PRACTICAL BANKING

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CHAPTER I.

WHY WE NEED MONEY.

It would hardly be possible to overstate the need of the world to-day for an adequate system of money and banking. Without them we could not have made the progress we already have; only as they meet our future needs can we continue to advance. It is a common saying that the introduction of power machinery brought about an industrial revolution. Similarly we may say that the development of money and credit arrangements has been accompanied by a continual evolution in commercial dealings, and has made possible our present business system. Without some such business system, modern methods of production would not be possible, no matter how abundant our water power and coal and gas supply or how great our resources in the way of raw materials.

Division of Labor.

The great central characteristic of modern business is organization—specialization. Instead of working separately and as individuals, modern men are each parts of a great scheme of co-operation which includes the whole world in its scope. No successful man can live to himself alone. He knows one particular trade or kind of work, and this only he does for a hundred or a thousand or ten thousand people. In turn, one thousand or ten thousand or a million people contribute each one some bit to his means of comfort or enjoyment. The basis of the organization of production is what we know as division of labor and localization of industry. This division of labor has existed to a certain extent for many centuries but has been rapidly carried, since the development of power machinery and the factory system, to extremes undreamed of before that time.

Growth of the System.

It is probable that in very early times there was not even such a rough division of occupations as would cause different trades to be distinguished. Every man built his own house and made his own clothes, as well as producing his food supply from his flocks and herds or from some simple system of agriculture. But houses thus built and clothes so made were but crude and unsatisfactory, at best, and there was very early a giving over of this work to some person who followed it as a trade, spending all his time in making clothes or building houses for the community, and in turn receiving his supplies of goods from those who thereby had more time to devote to production. To-day it is only in the most backward of communities that a family approaches this condition where it supplies all its own wants.

Modern Phase.

The trades and professions that emerged very early are becoming divided and subdivided to a greater and greater degree. In medicine, the day of the general practitioner is fast disappearing and instead we have throat specialists, lung specialists, heart specialists, nerve specialists, and the like. In industry we do not find one man any longer completing the whole of a product in most cases. Each man cuts a particular piece of metal, or cloth, or leather, as the case may be or runs a particular seam, puts parts together, or performs a single step in the finishing process. Suppose the article to be made is a chair. One man turns out the round parts, another glues the frame, still another sandpapers it ready for finishing, it is dipped in the staining tank by another, varnished by a man who does nothing else, rubbed down by a boy, and finally inspected to see that all previous work has been properly done. Each one of these many workers does only one part of the process, but in this he gains marvelous speed and skill.

THE BENEFITS.

It is simply the old saying that practice makes perfect. The worker performs the one little process so often that the few movements necessary become automatic. He wastes no time in planning or in studying out his task as it progresses. In fact it is probable that the action becomes a mere reflex movement, and the brain is not called upon in each case to direct the muscles, but they become coordinated with reference to that particular work, and the worker therefore need spend only a surprisingly small amount of energy. To be sure, this introduces a certain monotony into the work, but that is more than compensated by the variety of the products which can be obtained from that work. Through our modern system of exchange the laborer can turn his labor into a countless variety of products which make his life comfortable and enjoyable and which he could never possibly have produced for himself. This variety of consumption is one of the great benefits of modern organization of society.

A Place for Everyone.

Organization and specialization make for efficiency, because they tend to have a man do the kind of thing he is best fitted to do by reason of some natural ability or special training or a combination of these, and keep him always working at his best. Likewise, it means that the different tasks are done by the persons best fitted to accomplish them. This means economy of effort as well as great improvement in the quality of the product. The division of labor makes modern society efficient, because it gives everyone an opportunity to find that peculiar place for which he is best adapted, whether his abilities be small or great. By division of labor, tasks are so sub-divided that even the weak or unintelligent can master one of these simple processes, and thus the less efficient are not crowded out. At the same time, this means that the drudgery of life is largely taken over by such persons of lower attainments, and the strong and able are left relatively free to devote their time and energies to activities of a higher order, and in these higher activities to become remarkably proficient.

Localization of Industry.

The same reasons explain the appearance and development of the system of localization of industry.

Certain localities present certain advantages, either natural or artificial, for certain kinds of productive enterprise. It may be that a given locality has large deposits of coal or iron or other minerals, large forests, or a particularly rich soil and favorable climatic conditions. Such conditions will surely tend to have such a section develop along the lines of mining, or lumbering, or agriculture, as the case may be. Similarly, an abundant supply of water power, coal, or natural gas, will present conditions favorable to the development of a manufacturing center, particularly if such conditions are accompanied by nearness to raw material or convenient means of transportation.

EXAMPLES OF LOCALIZED INDUSTRY.

In our own country, reasons such as these can be clearly seen to account for the large amount of manufacturing in the New England States, the commercial greatness of New York City, the agricultural importance of the Mississippi Valley, and the production of minerals in certain mountainous sections. Probably one of the best examples of such localization is found in the production of hard coal in the United States. According to the last census, three counties in the State of Pennsylvania produce three-fourths of all the anthracite coal mined in the United States. Certain manufactures show a similar tendency to locate in certain small areas, often in a single city. The census shows that New York City produces over one-half the clothing made in the United States, Chicago about one-fourth of the total output of agricultural implements, and the city of Troy, New York, in spite of its comparatively small size, furnishes 89.5 per cent. of the total output of collars and cuffs. As to the division of labor, the Special Report of the United States Census Bureau on "Employes and Wages" shows 245 different kinds of work in the iron and steel industry, and 186 such divisions in the factory production of shoes.

Great Number of Exchanges.

The results of this division of labor and localization of industry are familiar to all of us. Division of labor goes hand in hand with the wage system, and the localization of industry is likewise favorable to the growth of the middleman. Both increase the volume of exchanges and therefore create a demand for money and for banking accommodations. When a man produced all that he consumed, or when a group of men, united into a clan, together produced all that the clan together consumed, there was no need for money or even for barter, or the exchange of commodities. Even with the first developments into trades, as we have seen, there was comparatively little need because of the fact that payments were made by simply exchanging directly the things produced. But under modern conditions such a simple system is absolutely impossible.

Barter Inadequate.

Let us take for example a large industrial establishment such as the Baldwin Locomotive Works. The idea of paying the employes directly in the product of the concern is absurd. The product, like the procers, has become highly specialized. Only the finished product has any market value, but a finished locomotive would be the last sort of thing that a moulder or a machinist or a pattern-maker would desire to receive in exchange for his services. Probably some of them would have to work at least fifty years before their wages would entitle them to such a unit of payment. It would be impossible for them to support themselves for such a length of time in anticipation of an ultimate payment, and even when received it would be unavailable for the actual needs of the worker. He could not exchange it directly for food or clothing or house rent, but would have to find some person or company to whom he could get rid of it and in exchange get something which would be desired by the grocer and the butcher and the landlord. What the worker wants is payment in some form which can be at once converted into these necessities of life. It is to meet just that need that our money systems of to-day have grown up.

A Medium of Exchange Needed.

Division of labor and large-scale production has tended to separate producer and consumer and to make any system of direct barter out of the question. There has grown up therefore the need of a medium of exchange.

By a medium of exchange we mean simply that commodity which will be universally acceptable by all persons in payments for services or goods. We will suppose that "A" is a tailor. He has on hand numerous suits of clothing which he has no use for himself, but on the other hand he perhaps desires a piano. It is possible that no one who has a piano to dispose of desires to get a suit of clothes such as the given tailor has to offer, or certainly that he does not wish to receive the whole value of the piano in the form of clothing. Here enters the middleman, doing away with the need for any such direct system of barter. Instead, the man with the suits sells them for a medium of exchange, which he accumulates until such time as he has an amount which will be accepted in payment for the desired piano. The man who receives this medium for his piano has something which he in turn can transform into the various articles which he needs, either in his business or in his domestic life, and is not obliged to take payment in the form of clothing or any other bartered goods for which he has no need.

VARIOUS ARTICLES USED.

The article to be used as such a medium of exchange will depend upon the times and circumstances. To-day it is coin or paper currency issued by the authority of government, but in the past other articles have been used for this purpose. Always, however, the medium of exchange, whatever it is, must possess certain qualities which make it satisfactory and desirable to those who have occasion to use it. Among people engaged in cattle or sheep raising it is probable that the medium of exchange in early times was cattle or sheep, and among agricultural people, grain, tobacco, olive oil, and other forms of staple produce have been used in effecting exchanges. But such a system will be adequate only when conditions are very simple and the needs of the people comparatively few. In a complex civilization like that of to-day, all of these earlier mediums of exchange would be unsatisfactory and have therefore been abandoned. In place of them we have in all civilized countries a system of money based upon coins made by authority of the Government from certain metals, principally gold.

Other Services of Money.

Besides its actual service in passing from hand to hand in the course of trade, money performs two other services of a slightly different nature but somewhat similar to each other. The first of these is that it serves the purpose of a measure or standard of value, and the second, growing out of this, a standard of deferred payments. In many transactions where no money passes we still use the terms "dollars" and "cents" to express the value of the property transferred. Without some such standard commodity, we would be without the means of quickly stating the value of any given property so that others would be able to comprehend the value which we placed upon it. For example, if trade were carried on by barter and if money were unknown, a man who is asked to put a price upon a horse or a piece of land or any other goods which he might have for exchange, would have to express this price in terms of all the other possible commodities for which it might be exchanged. Thus instead of saying that the price of the horse which he offered for sale was $100, he might say that it was equal to two cattle, six sheep, eight hogs, one hundred bushels of wheat, one hundred and fifty bushels of corn, or any other from an infinite list of articles.

A Standard of Prices.

Money gives us a common denominator with which all articles can be compared and their value and consequent price definitely determined. Similarly, if one has payments to make in the future, he must have some standard by which to measure those payments. He may buy to-day a piece of ground which he expects to pay for ten years from now or on which he expects to pay annual rentals for a long period. The owner desires to have these future payments measured by some stable standard, whose value he feels reasonably certain of, not in terms of ordinary articles of use or consumption whose value may have decreased or entirely disappeared before the time of such future repayment.

Qualities of a Money Commodity.

To see why money in the forms in which we know it has come into use, we will notice what qualities are desired in a medium of exchange and standard of values and deferred payments. The first requisite of money is that it shall be possessed of a fairly definite and stable value. No man will be willing to accept in payment for his services or goods a thing of whose value he is uncertain, or if he does accept such an article it will probably be only at a safe discount. Likewise the money medium must possess great enough value so that large payments may be made with it without too great inconvenience. The Greeks began to use iron as money in the early days when its production was so limited that it ranked among the precious metals, but later with the cheapening of its production they abandoned its use, and the idea of a thousand dollars worth of iron money to-day is absurd.

On the other hand a metal which is too scarce or whose value is increasing because its supply is not adequate to the demand for use in the arts, is poorly adapted to use as money. An example of this is seen in the case of the Russian attempt to coin platinum. Platinum was produced in only a few very small sections, and the demand for its use in electrical apparatus, gas engines, and modern scientific instruments is increasing at a rate greater than its production. The result is that Russia was unable to keep such coins in circulation. This means also that the precious metals are not well adapted to make up the whole of a system of money, because if used for coins of low value their size would be so small as to cause great inconvenience and danger of loss. It is for this reason that almost all countries supplement their gold coinage by the use of silver, bronze, and sometimes nickel.

Minting Qualities.

Another quality which is desired in the money medium is that it shall readily admit of being put in the form of coins which will take the stamp and design of the government and which will be reasonably durable for this use. Both gold and silver when mixed with 10% of copper as an alloy, as is done in the United States, possess excellent minting qualities. Besides being clearly stamped, coins to be easily recognized should be of sufficiently different size so that they can be distinguished even without pausing to notice their design or read their inscription. The idea of having coins of different shapes has been abandoned by all civilized countries, in favor of round coins. These qualities of coin money are commonly spoken of as durability, cognizability, and portability. Most civilized countries economize the use of metals by issuing paper certificates which circulate in place of coin. These possess advantages of convenience, ease of counting, and lightness, but must be issued only against actual deposits of coin or against the well established credit of the country. So far as they circulate in place of coin money, they prevent its loss by wear.

SUMMARY.

To sum up then, we may say the modern man, for the sake of technical efficiency, devotes his whole time to one special kind of production. Of his product he consumes little or none, but must exchange it for some valuable thing which he can then in turn exchange for those things which he does desire to consume. To effect this exchange he uses money or some form of credit based on money. Banks, in handling credit, extend the labor-saving work of money. This point was well set forth by Adam Smith in the following passage from "The Wealth of Nations."

> "The gold and silver money which circulates in any country, and by means of which the produce of its land and labor is annually circulated and distributed to the proper consumers, is all dead stock. The judicious operations of banking by substituting paper in the place of a great part of this gold and silver enable the country to convert a great part of this dead stock into active and productive stock, into stock which produces something to the country. The gold and silver

money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either. The judicious operations of banking by providing, if I may be permitted so violent a metaphor, a sort of waggon-way through the air: enable the country to covert, as it were, a great part of its highways into good pastures and cornfields, and thereby to increase very considerably the annual produce of its land and labor."

CHAPTER II.

OUR OWN SYSTEM OF MONEY.

The system of money now existing in the United States consists of gold, silver, nickel, and copper coins, United States notes, Treasury notes, Treasury certificates of deposit, and national bank notes. The basis of the system is a gold dollar of the weight of 25.8 grains, nine hundred one-thousandths fine. To be sure this gold dollar is not now coined, but all other coins are based upon its valuation. The coin was found to be too small for convenient circulation and was therefore discontinued by the act of September 26, 1890, but since that time there have been put out two issues of souvenir gold dollars, one of about two hundred and fifty thousand dollars coined in honor of the Louisiana Purchase Exposition, and one of about sixty thousand dollars in honor of the Lewis and Clark Exposition. The three-dollar gold coin was also dropped from the coinage by the Act of 1890 and the quarter-eagle or two dollar and fifty-cent gold coin is now issued only by the Philadelphia mint, and in comparatively small numbers. The gold coins in our system, therefore, are four in number; the quarter-eagle, half-eagle, eagle, and double eagle; of the value respectively of two dollars and a half, five dollars, ten dollars, and twenty dollars.

