefficient estimates.⁶⁴ In these simulations, the F-statistic for both instruments – the presence of an early branch and the distance to the early branch – is 176 on average.

INSERT FIGURE 11 HERE

The fact that we can generate the same IV estimates when randomly linking the registers with the 1870 census is consistent with the false positive rate of 95% we identify in SY2020’s final matched sample, i.e., more than 95% of the depositors SY2020 identifies are not even part of a household that includes a primary account holder. The following inconsistencies in SY2020 data construction methodology account for this high false positive rate. First, while the information on the account opening year is available in the bank registers for more than 95% of the accounts, SY2020 does not distinguish between accounts opened before or after 1870, and hence identifies as depositors in 1870 individuals who opened an account after 1870. Second, SY2020 links not only primary account holders with

⁶³The Freedmen’s Bureau and the number of soldiers are proxies for access to wealth as the Bureau was providing support to the freedmen and soldiers received relatively large wages from the Union army.

⁶⁴Within a branch area b we identify the number n_b of matches as the number of possible combinations of the permutations of individuals in the registers with the 1870 individuals times a probability of finding a match. We estimate this probability ($0.96 \times 10^6 - 6$) so that we arrive at a similar number of depositors as identified in SY2020. We then randomly identify n_b individuals as depositors in each branch b and run the IV analysis in 1,000 simulations.

the census data, but also *any of the relatives* listed in the registers. As a result, SY2020 identifies as depositors in the census data all the individuals within any household with a member whose first name and last name matches a relative, *even if the primary account holder is not part of the census household*. Third, SY2020 generates *random permutations of last names and first names* within family before linking the individual datasets, and hence links four times more combinations of first and last names than the ones available in the registers. These inconsistencies also explain how SY2020 identifies around 800 households holding an account in 1870, i.e. more than 4% of the accounts open before 1870 available in the registers, while only using a 1% sample of the 1870 census.

7 Conclusion

This paper investigates the expansion of the first financial institution serving African Americans after Emancipation.

Created as a benevolent institution meant to bring economic independence to the freedmen, the bank recruited depositors through a uniquely extensive advertising campaign, using false promises, moral statements and racial stereotyping. The bank's success in collecting deposits resulted in a transfer of wealth away from African Americans. Therefore, this episode of history illustrates how racial advertising by financial institutions can affect minorities, a question still largely unexplored in the literature. The Freedman's Savings Bank also demonstrates how designing institutions with well-meaning intentions and a broad social agenda can have adverse effects, diverting attention from appropriate regulation and supervision.

The gap between the racial composition of the active directors of the bank, all white until 1873, and the depositors, mostly African Americans, also raises research questions on the potential benefits of minority-owned financial institutions. After the failure of the Freedman's Savings Bank, between 1888 and 1934, 134 Black-owned banks were formed mostly in Southern states (Okonkwo 2003).

Finally, the long run effects of the Freedman's Savings Bank on African Americans' trust in formal financial institutions and wealth accumulation are also important research questions that have not yet been explored. Like the Tulsa race massacre, which destroyed Tulsa's Greenwood District in 1921, commonly referred to as "Black Wall Street," the Jim Crow Era's "Black Codes," which restricted economic opportunity in much of the South, as well as practices like redlining, the Freedman's Savings Bank and its failure stands out as a significant obstacle in the

accumulation of Black wealth in America.

