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Westward Ho!

EXPANSION

Prior to the conclusion of the Revolutionary War, there was little need for mortgage bankers. Colonial governments often granted land to farmers, and tradesmen typically started businesses with the tools they brought with them from England or Europe. If funds were needed to establish a business or expand a farm, individuals typically borrowed from a relative or a wealthy community member. Over the next century, land acquisition became more complicated as the nation moved west.

Victory over the British had resulted in much more than political independence for the fledgling United States. Victory also moved the western border of the new nation far beyond the original thirteen colonies. The 1783 Treaty of Paris demanded that Britain cede the trans-Appalachian West, all of the land between the Appalachian Mountains and the Mississippi River, to the United States. Americans were able to leave the crowded cities along the eastern seaboard to establish new towns and businesses in the interior. More important, the land was perfect for agriculture, the economic foundation of

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the country. Some farmers in the East vacated their marginal farms to move across the mountains. And many second sons, denied land inheritance by the legal tradition of primogeniture, took advantage of the opportunity to establish their own farms, especially in the fertile region of what became the Northwest Territory, or Old Northwest—the lands north of the Ohio River.

To facilitate expansion and settlement, under the powers granted by the Articles of Confederation, the Continental Congress passed the Land Ordinance of 1785, which ordered the survey and division of the land into a uniform grid system. The system enabled verifiable legal descriptions for each plot of land, minimizing land ownership disputes and laying a foundation for mortgage lending. Once surveyed, the federal government sold the land, thus generating revenue to govern the newly established nation. Even though the Native Americans who had lived in trans-Appalachia for centuries contested American expansion, by the early 1800s the region was bustling with American immigrants.[1]

A few years later, in 1803, the purchase of what was then called Louisiana, virtually all of the land from the Mississippi to the Rocky Mountains, nearly doubled the size of the country. In the eyes of President Thomas Jefferson and his supporters, possession of this enormous tract of land assured the fledgling country that it would not succumb to overpopulation and economic stagnation. However, not until several events occurred during the late 1840s did a surge of settlement spread westward. The first was the ratification of a treaty with Great Britain in 1846 that gave sole possession of Oregon Country to the United States.[2] Suddenly, the nation's northern tier extended from the Atlantic to the Pacific. Two years later, the military victory over Mexico in the Mexican-American War moved the border to include most of what is now known as the American Southwest and California. When combined with Texas, annexed by the United States in 1845, and the Oregon Country to the north, the nation became truly continental in scope.

But the discovery of gold in California in late 1848 was what really spawned the movement of large numbers of immigrants to the West. Following the

1 Elliot West, "American Frontier," in *The Oxford History of the American West*, ed. Clyde A. Milner II, Carol A. O'Connor, and Martha A. Sandweiss (New York: Oxford University Press, 1994), 124–27, 130–32.

2 Oregon Country included what would later become the states of Washington, Oregon, Idaho, and parts of Montana and Wyoming.

California Gold Rush, additional discoveries of gold and silver induced others to seek their fortunes in Nevada, Colorado, and other areas of the West. On the heels of the miners came entrepreneurs who developed towns and cities such as Denver that supported the miners, providing them with desperately needed supplies and various services, from blacksmiths to laundries. As the towns and cities of the West developed, farmers from the East and from Europe began to arrive, ready to claim and cultivate lands made available through the Homestead Act passed by the US Congress in 1862. Settlement of the West exploded during the second half of the nineteenth century.

