

—  
PRINCIPLES  
THAT  
ENDURE

—  
125 YEARS OF  
NORTHERN TRUST

—  
1889-2014



125  
YEARS

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## Introduction

# DEEP ROOTS, GLOBAL REACH



“The Northern Trust Company will not go under in three days, three weeks, nor three years. In fact, it will be doing business long after we have all given up the ghost.”

**ARTHUR HEURTLEY**

Corporate Secretary Northern Trust, 1893

One week after the grand opening of the Chicago World’s Fair in May 1893, disaster struck. Chemical National Bank of Chicago, the Fair’s official depository, failed, leaving the colossal event without vital banking facilities for millions of visitors.

The Fair’s president, Harlow N. Higinbotham, knew precisely where to turn in the emergency: Byron Laflin Smith, one of Chicago’s most respected young bankers and the founder of four-year-old The Northern Trust

Company. A director of Northern Trust, Higinbotham knew Smith's character and competence first-hand. If anyone was capable of saving the day—and doing so with no expectation of private reward or public thanks—it was level-headed Byron Smith.

At Smith's direction, Northern Trust staff scrambled to set up a branch office in Jackson Park. The first Fair branch opened on June 12. A second branch followed two weeks later. A *Chicago Daily Tribune* journalist covered the proceedings. At one point, someone—perhaps the reporter?—mused aloud about the future prospects of the young bank. Things looked good now, but might not Northern Trust falter and fail, like its ill-fated predecessor?

Whether out of pique or pride, Northern Trust's corporate Secretary Arthur Heurtley quickly set the skeptic and the record straight. The Northern Trust Company, he said, "will not go under in three days, three weeks, nor three years. In fact, it will be doing business long after we have all given up the ghost."

## **DEEP ROOTS, GLOBAL REACH**

As Northern Trust marks its 125th anniversary, Arthur Heurtley's heartfelt prediction has never rung more true. The small financial concern that Byron Smith launched in Room B of Chicago's Rookery building on August 12, 1889, is not only "doing business long after" its founding, but today is among the most far-reaching financial enterprises in the world.

Northern Trust's institutional and individual clients are everywhere—from Europe, Asia, Africa and the Middle East, to Australia and the Americas. Responsibility for taking care of the firm's far-flung clients rests in the hands of 15,000 seasoned Northern Trust partners in 18 U.S. states and 18 countries. Linking them all is an exceptional communications network that delivers information, analysis, service and results instantly, whenever and wherever needed. Clients around the world entrust the firm with \$102.9 billion in banking assets, \$5.6 trillion in assets under custody and \$884.5 billion in assets under management as of December 31, 2013.

Northern Trust opened its first international office in 1969, in London, but the organization's expansive worldview took root eight decades earlier. Like many prosperous and well-educated Chicagoans of his generation, founder Byron Smith's personal and professional worlds extended well beyond his

beloved city. A dedicated globetrotter, Smith's exotic jaunts took him throughout Europe and to Japan, Korea, China and Russia, where he studied not only local history and culture but the commercial and economic landscape too.

Smith's wide-ranging travels ensured that Northern Trust's world would not be wholly defined by its Chicago location. Following its success at the World's Fair in 1893, the firm opened a Foreign Exchange Department the next year, handling the second-largest volume of letters of credit of any Chicago bank. In 1900, Northern Trust published a novel pocket guide to the giant Paris Exposition to help the bank's clients plan their excursions to the City of Light. During the first two decades of the twentieth century, Northern Trust participated in multi-million dollar loans to the governments of France, Chile, Columbia, Uruguay and the Philippines. When U.S. businesses fanned out around the world after World War II, the firm developed relationships with foreign banks and managed increasingly sophisticated trusts, investments and pension funds that required expertise in multinational business ventures and complex international markets.

As the world became more mobile so did Northern Trust. A milestone decision in the late 1960s to expand into key demographic markets led to a carefully executed strategy of select acquisitions and new branch offices in the United States and overseas—a strategy that has been steadily unfolding for a half century and continues today.

All the while, Northern Trust maintained its independence in spite of its gilt-edged allure as a candidate for acquisition. The firm is the only remaining member of Chicago's original Big Six banks—a group that together helped transform Chicago from a frontier town into a premier financial center. In the face of deregulation, competition and market forces, the other banks merged, failed or have been absorbed into large financial firms headquartered outside the Windy City. Northern Trust alone has successfully navigated more than a century's worth of turmoil and change without losing its identity, independence or reputation.