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A Figures

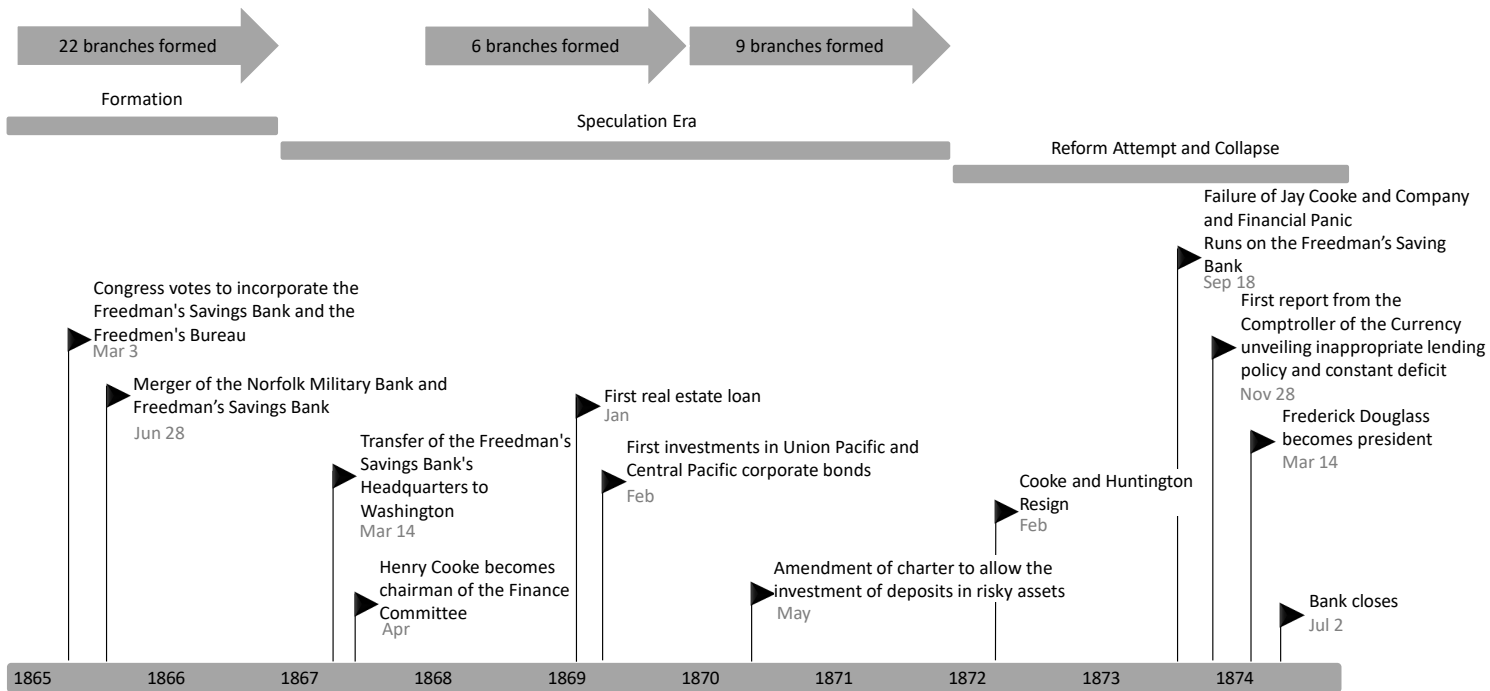


Figure 1. Timeline of the Freedman's Savings Bank

This timeline plots the main events in the history of the Freedman's Savings Bank. The Freedman's Savings Bank was chartered in March 1865 and failed in July, 1874. We identify three distinct periods in the life of the Freedman's Savings Bank. (1) The formation: from 1865 to 1866, the bank was created on the model of the first military banks for Black Union soldiers by white founders. These founders were also active in the Freedmen's Bureau and the AMA. (2) The speculation era: 1867 was a turning point in the history of the Freedman's Savings Bank. The headquarters were transferred to Washington, there was a large turnover of trustees and politicians and financiers took over the leadership. They started using bank deposits to make speculative investments in real estate and corporate bonds as early as 1869. (3) The reform attempt and collapse: in 1872, some trustees challenged the investment decisions of the Finance Committee, whose main members resigned. New trustees were appointed in an attempt to reform the bank while the constant deficit and the speculative investments become public. In July, 1874 the bank failed. Depositors received only 20% of their deposits back on average in net present value terms when considering the number of claims.

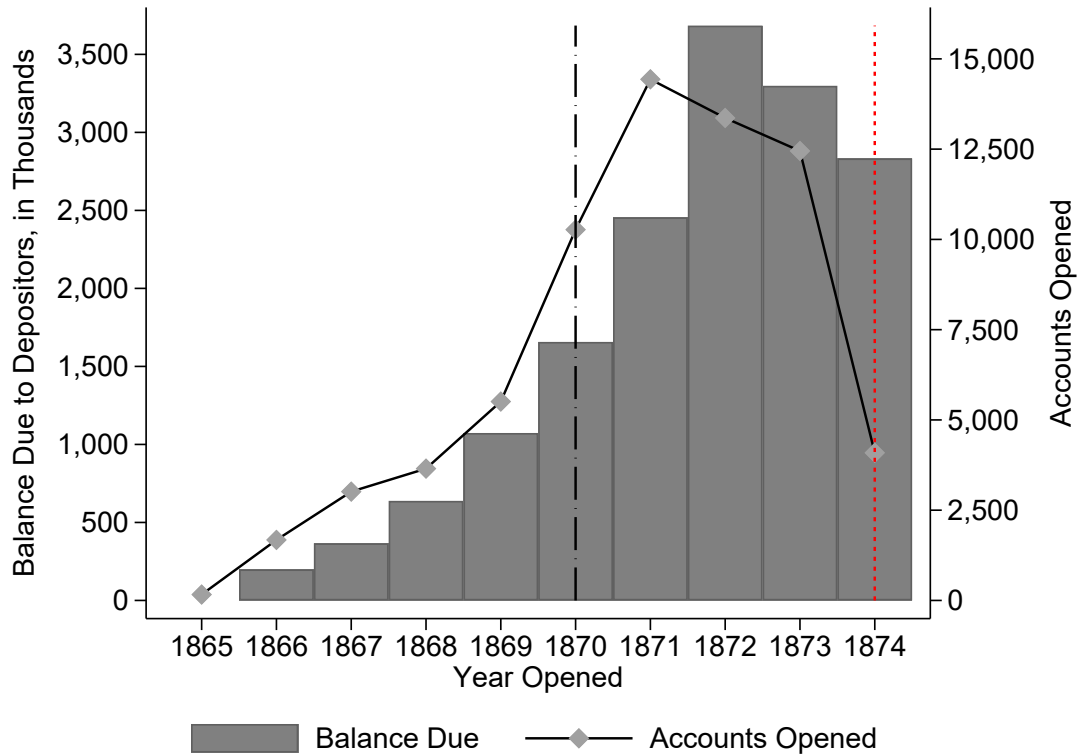


Figure 2. New Accounts Opened and Outstanding Amount of Deposits at the Freedman’s Savings Bank from 1865 to 1874

This figure plots the number of accounts opened each year (right axis) and the outstanding amount of deposits at the bank (left axis). The sample of accounts is restricted to the ones available in the bank registers and excludes institutional accounts. The outstanding amounts of deposits are from page 41 of the Report of the U.S. Congress Senate Select Committee to Investigate the Freedman’s Savings and Trust Company U.S. Senate. 46th Congress 2nd Session (1880). The vertical red line indicates the date of the bank failure. The vertical dotted line indicates the year of the 1870 census data.