Yet the federal government did not possess clear title to much of the land the farmers wanted. Native American peoples still controlled some of the best agricultural lands. The government would have to negotiate treaties with numerous tribes and in many cases force them onto reservations located on less desirable lands. An example is the Osage Nation's claim on a large segment of southeastern Kansas. On September 29, 1865, government officials finalized negotiations with tribal representatives to acquire their "surplus lands," allowing official surveys to proceed. But the treaty stipulated that the bulk of the land was to be sold and therefore was not available for homesteading. Government surveys were crucial to providing land titles based on accurate legal descriptions, a necessary component for granting and selling property and for mortgage lending.[3]

Congress envisioned the Homestead Act and its legislative partners, the Pacific Railway Act and the Morrill Act passed and enacted in 1862, as tools to expand America's capitalist agrarian economy. Through the Homestead Act, the federal government gave 160 acres of land at no cost to individuals who agreed to live on and develop the land for productive use for a period of five years. At the end of the five-year term they would receive title to the land. Settlers could also exercise the option to purchase the land outright at a discounted rate of only $1.25 per acre after just six months of occupancy. Like the Land Ordinance of 1785, the Homestead Act was designed to draw

3 An appraisal conducted by A. G. Bowes and Company in 1952 concluded that the actual market value of the land on September 29, 1865, would have been $1,740,000 and that, as a result of increased demand causing rises in land prices, had the land been subdivided and sold "on the most advantageous terms" as required by the treaty, it would have garnered $3,493,000 at true market value if sold between 1865 and 1870 (Watson Bowes, *Appraisal of Lands Covered by the "Treaty with the Osage, 1865"* [October 1952, appraisal cover letter, A. G. Bowes and Sons, MSS01087, File 202, History Colorado, Denver]).

the poor, the unemployed, and the children of farmers in the East to the trans-Mississippi West, transforming them into prosperous, independent farmers—the ideal of a republican society.

The Pacific Railway Act attempted to achieve two goals—first, to establish a transcontinental railway system to connect the East and West Coasts and second, to provide rail service to the newly established farm communities in the West so they could readily transport their produce to distant markets across the nation and the globe. The federal government subsidized the railroads by granting them title to up to ten acres of land for every mile of track they laid. Later amendments increased that amount to forty acres. Congress anticipated that the railroad companies would sell the granted lands, all located adjacent to the tracks, to prospective farmers. The funds raised would help finance railroad construction while providing those same farmers with ready access to the railroad networks that would transport their goods to market and bring manufactured goods to them while at the same time enabling mortgage bankers to invest in new farming and ranching communities.[4]

The third component, the Morrill Act, granted public lands to individual states for the express purpose of raising funds to finance the establishment of higher education institutions that would develop agricultural and mechanical/engineering curriculums in addition to other sciences and traditional liberal arts programs. Known as land-grant colleges, they specialized in research to advance agricultural practices in an effort to increase the productivity and profitability of America's farmers. In combination, these three statutes created a framework to develop a robust and prosperous agriculturally based economy in the West, at least in theory.

One of the crucial factors the crafters of the Homestead Act failed to consider was the arid climate that engulfed much of the West. The farming knowledge and methods most settlers brought with them were adapted to the humid climate east of the Mississippi River. Efforts to apply that expertise to the arid West without supplemental irrigation proved disastrous. Without irrigation, 160 acres of land was insufficient to generate enough food for subsistence, let alone a profit. As a result, almost half of all farms established under the act failed and were abandoned before the end of the five-year

4 Richard White, *It's Your Misfortune and None of My Own: A New History of the American West* (Norman: University of Oklahoma Press, 1991), 145–46.

Weld County, Colorado, farm and irrigation ditch. Irrigation was critical to the success of agriculture in the West. Understanding its importance led a number of investors, including the Colorado Mortgage and Investment Company of London, to pursue irrigation projects in what are now Boulder, Denver, Larimer, and Weld Counties. Courtesy, Denver Public Library.

occupancy requirement, the farmers never having secured title to the land. In addition, the Homestead Act failed to address the needs and practices of cattle and sheep ranching. Ranchers typically did not cultivate the land as required by the law and needed much more than the allotted 160 acres of land to support a viable, productive herd.