SILVER COINS.

Our silver coins are the silver dollar, half-dollar, quarter-dollar, and dime. The coinage ratio of silver and gold is sixteen to one, and the silver dollar therefore weighs 412½ grains. Our silver coins, like those made of gold, are alloyed with ten per cent. of copper to give them the necessary hardness. The half dollar, quarter dollar, and dime contain less than their proportionate weight of silver, or are what is known as "debased" coins. The amount of this debasement is about seven per cent., so that the half-dollar weighs 192.9, the quarter-dollar 96.45 and the dime 38.58 grains. In 1853 the price of silver was so high that silver coins were worth more as bullion than as coin. As a result these coins were melted up or exported and the country was left without the necessary small coins with which to make "change." To prevent this destruction of our subsidiary coins, they were debased in 1853 by having the legal weight changed and 7½% less silver put in them.

VALUE OF SILVER COINS.

Since then slight changes have been made in the respective weights, but they have never been restored to the full weight in proportion to the silver dollar. With the great increase in silver production, its price fell and silver coins have never been returned to full value equal to the denominations stamped upon them. They circulate readily, however, inasmuch as the government has established by the act of 1900 a policy of exchanging these coins for gold according to the value stamped upon them, irrespective of the value of the bullion which they contain. Silver 20-cent pieces, half-dimes, and three cent pieces were formerly parts of our coinage system but have been discontinued, either because too small or so closely resembling other coins in our system as to cause confusion.

Minor Coins.

The so-called "minor" coins are the nickel 5-cent piece and the copper cent. There were formerly three cent and one cent nickel coins, bronze two-cent pieces, and copper half-cents, but none of these have been coined since 1873.

The Mints.

To produce these ten different coins, our Treasury Department maintains four mints in various parts of the country. The most important of these is located in Philadelphia, and the others are found at New Orleans, Denver, and San Francisco. A fifth mint formerly existed at Carson City, Nevada, and still bears the name of mint although it does no coinage whatever, but simply performs the same services as do the various government assay offices, receiving deposits of bullion which it transfers to the other mints for coinage.

Free Coinage of Gold.

At any one of these four mints, gold can be presented and in exchange for it gold coins received to the amount of the value of the pure gold delivered, as ascertained after weighing, refining, and assaying the gold so delivered. In theory the government coins all gold presented at its mints or assay offices for any person who so desires it. That is we have "free coinage" of gold. In practice however, the government really buys such bullion, old jewelry, nuggets, gold dust or amalgam, since the depositor ordinarily does not wish to wait for the coinage of the actual metal delivered, even if the government undertook to keep each lot separate during the process of minting.

Silver Purchase.

Silver bullion is no longer purchased by the government except in such small quantities as may be mixed with the gold bullion. Such "base" bullion will be purchased only in case it contains at least thirty per cent. of pure gold. From 1878 until 1893, the government was a very large purchaser of silver bullion in accordance with the Bland-Allison and Sherman Silver Purchase Acts. The first of these acts provided for the purchase of from two million to four million ounces of silver per month and the latter act, passed in 1890, provided for the purchase of four and one-half million ounces per month, provided the market price did not go above $1.29 per ounce. Two million ounces of silver were to be coined each month until July 1, 1891. The remaining silver was stored in the treasury and has been drawn upon for coinage purposes until the present time and is not yet entirely exhausted. Silver dollars have not been coined since 1905, and many of the old and mutilated coins have been re-coined in the form of subsidiary silver.

Nickels and Pennies.

For the making of minor coins, the Philadelphia Mint purchases nickel and copper in the form of blanks ready for stamping, in such quantities as the officials deem necessary for the demands of trade. Banks and commercial houses are constantly making demands upon the mint for these small coins and in 1909 it was deemed necessary to provide greater facilities for the furnishing of these coins. Accordingly in that year the coinage of the bronze cent was begun in the San Francisco Mint. The mints at Denver and at New Orleans do not coin either nickels or pennies.

SEIGNIORAGE.

Since the government purchases nickel, copper and silver at the market rate and is able to put them into circulation at a higher valuation, after placing its stamp upon them, it is evident that a certain profit is made upon the transaction. This profit is known as seigniorage, from the old word seignior, meaning lord or ruler, since this privilege of coinage was one of the most valuable of the privileges of ancient monarchs. The seigniorage on subsidiary silver coined in the United States during the year ending June 30, 1909, amounted to $5,800,917.80. On the other hand there is a loss from the re-coinage of worn or abraded coins. In the same year this loss from re-coinage amounted to $26,049.38 and on silver coins $65,018.05.

PAPER CURRENCY—THE GREENBACK.

Of the various forms of paper money we will notice first the so-called greenback. These are Treasury notes issued by the Government at the time of the Civil War in order to furnish funds to carry on the war at a time when it was impossible to float bonds on satisfactory terms. Three issues of $150,000,000 each were put out during the years 1862 and 1863. After the close of the war, about $100,000,000 of these notes were withdrawn from circulation and retired, but $346,681,016 are still kept in circulation, old or torn notes being replaced by fresh ones from time to time. Since 1879, greenbacks have been redeemable in gold, and for this purpose a redemption fund of not over $150,000,000 in gold is maintained by the Treasury. If the demands for redemption are so great at any time as to reduce this fund to less than $100,000,000, the Secretary of the Treasury is authorized to sell government bonds in such amount as is needed to restore this amount. This provision is contained in the second section of the Gold Standard Act of March 14, 1900, as follows:

"* * in order to secure the prompt and certain redemption of such notes, it shall be the duty of the Secretary of the Treasury to set apart in the Treasury a reserve fund of one hundred and fifty million dollars in gold coin and bullion, which fund shall be used for such redemption purposes only; and whenever and as often as any of said notes shall be redeemed from said fund it shall be the duty of the Secretary of the Treasury to use said notes so redeemed to restore and maintain such reserve fund in the manner following, to wit: First by exchanging the notes so redeemed for any gold coin in the general fund of the Treasury; second, by accepting deposits of gold coin at the Treasury or at any subtreasury in exchange for the United States notes so redeemed; third, by procuring gold coin by the use of said notes, in accordance with the provisions of section thirty-seven hundred of the Revised Statutes of the United States. If the Secretary of the Treasury is unable to restore and maintain the gold coin in the reserve fund by the foregoing methods, and the amount of such gold coin and bullion in said fund shall at any time fall below one hundred million dollars, then it shall be his duty to restore the same to the maximum sum of one hundred and fifty million dollars by borrowing money on the credit of the United States, and for the debt thus incurred to issue and sell coupon or registered bonds of the United States, in such form as he may prescribe, in denominations of fifty dollars or any multiple thereof, bearing interest at the rate of not exceeding three per centum per annum, payable quarterly, such bonds to be payable at the pleasure of the United States after one year from the date of their issue, and to be payable, principal and interest, in gold coin of the present standard value."

TREASURY NOTES OF 1890.

Similar to the greenbacks are the Treasury notes of 1890, which were issued in payment for the silver bullion purchased under the provisions of the Sherman Act, to which we have already referred. The total amount of notes so issued was about $156,000,-000, but they have now practically disappeared from circulation, as it has been the policy of the government to retire them as fast as possible, putting in their place silver certificates issued against deposits of the dollars coined from the silver originally purchased with the Treasury notes. There are now less than $5,000,000 of these Treasury notes of 1890 in circulation.

GOLD AND SILVER CERTIFICATES.

The third kind of paper money which we find in our circulating medium is the deposit certificate issued by the government against gold and silver coin and bullion on deposit in the Treasury. They have the great advantage of being light and convenient for ordinary business use and at the same time being secure because of the actual deposits against which they are issued. The amount of gold certificates outstanding, according to last available figures, was $782,976,619, and of silver certificates $465,278,705. Silver certificates are now issued in denominations of $1.00, $2.00, $5.00, and $10.00, and are very convenient substitutes for the use of silver dollars and gold $5.00 and $10.00 coins. A few silver certificates are issued in larger denominations in accordance with the following provision of the Act of 1900:

"Sec. 7. That hereafter silver certificates shall be issued only of denominations of ten dollars and under, except that not exceeding in the aggregate ten per centum of the total volume of said certificates, in the discretion of the Secretary of the Treasury, may be issued in denominations of twenty dollars, fifty dollars, and one hundred dollars; and silver certificates of higher denomination than ten dollars, except as herein provided, shall, whenever received at the Treasury or redeemed, be retired and cancelled, and certificates of denominations of ten dollars or less shall be substituted therefor, and after such substitution, in whole or in part, a like volume of United States notes of less denomination than ten dollars shall from time to time be retired and cancelled, and notes of denominations of ten dollars and upward shall be reissued in substitution therefor, with like qualities and restrictions as those retired and cancelled."

The gold certificates are issued in larger denominations and are a convenient substitute for gold coin in making large payments. Their denominations are from $10.00 up to $10,000, according to the sixth section of the Gold Standard Act.

"Sec, 6. That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin with the Treasurer or any assistant treasurer of the United States in sums of not less than ten dollars, and to issue gold certificates therefor in denominations of not less than ten dollars, and the coin so deposited shall be retained in the Treasury and held for the payment of such certificates on demand, and used for no other purpose. Such certificates shall be receivable for customs, taxes, and all public dues, and when so received may be reissued, and when held by any national banking association may be counted as a part of its lawful reserve: Provided, That whenever and so long as the gold coin held in the reserve fund in the Treasury for the redemption of United States notes and Treasury notes shall fall and remain below one hundred million dollars the authority to issue certificates as herein provided shall be suspended: And provided further, That whenever and so long as the aggregate amount of United States notes and silver certificates in the general fund of the Treasury shall exceed sixty million dollars the Secretary of the Treasury may, in his discretion, suspend the issue of the certificates herein provided for: And provided further, That of the amount of such outstanding certificates one fourth at least shall be in denominations of fifty dollars or less: And provided further, That the Secretary of the Treasury may, in his discretion, issue such certificates in denominations of ten thousand dollars, payable to order." Greenbacks are issued only in denominations of $10.00 and upward to $1,000."

NATIONAL BANK NOTES.

Finally we have the National Bank note. These are issued by banks chartered by the Federal Government under the National Bank Act, and secured by deposits of lawful money with the Comptroller of the Currency to provide for their redemption, and of United States Government Bonds to an amount at least equal to and in some circumstances greater than the total value of all such notes issued. The conditions of their issue will be taken up in detail in a later chapter. National Bank notes are issued in denominations of $5.00, $10.00, $20.00, $50.00, $100.00 and are readily accepted because of their absolute security and their convenience.

Local Peculiarities.

Such is the currency of the United States as provided by the laws, but the actual currency in circulation in different parts of the country varies considerably. For example, one almost never finds a silver dollar circulating in the ordinary channels of trade in Philadelphia, and in Salt Lake City a one-dollar silver certificate would be as rarely met with. Habit and local conditions considerably affect the actual medium of exchange. In the large cities and particularly in the East the bulk of transactions are carried on by means of crisp new paper money of the various kinds and denominations. There is likewise an abundant supply of subsidiary silver and minor coins. In country districts, where banks are fewer and less efficient and where money passes from hand to hand for long periods without being deposited in any bank, the paper money is worn to tatters and filthy beyond description. In the West, there is an abundance of gold and silver money, and a great scarcity of all forms of paper currency except national bank notes. In many sections also there is a great scarcity of copper cents, so that for commercial transactions the nickel is in effect the smallest unit of our coinage. It is probable that the coinage of pennies by the San Francisco Mint will change this in the course of time.

LEGAL TENDER.

Although all these ten different kinds of currency circulate with equal freedom within the United States, they are not legally on a par as media of exchange. From time to time various legal tender laws have been passed, specifying the conditions under which they shall be accepted in payment of debts. At present gold coins are thus acceptable as legal tender in payment of all debts, public or private, in any amount, at their face value. Silver dollars are legal tender at their face value likewise, except in such cases as a contract stipulates in advance that silver will not be so accepted. Subsidiary coin is legal tender up to ten dollars in a single payment. United States notes, or greenbacks, are legal tender except in the case of duties on imports and exports and for interest on the public debt. Treasury notes of 1890 are on the same footing as standard silver dollars, that is legal tender in the absence of any express provision to the contrary. National bank notes are received in payment of all public dues except duties on imports and are paid out by the government for all salaries or other disbursements by the United States to individuals or corporations except in payment of interest on the public debt, or in redemption of its own paper currency. Gold and silver certificates, while not legal tender, in general, are receivable for all public dues. Nickels and pennies are legal tender in amounts of twenty-five cents or less.

CHAPTER III.

HOW CREDIT HELPS IN THE WORK OF EXCHANGE.

Money, as we have seen, comes into use when business dealings become so numerous and complicated that simple barter no longer serves the purpose of exchange. It results in great convenience to buyers and sellers, and enables business to be carried on with much less waste of time and labor than would otherwise be possible, but even money dealings are too slow and clumsy to meet fully the needs of the rushing trade of to-day, and to still further lighten this work, credit is called into play.

What Credit Is.