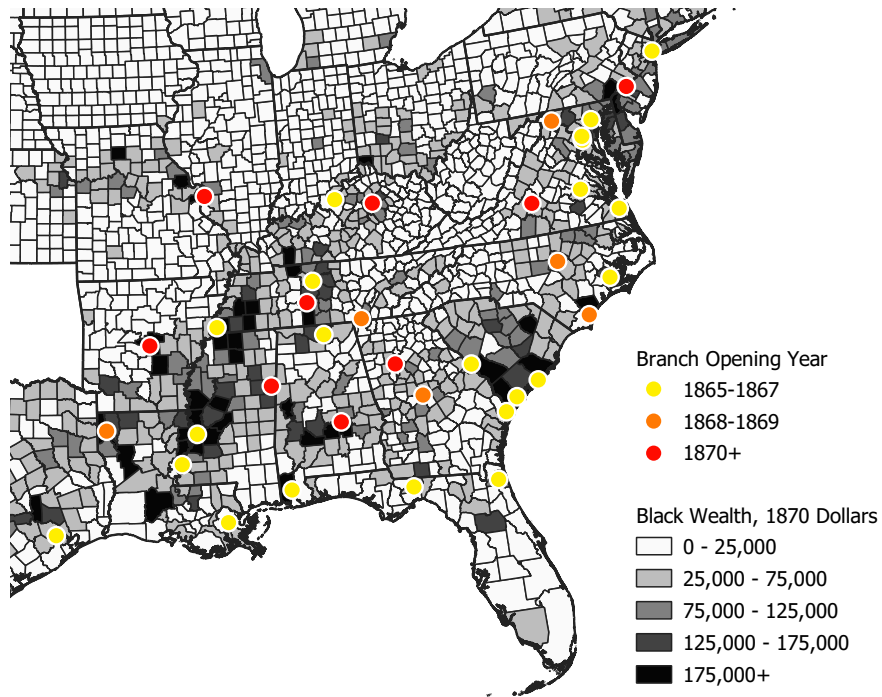


Figure 3. Freedman's Savings Bank: Branch Locations and 1870 Black Wealth

This map display the location of the Freedman's Savings Bank branches, as well as 1870 Black county wealth in 1870 dollars. Individual Black wealth is winsorized at 1%, then aggregated by county. Yellow, orange and red dots refer to branches that opened between 1865 and 1867, between 1868 and 1869, and after 1870, respectively.

**THE FREEDMAN'S
SAVINGS AND TRUST
COMPANY.**

J. National Savings Bank.

ESTABLISHED MARCH, 1865.

**Chartered by the Government of the United
States.**

Banking House 1597 Pennsylvania Avenue,
Opposite the Treasury.

Deposits of *five cents* or any larger amounts
received.

SIX PER CENT. INTEREST paid on sums
of five dollars or more. *All deposits payable on
demand, with interest due. All accounts strictly
private and confidential.*

PRINCIPAL OFFICE, WASHINGTON, D.
C. BRANCH OFFICES in all the larger cities
of the South and Southwest.

This GREAT NATIONAL SAVINGS IN-
STITUTION, established by the authority of
the *United States Government* for the benefit of
the *Freedmen*, knows no distinction of race or
color, and offers its great advantages to all
classes alike.

SAVE THE SMALL SUMS. Cut off your
vices—*don't smoke—don't drink—don't buy lot-
tery tickets.* Put the money you save into the
FREEDMAN'S SAVINGS BANK.

Open from 9 A. M. to 4 P. M. each day, and
on Wednesday and Saturday nights, to receive
deposits only, from 6½ to 8 o'clock. je 22 1y

Figure 4. Advertisement from Freedman's Savings Bank

This advertisement was published every week in the *New National Era*, the main newspaper with an African American audience, from June 1871 to July 1873.

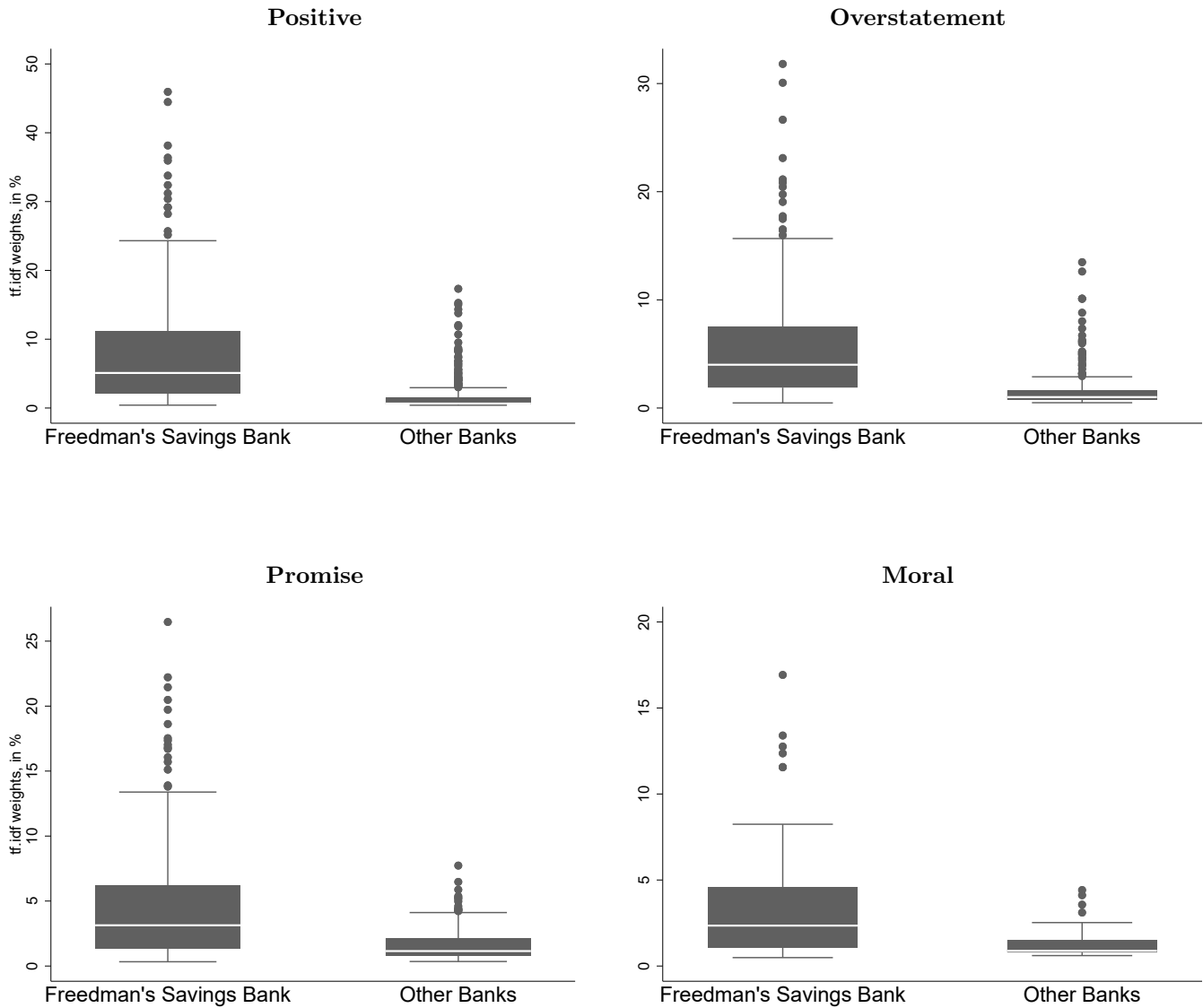


Figure 5. Frequency of Word Lists in Advertisings across Banks

This figure plots the frequency of the “positive,” “overstatement,” “promise,” and “moral” word categories in the 3,241 articles and ads referring to the Freedman’s Savings Bank and any other banks we collect in our sample of newspapers over the 1865-1874 period. We measure the frequency using the inverse document frequency weighted measure (tf.idf).