## **OUR ENDURING PRINCIPLES**

Northern Trust's global footprint is impressive, but not unique in our shrinking world. What is unusual is a twenty-first century business that maintains core values that haven't wavered in 125 years. Northern Trust has

not merely survived but thrived during wars, bubbles, booms and bad times by abiding by a few fundamental rules that never go out of fashion:

- Transact all business with integrity and honesty.
- Pursue a conservative philosophy that focuses on long-term results, not short-term gains.
- Lead, not follow, in the areas of financial expertise, products and technology.
- Cultivate lasting client relationships.
- Provide personal and superlative service.
- Support, reward and thank employees.
- Invest in meaningful ways in the communities in which the company operates.

Embodied by founder Byron Smith and embraced by each new generation of leadership, these simple but powerful ideas have guided Northern Trust's evolution from a new bank in a bustling Midwestern city in 1889 to today's multi-faceted global financial leader. These values are reflected in Northern Trust's bone-deep commitment to clients, partners, community and technology and are the foundation of its credo: Service. Expertise. Integrity.

## **THE LARGER STORY**

During its lifespan, Northern Trust has touched or been touched by many major local, national and international events of the past 125 years. The economic panics in 1893 and 1907. The establishment of some of Chicago's best-known cultural and charitable institutions, including the Art Institute and the Field Museum. The challenges of World War I. The Great Depression. World War II. The creation of massive new corporate and private wealth during the long economic expansion after World War II. The decline of urban cores in the 1950s and 1960s, including Chicago's. Changes in banking, tax and pension laws. Innovations in the financial industry. Recessions. Bear and bull markets. The dot.com boom and bust. Community redevelopment. The digital revolution. September 11 and its aftermath. The Green Movement. The emergence of the Pacific Rim as a powerful economic force. "Irrational exuberance" and the Great Recession of 2008.

In short, Northern Trust's story is also the story of our world, as it transitioned from the Gilded Age of Edith Wharton into modernity and on to a post-modern future. No small story. And no small achievement.

Banking Assets

Assets Under Custody

Assets Under Management

**\$102.9**  
**BILLION**

**\$5.6**  
**TRILLION**

**\$884.5**  
**BILLION**

**AS OF DECEMBER 31, 2013**

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## Chapter 1

### 1889

# A GLIMPSE OF THE FUTURE



#### RAILYARD

A robust train system, depicted here in the 1930s, helped fuel Chicago's growth.

Late in the afternoon of Friday April 5, 1889, a reporter from the *Chicago Daily Tribune* strode through the magnificent marble lobby of the Home Insurance Building on La Salle Street and quickly ascended a broad staircase to the sixth floor. He tapped politely on an office door. The response was an invitation to enter.

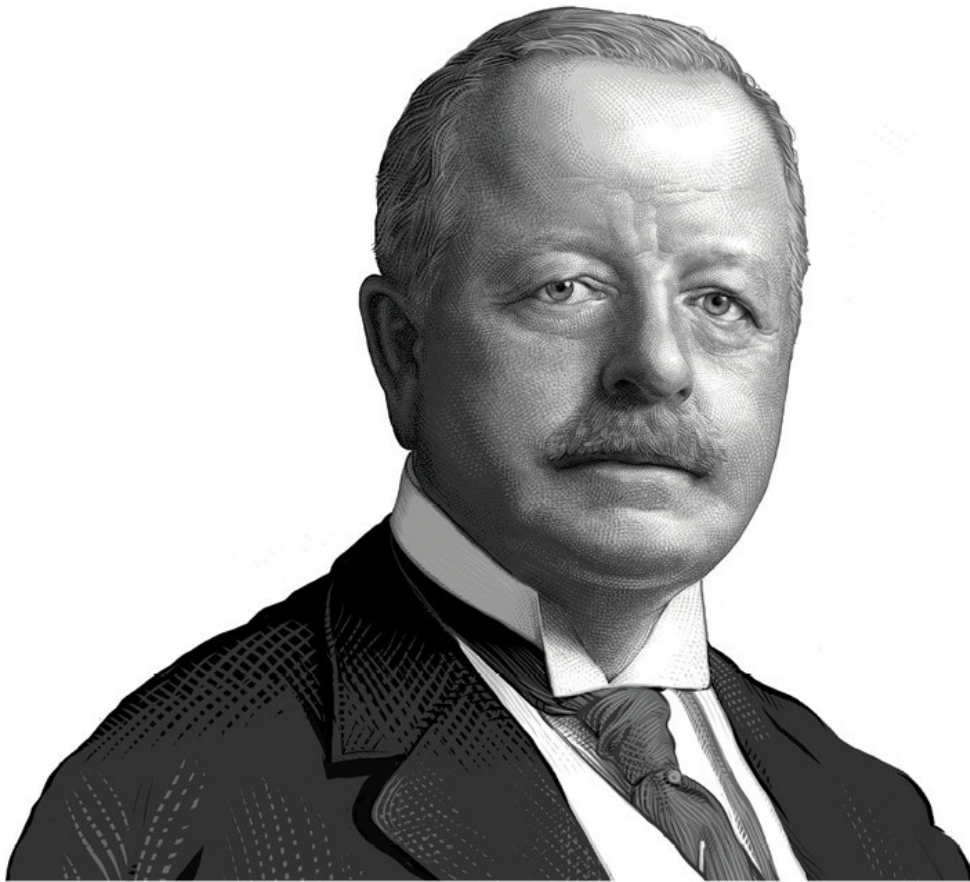
The *Tribune* reporter was delighted to find the occupant “in.” Earlier that day, the Illinois Supreme Court had handed down a landmark ruling that promised to dramatically alter the state’s banking landscape. Seated in front of him now was one of only a handful of people who understood the controversial court case intimately: Byron Smith, scion of one of Chicago’s most prominent and influential banking families.<sup>1</sup>