Credit is simply a promise or contract to pay money in the future. If a man is known to be responsible and upright and to have the ability to pay, he need not actually deliver money in exchange for every purchase which he makes. Instead, he simply gives to the seller of the goods his promise to make such a payment in the future. At that future time, he may settle a dozen or a hundred transactions by one single payment, and even this payment may be accomplished by the use of credit, because the buyer will very likely pay by a check, which is simply an order upon funds which he has at the bank. This deposit even may have been created in the course of a credit transaction. The result of the system, however, is that instead of keeping money employed from day to day in the mere work of making payments back and forth, its use is economized. It can be devoted to productive employment, while current exchanges are affected by the transfer of promises to pay. The economies of the credit system are particularly evident in the case of two persons or concerns having continuous business dealings with each other, both buying and selling.

A Simple Case.

A simple case is that of a farmer and the grocer from whom he buys his supplies in town. The farmer buys flour and coffee and sugar and countless other things on his daily or weekly visits to town, but he also brings with him and sells to the grocer butter and eggs, fruit and vegetables, in the course of the month. It would be foolish and entirely unnecessary for him to pay the grocer each time he made a purchase, or for the grocer to pay him each time he made a sale. Instead, each will run an account with the other until the end of the month or some other convenient settlement day, if they are wise. All the items which the grocer sells to his customer he will enter upon his books, and also keep a record of the produce received from him. The farmer should do likewise. At the end of the month, these two book accounts will be compared and offset against each other. We will suppose that the farmer has purchased $40.00 worth of groceries and has delivered to the grocer in the course of the month $35.00 worth of the products of his farm. Here we have $75.00 involved, and yet there is only a balance of $5.00 which need be settled in cash.

It might even be possible to extend the system for a longer time, merely making comparison of the accounts at convenient times and making actual settlements only once a quarter or even once a year. For instance, the farmer might feel reasonably sure that in the following month he would bring to the store an amount of produce worth at least $5.00 more than the value of the supplies which he would purchase from his grocer. In that case the grocer might simply enter this balance of $5.00 as owing him at the end of the first month, and at the end of the second month offset it against the $5.00 which he owed the farmer.

Book Account and Bank Account.

This is the simplest form of credit, the book account, and is used very extensively. As a matter of fact, in a large number of cases, no actual promise of payment even has been made, but it is understood that a customer ordering goods upon a book account expects to be held for payment, and such a current record kept upon the books of the seller is admitted to court as a sufficient evidence of indebtedness. This system may be slightly modified in case the relations between buyer and seller are not such as to justify the running of an open account. It may be that the purchaser is unknown to the seller or that the transactions are so infrequent as to hardly justify the opening of a book account. In that case bank credit will form a convenient means of settlement. The purchaser will go to a banker and there establish an account. This does not mean that he will deposit the actual money, but instead will very likely simply exchange his own credit for the bank's credit. Upon showing satisfactory evidence to the banker of his ability to pay, the banker will discount the individual's personal note or extend him a loan upon such terms as he sees fit. The amount of this loan less the discount will then be placed to the customer's credit as a deposit, and against this deposit he can draw checks with which to make purchases from the merchants or others with whom he may chance to have dealings. Such a credit arrangement will be of the greatest convenience in his business transactions.

Credit Instruments.

As we have seen, the extension of credit on a book account involves no formalities, but when we pass to bank credit we find special forms used, which are commonly termed "instruments of credit transfer." First among them are checks of all sorts, then drafts and bills of exchange, including letters of credit, and finally promissory notes of various kinds, mortgage notes, bonds, and so forth.

Checks.

The ordinary check is an order which one person gives to another to be presented to his bank as a claim upon any funds or credit which the maker may have there. If such an order is presented to the bank and is certified, it becomes the bank's promise to pay the amount named in the check. The details of the check are discussed in a later chapter, but we may mention here that such an order may be passed from the one who originally received it, on to another in lieu of money and from him to still another until the check may have accomplished several transactions before it is finally presented for exchange into cash. In each such transaction it has avoided the use of an equivalent amount of money.

Drafts and Bills of Exchange.

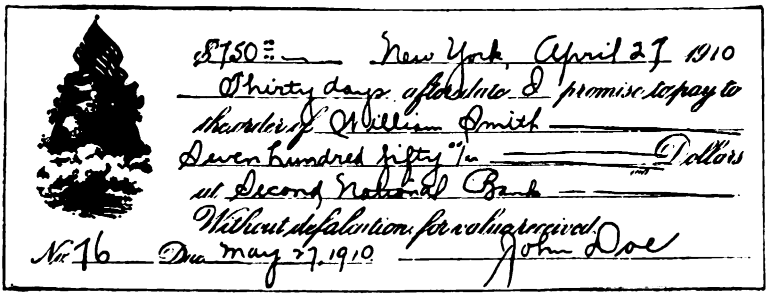
A similar form of order for money is the bank draft, which is simply the order of one bank drawn against funds of cash or credit which it has in another bank. The uses of the draft are quite similar to those of the check. Bills of exchange are like drafts, except in being drawn by one individual against another, and usually arise out of commercial transactions. The bill of exchange is used much more abroad than in America, and often passes from hand to hand as do checks in this country, effecting several exchanges before it is finally settled in cash. Letters of credit, postal and express orders, are special forms of credit which take the place of money in the making of payments from one part of our country to another, or between persons in America and those in foreign countries.

Bank Notes.

Then there are specific promises to pay at a specified time in the future or on demand. First among such promises stands the bank note. In issuing its notes, the bank puts out its promise to pay cash upon demand, and this form of credit instrument will be taken in payment by any person who believes in the ability of the bank to keep this promise. The conditions of bank note issue in the United States are discussed in another chapter of this book.

PROMISSORY NOTES.

Next there are similar promises to pay in the future, drawn by individuals, firms, or corporations, in the form of promissory notes. A promissory note is simply the promise of one person or concern to pay a given sum of money to some other party at a future date. No special form is required, it being necessary only that the intention of the maker shall be clear. Any one may draw a promissory note upon any blank piece of paper in such form as he sees fit, so long as he specifies clearly the details of the promise which he intends to make. The following is a printed form which can be used by simply filling in the necessary blanks.


$750.00 New York, April 27 1910
Thirty days after date I promise to pay to
the order of William Smith
Seven hundred fifty 00/100 Dollars
at Second National Bank
Without defalcation for value received.
No. 16 Due May 27, 1910 John Doe

ESSENTIALS OF A NOTE.

The essential features of a promissory note are that it shall be in writing, that it shall set forth clearly and unmistakably the parties to the contract, the exact nature of the obligation undertaken, and the precise time at which the contract is to be fulfilled. There are two parties to the contract, one known as the maker, by whom the note is drawn and signed, and the other called the payee, to whom the money is to be delivered in fulfillment of the promise contained in the note. The name of the maker appears as the signature at the bottom of the note. Sometimes it is desired that two persons shall together assume the obligation, and in that case both such parties sign the note as joint makers and it is known as a joint note. If the wording of the note is in the form "We jointly and severally promise to pay" there can be no question as to the undertaking of either party to discharge the whole of the obligation in case the other fails to meet his share of it. The payee of the note is the one whose name is inserted in the note as originally drawn, or else one to whom it is afterwards transferred by endorsement. It is by reason of this fact that the contract may be transferred to some other party than the one to whom the promise of payment was originally made, that a promissory note is known as a "negotiable instrument." The form used above is technically the most correct, namely "promise to pay to the order of," although "pay to———, or order," is very common.

NEGOTIATING A NOTE.

The manner of negotiating or transferring a promissory note is either by simple endorsement or by drawing up a brief supplementary statement on the back of the note. Suppose that the name of William Smith has been inserted in the note above, and he, in the course of business, wishes to obtain his money before the maturity of the note. He might sell it to some third party, say Richard Roe, to whom he would then transfer it by endorsing on the back the words "Pay to the order of Richard Roe" and signing his name beneath. Several such transfers are sometimes made before a note is finally paid. Where a note has thus been transferred one or more times, the maker may be in ignorance of the name of the actual holder at the time of maturity, and in such a case the holder should notify him. Banks buy many such promissory notes and hold them until the time of maturity and ordinarily make it a practice to give the drawer notice of the date of maturity of notes which have come into their possession, a reasonable time in advance, to make sure that he has not forgotten the obligation and to give him time to arrange for its repayment.

Date and Maturity.

The date of making a note should be entered upon it and is of importance because by it is determined the date on which the note will mature in case the form of wording is "Three months from date I promise to pay" or some other time specified in such a manner that the date from which the reckoning begins must be known. A better way of drawing a note is to specify the date on which it is to fall due instead of the period of time for which it is to run. This avoids any possibility of confusion as to whether a note drawn "three months from date" is due three calendar months from date or after ninety days or three lunar months. It used to be the custom to allow three days of grace within which the drawer might settle before his note should be regarded as overdue, but this has been abandoned in a large majority of our States, and a note is now overdue unless paid on the exact date on which it falls due, unless that date happens to fall upon a Sunday or a legal holiday. In that case the next regular business day is the day on which the note is properly due.

INTEREST CLAUSE.

The ordinary promissory note virtually combines two contracts, one for the repayment of the sum borrowed, that is the principal of the note, and one for the interest to be paid for the use of that money. Sometimes the promise to pay interest is contained in a separate contract, or series of contracts attached to the note which covers the principal sum, or accompanying it. This is most common in the case of notes where some real property is pledged as security, namely, mortgages and bonds. In that case, each of these supplementary contracts specifies the actual amount of interest to be paid on each interest date, whereas if the interest contract is included in the body of the note, it is ordinarily in the form of "together with interest at the rate of —— per cent. per annum." In case it is intended that the note should not bear interest, it is best to include the words "without interest," since in some jurisdictions it is held that a man is always expected to pay interest, and if no sum is specified the legal rate in the given State can be collected.

SECURITY.

The amount of money which can be borrowed on a promissory note or the terms on which the loan will be extended, will depend upon the standing of the maker or the security which he is able to furnish. Besides the security of his own business standing and reputation, added security may be given the note by the process of endorsement, by the pledging of personal property as collateral security, or by the pledging of real estate under a mortgage or trust deed. Endorsement is one of the commonest forms in which added security is given on a promissory note. It is a common law principle that any name which appears upon the back of a note as endorsement indicates that the person who has thus endorsed the note agrees thereby to be held for the repayment of the loan in case of the inability of the maker of the note to pay it when it falls due. In this way a man of comparatively limited credit or small resources may induce personal or business associates to endorse his notes, and thus increase his credit and commercial rating with those who have money to lend. Sometimes this security is expanded into the form of a specific guaranty in the form of an additional written contract, specifying the exact nature of the obligations which the guarantor undertakes, and is either written upon the back of the note or upon a separate form and attached to it.

COLLATERAL NOTE.

If personal property, such as stocks, bonds, warehouse receipts, insurance policies, or the like, is to be pledged for the repayment of the loan covered by a promissory note, it is also common to make a separate contract setting forth the nature of such securities and the terms on which they are pledged. In case the original loan is not repaid according to the terms of the promissory note, the agreement set forth in the collateral loan contract will then be enforced. This generally provides that the holder may sell such property at public auction or private sale and take his payment from the proceeds. The form of such a collateral contract is shown below:

Philadelphia, Pa., April 2, 1910.

On demand I promise to pay to the order of

JOHN DOE & CO.

One thousand dollars WITH INTEREST FROM DATE, for value received, without defalcation, hereby waiving all right to stay of execution and exemption of property in any suit on this note.

As collateral security I have delivered ten shares New York Central common ....
....
....

which I hereby authorize and empower the holders thereof, on default in payment at maturity, with a view to its liquidation, and of all interests and costs thereon, to sell and transfer, in whole or in part, without any previous demand or notice to me, either at Brokers' Board or at public or private sale, with the right of becoming the purchaser and absolute owner thereof, free of all trusts and claims, should such sale be made at Brokers' Board or be public. Furthermore, I agree, that so often as the market price of these and subsequently deposited securities shall, before maturity of this note, fall to a price insufficient to cover its amount with ten per cent. margin added thereto, I will on demand, within two hours thereafter, deposit with the holders additional security, to be approved by said holders, sufficient to cover said amount and margin; and that, in default thereof, this note shall become instantly due and payable precisely as though it had actually matured, and all the foregoing rights to sell and transfer collaterals shall at once be exercisable at my risk, in case of any deficiency in realizing proceeds. And I further agree that the securities hereby pledged together with any that may be pledged hereafter, shall be applicable in like manner to secure the payment of any task or of any future obligation held by the holders of this obligation, and all of my securities in their hands shall stand as one general continuing collateral security for the whole of my obligation, so that the deficiency on any one shall be made good from the collaterals for the rest.

JOHN DOE.

REAL ESTATE MORTGAGE.

In case real estate is to be pledged as security for the loan, a mortgage will be drawn up covering such security. This is a separate instrument which is recorded by the Clerk of the County in which the property is located, and mentioned in the note for which it is given as security. It is, in effect, a conditional sale of the property to the person making the loan, and in case of failure to repay this loan it becomes an actual sale, through the process of foreclosure. This will be shown by the wording of the following extract from a mortgage:

THIS INDENTURE, made the first day of July in the year of our Lord one thousand nine hundred and ten BETWEEN

JOHN DOE,

(hereinafter called the Mortgagor), of the one part, and

RICHARD ROE,

(hereinafter called the Mortgagee), of the other part.

WHEREAS, the said Mortgagor, in and by this Obligation or Writing obligatory under his hand and seal duly executed, bearing even date herewith, stands bound unto the said Mortgagee in the sum of Ten Thousand Dollars ($10,000) lawful money of the United States of America, conditioned for the payment of the just sum of Five Thousand Dollars ($5,000) lawful money aforesaid, which said sum of Five Thousand Dollars ($5,000) is due and payable three years from date hereof, together with interest thereon, payable semi-annually from date at the rate of five per cent. per annum, ... without any fraud or further delay: and for the production to the Mortgagee, his Executors, Administrators or Assigns, on or before the first day of October of each and every year, of receipts for all taxes and water rents of the current year assessed upon the mortgaged premises; and also from time to time and at all times, until payment of said principal sum, for the keeping of the building ....mentioned in this mortgage insured against loss or damage by fire for the benefit of the Mortgagee in the sum of Five Thousand Dollars ($5,000).