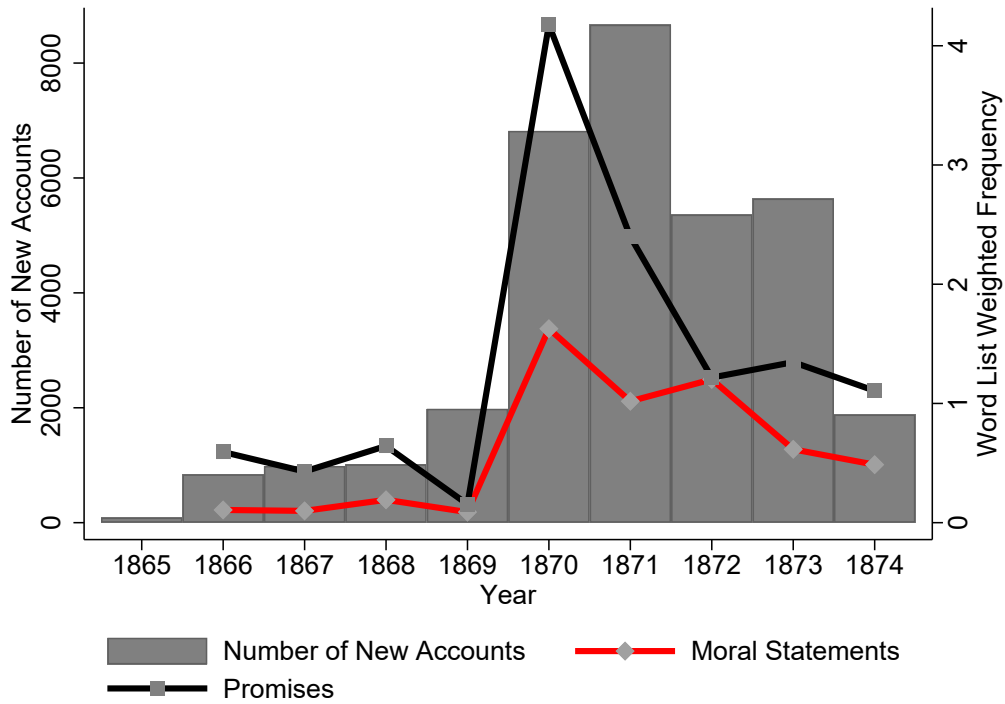


Figure 6. Frequency of Promises and Moral Statements in the Advertising of the Freedman’s Savings Bank and Number of New Accounts

This figure plots the use intensity of promises and moral statements in the advertising of the Freedman’s Savings Banks as well as the number of new accounts in the six branches where registers are complete over the total period, i.e. Charleston, Atlanta, Savannah, Richmond, Washington, DC and New York City. We measure the use intensity with the tf-idf weighted frequency. The sample includes around 1,000 ads and articles we have collected on the Freedman’s Savings Bank in our sample of 17 digitized newspapers over the 1865-1874 period.

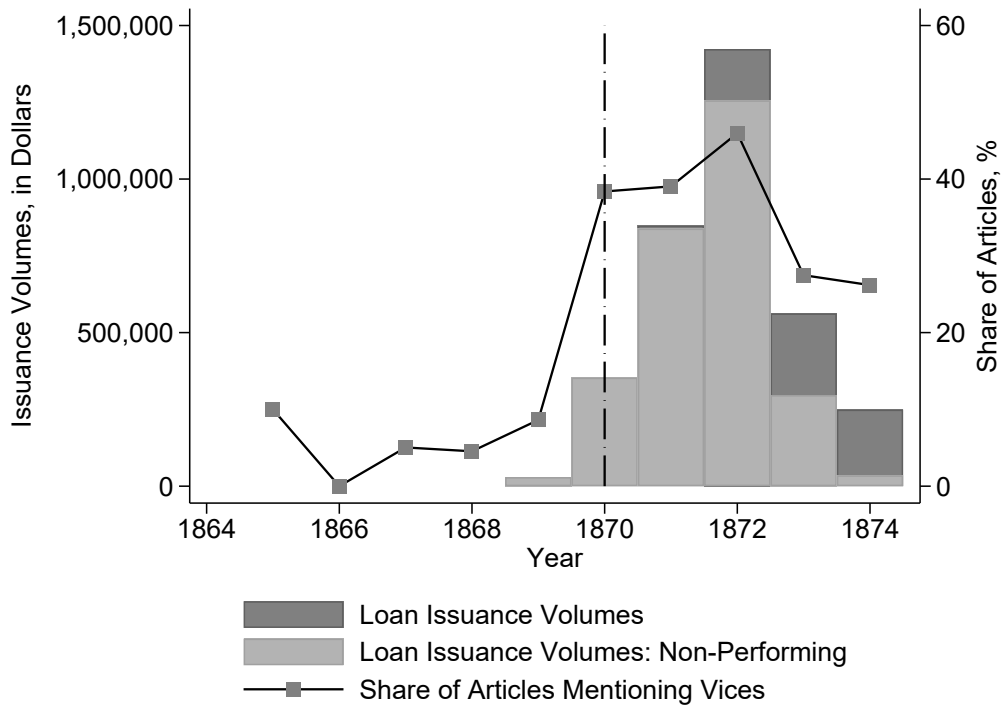
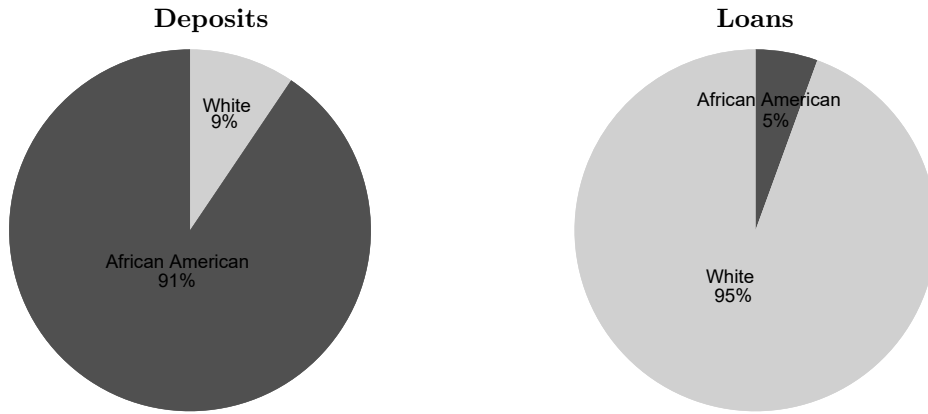