Smith was obliging, if brief. Yes, the Supreme Court’s ruling affirmed the

groundbreaking Bank Act of 1887. Part of the law's intent was to simplify creation of new banks. Thanks to the decision, banks could now be organized in Illinois without seeking a special act of the legislature and with no restrictions on capital or location. Yes, Smith and several colleagues had specifically developed the court case to push the issue to the state's highest court. And, yes, he fully intended to be one of the first beneficiaries of the court's ruling. In fact, a million dollars had already been raised. The operation would be open for business "within a few weeks." Smith likely would head the enterprise. As for his fellow officers and investors, he preferred not to name them just yet.

"You may say, however, that they are all better men than myself," he joked.

Smith did not shy away, however, from divulging the name of his new venture: "Its title will be The Northern Trust Company."





A handwritten signature in black ink, reading "Byron L. Smith". The signature is written in a cursive style with a large initial 'B' and 'S'.

“Its title will be The Northern Trust Company.”

**BYRON L. SMITH**

Founder and President 1889–1914

† \* Smith later moved into a small office on the second floor of the nearby Rookery building, where Northern Trust officially opened on August 12, 1889.

Chapter 2  
1871–1889

## PRELUDE: FORGED BY FIRE



**MRS. O'LEARY'S COW**

According to legend, the Great Chicago Fire was started by a cow kicking over a lantern.

“The heart of our city is gone, but our business men are not discouraged. Soon we will begin again. Even now over the smoldering ruins they are placing new buildings. Our houses may be burned but our energies are just the same, they cannot be destroyed.”

**FRANCIS WILLIAM TEST**

Chicago resident, from a letter written on October 13, 1871

## *Eighteen years before the founding of Northern Trust*

...

Two a.m., October 9, 1871. Towering flames raced through the heart of Chicago, sweeping northeast through the business district and residential areas, consuming block after block of densely packed neighborhoods. Powerful winds from the southwest stirred up “fire devils”—convection spirals that spit burning embers in every direction, sparking new fires wherever they landed. The night sky glowed an eerie orange, bright cinders fell thickly from the heavens like red-tinted snowflakes, and hot smoke choked thousands of people fleeing the oncoming inferno. Church bells pealed amid the din of terrified residents staggering through the streets under the weight of whatever possessions they could carry. Wells were dry, no rain had fallen in three months, and the city’s small inventory of fire equipment had been rendered useless by a fire a few weeks earlier. All of Chicago seemed destined to be reduced to ashes within hours.

As flames bore down on the Dickey Building at the corner of Lake and Dearborn, Solomon Albert Smith, president of Merchants’ Savings, Loan and Trust Company, met cashier Charles Henrotin, and Bryan Lathrop, bookkeeper, at the bank. The men shoved the bank’s account books and records into one of Merchants’ vaults and locked the heavy door.

The vaults had been declared fireproof by the building’s architect a few years earlier. Even so, Smith and his colleagues agreed not to take a chance with clients’ cash and valuables.