NOW THIS INDENTURE WITNESSETH, That the said Mortgagor as well for and in consideration of the aforesaid debt or principal sum of Five Thousand Dollars ($5,000), and for the better securing of payment of the same, with interest as aforesaid unto the said Mortgagee, his Executors, Administrators and Assigns, in discharge of the said recited Obligation, as for and in consideration of the further sum of One Dollar unto me in hand well and truly paid by the said Mortgagee at and before the sealing and delivery hereof, the receipt whereof is hereby acknowledged, have granted, bargained, sold, aliened, enfeoffed, released and confirmed, and by these presents do grant, bargain, sell, alien, enfeoff, release and confirm unto the said Mortgagee, his Heirs and Assigns, (Here follows a description of the property).

TO HAVE AND TO HOLD the said ....Hereditaments and premises hereby granted, or mentioned and intended so to be, with the Appurtenances ....unto the said Mortgagee, his Heirs and Assigns, to and for the only proper use and behoof of the said Mortgagee, his Heirs and Assigns forever.

....
....

PROVIDED ALWAYS, nevertheless, that if the said Mortgagor, his Heirs, Executors, Administrators or Assigns, shall and do well and truly pay or cause to be paid, unto the said Mortgagee, his Executors, Administrators or Assigns, the aforesaid debt or principal sum of Five Thousand Dollars ($5,000) on the ....day and time hereinbefore mentioned and appointed for payment of the same, together with interest as aforesaid, and shall produce to the said Mortgagee, his Executors, Administrators or Assigns, on or before the first day of October of each and every year, receipts for all taxes and water rents of the current year assessed upon the mortgaged premises, without any fraud or further delay, and without any deduction, defalcation, or abatement to be made of anything herein mentioned, to be paid or done, and shall keep the building mentioned in this mortgage insured as aforesaid, then, and from thenceforth, as well as this present INDENTURE, and the estate hereby granted, as the said recited Obligation shall cease, determine and become void, any thing hereinbefore contained to the contrary thereof, in any wise notwithstanding.

AND PROVIDED ALSO, that it shall and may be lawful for the said Mortgagee, his Executors, Administrators or Assigns, when and as soon as the principal debt or sum hereby secured .... shall become due and payable as aforesaid, or in case default shall be made for the space of thirty days in the payment of interest on the said principal sum .... after any .... payment thereof shall fall due, ... or in case there shall be default in the production to the said Mortgagee, his Executors, Administrators or Assigns, on or before the first day of October of each and every year, of such receipts for taxes and water rents of the current year assessed upon the mortgaged premises, or in the maintenance of such insurance as aforesaid, to sue out forthwith a writ or writs of Scire Facias upon this Indenture of Mortgage .... and to proceed thereon to judgment and execution, for the recovery of the whole of said principal debt .... and all interest due thereon, together with an attorney's commission for collection, viz: one per cent., besides costs of suit, and all expenses of effecting such insurance, without further stay, any law, usage or custom to the contrary notwithstanding.

IN WITNESS WHEREOF, the said parties to these presents have hereunto interchangeably set their hands and seals. Dated the day and year first above written.

Sealed and delivered in the
presence of us,
JAMES SMITH.
WM. JONES.

JOHN DOE. (Seal.)
RICHARD ROE. (Seal.)

ON THE first day of July, A. D. 1910, before me George Bailey, a Notary Public for the State of Pennsylvania, personally appeared the above-named John Doe and Richard Roe, and in due form of law acknowledged the above INDENTURE OF MORTGAGE to be their act and deed, and desired the same might be recorded as such.

WITNESS my hand and .... seal the day and year aforesaid.

GEORGE BAILEY. (Notarial Seal.)

RECORDED in the Office for Recording of Deeds in and
for .... in Mortgage
Book .... No. .... page ....etc.
WITNESS my hand and seal of Office this........
day of .... Anno Domini 190.....

TRUST DEED.

It has become quite common in recent years to use the trust deed in place of the mortgage, particularly where it is thought likely that there will be several changes in ownership of the mortgage note before its maturity. The principle here is the same as with the older form of mortgage, but the property, instead of being conditionally transferred to the mortgagee, is instead transferred to a trustee, who holds the property in trust for the repayment of the notes which it is intended to secure, regardless of who the holders of these notes may be at the time at which they are presented for payment.

CORPORATE BONDS.

This is somewhat similar to the method of issuing bonds under the security of a mortgage. Here, instead of one promissory note, covering the total amount of the mortgage, a series of notes are issued and sold to the public and their repayment secured by a mortgage on the properties of the company. The similarity of a mortgage bond to the simpler forms of promissory notes is shown by the following specimen:

United States of America

State of Ohio.

No. $1,000.

OHIO IRON AND STEEL COMPANY.

Six Per Cent. First Mortgage Gold Bond.

OHIO IRON AND STEEL COMPANY, a corporation organized and existing under the laws of the State of Ohio, for value received promises upon surrender of this bond to pay to the bearer hereof, or in case of registration to the registered owner hereof, the sum of

ONE THOUSAND DOLLARS

gold coin of the United States of the present standard of weight and fineness, at the office of the Ohio Loan and Trust Company, in the city of Cleveland, State of Ohio, on the first day of June A. D. 1938, with interest thereon from the first day of June A. D. 1908, at the rate of six per centum per annum, payable semi-annually in like gold coin at said office on the first days of May and November in each year, according to the sixty coupons hereto annexed upon presentation and surrender of said annexed coupons as they severally mature, without deducting from principal or interest for any tax or taxes which the company may be required to pay or retain therefrom by any present or future laws of the United States or of the State of Ohio, the obligor company hereby agreeing to assume the payment of such taxes.

This bond is one of a series of five hundred (500) bonds of one thousand dollars ($1,000) each numbered from one to five hundred, both inclusive, bearing even date herewith and maturing and bearing interest as herein stated, issued by the Ohio Iron and Steel Company, the payment whereof is equally and ratably secured by a First Mortgage made by the Ohio Iron and Steel Company to the Ohio Loan and Trust Company, Cleveland, as trustee to which mortgage reference is made for the property mortgaged for the terms and conditions of the same, and the terms and conditions on which this bond is issued to all the provisions of which said mortgage this bond is subject, and the holder is entitled to all the benefits and subject to all the conditions in said mortgage set forth. This bond may be registered in the name of the owner, in the manner and with the effect provided in said Mortgage.

This bond is subject to be redeemed at any semi-annual interest period, upon payment of the principal thereof with interest to the date of such redemption, and a premium of one hundred dollars ($100) in the manner provided in said mortgage; and is entitled to the benefit of the sinking fund to be created under the terms thereof.

The holder of his bond shall not have the right to levy upon or cause the said mortgaged premises or any part thereof to be sold under or by virtue of any judgment that may be obtained by reason of default in the payment of the principal or interest hereof when and as the same shall become due, but such proceedings shall only be had by the trustee under the mortgage as aforesaid on behalf of and for the equal benefit of all the bondholders, upon the conditions and in the manner in said mortgage stipulated.

This bond shall not become obligatory until it shall have been authenticated by a certificate endorsed hereon and duly signed by the trustees of the mortgage.

IN WITNESS WHEREOF the Ohio Iron and Steel Company has caused its corporate seal to be hereunto affixed and the same to be attested by the signatures of its president and secretary, and the reproduction of the signature of its treasurer to be impressed upon the coupons affixed, on the first day of June, A. D. 1908.

OHIO IRON AND STEEL COMPANY,
By

..............................**President.**

Attest:

..............................Secretary.

CREDIT INSTRUMENTS AS CURRENCY.

These larger forms of credit instruments, with their real estate security, do not pass so readily from person to person in settlement of current commercial transactions, but small promissory notes, bills of exchange, drafts, and checks do thus pass from hand to hand to an enormous extent in every day life, and this use of credit is a great aid to business dealings. In this way capital becomes much more effective and may be readily accumulated and directed to productive enterprises of the better sort, since those which obtain credit must show earning power by which to secure the loans made to them. The feat of getting together and transferring $100,000,000 would be almost impossible under a strict money system of commercial dealings. But by using credit and credit instruments it is accomplished by the writing of a few words, figures and signatures. The introduction of money made exchange easy by furnishing a medium much more convenient than had existed in the primitive days of barter. Credit, by substituting credit instruments which can be drawn whenever and wherever one wishes, and for the exact amount that he wishes, whether large or small, furnishes a medium of exchange which is as much more convenient than money as money was more convenient than barter. Credit therefore increases the effective supply of money, saves time and labor, and makes possible the great enterprises of to-day which are financed by borrowed capital.

IMPORTANCE OF CREDIT.

"Without anticipating the exposition of the practical aids furnished by modern banking expedients, it can be shown that credit is, in effect, a transaction in goods, although these goods are expressed in terms of money; that credit is granted only because the borrower can give good grounds for delivering the proceeds of salable goods as means of repayment; and that goods form the basis of credit. Money plays only secondary and minor part, auxiliary to the credit operations. Just as the amount of money is always and necessarily far less than the mass of salable goods in the market, so the amount of money bears a low ratio to the sum of credit transactions which it helps on. The real object of such operations, as in all production and consumption, is the possession and use of goods which satisfy wants. When a man borrows from a bank, he gets the loan usually in the form of a right to draw a given sum of money; but actual money is of no use to him except in so far as it aids him to get the coal, or cotton, or labor he needs in his business. The popular impression that a man borrows 'money' is misleading; it is no more than the wrapper in which his goods come to him. The error resides in confusing the means with the end.

"Whenever credit is granted, it will be found that, in return for the present use of means of payment in current funds, a man has pledged some property he owns or is believed to own, but to which he still holds title in case he repays the loan. We are not now concerned with the particular form of the pledge, whether a single-name note, a note with an endorser, a note with collateral, or what not. It usually happens that the borrower has goods, or securities, or salable property—or it may be only a legitimate expectation of goods—which he cannot use in their present form, as general purchasing power. If the manufacturer could turn the stock of harvesters and mowers in his warehouse into means of payment, he could buy more material, employ more labor, and have more machines ready for the next selling season; or if he has sold them to jobbers on time and if he could get present means of payment for the sums due him in the future, he could enlarge his business. At this point the development of credit comes to his aid. On the basis of property, he gets a loan; credit enables him to utilize his resources without parting with their ownership (except as modified by the pledge); it enables him to change a command over his specific kind of goods into a command over goods in general. It is credit which enables men to coin property into means of payment."* It is through banks that this process of transferring future purchasing power into present cash goes forward and we will, therefore, turn now to examine more fully the services which banks render to the community.

* Laughlin—Principles of Money.

CHAPTER IV.

FUNCTIONS OF THE COMMERCIAL BANK.

The commercial bank of to-day has so changed with the advancement and growth of business, as to show scarcely any resemblance to the first institutions known as banks. They arose because of the inadequate and uncertain coinage systems of early days and because of a need of a place of safe keeping. To-day, governments have so improved and regulated matters of coinage that the work of money-changing has dwindled and almost disappeared, and such funds as people hold in idleness are cared for by savings or safe deposit concerns. The commercial bank has to do with active commercial operations, and to them it furnishes a medium of exchange and credit capital. This statement practically sums up the four principal services of the commercial bank: first, the making of loans and discounts; second, receiving and keeping of deposits subjeet to the depositor's demand; third, the issue of notes of the bank; fourth, the investment of funds of the bank in securities or other long time obligations. We might add several other functions to this list, but they are minor services which appear only as incidents in the carrying on of these four principal lines of activity.

Sale of Credit.

It would perhaps seem most natural to place the deposit function of the bank first, but from the standpoint of the bank's purpose it is not entitled to that place. The commercial bank is organized primarily for the purpose of selling its credit to persons who need it, and to make this sale on the most profitable terms possible. Deposits of money are welcomed by the bank, not because the bank is organized for the purpose of furnishing them safe keeping, but because the bank can thus increase the funds available for loaning at profitable rates, without being obliged to pay the owners for the use of such funds.

Working Capital Needed.

The great demand of modern industry is for more capital. The efficient factory is the well equipped factory, and low cost of production depends on purchasing materials and supplies in large quantities and at times when the most favorable price can be obtained. Then, too, longer intervals pass before the finished product can be marketed and the sale price received. But in the meantime weekly wage payments must be advanced to the workers, and the other current operating expenses of the establishment must be met. This means that the manufacturer and merchant has most of his wealth tied up in buildings and machines, and from time to time needs to have current funds advanced to him against the future income of his plant.

Bank Credit Exchanged for Individual Credit.

To meet this need the modern commercial bank has developed an extensive system of exchanging the customers' business credit for their own bank credit. The old idea that really able business men kept out of debt has passed, and to-day the really successful man is the man who can not only employ his own money productively, but can also find for the funds of others so profitable a use as to enable him to pay them interest for the use of their money, and to reap a net profit above that, which will increase his own return. This is what makes the field of loans and discounts so profitable to the bank. It represents money or credit sold to a man able to pay a good price for it and willing to do so rather than draw money from his permanent producing plant and therefore cut down its earning capacity.

SEVERAL BENEFITS.