Mining also lured men to Colorado. In 1858, about ten years after the California Gold Rush, major silver and gold strikes drew thousands to the mountains of Nevada and Colorado. Some, such as Horace Tabor, amassed a considerable fortune. Tabor parlayed some of his mining profits into other commercial and real estate investments with mortgage financing funded by Northwestern Mutual and other investors. Before losing most of his fortune in the silver crash of 1893 and the ensuing recession that crippled Colorado's

William Henry Jackson photograph of the Windsor Hotel, ca. 1880–90. The hotel was demolished as part of urban renewal in the 1970s. Courtesy, Denver Public Library, Western History Collection.

economy, Tabor's real estate holdings included Denver's iconic Windsor Hotel and the Tabor Grand Opera House.[5] He ultimately lost the opera house. In addition, Northwestern foreclosed on his Tabor Block building, the last of his real estate holdings.

Until large-scale industrial mining replaced small-scale prospectors, most mining financing was provided by men like Horace Tabor who grubstaked individual prospectors. Grubstaking meant that someone like Tabor provided prospectors with picks, shovels, shaker tables, and other equipment as well as food supplies in exchange for a percentage ownership. If the mine came in big, everyone, including the grubstaker, could become extremely wealthy, as

5 Betty Moynihan, *Augusta Tabor: A Pioneering Woman* (Evergreen, CO: Cordillera, 1988), 12, 36–37, 51–72; Augusta G. Tabor, "$800,000 Worth of Gold Dust," in *So Much to Be Done: Women Settlers on the Mining and Ranching Frontier*, ed. Ruth Moynihan, Susan Armitage, and Christine Dichamp (Lincoln: University of Nebraska Press, 1998), 146. The Denver branch of the Kansas City Federal Reserve now occupies the site at Sixteenth and Curtis Streets where the Tabor Grand Opera House once stood (David Ballast, *The Denver Chronicle: From a Golden Past to a Mile-High Future* [Houston: Gulf, 1995], 45).

happened with several of Tabor's investments. Meanwhile, mortgage bankers only participated indirectly in mining. They facilitated the financing of railroads; the agricultural needs of farming, ranching, and irrigation; housing, and the building of mining towns such as Leadville and Cripple Creek.

CURRENCY AND ECONOMIC WOES: 1870S–1893

Large investment companies as well as private investors in the East provided mortgage loans that aided the development of the West. In addition, especially from the 1870s forward, foreign companies, many from Great Britain, invested heavily in American agriculture, equities, and mortgage securities. These investors all relied on the expertise of local representatives, correspondents, to assess the reliability of each loan applicant and his or her ability to repay the debt. Some investment companies, such as the Colorado Mortgage and Investment Company of London (CMIC) and its subsidiaries, also became involved in urban real estate development and irrigation projects that distributed water to cities and farms. However, investment in everything from industry to individual farms was interrupted several times before the turn of the century—once in the period 1884–85, again during the early 1890s, and culminating with the Panic of 1893.

The crisis of 1884–85 and the Panic of 1893 resulted from the US commitment to bimetallism. However, motivated by the discovery of large gold deposits in California and Australia, during the 1850s the leading commercial countries of Europe, led by France, began converting from silver to gold as their primary currency. By the 1870s all of the leading European nations and Great Britain had completed the transfer to gold and were selling their silver on the open market. The resultant worldwide devaluation of silver created havoc for the American economy and its currency. The growing output of silver mines in the American West, which the federal government began subsidizing as a result of the Bland-Allison Act in 1878, exacerbated the problem.[6]

The financial crisis of 1884–85 began with an expanding economic slowdown in 1883. Individuals curtailed unnecessary spending. Decreasing revenues prompted banks to hoard their more valuable gold and pay customs revenues to the Treasury with silver. At the same time, the Treasury was still