“The money, checks and bills discounted, with collaterals, were taken from our safe and, burdened with this precious load, not in the least intimidated by the danger of being robbed by the mobs of the street, all three started for a place of safety, after carefully closing all vault doors,” wrote Henrotin a few days after the fire.

The trio pushed through the chaos along Michigan Avenue to Terrace Row, where P. L. Yoe, one of the bank’s directors, resided. Here, according to one account, the “treasure was all dumped on the floor.”

Henrotin and Lathrop raced back to the bank, intent on rescuing the books, “but the fire was then so close upon it that only a list of the numbers of our Government bonds and various balance sheets of general accounts could be carried off in hot haste.”

At 10 a.m. the next day, while the inferno continued to rage, the

Merchants' trove was moved twice more, finally arriving at Solomon Smith's house at Harmon Court and Wabash Avenue. The following day, Smith and others hurried to the site of the Dickey Building to assess the damage and—with luck—retrieve the bank's books from the locked vault.

“The remains of the banking building were reached and work began at once to cool off our vaults, which were surrounded by fire,” recalled Henrotin. “After three days, during which constant guard were kept upon the vaults, they were finally entered.”

The sight did not gratify. “One of the large book vaults had given way to the heat and pressure of falling walls, and, to our utter consternation, we found many of our books, accounts and papers, to be burned and charred beyond any possible recognition.”

The records of at least 600 accounts, representing \$2 million, had literally gone up in flames—at a time when people would be desperate to recover anything of value.

Other banks that faced the same dilemma hastily proposed paying clients 15 cents on the dollar. Solomon Smith refused. His bank would pay off its depositors dollar for dollar, he declared, on their word of honor. On the morning of October 17, Merchants' reopened for business ... in the basement dining room of the Smith residence on Wabash Avenue. In spite of “scarcely any room to accommodate the large number of our customers,” noted Henrotin, the bank began to receive deposits and pay out. Contrary to expectation, “the close of that day's business found us with more cash on hand than we had at the beginning.”

When all accounts were settled, the bank was worse off by only \$58,500. New business made up the loss within three weeks of reopening the bank. Smith's refusal to bow to pressure and pay less than dollar-for-dollar would never be forgotten by his grateful bank clients.

Someone much closer to Solomon Smith likewise would forever be impressed by what he witnessed during those days of terror: Byron Smith, Solomon's 18-year-old son.

“The fate of Gomorrah has come upon a city, better by far, than most of the cities of this land or the world. The busy, peopled streets, the pleasant stores

with their wide inviting doors, with cheerful cordial gentlemen within, that you and I can so readily recall to mind, before our eyes in fact are now stumbling pathways, through heaps of blackened bricks and dusty ashes, with silent people wandering among the ruins. You can scarcely imagine the desolation. If a man wants his mind impressed with what the end of the world will be, let him come here.”

**JAMES W. MILNER**

*Chicago resident, October 14, 1871*

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Solomon Albert Smith was 56 years old at the time of the Great Fire. He and his second wife, Mari Loomis Laflin Smith, had moved to Chicago more than 15 years earlier from Saugerties, New York, where Smith was involved in explosives manufacturing. Smith was born in 1815 near Southwick, Massachusetts. His father and brother were also powder-makers.

Accounts vary on precisely when the family moved to Chicago, but by 1856 Smith was listed in the city directory as a resident. The reasons for the move likely were a mix of personal and business. Smith’s wife Mari was a niece of Matthew Laflin III, one of Chicago’s most ambitious entrepreneurs. Laflin had settled in Chicago in 1849, after making a fortune selling explosives for construction of the Illinois & Michigan Canal in the 1840s. In 1856, he was busy making millions in Chicago real estate.

Laflin was also a long-time business partner of Solomon Smith. Around 1840, the two men (and Matthew’s brother Luther) had merged their separate powder-making businesses in Southwick to form Laflins & Smith. The merger was only the beginning. During the next three decades, the Laflins, Smith and Joseph M. Boies (a Laflin in-law) created a dizzying assortment of business partnerships and companies. At various times, the men owned and managed powder mills in Massachusetts, New York, Missouri and Wisconsin. Distribution branches dotted the country. The enterprise overall was so successful that it ranked second in size only to the Delaware-based

DuPont powder-making empire. The firm eventually was absorbed by DuPont in the early 1900s.