In doing this, the bank not only puts the capital of its stockholders profitably to work in furthering the industrial life of the community, but also draws out in the form of deposits from a large number of comparatively poor people in the community and additional fund which is thus available for further industrial growth and development. In determining on the amount of credit that will be extended to the various enterprises in the form of short time loans the bank investigates their standing, resources, and general management, and exerts an influence to keep them up to a reasonable standard of soundness and to weed out the concerns whose management is dishonest or inefficient. In this way, the aid which the bank furnishes to industrial enterprises by supplying them with temporary capital is directed not to all enterprises regardless of their quality, but to those, in general, whose presence is a real benefit to the community. All this means that the energies of the people are more and more directed to taking advantage of the resources about them and turning them to their own use, thereby adding to their enjoyment or well-being, instead of allowing their energies to be less effectively employed and their wealth to be neglected and idle.

DEPOSIT FUNCTION.

It is hard to draw a sharp line between the first and second functions of the bank which we have indicated, because, in the language of banks, "deposits" are created in the process of loaning funds and discounting bills receivable. That is, instead of actually handing over cash to the customer, in a large number of cases the amount which he desires to borrow is simply placed to his credit on the books of the bank as a deposit account against which he can draw by means of checks as he sees fit. We should perhaps call the second heading "cash deposits." As we said, the bank is glad to receive such deposits of money because they know by experience that though all such depositors are left free to draw these funds out at their pleasure, not all depositors will make demands upon their accounts at any one time, but that a considerable part of such funds will remain always in the hands of the bank. This is always much over half and ordinarily ranges from seventy-five per cent. as high as ninety-five per cent. of the total deposits. This increases largely the amount which the banks have available for the making of short time loans to their customers. They therefore undertake the service of storing and safeguarding this money free of charge, or may even sometimes allow a low rate of interest where a certain minimum balance is always maintained at the bank.

COLLECTION SERVICE.

An incidental service in connection with the receiving of deposits by the bank is that of collecting a large number of ordinary business credits for its customers. This grows out of the fact that the bank accepts checks on other banks, drafts, corporate interest coupons, and various other credit items for deposit in practically the same manner as though they were cash items. It must then attend to the collection of these items from the bank, individual, or corporation by whom they are payable. This service of making such collections where done free of charge really amounts to a payment to the depositor for the use of the funds which he leaves with the bank. Even without this accommodation, however, the depositor is generally glad to leave his money on deposit because of the right left to him of withdrawing it in part or altogether as he sees fit. The bank is at least a safe and convenient pocketbook, of which the depositor is glad to avail himself.

DEPOSIT CURRENCY.

Another aspect of this matter of deposits is that it provides the means of supplying the community with a convenient medium of exchange. Since checks are negotiable instruments, (that is pass from hand to hand by simple endorsement) they perform not only the one exchange for which they are originally drawn, but frequently effect more than one payment before they are finally presented to the bank, and thus lessen to a large extent the demand for money to be used in the process of buying and selling. The check presents many conveniences not possessed by other forms of currency. It can be drawn for the exact amount of the purchase price and thus avoids the making of change. Likewise it can be drawn for any amount whether large or small, and a single check for a large amount is much more convenient than the bulky package of money necessary to transfer the same amount in value, even if bills of large denomination were used for the purpose. A particular advantage of check currency is that it increases when needed and decreases when not needed and therefore supplies to a certain extent the element of elasticity which is so much desired in modern commercial countries.

BANK NOTE ISSUE.

But besides this use of checks as currency, banks put forth a legal tender currency under the supervision of the government. Most authorities agree that this right of note issue is one of the fundamental rights of banks at common law. Certainly it has existed and been exercised for a very long time. But the experience of the United States in allowing the unrestricted issue of note currency by the banks of the country was that they were tempted by the profits resulting from this circulation to increase the amount of their issues so greatly as to supply a currency very much larger than the state of trade and the volume of commercial transactions called for. This had a very unwholesome effect upon business, and when it was desired to have these notes redeemed, it was often found that the security was insufficient, and that, in periods of financial disturbance, when large numbers of the notes were presented for redemption, the banks were obliged to refuse to honor these credit obligations.

LIMIT OF THE FUNCTION.

As a result, the federal government instituted the present system of national bank notes. They have thought it wise to forbid the issue of notes by other than national banks, and by placing a tax of 10% upon them have caused them to be entirely withdrawn from circulation. The regulations under which national bank notes are issued are such as to decrease the profits from their circulation so far as to remove the tendency to over-expansion of their amount. Bank notes present some of the same advantages as do checks, being light, easy to handle, and not subject to loss through wear. Certainly, to-day national bank notes play a very beneficial part in our currency system and are kept within the needs of the country. In issuing them, banks render a real service to our business interests.

INVESTMENT.

The last function of the commercial bank is that of investment, the placing of a part of their funds in bonds, or other forms of investment which, although they return a smaller rate of interest than do commercial loans and discounts, are essential to the stability of the bank and to the wise employment of its funds. The old adage about putting all one's eggs in one basket applies quite forcibly to banks. Conditions which may cause a failure of merchants and manufacturers to meet their short time obligations will not have the same effect upon the value of real estate, corporate bonds, and similar long time obligations. For this reason, a portion of the bank's funds is employed in such investments. This results in furnishing productive employment for the funds which the stockholders of the bank have subscribed to its capital and surplus, and at the same time furnishes governments, railroads, owners of real property, and others with funds necessary to their operation, and on which they are perfectly able to pay a fair interest return. We have spoken of loans and discounts as a service of the bank in furnishing temporary capital to business enterprises. This service is similar, except that it is the means of furnishing permanent capital.

FOREIGN EXCHANGE.

Some commercial banks also show a survival of the old service of money changing and international transfers, in their exchange business. By buying and selling foreign exchange they extend their services to their customers even in foreign countries, by selling them credit abroad through their foreign correspondents or representatives. The details of this system will be discussed in a later chapter. By means of it, actual shipments of money from one country to another or from one section of the country to another section of the same country are very largely done away with.

Aids Business.

The bank has been defined as "a manufactory of credit and a machine for facilitating exchanges." We have seen how it manufactures credit, accepting the business prospects and commercial anticipation of its customers as security for present funds, and how it exchanges this business credit for its own bank credit in the form of a deposit account. Business credit could not be conveniently used for current purchase and sales, but this bank credit is accepted by all the community because of the confidence in the bank. It becomes, in the form of checks and drafts, the actual medium of exchange for a large part of the community and thus facilitates business.

Honesty Needed.

We can hardly overestimate the value of the services rendered by the commercial bank. One of the great differences by which civilized life is distinguished from savage conditions is that the civilized man leads an industrious and regular life. Modern business is perhaps the greatest civilizing force of which we know, and the bank is well to the front among the factors of this advance. The growth of credit demands relations of confidence between man and man, based upon proved trustworthiness. The two men who enter into a credit agreement may never have seen each other, but modern business conditions knit together all those parts of the world which have credit relations with one another. The old primitive idea of honesty was that one must deal honestly with his friend and neighbor but might cheat the stranger or the foreigner without limit or remorse. Modern business has taught new standards of honesty, because integrity must be placed as the first business asset to-day, and integrity in this modern business sense means absolutely fair and uniform dealings with all persons, whether known or unknown. Standards of everyday working honesty are likely to be drilled into men quite as much by the cold necessities of modern credit business as by the precepts of ethics or religion.

CHAPTER V.

HOW THE BANK STARTS IN BUSINESS.

Banks are really not very different from ordinary mercantile enterprises, and the problems presented by the organization of a new bank are much the same as those met with at the establishing of any other form of commercial enterprise. The bank deals in money and credit instead of other forms of wealth, but its main object is to furnish something which the community desires, and to reap a profit from this service. The first problem therefore is that of analyzing the needs of the community so that the persons considering the starting of a bank may decide wisely whether or not the enterprise would prove profitable at a particular time or in a particular place. After deciding this question, the next problem would naturally be to decide on the form of organization best suited to the conditions. Next will come the problem of securing the capital, and then the actual process of organization.

Need For a Bank.

The need of the community should receive the very closest consideration. If the locality is one which at present has no banking facilities, the only question to be answered is as to whether there is a sufficient volume of business to make a bank at that point profitable. This will depend not alone upon the size of the town or city but upon the nature of its population, the character of the surrounding country, the distance from other places and a variety of other circumstances. Where banks are already in existence, the question will of course be, is the volume of business sufficient to furnish adequate profits for two institutions, or whether the existing bank fails to adequately perform its functions, in which event the community would be benefited by having a rival enter the field. Where a single bank has monopolized a territory for a very long time, it is not unusual to find that its policy has become either so old-fashioned or so selfish as to no longer serve the purpose for which a bank is organized, and the coming of a rival would be beneficial to the business interests of the city both by furnishing another banking place and, through its competition, causing the old bank to correct its policy and render better service in order to hold its customers. Such a movement, if it is not so much in advance of the needs of the town as to destroy all banking profits, will be likely to increase business activity and attract funds which before were not used productively.

Filling a Want.

A similar condition is often met with where only part of a town is well supplied by one or more banking institutions which have become thoroughly established in the older part of the community but which, either through the geographical or industrial growth of the town, have failed to reach all of its inhabitants. Such a condition presents an excellent opportunity for a discriminating and hustling group of men to establish a new institution so located as to serve the part of the community remote from other banking accommodations or some particular class of the manufacturing or mercantile interests of the city. Different lines of business have various kinds of commercial paper to offer to a bank, different sorts of collections which they desire to turn over to it, and different needs of borrowing capital. By arranging a bank business with particular reference to these needs, a new and profitable business may often be built up even in a place which seemed before to be well supplied with banking accommodations.

Form of Organization.

Having decided that the conditions warrant the starting of a new bank, the next question will be that of the form which the organization is to take. All banks may be broadly divided into two classes, private banks and corporate banks. The private bank may be either an individual enterprise, a partnership, or a joint stock company. In its present form it exists largely for certain special purposes in connection with large industrial enterprises, and principally in the larger cities. The private bank will be discussed separately in a later chapter. Corporate banks may be further sub-divided into two classes according to the source and powers of their charters. Thus we have banks chartered by authority of the different States, and banks chartered by the Federal Government in accordance with the National Banking Act. Besides these, there are savings banks and trust companies.

Local and individual conditions will ordinarily determine which one of these forms a bank will take. The requirements of the National Banking Act are very minute and rigid and may incline the incorporators to the use of a State charter.

National and State Banks.

On the other hand, National Banks, because of this very strictness, enjoy an especially favorable reputation in most communities and furthermore offer the opportunity of issuing bank notes. This is likely to appeal to the organizers in a small town as a matter of local pride, as well as because of its advertising value to the bank, and the profit derived from such a circulation. The State of Texas has been content to leave the whole matter of bank regulation to the Federal authorities and does not permit the chartering of State banks at all. All other States provide for the organization and regulations of banks under State law along lines similar to the provisions of the National Banking Act, though somewhat less strict in their details. Some States do not allow a bank chartered in another State to operate within their limits. In some cases this prohibition would check the privilege of establishing branches, which is generally permitted in State banks, though not to those organized as National banks.

Size of the Bank.

The size of the bank is determined in a general way by the amount of capital stock authorized at the time of its organization. This will be largely a matter for the discretion of the promoters, though certain restrictions are made upon the capitalization of National banks. Those promoting the organization must determine how large an amount can be used in a given case so profitably as to return satisfactory dividends to the subscribers. According to the National Banking Law, banks established in towns having a population of not more than three thousand persons must have a capitalization of at least $25,000; $50,000 in towns having a population of from three thousand to six thousand people; $100,000 in cities whose population is over six thousand and under fifty thousand; and $200,000 or more for all cities of a population over fifty thousand. As a matter of fact, a capitalization of $1,000,000 is no longer rare and in both New York and Chicago the recent tendency has been toward consolidation of existing banks, so that several now show a capital and surplus of $10,000,000 or more.

Subscription to Capital Stock.

The amount of the capitalization will likewise be determined somewhat by the general policy with regard to stock subscriptions. The bank may have either one of two general policies. First, it may be started by a small number of men of considerable financial resources who wish to retain control within their own hands, to direct the activities of the bank along such lines as they desire, and to make a profit for themselves from this enterprise. On the other hand, it may be that it is desired to distribute the stock holdings in small amounts among a large number of small investors. This is very frequently the case in the organization of country banks. It may be that the community has been without banking conveniences and that only by a broad policy of subscriptions can the necessary capital be brought together. Such a bank will be organized not primarily for the purpose of making a large return on the investment but to facilitate the business arrangements of the whole community. Probably this method is the best suited to the establishment of new banks in small places, as it secures from the start a popular interest in the new institution, which is likely to increase its prospect of success.

SURPLUS.

In connection with the matter of capital, the question of surplus also arises. It is very common in all banks, and is required by the National Banking Law and by the laws of some of the States, that a bank set aside at the beginning of business or shortly afterward a certain percentage of the amount of their capital as a further security for creditors of the bank. Where the subscriptions to the stock are made by persons of considerable financial strength it is very common to have this surplus paid in at the time of the paying of the capital, but in other cases earnings are set aside from year to year until such a surplus is accumulated. The National Banking Law provides that this surplus must be to an amount of 20% of the capitalization of the bank and that unless paid in at the start 10% of the net profits of the business must be set aside from the semi-annual earnings of the company and put in such a surplus fund, until the whole 20% is accumulated. Generally banks accumulate a surplus considerably greater than 20% of their capital.

Bank Stock.

The shares of stock of banking corporations are bought and sold in the same way as are the shares of other commercial enterprises, the price, of course, being determined by the earnings of the bank. If the capitalization is small and the cash deposits large, the rate of net earnings is likely to be very high, whereas if the capitalization is too large in proportion to the demands of the community, part of the funds will be lying idle or must be employed at a very low rate of return, and the earnings will be proportionately lower. For this reason the question of judicious capitalization is of great importance. A new bank does not want to stagger along under a load of capital so large that it cannot possibly earn a satisfactory return upon it, nor does it want to have its operations crippled by lack of funds.