Figure 7. Share of Articles using Vices and Loan Issuance

This figure plots the share of newspaper items about the Freedman’s Savings Bank that include moral exhortations referring to vices as well as the total volume of loans the bank issued each year and the volume that is non performing. The sample of newspaper items includes close to 1,000 ads and articles on the Freedman’s Savings Bank across 17 newspapers over the 1865-1874 period. The vertical line indicates the date of the charter’s amendment in May, 1870 allowing the bank to offer loans under strict conditions.

Panel A. Across Race



Panel B. Across Branches

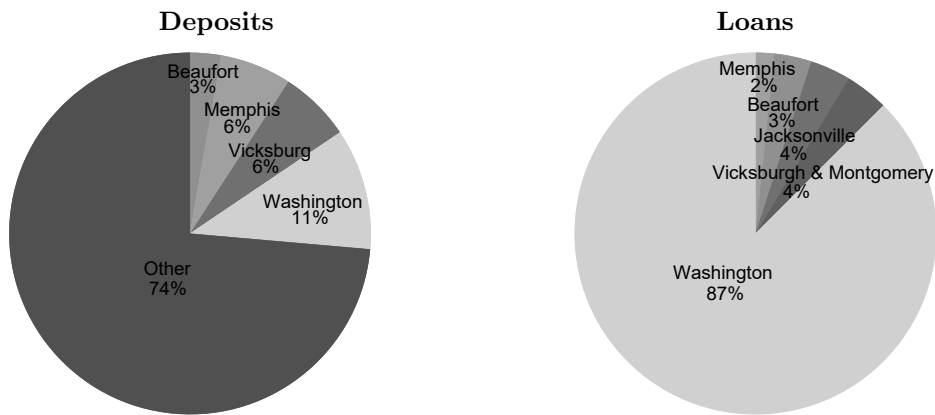


Figure 8. Deposits and Loans across Race and Branches

Panel A and B plot the number of depositors from the registers as well as the volumes of outstanding loans in 1874 across race and branches, respectively. Race of depositors represents proportions among audited loans excluding unknowns, and loans across branches excludes loans with missing branches.

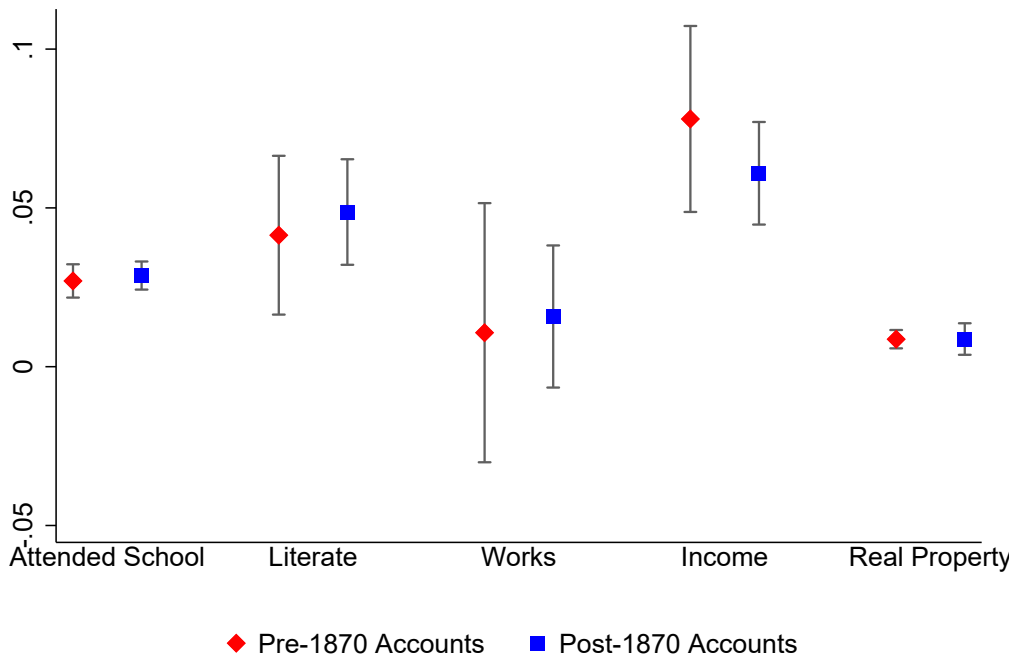
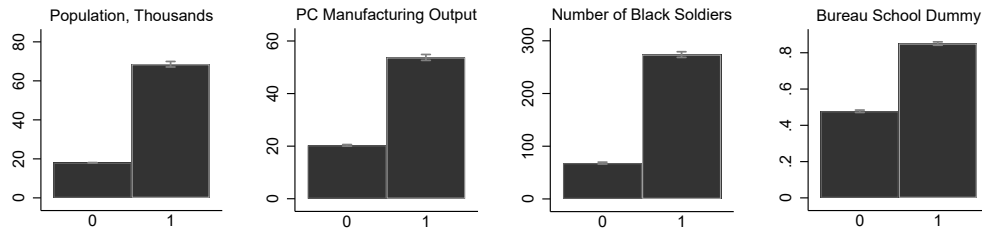