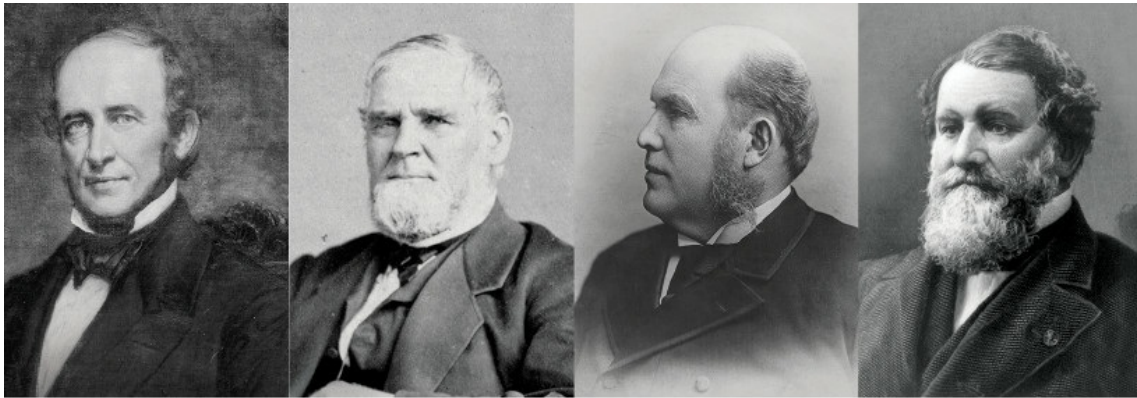
By the time the Smiths arrived in Chicago, Matthew Laflin had given up his interest in powder-making and was focused on his real estate ambitions. Smith became the gunpowder partnership's Chicago representative. The family moved into a house on Washington Street near the Laflin clan. Accompanying the couple were tiny Byron and teenaged Solomon A. Smith, Jr., a son from Solomon Smith's first marriage. The younger Solomon joined Laflin, Smith & Boies as a clerk. (He remained with the firm until he died in 1869, age 31.)

Whatever Smith's day-to-day duties were for Laflins, Smith & Boies, they were of a nature that allowed him time to pursue other interests—one of which foreshadowed the founding of Northern Trust by his son Byron 30 years later. Within 18 months of his arrival, Solomon Smith became a trustee of a new and much-needed Chicago bank: Merchants' Savings, Loan and Trust Company.<sup>1</sup>

In Illinois in the mid-nineteenth century, finance was a free-for-all of short-lived "wildcat" banks, liberally printed bank "currency" of dubious value, and an abundance of unscrupulous schemers only too happy to stick someone else with a worthless bank draft. By 1856, some of Chicago's most prominent businessmen had wearied of the reckless financial practices that hampered the city's future. Chicago was primed for growth. In 1848, the first railroad—spearheaded by local entrepreneurs—had arrived in the city, and others were on the drawing board or under construction. Completion of the 96-mile Illinois & Michigan Canal, also in 1848, promised to make Chicago a powerhouse distribution point for the booming Western region of the U.S., but only if the city could get its financial house in order. Chicago needed a stable, dependable bank.

The roster of founders of Merchants' Savings, Loan and Trust Company included surnames synonymous with great wealth in Chicago: Newberry, Ogden, Armour, McCormick, among others. The bank opened its doors on June 10, 1857. Solomon Smith likely became a trustee in 1858,

and definitely became the bank's president in 1863, at the height of the Civil War. At Merchants', Smith found his calling. He steered the bank through panics, fire, and depression until his death—always with an imperturbable demeanor that awed and impressed colleagues and employees alike.



#### FOUNDERS

*From left to right:*

Walter L. Newberry

President, Galena and Chicago Union Railroad

William B. Ogden

First Mayor of Chicago

Philip D. Armour

Founder, Armour & Company

Cyrus H. McCormick

Founder, McCormick Harvesting Machine Company

“At each successive annual meeting of the bank shareholders [Solomon Smith] was reelected to the Presidency, and to its duties he gave his whole time and energy,” noted the *Chicago Daily Tribune* in 1879. “In him they had the most perfect confidence, and it could not have been bestowed more

worthily.”

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Many people surely expected Solomon’s son Byron to follow in his father’s footsteps and join Merchants’ as soon as he reached working age. But the young man had ideas of his own.

Byron Laflin Smith and his twin brother, Addison Laflin, were born in Saugerties, New York, on May 9, 1853, two years after their parents wed. The boys were probably named for their mother Mari’s two brothers. Addison died four days after the twins’ second birthday. He was buried in Mountain View Cemetery. Sometime soon afterward, the Smiths left New York State to start a new life in Chicago.