Routine of Organization.

Having decided to organize the bank, and having awakened sufficient interest in the enterprise so that the necessary subscriptions to its capital stock are reasonably assured, the next step is to call a meeting of those interested, for the determining of the policy of organization. At the same time it is well to secure the services of a good lawyer, who will superintend the steps of the process and guide the future company through the necessary formalities of incorporation. If the bank is to be a large one, this lawyer may be retained as legal counsel, even after the period of organization.

APPLICATION.

If the new bank is to be organized as a National bank, all necessary steps will be indicated by the Comptroller of the Currency, and the necessary forms furnished upon application to him. The first step will be such a letter of application, signed by not less than five natural persons who contemplate becoming stockholders of the new bank. All these incorporators must be persons legally qualified to hold property and they must state in their application the nature of their business, and their financial standing. The application must be signed by a United States senator, representative, judge of court, or some other person occupying a prominent official position in the community and acquainted with the persons making application. The following form is furnished by the Comptroller of the Currency for this purpose:

APPLICATION TO ORGANIZE A NATIONAL BANK.

.................., 191

TO THE COMPTROLLER OF THE CURRENCY,
Washington, D. C.

Sir:—

Notice is hereby given that we, the undersigned, being natural persons, and of lawful age, intend, with others, to organize a National Banking Association, under the title of "The ....," to be located at ...., County of ...., State of ...., with capital of $.........., to succeed the .... bank of ....

We request that the title be reserved for a period of sixty days and the necessary organization papers and instructions sent to .... at ....

(This application must be signed by at least five prospective shareholders, and indorsed as indicated.)

Signatures of Applicants.	Residences.	Business.	Financial Strength in Figures.

The signers of this application are known to be reputable citizens, and the foregoing information in reference to their business and financial standing is, in my opinion, correct.

*.................................

....

NAME OF THE BANK.

The name, as suggested in this form of application, must be in the exact form which the association desires it to stand, and no new bank is allowed to select a title including the word "first" if a National bank has previously existed in the place where they propose to engage in business, even though it has since gone out of existence. The name likewise must not be too similar to that of any other bank in the same place. Upon the receipt of this application, the Comptroller of the Currency will reserve the title which they have suggested, for a period of sixty days, which is the time ordinarily taken for completing their organization.

*Signature of Member of Congress, Judge of Court, or other prominent public official.

ARTICLES OF ASSOCIATION.

If the Comptroller approves of the application of the incorporators, they will be instructed to proceed with their organization by the preparation of articles of association in some such form as the following:

ARTICLES OF ASSOCIATION.

For the purpose of organizing an association to carry on the business of banking, under the laws of the United States, the undersigned subscribers for the stock of the Association hereinafter named do enter into the following Articles of Association:

First: The title of this Association shall be "The........ ...." (Care should be taken to state exact title, including name of city, but not of State.)

Second. The place where its banking house or office shall be located, and its operations of discount and deposit carried on, and its general business conducted, shall be ....

Third. This section may be worded in any of four ways:

1st.—The Board of Directors shall consist of........ shareholders. The first meeting of the shareholders for the election of directors shall be held at................. on the ....or at such other place and time as a majority of the undersigned shareholders may direct.

2nd.—The Board of Directors shall consist of not less than (insert minimum number) and not more than (insert maximum number) shareholders. The number of directors elected at each annual meeting shall constitute the board for the year, all vacancies to be filled in accordance with the provisions of Section 5,148. The first meeting of the shareholders for the election of directors shall be held at .... on the .... or at such other place and time as a majority of the undersigned shareholders may direct.

3rd.—The Board of Directors shall consist of .... shareholders and the following persons (here insert their names) are hereby appointed directors of this Association, to hold their offices as such until the regular election takes place pursuant to the fourth article of these Articles of Association and until their successors are chosen and have qualified.

4th.—The Board of Directors shall consist of not less than (insert minimum number) and not more than (insert maximum number) shareholders, and the following named persons (here insert their names) are hereby appointed directors of this Association, to hold their offices as such until the regular annual meeting takes place pursuant to the fourth article of these Articles of Association and until their successors are chosen and have qualified.*

Fourth. The regular annual meetings of the shareholders for the election of Directors shall be held at the banking house of this Association on the second Tuesday of January of each year; but if no election shall be held on that day, it may be held on any other day, according to the provisions of Section 5,149 of the Revised Statutes of the United States, and all elections shall be held according to such regulations as may be prescribed by the Board of Directors, not inconsistent with the provisions of the National Banking Law, and of these articles.

Fifth. The capital stock of this Association shall be .... thousand dollars, divided into shares of one hundred dollars each; but the capital may, with the approval of the Comptroller of the Currency, be increased at any time by shareholders owning two-thirds of the stock, according to the provisions of an act of Congress approved May 1, 1886; and in case of the increase of the capital of the Association, each shareholder shall have the privilege of subscribing for such number of shares of the proposed increase of the capital stock as he may be entitled to according to the number of shares owned by him before the stock is increased.

*It will be noted that when the directors are named in the Articles of Association, it is unnecessary to provide for holding a meeting for the election of directors.

Section 5,148 referred to in forms 2 and 4 of the foregoing provides that vacancies in the board shall be filled by appointment by the remaining directors and any director so appointed shall hold his place until the next election.

Sixth. The Board of Directors, a majority of whom shall be a quorum to do business, shall elect one of its members President of this Association, who shall hold this office (unless he shall be disqualified, or be sooner removed by a two-thirds vote of all the members of the Board) for the term for which he was elected a Director. The Directors shall have power to elect a Vice-President, who shall also be a member of the Board of Directors, and who shall be authorized, in the absence or inability of the President from any cause, to perform all acts and duties pertaining to the office of President except such as the President only is authorized by law to perform, and to elect or appoint a Cashier, and such other officers and clerks as may be required to transact the business of the Association; to fix the salaries to be paid to them, and continue them in office, or to dismiss them as, in the opinion of a majority of the Board, the interests of the Association may demand. The Directors shall have power to define the duties of the officers and clerks of the Association, to require bonds from them, and to fix the penalty thereof; to regulate the manner in which elections of Directors shall be held, and to appoint judges of the elections; to make all by-laws that it may be proper for them to make not inconsistent with law, for the general regulation of the business of the Association and the management of its affairs, and generally to do and perform all acts that it may be legal for a Board of Directors to do and perform under the Revised Statutes aforesaid.

Seventh. This Association shall continue for the period of twenty years from the date of the execution of its Organization Certificate, unless sooner placed in voluntary liquidation by the act of its shareholders, owning at least two-thirds of its stock, or otherwise dissolved by authority of law.

Eighth. These Articles of Association may be changed or amended at any time by shareholders owning a majority of the stock of the Association, in any manner not inconsistent with law; and the Board of Directors, or any other shareholders, may call a meeting of the shareholders for this or any other purpose, not inconsistent with law, by publishing notice thereof for thirty days in a newspaper published in the town, city or county where the Bank is located, or by mailing to each shareholder notice in writing, thirty days before the time fixed for the meeting.

In WITNESS WHEREOF, we have hereunto set our hands this .... day of .... 191 .

....

....

I CERTIFY that these Articles of Association are executed in duplicate; that one of the instruments so executed is the foregoing, and that the other, alike in all respects, is on file with said Bank.

(To be signed by President or Cashier.) .... 191 .

ORGANIZATION CERTIFICATE.

These Articles of Association must be signed by at least five of the signers of the original application, and if made in the above form will be sure to meet the approval of the Comptroller, though he will also permit any variations of the form desired by the incorporators to cover any peculiar features of their proposed organization, so long as such change is in conformity with the provisions of the National Bank Act. Besides the Articles of Association, an Organization Certificate must be prepared and signed by the same persons as those who signed the articles, and this must also be sent to the Comptroller, and a duplicate kept by the bank. The form of Organization Certificate is here shown:

ORGANIZATION CERTIFICATE.

We, the undersigned, whose names are specified in article fourth of this Certificate, having associated ourselves for the purpose of organizing an Association for carrying on the business of banking, under the laws of the

United States, do make and execute the following Organization Certificate:

First. The title of the Association shall be "The...... ...."

(Insert exact title of bank, including the name of town, but not that of State.)

Second. The said Association shall be located in the .... of ...., county of ...., and State of ...., where its operations of discount and deposit are to be carried on.

(In giving the name of the proposed location of the bank, indicate whether the place is a "Village," "Town," or "City." Also give the names of County and State.)

Third. The Capital Stock of this Association shall be ....dollars, ($..........), and the same shall be divided into .... shares of one hundred dollars each.

(In this section care should be taken to give both the amount of capital of the bank and the number of shares into which this capital is divided.)

Fourth. The name and the residence of each shareholder of this Association, with the number of shares held, are as follows:

	Name.	Residence.	No. of Shares.
1			
2			
3			

Insert the names of *all* shareholders, their residences, the number of shares held by each shareholder, and the total number of shares.

(The names, etc., of *all* the shareholders must appear on this page.)

Fifth. This Certificate is made in order that we may avail ourselves of the advantages of the aforesaid laws of the United States.

In witness whereof, we have hereunto set our hands, this ....day of ...., 191 .

	....
1	....
	....
2	....
	....
3	....

(Those that have signed the articles of association are required to sign on this page, and they must do so in their own handwriting. They must also make acknowledgment on the following page.)

State of.................. }
County of .... } ss.:

Before the undersigned, a .... of ...., personally appeared ....
....
to me well known, who severally acknowledged that they executed the foregoing Certificate for the purposes therein mentioned.

{ Official Seal of Officer. } Witness my hand and seal of Office this ....day ....191 .

BY-LAWS.

At this point in the organization it will be well to draw up a form of by-laws for the government of the banking association. A general form is suggested by the Comptroller, but any form which the shareholders see fit to adopt is equally good, so long as none of its provisions are in disagreement with the requirements of the National Bank Act. The by-laws will provide for the holding of stockholders' meetings, the election of officers and directors, records of proceedings, transfers of stock, and the general manner of conducting the business of the bank.

STOCK CERTIFICATES.

In order to secure the payment of the bank's capital, stock certificates must be issued to the stockholders and a record made of all stock holdings. The form of Stock Certificate will be similar to the following:

FORM OF STOCK CERTIFICATE.

.... NATIONAL BANK.

No. ....Shares.

BE IT KNOWN that .... is entitled to ...... Shares of One Hundred Dollars each, in the Capital Stock of the .... Bank of .... transferable only on the books of the Bank by the said .... or .... Attorney on surrender of this Certificate.

New York {SEAL.} .... 191....
.... Cashier. ....President.

Subscriptions to the capital stock of the bank should be called in as promptly as possible, and one-half of the total amount of the capitalization must be paid in before the Comptroller will permit the bank to commence business. Payments for capital stock must be made in cash, not in promissory notes or other evidences of debt. As soon as the necessary one-half has been collected, this fact may be communicated to the Comptroller of the Currency, in a form like the following:

CERTIFICATE OF PAYMENT OF FIRST INSTALMENT OF CAPITAL STOCK.

It is hereby certified, as required by section 5,140 of the Revised Statutes of the United States, that of the authorized capital stock of $........, of The .... National Bank of ...., ..., organized in conformity with the provisions of the banking laws of the United States authorizing the organization of national banking associations, the first installment, amounting to $........., has been paid in cash.

............................, President.

or

............................, Cashier.

State of .... }
County of .... } ss.:

Subscribed and sworn to before the undersigned, a....... of the said county, this ...... day of ...., 191 .

{SEAL.} ....
(Official title) ....

The remaining fifty per cent. of the capital stock must be paid in not more than five instalments, one at the end of each month following the granting of authority to commence business. Each such payment must also be certified to the Comptroller of the Currency in a form similar to that used for the first payment.

CHARTER BONDS.

In the case of banks organizing under State laws, steps similar to those indicated above would be all that would be required, but National banks are required to purchase and deposit with the Treasurer of the United States interest-bearing government securities, known as "Charter Bonds." Banks having a capital of $150,000, or less, must deposit bonds to the amount of one-fourth of their capital, and banks having a capitalization greater than $150,000, must make a minimum deposit of $50,000 in bonds. Their amount will be larger in case the bank desires to issue its own notes for circulation, but the special requirements in regard to circulation will be treated in detail in another chapter.

CHARTER.

Having deposited the necessary charter bonds and complied with all other requirements to the satisfaction of the Comptroller of the Currency, the bank is now in a position to receive from him a charter authorizing it to commence business. The form for National banks is very brief, but State charters are generally longer and include many of the details found in the preliminary papers required under the National Bank Act.

CHARTER.
TREASURY DEPARTMENT.
OFFICE OF THE COMPTROLLER OF THE CURRENCY:
Washington, D. C., ...191 .

WHEREAS, by satisfactory evidence presented to the undersigned, it has been made to appear that .... in the .... of .... in the county of .... and State of .... has complied with all the provisions of the Statutes of the United States, required to be complied with before an association shall be authorized to commence the business of Banking:

NOW THEREFORE, I, ..., Comptroller of the Currency, do hereby certify that ....in the .... of .... in the county of .... and State of ...., is authorized to commence the business of Banking as provided in Section Fifty-one hundred and sixty-nine of the Revised Statutes of the United States.

IN TESTIMONY WHEREOF witness my hand and Seal of office this .... day of .... 191 .

....

(Seal.) Comptroller of the Currency.

BOARD OF DIRECTORS.

Before the time of the granting of the charter the stockholders will have met for the election of a Board of Directors, who, in turn, will elect the necessary officers of the bank and provide for its administration. We will now examine the form of organization and management of the business itself.