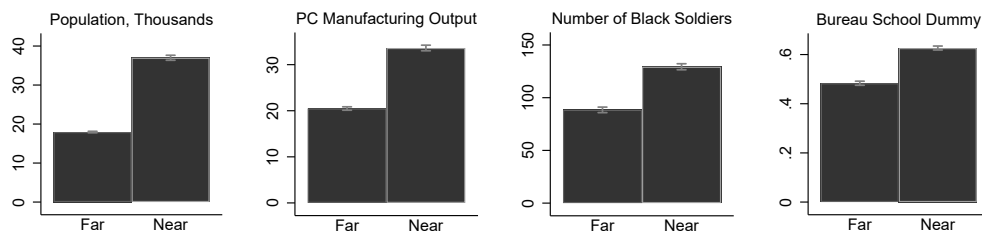
Figure 9. Investigating the Short Run Effects: Comparison of 1870 Outcomes for Early (pre-1870) and Late (post-1870) Depositors

This figure plots the coefficients and confidence intervals for regressions of 1870 outcomes on a dummy indicating depositors who opened accounts before 1870 and a dummy indicating depositors who opened accounts after 1870. The sample consists in all Black individuals living within 50 miles of a branch in the 1870 full census. Regressions control for household size and an indicator for male and include county and age category fixed effects. *Attended School* and *Literate* are restricted to those over the age of 5, and *Works*, *Income* and *Real Property* are restricted to those over the age of 15. *Works* and *Income* are further restricted to male only. Standard errors are clustered at the county level. The point estimates are included along with the 90% confidence bands.

Panel A. Dummy Indicating the Presence of an Early Branch in County



Panel B. County Distance to the Nearest Early Branch County



Panel C. County Number of Republican Votes

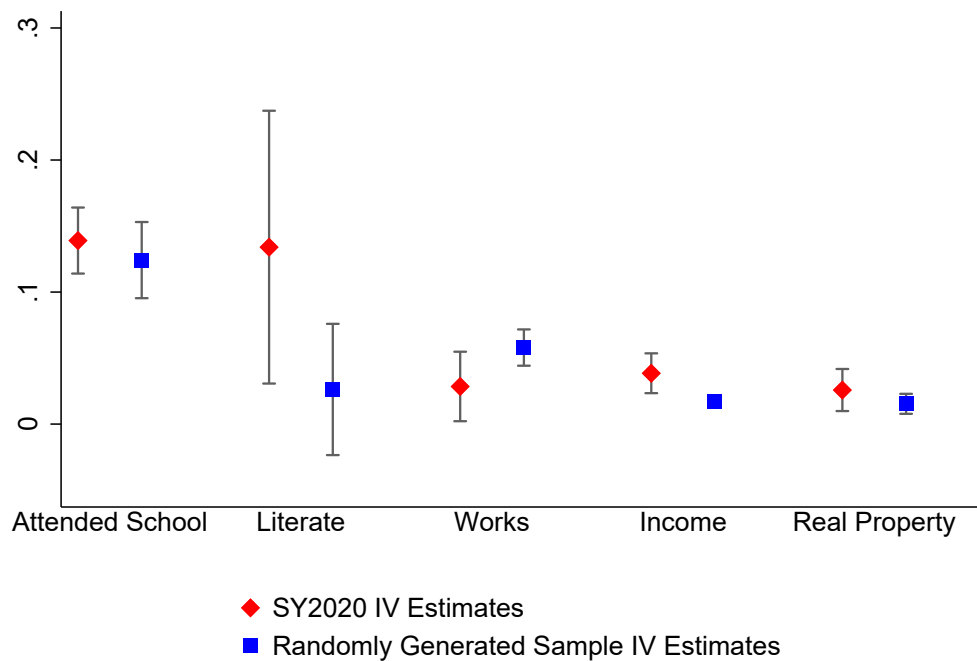


Figure 11. Replication of SY2020 IV Coefficient Estimates with Randomly Identified Depositors

This figure plots the SY2020 IV coefficient estimates of the effect of having a Freedman’s Savings Bank account on various outcomes (in blue) and the same IV estimates on a replicated sample where depositors are identified randomly within branch area (in red). The excluded instruments are the distance to the nearest pre-1870 branch and an indicator for the presence of a pre-1870 branch in the county. Following SY2020, the model includes fixed effects for metropolitan area status, the opening date of the nearest branch, and occupation. Controls include city population, sex, age, number of children under the age of five in household, and fixed effects for relationship with household head and the number of married couples in the household. Income and Real property regressions include an indicator for nonzero values. The F-statistics including both instruments is 190 in the randomly generated sample. Observations are weighted using IPUMS sample weights (perwt). Following SY2020, standard errors clustered by distance to the nearest branch or planned branch. The figure plots the 90% confidence intervals.

B Tables

Table 1. Newspaper Dataset

Newspaper	State	Frequency	Period	# of Issues	Number of Articles	
					Freedman's Savings Bank	Other Banks
	(1)	(2)	(3)	(4)	(5)	(6)
African American Audience ($N = 5$)						
New National Era	DC	Weekly	1870-1874	211	319	0
Beaufort Republican	SC	Weekly	1870-1873	52	68	0
Charleston Advocate	SC	Weekly	1867-1868	25	30	0
South Carolina Leader	SC	Weekly	1865-1866	27	17	0
Port Royal Commercial	SC	Weekly	1873-1874	27	7	0
General Audience ($N = 12$)						
Charleston Daily News	SC	Daily	1865-1873	2,641	177	910
Atlanta Daily Herald	GA	Daily	1873-1874	239	232	552
New York Times	NY	Daily	1865-1874	468	14	393
New York Daily Tribune	NY	Daily	1865-1872	364	26	302
Daily Loyal Georgian	GA	Daily	1867-1867	29	34	0
New York Herald	NY	Daily	1865-1874	400	2	27
Daily Dispatch	VA	Daily	1865-1870	1,535	3	24
Memphis Daily Appeal	TN	Daily	1866-1873	2,250	2	23
Evening Star	DC	Daily	1865-1873	2,534	10	11
Weekly North-Carolina Standard	NC	Weekly	1866-1869	189	19	0
Tri-Weekly Standard	NC	Tri-weekly	1866-1868	289	1	9
Weekly Loyal Georgian	GA	Weekly	1867-1868	4	3	0
Total					2,294	966

This table presents the list of newspapers we use for our analysis. We include all the digitized newspapers targeting African Americans from 1865 to 1874 as well as one to three general audience newspapers in the following six states: Georgia, New York, South Carolina, Virginia, Washington, DC and New York. We identify these newspapers using the archives from Newspaper.com, the Chronicling America database from the Library of Congress, the Readex's America's Historical Newspaper Archive, the Proquest Historical Newspapers, as well as the Georgia Historic Newspapers archives from the Digital Library of Georgia. Column 1 provides the state where the newspaper is issued, Column 2 the issuance frequency, Column 3 and 4 the coverage period and number of issues that are available in a digital format and screened. Finally, Column 5 provides the number of advertising and articles referring to the Freedman's Savings Bank and other banks we have identified, collected and manually transcribed in all the issues we have screened.