After attending Chicago’s public schools and the city’s Harvard School for Boys, Byron Smith enrolled in what later became the University of Chicago, a member of the Class of 1874. His father wanted him to enter Harvard University, but he preferred to stay in his hometown. Reputedly the first boy in Chicago to learn to throw a curveball, Smith was considered by classmates to be one of the best players on the University’s baseball team. According to stories handed down by Smith himself, when not occupied with his studies or the team, he worked after school or on Saturdays for various Chicago banks ... but only the ones that had good employee baseball teams.

The earliest of Byron Smith’s bank posts was messenger and clerk at the brand-new National Bank of Illinois, chartered in August 1871, just two months before the Great Fire. One of the 18-year-old’s first assignments—and one of his most thrilling—was to accompany his boss, George Schneider, while transferring the bank’s currency from its hiding place at the latter’s dwelling on West Randolph Street, to temporary bank quarters elsewhere in the city. Redheaded, blue-eyed Byron Smith rode in an open wagon through the streets of burned-out Chicago, perched atop a chest of money that Schneider retrieved from its hiding place.

“When we got to the house Mr. Schneider crawled under the front steps and dug up the box,” Smith later recalled. “We placed it in an express wagon and I sat very proudly on it and rode to the bank. That was one of my happiest moments. I never did know how much cash I really rode on.”

Whatever Byron Smith’s reasons were for turning down an opportunity to go east to college, he was amply rewarded with a ringside seat to the Phoenix-like rebirth of Chicago. The fire’s embers were not yet cool when plans for rebuilding the city bubbled up. Money poured in from Eastern



cities, Europe and elsewhere to help Chicago not only get back on its feet, but emerge stronger, more sophisticated and certainly more fire-proof.

A website devoted to the Gilded Age sums up Chicago in the 1880s and 1890s as “a city of skyscrapers ... a crucible of urban growth, business enterprise, machine politics, architectural innovation, social experimentation, labor agitation, and women’s civic culture, together with class-ethnic-racial strife. Writings, photographs, maps and illustrations of the period show a vibrant city that beckoned immigrants from Europe and the Mediterranean even as it drew (or perhaps seduced) eager young American men and women from the rural farmlands to the dazzling Lake Michigan city of gaslight, electricity, department stores, street railways—and steel mills, meat packing plants, and factories, including the strike-riven Pullman rail car works.”

With so much excitement unfolding right under his nose, little wonder the young man elected to stay put. In June 1876, Byron Smith became cashier at the Hide and Leather National Bank—chartered four years earlier as a national bank and headed by one of Chicago’s more colorful characters, Charles F. Grey, wealthy magnate of the city’s booming tanning trade. On May 24 of the same year, Smith married 20-year-old Carrie Cornelia Stone at her parents’ residence on Prairie Avenue.

... Reputedly the first boy in Chicago to learn to throw a curveball, Smith was considered by classmates to be one of the best players on the University’s baseball team.





**SOLOMON A. SMITH**

Father of Byron L. Smith moved in 1856 from New York to Chicago, where he became president of Merchants' Savings, Loan and Trust Company.

Happiness was tempered three years later by the death of 64-year-old Solomon Smith on November 25, 1879, after a 10-year bout with what was assumed to be stomach cancer.

“He was conscious to the last moment, and the evening before his death was talking over business matters with his son as late as 10 o'clock, advising him as to the value of stocks, etc.,” noted his obituary in the *Chicago Daily Tribune*.

Smith's funeral was covered in minute detail by the newspapers. Among his pallbearers were old friends Marshall Field and George Armour, two of Chicago's best-known businessmen. One of the many floral arrangements at First Presbyterian Church was signed “the boys of the Trust Company.”

The *Tribune* and other publications lavished praise on Solomon Smith for his integrity and contributions to the city at a time when it most needed steady heads. “He was slow to think, and before making up his mind on any question, gave it mature deliberation. Having once arrived at a conclusion, he was as immovable as Gibraltar itself.”

A lifetime of hard work had made Solomon Smith wealthy and respected, but life had dealt him severe losses too. Three children from his first marriage and one from his second had all predeceased him. It now fell to his only remaining child to take care of his widow Mari and preserve the fortune that he had spent his life building. In his will, Solomon Smith divided his estimated \$1 million estate between his widow and son Byron, assigning the executorship to his 26-year-old offspring. Much of the bequest was in Chicago real estate.