6 William Jett Lauck, *The Causes of the Panic of 1893* (Boston: Houghton, Mifflin, 1907), 16–19.

spending a large portion of its gold reserves to purchase the Bland-Allison Act's mandated monthly allotment of silver. By early 1884 the burden of the silver purchases combined with the government's other financial obligations to cause a perilous reduction in the Treasury's gold supply while generating an oversupply of silver. Knowledge of the situation caused many people, especially investors, to anticipate that the government would soon be unable to continue making gold payments. The resulting unease regarding the American government's currency stability prompted many foreign investors to cease investing in the United States, which drastically curtailed the availability of mortgage credit. Investors also sold their existing holdings in America for payment in gold, further reducing the gold reserves. Only when the government took measures to induce banks to resume payments to the Treasury with gold to stabilize the silver/gold currency distribution did the crisis pass. Had the United States joined Europe and Great Britain in converting to the gold standard during the previous decades, the currency crisis would have been averted altogether.[7]

The international Panic of 1890 can largely be attributed to the collapse of Argentina's economy and government in July of that year. Speculative investment in that country by European banks and other investors, especially from Great Britain and Germany during the previous decade, resulted in extreme economic distress when Argentina failed. To cover the losses incurred in Argentina, British investors began selling US railroad stocks, bonds, and other securities. Still nervous about American currency, they demanded payment in gold. A significant decline of foreign investment in western mortgages, particularly farm mortgages, accompanied the selloff. Investors also failed to renew farm loans, even for borrowers who had maintained their payments. As a result, there was a substantial decrease in the credit market and an increase in foreclosures. Thus the strong economic growth enjoyed on both sides of the Atlantic from 1886 until 1890 ended abruptly with a severe economic contraction.[8]

Yet as Britain and Europe experienced a gradual, steady recovery beginning in 1891, the American economy stagnated. Concern regarding the stability of US currency remained. When Congress passed the Sherman Silver

7 Ibid., 21–23.

8 Ibid., 63–65, 73–75.

Purchase Act in July 1890, apprehension grew. The new law more than doubled the Treasury's silver purchase requirement. Foreign and domestic investors continued to divest themselves of American holdings, demanding payment in gold, and they sought investment opportunities elsewhere. By mid-1893 the US economy found itself in a virtually identical situation to the one in 1885.

Exacerbated by British investors' sell-off of their US investments, especially railroad stocks, and their refusal to renew short-term mortgage loans, American institutions and individuals alike hoarded their gold and curtailed spending. Once again, payments to the Treasury were made with silver certificates while the Treasury had to make its silver purchases with gold. Any remaining confidence in the government's ability to maintain the gold standard of payments evaporated, and the Panic of 1893 gained momentum.[9] Not until Congress repealed the Sherman Silver Purchase Act later that year and embraced the gold standard for the currency did the fear subside, and the crisis waned.

In short, continued uncertainty about the stability of American currency led to the US economic problems between 1878 and 1893. The withdrawal of investors from the marketplace caused a severe decline of available credit for western farmers and businesses. Droughts during the period compounded the problem by decreasing agricultural production, resulting in a severe reduction of farm income that led to a monumental escalation of foreclosures, which in turn negatively impacted investors' willingness to fund farm mortgages. The repeal of the Silver Purchase Act restored confidence in American currency but proved devastating to the silver mining industry, until then a major contributor to the economy of Colorado and other areas of the West. Consequently, recovery in Colorado continued at a slower pace than in most of the country as investors maintained a very conservative approach to western mortgages, especially farm mortgages, through the end of the century.

BUT WHAT ABOUT WATER?

With the currency challenges all but resolved, the federal government turned its attention once again to the water concerns of western farmers. The Desert

9 Ibid., 111–22.

Land Act of 1894, better known as the Carey Act, marked the government's first real attempt to support western agriculture by addressing the region's lack of water. Under the act, the Federal Land Office could cede up to 1 million acres to each western state that developed approved reclamation projects. It amounted to a land subsidy much like the one granted to the railroads under the Pacific Railway Act. Proceeds from the sale of the lands would offset, at least partially, the costs of the development of the irrigation projects. Developers would recoup their investments through the sale of water to the farmers the projects serviced, and the states would benefit from the collection of additional taxes. But few states took full advantage of the law. Most of the available lands were too far away from viable water sources. The best lands had already been homesteaded, and the costs of sizable irrigation projects were substantial; finding investors proved difficult. Wyoming and Idaho have the most Carey Act projects. It is estimated that 60 percent of all land irrigated by Carey Act projects is in Idaho.[10]