Table 2. Loan Dataset – Summary Statistics

	Mean (1)	Sd (2)	p25 (3)	p50 (4)	p75 (5)
Panel A: Unweighted					
Face value (current dollars)	2,024	6,624	150	500	1,750
Issue year	1872.1	1.1	1871	1872	1873
Maturity (months)	9.9	7.9	2.0	12.0	12.0
Washington, DC (dummy)	0.73		0	1	1
Non-performing (dummy)	0.83		1	1	1
% of Loan due	95.2	13.6	100	100	100
Panel B: Volume-Weighted					
Issue year	1871.8	1.1	1871	1872	1872
Maturity (in months)	12.5	5.7	12.0	12.0	12.0
Washington, DC (dummy)	0.81		1	1	1
Non-performing (dummy)	0.84		1	1	1
% of Loan due	93.3	16.4	100	100	100

This table summarizes the loan database, presenting loan-level summary statistics on 1,797 loans, representing volumes issued of \$3.6 million. The *Non-performing* dummy identifies loans past due by the time of the failure, in July, 1874. % of loan due refers to the proportion of the face value and interest due as of the loan observation date left to be paid, assuming 6% interest rates with semi-annual payments. Panel B weighs summary statistics by loan face value.

Table 3. Advertising Content Analysis - Word List Occurrence

Word List	Freedman's Savings Bank <i>N=947</i>			Other Banks <i>N=2,294</i>		
	Occurrence Frequency, in %					
	Across Ads	Within Ads		Across Ads	Within Ads	
	Mean (1)	Mean (2)	Sd (3)	Mean (4)	Mean (5)	Sd (6)
<i>Positive</i>	50.4	1.98	2.47	43.9	1.10	1.67
<i>Overstatement</i>	45.8	1.00	1.47	35.0	0.97	1.57
<i>Moral</i>	30.0	0.46	0.86	5.4	0.11	0.59
Vice	26.7	0.38	0.75	1.3	0.01	0.17
Ought	7.5	0.05	0.22	3.7	0.08	0.46
Religion	4.3	0.03	0.27	0.9	0.02	0.22
Authority Figures	1.7	0.01	0.13	0.0	0.00	0.01
<i>Promises</i>	67.3	1.61	1.36	15.5	0.31	0.87
Politics	57.9	0.97	1.06	6.1	0.09	0.48
Sure	34.6	0.51	0.85	8.7	0.10	0.39
Increase	12.4	0.09	0.32	5.3	0.11	0.53
Rise	7.3	0.04	0.17	1.2	0.01	0.10
<i>Other Variables</i>						
Length (in characters)	730			362		
Length (in words)	124			61		
Publication Year	1871			1870		

This table reports summary statistics on the percent of articles and ads with words from a given word list (Columns 1 and 4) and on the frequency of a given word list relative to the total number of words within each newspaper article and ad (Columns 2, 3, 5 and 6). The word lists are from the Harvard Inquirer, adjusted to the finance and historical context as described in Section 4.2, and available in the Internet Appendix. Our sample comprises the more than 3,200 articles and ads mentioning the Freedman's Savings Bank and any other banks in our newspaper sample as described in Section 3.

**Table 4. The Specificities of the Freedman’s Savings Bank Advertising
- OLS Regressions**

	Occurrence Frequency (tf.idf, in Log)							
	Positive		Overstatement		Moral		Promises	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$\mathbb{1}_{Freedman'sSavingsBank}$	0.56*** (0.13)	0.17** (0.08)	0.27** (0.13)	0.25*** (0.06)	0.31*** (0.06)	0.08*** (0.02)	0.40*** (0.09)	0.38*** (0.09)
$\mathbb{1}_{MinorityBank}$	-0.19** (0.08)	-0.13 (0.08)	-0.07 (0.09)	-0.19*** (0.06)	-0.12*** (0.03)	-0.07*** (0.02)	-0.04 (0.07)	-0.21*** (0.08)
Fixed Effects								
Newspaper	-	Yes	-	Yes	-	Yes	-	Yes
Bank Type	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Frequency Quintiles	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,241	3,241	3,241	3,241	3,241	3,241	3,241	3,241
R^2	0.571	0.666	0.592	0.639	0.508	0.613	0.641	0.700

This table presents OLS coefficients for regressions of the use intensity of the positive (Columns 1 and 2), overstatement (Columns 3 and 4), moral (Columns 5 and 6) and promises (Columns 7 and 8) word categories in our sample of newspaper items. The use intensity is the tf.idf weighted frequency, in log. The variable $\mathbb{1}_{MinorityBank}$ indicates banks serving a minority, i.e., German, Irish or African American populations. As opposed to the Freedman’s Savings Bank, savings bank serving Irish or German populations were managed by directors from the same ethnicity. The regressions include dummies for the publication year, the bank type – national, state, savings or investment –, and the article frequency, as well as newspaper fixed effects in columns 2, 4, 6 and 8. Regressions also control for the article length in number of words. The sample includes the 3,241 articles and ads referring to the Freedman’s Savings Bank and any other banks as described in Section 3. *, **, and *** represent statistical significance at the 10%, 5%, and 1% confidence levels, respectively. Standard errors are clustered at the newspaper times year level.