“If Sol Smith has disposed of his property as I think he has, that young man is the wealthiest man of his age there ever was in Chicago,” Smith’s colleague John Henderson told the *Tribune* four days after the millionaire’s death. “And I think he will never be any poorer; they won’t sell him any Leadville mining stock. ... He knows the value of money.”<sup>ii</sup>

Many in Byron Smith’s easy financial circumstances might have been sorely tempted to sit back and enjoy a life of leisure, but the young man had inherited his father’s work ethic and prodigious energy. Just two months after his father’s death, he was named a trustee of the Merchants’ Savings, Loan and Trust Company. A little more than a year later he became a vice-president of his father’s old bank, and served in that capacity until 1885. In the interim, in 1882, he was elected to a three-year term as a governor of the new Chicago Stock Exchange.

In 1885, Byron Smith resigned his vice president post at Merchants’—but remained a trustee—possibly to devote more time to his family life, as well as his own business ventures and personal interests. By then, he and his wife Carrie had four boys: Solomon Albert (b. 1877), Walter Byron (b. 1878), Harold Cornelius (b. 1882) and Bruce Donald (b. 1885). In 1886 and 1887, he served as vice president of Standard Leather Co., a tanning business on Halsted Street owned by his old Hide and Leather Bank boss Charles F. Grey, who was the company’s president. Smith also managed city real estate that he had begun developing five years earlier, just after his father’s death. An array of volunteer duties for Chicago cultural and charitable institutions, such as the Chicago Historical Society and St. Luke’s Hospital, laid claim on his time. Smith was also a trustee or director of three entities besides the Merchants’ Loan and Trust, one of which—The Title Guarantee and Trust Company—was formed in 1888 and enjoyed the distinction of being the first real estate title company in the West.

In spite of so many competing demands, Byron Smith took on fiduciary

roles that underscored how respected he was, not only for his financial skills but for his integrity and trustworthiness. Chicago newspaper articles from the late 1880s reveal that on more than one occasion Smith was the court-appointed receiver or executor in charge of straightening out financial mismanagement or looking after the interests of a vulnerable beneficiary ... or both.

Whether or not Smith found these additional roles burdensome or gratifying, they almost certainly contributed to his growing conviction that Chicago needed an institution almost exclusively devoted to the demands of a new age of wealth creation ... a period that came to be called the Gilded Age.

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While Smith juggled his hectic schedule in the mid-1880s, the Illinois legislature wrestled with the nagging problem of unregulated banks. The result was passage of a banking law in 1887. Under the new law, banks needed state-issued charters, were subject to inspection, were required to publish quarterly reports of their financial condition and were examined by the State Auditor at least once a year. The law also stipulated that any bank would have the power to execute trusts, provided that it complied with trust-company law. The role of trustee involved a variety of duties, including following the explicit instructions of the trust's creator during or long after his or her lifetime. On December 6, 1888, the new banking statute went into effect.

For the state's conservative-minded financiers—a group that definitely included 35-year-old Byron Smith—the new law marked a huge leap forward in Illinois's efforts to build a sound financial industry. But like his father before him, Smith tended to be cautious. He had hatched plans to open a new bank in Chicago ... plans that depended upon the validity of the brand-new law. Rather than take unnecessary chances, Smith instructed his lawyer, Noble B. Judah, to file a lawsuit to test provisions related to the capital requirements of a bank applying for a state charter. A court ruling on the test case would clarify the law and provide an interpretation that would leave nothing open to question. In early April, 1889, Smith's strategy and patience were rewarded. The Illinois Supreme Court's ruling in *Dupee, et al. v. Swigert* cleared the way for the launch of Smith's new enterprise: The Northern Trust Company.

Three months and a flurry of paperwork later, the new bank received the state's blessing to organize. Smith deposited \$200,000 in U.S. bonds with

state authorities as required by law and easily assembled \$1 million in capital from friends and colleagues—including his former boss Charles F. Grey—all eager to be part of his new venture. So many people clamored for stock that Smith supposedly reduced his own initial stake from 50 percent to 40 percent to accommodate his well-wishers. Among the stockholders were some of the wealthiest men in Chicago: Marshall Field, Martin Ryerson and Philip D. Armour. Armour bought the first 100 shares of Northern Trust stock. Stock Certificate No. 1 was issued to him in late August.