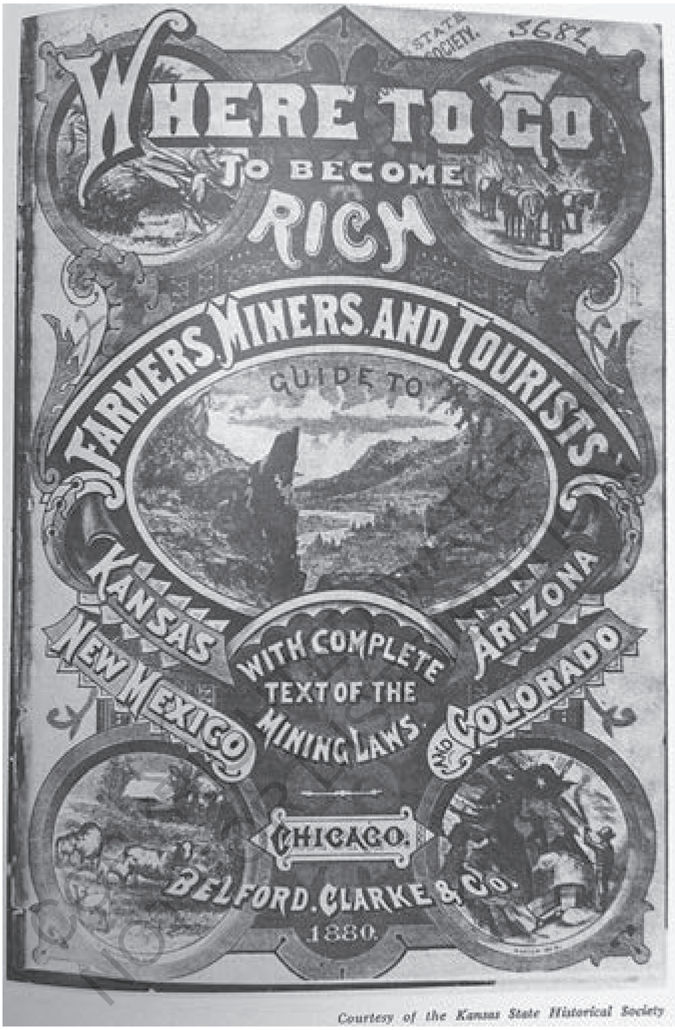
Finally, the Newlands Reclamation Act of 1902 ushered in a new era of federal government involvement in the West.[11] The act marked the beginning of a decidedly proactive, hands-on approach to development in the region. Under the leadership of President Theodore Roosevelt, the government recognized that the scale of irrigation projects necessary for the region's success was simply too great for private business or even local and state governments to finance.[12] Reservoirs created by massive dams on western rivers constructed by the newly created Bureau of Reclamation opened vast new areas for agricultural and urban development, and mortgage bankers understood the potential for exponential market growth.

In 1909, Congress aided the West again by approving the Enlarged Homestead Act, which doubled the size of land grants per homestead to 320 acres. Further

10 "August 18, 1894: Carey Act Signed," *This Day in Water History*, accessed May 21, 2015, https://thisdayinwaterhistory.wordpress.com/2015/08/18/august-18-1894-carey-act-signed-2/; Phil Roberts, "Chapter 13: Water and Irrigation," *New History of Wyoming*, accessed April 15, 2015, http://www.uwyo.edu/robertshistory/New_History_of_Wyoming_chapter_13_water.htm.

11 Carl Abbott, "The Federal Presence," in *The Oxford History of the American West*, ed. Clyde A. Milner II, Carol A. O'Connor, and Martha A. Sandweiss (New York: Oxford University Press, 1994), 471.