Table 5. Changes in the Freedman’s Savings Bank’s Advertising After the Charter Amendment

	Occurrence Frequency (tf-idf, in Logs)			
	Positive (1)	Overstatement (2)	Moral (3)	Promises (4)
$\mathbb{1}_{Post} \times \mathbb{1}_{Freedman'sSavingsBank}$	0.25 (0.20)	-0.14 (0.13)	0.25*** (0.09)	0.32*** (0.09)
$\mathbb{1}_{Freedman'sSavingsBank}$	0.20 (0.13)	0.29*** (0.09)	0.01 (0.04)	0.13 (0.09)
$\mathbb{1}_{Post}$	0.16 (0.20)	0.34 (0.21)	0.06 (0.06)	0.09 (0.08)
Fixed Effects				
Bank Type	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Frequency	Yes	Yes	Yes	Yes
Observations	3,241	3,241	3,241	3,241
R^2	0.578	0.604	0.527	0.659

This table analyzes the change in the content of the advertising after the charter’s amendment in our sample of newspaper items over the 1865-1874 period. In this differences-in-differences framework, $\mathbb{1}_{Post}$ is a dummy variable equal to one from the Freedman’s Savings Bank’s charter amendment in May 1870. The regressions include bank type, article frequency and year fixed effects. Regressions also control for article length in words. The sample includes the 3,241 articles and ads referring to the Freedman’s Savings Bank and any other banks we collect in our sample of newspapers over the 1865-1874 period. *, **, and *** represent statistical significance at the 10%, 5%, and 1% confidence levels, respectively. Standard errors are clustered at the newspaper times year level.

Table 6. Advertising and New Accounts: Panel Analysis

	Number of New Accounts (Day and Branch Level)					
	(1)	(2)	(3)	(4)	(5)	(6)
# Articles	0.23* (0.08)	0.18** (0.06)	0.15* (0.08)	0.16* (0.08)	0.17** (0.08)	0.14* (0.08)
Positive tf-idf			0.32 (0.23)			
Overstatements tf-idf				0.44* (0.23)		
Moral tf-idf					0.764 (0.76)	
Promises tf-idf						0.91** (0.38)
Branch Fixed Effects		Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	15,607	15,607	11,450	11,450	11,450	11,450
R^2	0.115	0.166	0.198	0.198	0.198	0.199

This table presents OLS coefficients for regressions of daily new account openings on the sum of newspaper items on the Freedman's Savings Bank published over the last two weeks, as well as the average use intensity of positive (Column 2), overstatements (Column 3), moral (Column 4) and promises (Column 5) word categories. The panel regressions include branch and year fixed effects. The sample includes the nine branches in locations covered by the newspapers included in our sample, i.e. Atlanta, Augusta, Beaufort, Charleston, Memphis, New York City, Raleigh, Richmond, Washington. The sample covers every day over the 1865-1874 period when both registers are available and newspapers in the two weeks before. Word category intensity is missing when there is 0 newspaper articles. Standard errors are clustered at the branch-year level. *, **, and *** represent statistical significance at the 10%, 5%, and 1% confidence levels, respectively.

Table 7. Borrowers' Occupations and Networks

	% in number (1)	% in volumes (2)
<i>Occupation</i>		
Real Estate and Infrastructure Developers and Contractors	28.9	29.0
Business Owners and Managers	17.4	24.2
Merchants	3.6	3.6
Attorneys and Judges	3.9	3.5
Bankers	4.9	2.5
Civil Servants	2.0	1.6
Freedman's Savings Bank Employees	2.0	1.2
Other	28.2	32.3
Unknown	9.2	2.1
<i>Elected Officials</i>		
	8.5	14.8
Congressmen	4.6	3.6
Senators	2.0	2.6
State Governors	0.3	0.2
Other	1.6	8.4
<i>Networks</i>		
Real Estate and Infrastructure Development	41.3	41.1
DC Board of Public Works and Seneca Stone Company	14.8	18.9
Political	20	25.4
Howard University	7.9	12.6
Railroads	8.9	12.9
Jay Cooke and Union Railroad	5.6	9.4
Prominent DC African Americans	10.8	4.1
Douglass Family and Associates	8.2	2.1
Other	15.1	11.7
Unknown	11.8	11.8

This table summarizes manually-identified borrower characteristics in the loan-level database for our sample of manually audited loans, which covers 60% (\$2.2 million) of the total loan volumes and 305 loans. Occupation categories are mutually exclusive, while borrower network categories are not. Elected officials is a dummy equal to one if a borrower served in elected office at the federal, state, or local level.

Table 8. Depositors' Losses

Panel A: Repayments to Depositors							
<i>N=61,131</i>							
Payment Date	% of the Claimed Amount	Percentage of Depositors Repaid			Average % Repaid in Present Value in 1874		
(1)	(2)	(3)			(4)		
November 1, 1875	20	49.07			9.08		
March 20, 1878	10	42.64			3.43		
September 1, 1880	10	38.08			2.66		
June 1, 1882	15	9.84			3.33		
May 12, 1883	7	4.37			1.28		
Total					19.79		

Panel B: Comparison with Commercial Bank Failures							
<i>N=71</i>							
	Mean	p10	p25	p50	p75	p90	<i>Freedman's Savings Bank</i>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Year of Failure	1905	1877	1891	1907	1923	1927	<i>1874</i>
Years From Failure to Closure	8	1	4	7	10	15	<i>9</i>
Total Claims, Thousands of Current Dollars	2,202	1,113	1,342	1,796	2,601	3,332	<i>2,833</i>
Total Claims, Thousands of Constant Dollars	2,383	940	1,139	1,785	2,733	3,648	<i>2,833</i>
Claims as a % of GDP	0.0004	0.0001	0.0001	0.0003	0.0005	0.0008	<i>0.0013</i>

Panel A lists the repayments to the depositors as well as their net present value in 1874, the year of the failure of the Freedman's Savings Bank, and measures value at the *individual* level. Payment date, % of the claimed deposit amount, actual no. of claims paid are extracted from page 12 of the Report of the Commissioner, 1883. The 1874 present value is computed using a 6% discount rate, the typical deposit rate at this time. Panel B provides summary statistics on the bank failures of commercial banks collected from the annual reports of the Comptroller of Currency from 1863 to 1933, and measures value at the *aggregate* level. Constant dollars refer to total claims in terms of 1874 dollars, the year the Freedman's Savings Bank failed.