On August 7, Illinois issued The Northern Trust Company a bank charter good for 999 years. In anticipation of state approval, a small office had been readied in Room B on the second floor of The Rookery building at 217 La Salle Street. The staff of six included Byron L. Smith, president; Joseph T. Bowen, cashier and secretary; and Arthur Heurtley, assistant cashier and assistant secretary (who also filled the role of teller). They were joined by Warwick A. Shaw, general bookkeeper; Sidney H. Stewart, individual bookkeeper; and a Mr. Kay, the man who did everything that no one else wished to do.

All that was missing were clients.

Promptly at 10 a.m. on Monday, August 12, 1889, the door to Room B was unlocked.

The Northern Trust Company was open for business.



## THE NORTHERN TRUST COMPANY BANK CHARTER

On June 18, 1889, the state of Illinois issued this charter which authorizes The Northern Trust Company to conduct its banking business for 999 years.

<sup>i</sup> Many biographical sketches of Solomon A. Smith assert that he was one of the original incorporators of Merchants', but there appears to be no primary evidence to support the claim. Smith's name does not appear as an incorporator or an original director of the bank in early ads or in the bank's own history, published in 1907. One history of Chicago (Andreas) states that he was a director of the bank from 1858 to 1861, before assuming the presidency in 1863.

<sup>ii</sup> Henderson's reference is to Leadville, Colorado, where the discovery of silver deposits the previous year had sparked a frenzy of mining and inflated real estate prices. In March 1879, a writer in the *Engineering and Mining Journal* warned against the Leadville mining stock "swindles" being "perpetrated on a credulous public," who bought stock without knowing anything about the slender financial thread by which many companies were hanging. Byron Smith would not have been duped.

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## History Up Close

**DUPEE, ET AL. V. SWIGERT:**

# **THE LEGAL CASE THAT LAUNCHED NORTHERN TRUST**

In December 1888, Illinois implemented a new banking law to weed out fly-by-night banks and bring stability to the state's shaky financial system. Byron L. Smith welcomed the new statute but wondered how it might impact his plans for launching Northern Trust. Section 11 of the law stipulated minimum capital requirements for financial institutions in towns with fewer than 10,000 in population—communities where the problem of poorly run banks was most acute. But the law failed to address capitalization of new banks in cities like Chicago, an oversight that left open to interpretation whether and how the law applied to urban start-ups.

Smith's legal counsel—Dupee, Willard & Judah—filed an application with the state auditor to organize Northern Trust with \$1 million in capital, well above the levels mandated by Section 11 for “country banks.” Puzzled about how to respond under the new law, State Auditor Charles P. Swigert consulted with Illinois Attorney General George Hunt and, on his advice, turned down the application, citing lack of authority. Attorney Noble B. Judah immediately wrote Hunt to suggest that the law needed to be clarified on the point of new city banks. Hunt agreed. The two men met at the capital in Springfield on January 3 to expedite filing of a test case that would put the question of the law's scope in front of the state's highest court for an early decision. Judah duly filed a petition for a writ mandamus (court order) asking for Northern Trust's application to be granted by the state auditor. Hunt immediately filed for a hearing on the issue. The wheels were now in motion.<sup>1</sup>

Three months later, following oral arguments in *Dupee, et al. v. Swigert*, Justice Benjamin D. Magruder issued an opinion on behalf of the Illinois Supreme Court. The decision was front-page news in the *Chicago Daily Tribune* on April 6. The seven justices held widely differing views on various aspects of the new bank law, but most agreed that the 10,000 population limit

was too arbitrary. Aside from the capital requirements stipulated under Section 11, the law overall said nothing about population as a criterion for organizing a new bank and therefore applied to the entire state, including cities. The original reasons “assigned for the refusal” of Northern Trust’s application “are insufficient,” wrote Magruder. The “permission applied for should have been granted. ”Thanks to Northern Trust’s test suit, bank corporations in cities were now free to organize under the new law.

On June 18, Northern Trust was issued a permit to organize a corporation, valid for 999 years. Illinois granted the bank its state charter on August 7. Byron L. Smith opened his new bank for business in The Rookery building on August 12, 1889.

<sup>j</sup> This sidebar draws on “To Test Illinois’ New Banking Law: Suit Begun by The Northern Trust Company,” *Chicago Daily Tribune*, January 3, 1889, p. 6; “The Banking Law Valid: A Supreme Court Decision in the Dupee Test Case,” *Chicago Daily Tribune*, April 6, 1889, p. 1; and “Stocks Still Advancing: Business in Wall Street Quiet But Satisfactory,” subhead “Dupee Gets His Permit,” *Chicago Daily Tribune*, June 18, 1889, p. 9.