12 William Cronon, "Landscapes of Abundance and Scarcity," in *The Oxford History of the American West*, ed. Clyde A. Milner II, Carol A. O'Connor, and Martha A. Sandweiss (New York: Oxford University Press, 1994), 618.



Sample marketing brochures distributed by railroads to promote relocation in the West during the late 1800s.

recognizing the aridity of the West, the government encouraged more settlement in 1916 when it passed the Stock Raising Homestead Act, which offered 640-acre tracts of rangeland to ranchers.[13] Both facets of agriculture, farming

13 Abbott, "Federal Presence," 472.

and ranching, expanded into new areas from 1900 to 1920, but it was the urban centers that experienced a major population explosion in the decades that followed. Mortgage bankers stepped up to the challenge of serving that ever-expanding urban market and the increasing desire for homeownership.

RAILROADS—PROVIDING MORE THAN JUST TRANSPORTATION

Railroad companies were also heavily involved in the development of the West. Aside from providing transportation, they produced much of the marketing that promoted the different regions for settlement. The Kansas Pacific, a.k.a. the Union Pacific Central Division, as well as others sponsored vigorous advertising campaigns to stimulate immigration and land sales. These promotional pieces advertised the improved quality of life gained by living on the prairie, away from the congestion of the East, while also telling of the modern amenities to be found in Kansas cities. An 1890 promotional brochure circulated by the Union Pacific Railroad Company described the features of the state's capital, Topeka—"the handsome public library building . . . excellent system of electric street railways . . . well paved [streets] and the city is provided with water-works, gas-works, and electric lights."[14] These marketing pamphlets and brochures spoke of the farming potential provided by rich soils and adequate rainfall. And they lured dedicated, hardworking individuals with the promise of a chance for real independence and a fresh start on the wide-open prairie. Railroad companies sold large acreages of land in Kansas and Colorado to domestic and foreign investors who then divided them into smaller parcels and resold them to people migrating to the West.

Promotional material provided by the railroads as well as individual towns and businesses proved critical to attracting both borrowers and investors. Mortgage bankers also provided information about local education, cultural institutions, civic organizations, and, most important, churches. Since the 1850s, Kansas has been a state of diverse religious convictions. Lawrence, Topeka, and Manhattan had unwavering abolitionist sentiments backed by strong Protestant communities. Ogden, St. Mary's, and Atchison developed vibrant European Catholic communities. Ogden, like many communities, also had a small but vibrant Jewish community, including the city's German

14 Union Pacific Passenger Department, "The Resources and Attractions of Kansas for the Home Seeker, Capitalist and Tourist" (Battle Creek, MI: Wm. G. Gage and Son, 1890), 13.

Jewish brewmaster. Everywhere along the railroads, American and European immigrants answered the call to settle the prairie.

But the Union Pacific and other western railroads had another reason to lure people westward. They had received substantial financial incentives—the most important of which were land grants—through the Pacific Railway Act of 1862 and its amendments that followed to build their lines. As the railroads pushed west, they needed to capitalize on those incentives as quickly as possible to repay the federal government and other investors. That meant selling their real estate and developing customers for their freight and passenger businesses. If they could sell their land to entrepreneurs such as Jabez Bunting Watkins in Kansas and Colorado developers, including James Duff of the Colorado Mortgage and Investment Company of London and Colorado governor Benjamin H. Eaton (1885–87), so much the better. But in the absence of institutional investors, selling land to small farmers throughout the West and carrying back the financing also made economic sense because doing so enabled the railroads to earn a steady rate of return while creating customers who needed to ship their commodities. In many cases the railroad companies also financed town lots and invested their own capital to build depots, shops, and yards. All of these activities created an economic stimulus for the towns that developed along the right-of-way.