CHAPTER VI.

MANAGEMENT AND INTERNAL ORGANIZATION.

The actual management of the bank is passed over by the body of stockholders to a comparatively small group, who constitute a Board of Directors, as in other incorporated concerns. They, in turn, delegate the actual conduct of business to an executive committee and such officers as they may select. The number of directors is left to the option of the stockholders, but a National bank must have at least five. It is common to find boards consisting of a larger number, but seldom more than fifteen; always an odd number to avoid a tie vote. Directors of National banks must each hold at least ten shares of the capital stock of the bank, of which they must be actual owners in their own name, free from all claims and not pledged for any loan or debt. The directors must be citizens of the United States and at least three-fourths of them must be citizens of the State or territory in which the bank is organized, and must have been residents of that State or territory for at least one year prior to the date of the organization. They hold office for one year unless by reason of death, or resignation, or removal from the State, it becomes necessary before that time to elect a successor.

CHOICE OF DIRECTORS IS IMPORTANT.

The position of director in a bank is one of great importance, because it is the directors who decide all large questions of policy of the bank. They may delegate the authority, to a greater or less extent to an executive and to the president, or to the president, but all his actions must be reported to the directors and ratified by them, and the law holds them liable for all such actions. On their ability and faithfulness depends very largely the success or failure of the bank. The directors should be the most broad-minded, upright, and able of the stockholders. The character of a new bank will be largely judged by the kind of men elected to its board of directors. In a country bank it is quite frequent to find a director from each of several small towns tributary to that in which the bank is located, or in the country districts from which a considerable part of its patronage is drawn. This gives to the Board of Directors a representative character which is wholly lacking if all the directors are selected from a small group of stockholders in the town where the bank is located. The out-of-town directors will be watchful of the interest of their respective sections, and will aid in building up the business of the bank, and extending its field of activities.

DIRECTOR'S OATH.

Directors of National banks are always required to take an oath of office. The form prescribed by the National Bank Act is as follows:

OATH OF DIRECTOR.

State of .... }
County of .... } ss.:

I, the undersigned, Director of the .... of ...., in the State of ...., being a citizen of the United States, and resident of the State of ...., do solemnly swear that I will, so far as the duty devolves on me, diligently and honestly administer the affairs of said Association; that I will not knowingly violate, or willingly permit to be violated, any of the provisions of the Statutes of the United States under which this Association has been organized; and that I am the owner, in good faith and in my own right, of the number of shares of stock required by said Statutes, subscribed by me or standing in my name on the books of the said Association; and that the same is not hypothecated, or in any way pledged as security for any loan or debt.

....
Place of Residence:...............

Subscribed and sworn to this .... day of ...., 191 , before the undersigned, a...... in and for said county.

....
Notary Public.

It would be well if all officers carefully pondered and rigidly lived up to the letter of this oath. To some it becomes merely a form and the nature of the promise is soon forgotten, but the position of the director of a bank is a position of trust in a double sense; first, to the stockholders who have invested their money in the shares of the corporation, and second to the depositors who entrust the bank with their funds.

Directors' Meetings.

Where a bank is located in a small town, it is not customary for the directors to meet at very frequent intervals, and often monthly meetings are found to be sufficient. A finance or executive committee is often appointed to exercise the functions of the board of directors in the intervals between their meetings, but in larger places and where business is active, weekly and often daily meetings are found necessary. There should be a careful record kept of the matters acted upon at every meeting of the directors, and such minutes are commonly kept by the cashier of the bank. National banks are required to keep such a record and a careful bank examiner will always investigate the matter and make sure that complete and accurate reports are made.

Payment of Directors.

Very frequently an attendance fee is allowed for presence at meetings of the board of directors and sometimes regular salaries are paid. This is left to the option of the stockholders and in large banks, where frequent meetings are required, and where the directors do actually direct the course of the bank's affairs, they are properly entitled to a remuneration for the service. But in the case of small banks, the service rendered is slight and usually no salary is paid. If the salary becomes large enough to be an object of consideration, it may possibly have the tendency of attracting less desirable men to try to secure election to the board of directors, simply for the sake of the salary attaching to the position.

PRESIDENT OF THE BANK.

The actual head and manager of the bank is the president. He is chosen by the directors from their own number, and presides at all meetings of the board unless some other member of the board is elected chairman as is sometimes done. There he reports on such action as he has taken in the management of the daily affairs of the bank, and receives the confirmation of the board to such action. He also presents any questions or problems which he desires to have decided upon by the directors, and from them receives instructions as to what action they desire to have taken. It is customary to allow the president a considerable degree of latitude in the granting of loans and discounts to customers of the bank, particularly where meetings of the board of directors are held only at rather infrequent intervals. In such cases, if the application is for a loan of unusual size, the president can ordinarily confer with a number of individual members of the board of directors and secure from them an informal expression of opinion and can feel sure that the action which he then takes will be ratified by the board at their next meeting. In the case of large city banks, while the requests for loans are likely to be larger, the meetings of the directors are also more frequent, so that the president can submit such questions directly to the board.

VICE-PRESIDENT.

In large banks it is also common to delegate the smaller matters to one or more vice-presidents, and to reserve the time of the president for the larger matters. Where there are several vice-presidents, each may be put at the head of a separate department. In the country bank, the functions of both president and vice-president are likely to be delegated to the cashier, to a very large extent at least. Where the president and vice-president do take an active part in the business of the bank, they should be practical bankers and not merely prominent members of the board of directors, chosen because of their personal popularity or standing in the community. Banking is a specialized form of business and needs special training and qualifications. For example, the president of a National bank is required to sign and swear to the reports of condition of his bank which are sent to the Comptroller of the Currency from time to time, and in order to properly perform this service, he should be able to tell whether the reports are correct. This requires a practical knowledge of the business of banking. The president of a bank is also required to sign all transfers and conveyances which are made by the bank under its seal as well as other contracts, checks, drafts, and the notes put out by the bank, in case it is a National bank and takes advantage of its privilege of issuing bank notes. Generally this power is given over to the cashier in case of the absence or disability of the president.

The Cashier.

The cashier is the chief executive officer of the bank and has direct control of its mechanism and operating force. Without an efficient cashier no bank can be really successful. He is in direct control of the funds of the bank and is given authority to sign its checks, drafts and vouchers, and attends to the making of its disbursements for salaries, purchase of materials, and the like. He must be a practical banker, and must install and supervise the working system of the bank. If the bank is small, he may perform also the services of both paying and receiving teller, or of one of these positions, but where the bank is large enough to warrant, he devotes his time entirely to general administrative matters.

DIRECTS CLERICAL FORCE.

He is supposed to keep a close watch of the operations of the various departments, supervising the clerical force and overseeing the general running of the bank. He is expected at all times to be adequately informed as to the condition of the bank's affairs and to be able to advise the president or board of directors as to its standing and ability to extend credit in a given case. He also generally has in his hands the regulation of the relations of his bank with other correspondent banks with whom they may have dealings regularly or at uncertain intervals. The cashier is expected to act as general guardian of the bank's interests, and to him will be referred new customers, desiring to open accounts with the bank, as well as those desiring to make loans. He is expected to keep a careful watch of the collateral which is deposited with the bank for the security of loans so that the bank may always be adequately protected by a fair margin. This may be done through a clerk who devotes his whole time to it.

CASHIER IS SECRETARY AT DIRECTORS' MEETINGS.

The cashier also acts as secretary at the meetings of the board of directors and is ordinarily a stockholder and not merely an employee of the bank. In all larger banks the duties of the cashier will be so heavy as to demand the appointment of one or more assistants to the cashier, generally each in charge of a separate department of the bank's work. Thus the paying teller might be the first assistant cashier, and the receiving teller and general bookkeeper would be designated as second or third assistants. If the work is sufficiently heavy, there will be numerous other departments or subdivisions of departments in charge of separate clerks, such as Discount Clerk, Collection Clerk, Credit Clerk, etc.

PAYING TELLER.

Among the clerical force of the bank, the position of Paying Teller is generally regarded as first in importance. The position is one that demands long experience and peculiar qualifications. The man who fills it should be possessed of excellent judgment, unlimited good nature, and be an expert in the business of banking. He generally comes to this position by promotion from the lower grades of employment within the bank as a recognition of his ability and faithful service. The Paying Teller is the one who actually disburses the bank's cash, and this is a duty that requires great caution if serious errors are to be avoided. Two things must be especially guarded against besides errors in actual counting of the cash delivered over the counter. One of these is the paying of checks to persons not entitled to receive them and the other of paying checks which should not be paid.

IDENTIFICATION.

The question of identification is one which presents constant difficulty to the Paying Teller, particularly where business is brisk and any delay at the Paying Teller's window is likely to cause inconvenience to a large number of people, who have no time to waste. The danger of paying a check without proper identification, however, is so great that the greatest caution must be exercised, because the bank is held liable in case of loss resulting from such an error and our large cities are well supplied with persons ready to take advantage of the bank in this particular. The only safe way is to require that all persons unknown to the paying teller shall be introduced to him by some person with whom he is acquainted. The paying teller must also watch carefully the signatures and endorsements on checks presented for payment in order to avoid forgeries and involve the bank in dispute or loss.

VERIFYING ACCOUNTS.

Besides watching the general form and signature of checks presented for payment the paying teller should also be fairly familiar with the standing of the different customer's accounts in order to avoid paying a check for an amount larger than the balance which the drawer of the check has on deposit at the time. In a small bank, where accounts are not very numerous, a paying teller who acts as cashier and perhaps also as bookkeeper, will have no difficulty in remembering such information, but in the large city bank it presents a rather serious problem. In case a very large check is presented, or for any other reason the cashier may desire to make sure of the account he will have the matter looked up by the bookkeeper. In order to avoid offense to the person presenting the check, the teller very frequently has a signal understood by the bookkeeper and other clerks so that he can have the check verified without mentioning the fact to the person presenting it. A new device known as the telautograph enables him to write the enquiry on a pad on his counter, and have the message electrically reproduced at the other end of the line on the bookkeeper's desk.

TELLER'S CASH.

The paying teller at the beginning of business each day has in his immediate possession such a fund of cash as he believes will be ample for the immediate demands. This will consist of gold coin, gold treasury certificates, silver coin, silver treasury certificates, treasury notes, greenbacks, national bank notes and subsidiary silver and minor coins, all distributed in separate tills according to kind and denomination. For the purpose of handling change the "change machine" or "automatic cashier" which has come into use in many large banks is a great convenience, making it possible for the teller to make payments with a great increase of both speed and accuracy. The teller has merely to press the key marked with the amount which he desires, and it will be delivered to him automatically. This saves him the time of picking out all the separate coins and counting them. The paying teller is also furnished each morning with a summarized statement of the funds on hand in the bank, made out in a form like the following:

FIRST TELLER.
CASH.
THE FIRST NATIONAL BANK.

......................, 19....				
Gold Coin				
Gold Treas. Certificates				
Gold C. H. Certificates				
Sub-Treas. Receipts				
Silver Coin				
Silver Treas. Certificates				
Silver Treas. Notes				
Legal Tender Notes				
National Bank Notes				
2d and 3d Teller's Money.....				
Cash Items				

In the course of the day the funds set aside for payments by the paying teller in the morning will be added to by transfers of money taken in by the receiving or note tellers in the course of the day's business. The paying teller gives them the needed vouchers for sums so received, and enters all such items in his settlement book as credits to the various departments.

Special Demands.

An accommodating teller will so far as possible, supply his customers with just the kind of money which they desire. It is always a good plan to have clean bills and bright coins, as they are more attractive as well as more sanitary. Old and mutilated currency can be presented to the treasurer of the United States in sums of $1,000 or multiples of that amount, and will be exchanged for fresh new currency. There are also likely to be special demands for currency of certain denominations by employers making payments in cash to their work people, or by merchants who desire a great many small coins in making change, or the like. For this purpose, the paying teller has part of his funds in the form of rolls of coins, counted and plainly marked, or in small bags, or in packages of bills. The rolls contain twenty-five cents in pennies, one dollar in nickels, five dollars in dimes or quarters, and ten dollars in halves. The bags of coin or packages of paper money are for larger amounts.

Records and Proof.

As the paying teller makes payments in the course of the day's business, he enters the amount of each check paid upon a book which he keeps for the purpose together with the name or initials of the drawer. This he totals up at the close of the day's business and enters it together with cash on hand at the beginning of business and any items which he may have received from the other tellers during the day in a book which is known as the "first teller's" proof book. Besides payments made over the counter, he has perhaps sent a remittance to the clearing house to settle a balance due on the day's clearings. If so, this will be included in his proof for the day, or if a payment has been received from the clearing house it will be added to the funds for which he must account. To "prove" the day's business, there must be a balance between the cash on hand in the morning and that received from the other tellers or the clearing house during the day, and the payments made over the counter or to other departments of the bank in the course of the day's business plus the cash on hand at the close of the day. A form of paying teller's proof is shown on page 93.

RECEIVING TELLER.

The receiving teller comes next in importance to the paying teller. He receives the money or other deposit items brought to the bank and credits these upon the customer's pass-book. In a small bank the receiving teller will also have charge of collections from individuals or other banks, notes or loans repaid to the bank, or in fact all funds which it receives either over the counter or by mail. In a large bank, however, there will be a separate note teller, and a collection teller. The receiving teller must examine all items presented for deposit, to make sure that checks or similar items are properly made out and endorsed, that he does not receive counterfeit money, etc. All items which he receives he enters upon the book of the depositor, after checking it against the deposit slip presented with it. He also enters all such items of deposit in a record book which he keeps for the purpose—the scratcher—and assorts his funds as received according to kind and denomination. At the close of the day's business or at intervals during the day, these funds will be turned over to the paying teller and the record of receipts is footed up and a proof of the day's business made up to be turned over to the paying teller. A receiving teller's proof is shown on page 94.