As authorized by the Pacific Railway Act, alternate sections, each comprising 640 acres for a distance of twenty miles on each side of the right-of-way, were granted to the railroad companies. To sell those lands, the railroads demanded many of the same requirements of buyers as the government did of those claiming land under the Homestead Act. An 1880 brochure issued by the Union Pacific provided guidelines for prospective buyers in Nebraska. Eligible buyers had to be at least twenty-one years old and be US citizens or persons of foreign birth who had agreed to become citizens. Each could be granted up to a quarter of a section, which equaled 160 acres. Applications had to be made at the nearest US Land Office.[15]

These lands were divided into three principal categories. First and probably the most recognizable were farmlands. In general, those lands were located principally in Kansas, Colorado, and the Grand Valley of Nebraska. Grazing lands, which constituted the second category, were particularly prevalent

15 Union Pacific Railroad Company, Land Department, "Cheap Homes: Nebraska Farms Land Guide" (Lincoln, NE: Union Pacific Railroad Company, 1880), unnumbered.

in the states of Wyoming, Colorado, and Utah. Third were those considered wastelands, found across the various states and territories of the West. They earned the designation as wastelands because they held no potential for either agriculture or grazing. Ironically, some of those wastelands, particularly in Colorado and Wyoming, housed large reservoirs of coal deposits.[16]

The railroads advertised aggressively to fill in the empty prairie along the rights-of-way. A promotional brochure published by the Central Branch of the Union Pacific Railroad in 1879 claimed that "Every Man Can Own His Home." The brochure advised the purchaser on what to look for when purchasing land and set forth many of the same conditions that appeared in the Farm Mortgage Bankers handbook. The purchaser was advised to study the fertility of the land and the climate, as well as proximity to the railroad and to the best markets. In Kansas, the Union Pacific advertised that the available lands were 100 miles to 250 miles closer to viable markets than those offered by other land-grant railroad companies. The company claimed its land prices were the lowest of those of any company, ranging from three dollars to six dollars per acre. It also advertised 100 improved farms. Furthermore, all lands could be purchased with long-term credit.[17]

The railroad companies financed the purchase of these properties in much the same way as did farm mortgage bankers, and, as stated above, they applied many of the requirements demanded by the Homestead Act. Land was sold on the condition of the purchaser occupying and improving the tract for at least five years. To encumber the land with a mortgage, homesteaders only had to produce a receipt verifying that they had paid the minimum application and survey fees. Interest rates for such loans could be as low as 6 percent. At the end of the mortgage term, typically five to ten years, the buyer had to prove, essentially with the testimony of two witnesses, that he had complied with the law in regard to occupying and improving the land. Title to the land became as simple as obtaining a patent from the railroad company land office following receipt of the full final payment.[18]

The Union Pacific Railroad offered and advertised the availability of its Kansas landholdings for purchase on much the same terms as those advertised

16 Ibid.

17 W. F. Downs, "Farms and Homes in Kansas" (Atchison, KS: Central Branch of the Union Pacific Railroad Company Land Office, 1879), unnumbered.

18 Union Pacific Railroad, *Cheap Homes*, unnumbered.

in Nebraska. It offered liberal discounts to buyers who made cash purchases. The company also financed purchases over five- to seven-year terms that demanded interest-only payments to be made semiannually. The interest rate for such loans was 10 percent. The Union Pacific also offered buyers the option to make one or two principal installment payments at the end of each semiannual (July) or annual (January) period. The company required a cash down payment of twenty dollars for most of its financing plans. Special terms were offered to military veterans.[19] Such favorable financing terms broadened the buyer pool while developing potential customers who would ship their commodities on the railroad. At the same time, providing carry-back financing generated a market rate of return to the railroad with minimal risk. Thus the Pacific Railway Act provided a vehicle whereby public lands became private holdings and further stimulated both settlement of the West and expansion of the mortgage banking industry by inviting hardworking individuals to act on their dream of owning their own farm.

19 Downs, *Farms and Homes*, unnumbered.