NOTE AND COLLECTION TELLER.

If there is a separate note teller, he will make up a

PAYING TELLER'S DAILY STATEMENT.

..............................191

PAYMENTS			
Checks Charged			
Items Charged R. T. ...			
Miscellaneous			
Total Payments			

RECEIPTS			
Morning Balance			
Items from R. T.			
Total Receipts			
Less Payments			
Balance to-night			

CASH			
In Banks			
In Drawer			
Balance to-night			

RECEIVING TELLER'S DAILY SETTLEMENT.

................................191

DR.				CASH ITEMS		
Deposits....................						
Miscellaneous Items						
Items from Paying Teller....						
....						
Total Receipts						
CR.						
Items to Paying Teller.....						
Cash						
Cash Items						
....						
Total Cash						
TOTAL						

proof of his day's receipts, generally turning it over to the receiving teller, who includes it in his own report. The same is true of the collection teller. The principal difference between their work and that of the receiving teller is that their business is transacted by mail or through messengers instead of being done over the bank's own counter. In a large city, the collection clerk may have a large and important department with several assistants and a number of messengers used in making collections within the city. "Foreign" or out-of-town items will be collected by mail. The collection department is one which requires very close attention to detail in order that no items may be overlooked at the time that they come due but may be collected with the greatest promptness. A "tickler" is commonly arranged in which are entered on a single page or in a single section all the items which fall due upon a given date. For this purpose a card index system presents a great many advantages.

Bookkeeping.

An important department of the bank's work is that relating to the bookkeeping of the concern. An entire chapter will be devoted to this subject elsewhere.

Discount Clerk.

Where a discount clerk exists as a separate functionary, his department is one of those requiring closest care and best judgment. He should be thoroughly well informed in the work of his department, swift and accurate in calculating interest and discount rates, and possessed of a good personality and sound judgment. He should embrace every opportunity of acquainting himself as thoroughly as possible with the general business conditions in the city in which the bank is located, and with the financial standing of the customers of the bank, or whoever is likely to desire accommodation in the way of bank loans.

Associations of Banks.

In this connection we might also notice the relation of the bank to other institutions. The only formal association of banks is ordinarily the clearing house, and this will be discussed in a chapter of its own. But every bank has occasion to establish relations more or less close with a large number of other banks. Country banks frequently place a part of their funds on deposit with city banks, and city banks with other banks in the same or larger cities. These loans will generally be subject to call on demand. The National Bank Act provides that country bankers may deposit three-fifths of their legal reserve with reserve city banks such as those in Boston, Philadelphia, Denver, San Francisco and a large number of other cities. Similarly, National banks in these reserve cities may deposit one-half of their legal reserve of 25% of the amount of their deposits with National banks in the three central reserve cities—New York, Chicago and St. Louis.

Correspondent Banks.

Besides placing its reserved funds on deposit with its correspondent, the local bank will, from time to time, require credit to meet the demands made upon it for funds for the harvesting or shipping of crops, or for some other extraordinary need of its customers. It is to the correspondent bank that it looks for accommodation with such temporary credit. Besides these services, the city bank can often aid its smaller correspondent by assisting it in the matter of investing such part of its funds as it desires to put into government or other bonds. The large bank may have a special bond department, and for that reason, or because of its more favored location in a large financial centre, or its wide business acquaintance, may be able to make such purchases for the country bank on the most favorable terms.

COLLECTING THROUGH CORRESPONDENT.

In the matter of collections, too, such correspondent banks can be of mutual assistance to one another. The local bank is receiving checks and drafts from time to time, drawn upon banks in distant parts of the country. It is very convenient to have a correspondent in each of the large cities throughout the country, to whom such items or any other banking matters which come into the hands of the local bank may be sent. On the other hand, the city bank receives in the course of its business a large number of local checks drawn on country banks widely scattered over the country. It is a great advantage to them to have friendly relations with local banks to whom they can send such items and have them collected or verified as quickly as possible.

AMERICAN BANKERS ASSOCIATION.

The idea of bankers associations has been making headway in the United States in recent years and there are now many States which have State banking associations. These are similar to and generally copies of the great national organization, known as the American Bankers Association. This association includes in its membership about eleven thousand banks scattered all over the United States or a little more than half of all the banks in the country. This association has secured the concerted action for the bankers of this country on a large number of important matters. It has made a great effort to unify and systematize the work of banking in the United States, and for this purpose, has perfected a system of forms for the use of all banks, members of the association, or others who see fit to adopt them. This has resulted in an enormous saving of clerical work and tends to prevent errors. The association has also been active in the field of legislation and has secured the passage of uniform laws in regard to negotiable instruments in nearly all the States of the Union.

MUTUAL PROTECTION.

Another very important service which the American Bankers Association has taken over is that which is included under its protective department. Through this department the association undertakes the work of following up all robberies committed upon members of the association. With the large funds at its disposal it has conducted an extremely vigorous campaign against bank criminals of all sorts, with the result that the losses of banks belonging to the association have been reduced to a minimum, and are very much below those of banks not included in the association. In fact this service has been one of the greatest means of building up the membership. A somewhat similar service is that of the legal department for which it hires a lawyer who is an expert in banking law and whose advice on difficult questions has also been a source of great saving to the members. The association has also been active in the agitation for currency reform and in the investigations of the present monetary conference.

DETAILS OF OPERATION.

Too much emphasis cannot be laid upon a careful attention to clerical details and the frequent revising of methods to keep the bank up to date. Proper equipment with adding machines, card indexes, perforators and other safety devices, typewriters, telephones and the like will greatly lessen the amount of drudgery which is involved in the business of banking. Great care should likewise be taken that the premises are cared for in a thoroughly efficient manner, since the outward appearance of the bank will have an effect upon the growth and prosperity of the business as well as does the condition of its finances. Indeed a great deal of importance attaches to the work of the janitor and his force, in view of the fact that not infrequently valuable papers may find their way into the waste baskets and be destroyed by accident or come into the hands of persons who will use them improperly. All waste paper from a bank should be carefully examined to see whether any valuable papers have been discarded by mistake, and then should be destroyed. Even papers of no value in themselves might give information as to the affairs of the bank or of its customers, which it is highly undesirable to have scattered about.

CHAPTER VII.

BANK NOTES—HOW AND WHY THEY ARE ISSUED.

Passing from the question of the organization of the bank, to a study of its activities, we take up first the subject of note issue. The issuing of notes is one of the oldest of banking functions, and it is sometimes stated that this is the one distinctive characteristic of the bank and that any or all of its other services may be, and at times are, performed by mercantile firms or individuals. Banks desire to issue notes because in this manner they are enabled to loan at interest their own promises to pay. We will suppose that a bank is employing all its available funds in its current business, and finds that it could still further increase its loans if it had something which borrowers would accept in exchange for their promises to pay at a future time. Bank notes will be thus accepted if the community has faith in the ability of the bank to redeem such notes in cash. In that case, the borrower will take bank notes and give his promissory note in exchange, as readily as for gold. What he wants is purchasing power, and if a five dollar bank note will be accepted by the merchant or manufacturer on the same terms as would a five dollar gold piece, he is satisfied to take the notes from the bank.

Others take them from him because of their belief that they can be passed on in the process of trade or exchanged at the bank for cash.

How the Bank Profits.

To the banks this means that they exchange at par their promises to pay for those of borrowers at a discount, and make a profit of the difference. The bank gives "A" one hundred dollars of its notes to-day in exchange for his promissory note due in six months. At that time he repays the bank one hundred and five dollars. Even if this repayment is in the form of its own notes, the bank has benefited by the transaction, because it has one more five dollar note which can be used in extinguishing that amount of its obligations or can again be loaned. If the customer repays it half in gold and half in its notes it means that the bank has the free use of this amount of gold for such a longer period as its notes remain in circulation before being presented for redemption. If any of the outstanding notes chance to be destroyed and thus are never presented for redemption, the bank under such a system of private redemption would receive a still further benefit.

Security Needed.

But it will be noticed that this discussion of the issuing of notes provides no security for the holders. Suppose that "A" pays out this one hundred dollars of bank notes to third parties as soon as he receives them from the bank, and that these third parties go at once to the bank and there present the notes for redemption. The bank cannot give them "A's" promise in exchange for these notes. It must either take one hundred dollars in coin from its own funds or decline to redeem the notes. If it do the former, its hope of profit disappears, unless it is again able to put the notes into circulation. If the notes have been issued in large numbers, and the community becomes distrustful of the bank's ability to pay, or if for any other reason all or a large number of the holders present these notes for redemption at once, the bank will be forced to refuse.

Early Experience.

This was, in fact, just the thing which did happen in the early days of note issue by State banks in the United States. The country was young and presented large opportunities for development, and supplies of loanable capital were relatively scarce. In response to the heavy demand for loans, the banks put out large issues of their notes, either unsecured or with inadequate security. Credit was overexpanded, speculative activities greatly increased, and in time a condition of panic brought about. Then many holders of the notes would present them for redemption at a time when the bank was unable to secure repayment of its outstanding obligations. The result was that the banks were obliged to repudiate their note issues and very many of them failed in business.

Origin of Present System.

Some remedy had to be found for such a condition of affairs, and the present National Bank Act aims to so regulate the issue of notes by banks within the United States as to make them perfectly safe and acceptable. To accomplish this, two things must be provided for: first, that any particular note can be at once exchanged for cash by the holder, and second that the whole outstanding issue shall be based upon sufficient security so that there can be no question as to the ability of the bank to refund their whole amount. The first result is obtained by the maintenance and regulation of a redemption fund, and by the requirement that National banks redeem not only their own notes but the notes of any other National bank presented to them for that purpose. The second result is secured by requiring the bank to deposit with the government, United States bonds equal in amount to the whole issue of notes which they put out, by regulating the kind of business in which the bank is permitted to engage, and by making the notes a first claim upon the assets of the bank.

National Bank Notes.

We will now describe in detail the method of issuing National bank notes. At the time of organization, every National bank is required to deposit with the Treasurer of the United States, government bonds equal to one-fourth of the amount of their capitalization, or to fifty thousand dollars in the case of banks having a capital greater than one hundred and fifty thousand dollars. The bank is then permitted to issue its notes to an amount equal to such charter bonds if they be 2% bonds, and 90% of their amount if bonds with a higher interest rate, or, if it so desires, it can deposit additional bonds up to a total amount not to exceed the amount of its capitalization. The bonds deposited as security for circulation must be registered bonds of the United States and bear interest usually to the amount of two per cent., although there are two issues now available for the purpose, one of which bears 3% interest and one of which bears 4%. However, the total amount of such bonds deposited to secure circulation is only about $30,000,000, whereas the deposits of 2% bonds amount to approximately $650,000,000.

THE BOND SECURITY.

In order that bonds so deposited may become direct security for the notes issued, the banks assign the bonds to the Treasurer of the United States in trust for the bank, and from him receive a receipt. This security must always be maintained at the full amount of the note issue, and if the bonds depreciate so that their market value is less than the amount of notes issued, the banks must deposit either lawful money or additional bonds in sufficient amount to restore the security to the total value of the note issue. In case a bank desires to retire its notes from circulation, it must deposit with the Comptroller of the Currency lawful money equal to the amount of all its notes then outstanding, thus providing a fund for their redemption as they are presented. When such a deposit has been made, the bonds will be released by the Treasurer and returned to the bank. In case the bank has become insolvent and is unable to secure sufficient funds to make the necessary deposit in lawful money within thirty days after the expiration of six months, the Comptroller of the Currency may sell the bonds pledged as security for the circulation at public auction in New York City, in order to secure such a redemption fund. In case the proceeds of this sale are greater than the amount necessary for redeeming all the outstanding notes of the bank after paying the expenses of the sale, the comptroller will return such surplus to the bank or its receivers.

Engraving the Notes.

The work of engraving and printing bank notes is done by the government in its Bureau of Printing and Engraving, and not left to the individual banks. The notes are issued in five different denominations as follows: five dollars, ten dollars, twenty dollars, fifty dollars and one hundred dollars. The cost of engraving the plates varies from fifty to seventy-five dollars, depending on the denomination of the notes, and this charge must be paid by the bank, but no charge is made for the printing of the notes. It is not permitted that a bank issue more than one-third of its circulation in five dollar denomination. The notes as printed by the Treasury Department leave at the bottom a blank space for the signature of the president or vice-president and the cashier of the bank. The notes are forwarded in blank by the Comptroller of the Currency to the issuing bank and are there signed and put into circulation.

Redemption Fund.

As soon as the bank receives these notes from the Comptroller, it is necessary to establish a redemption fund to provide for the payment of such notes as may be presented from time to time for redemption. As we have seen, all National banks are required to honor the notes of other banks. The result is that they accumulate a considerable amount of such bank notes which they themselves desire to have redeemed. It would be a great inconvenience if they were obliged to present such notes to all the various issuing banks in different parts of the country. It is a great convenience to them to be able simply to present these notes to the Comptroller of the Currency by whom they are redeemed and charged to the 5% redemption fund of the respective banks.

KEEPING UP THE FUND.

As soon as such redemption of notes causes the fund of a given bank to fall below the required five per cent., the bank is notified of that fact and is required to remit a sufficient amount to restore it to the proper level. It must not be understood, however, that notes will be sent to the Comptroller for redemption whenever presented to the bank. Inasmuch as they are an acceptable form of currency to the community they will ordinarily be paid out by the bank to its customers, and only when worn or mutilated will be held out by the bank and presented for redemption. In fact when notes not so worn are presented to the Comptroller they are simply forwarded to the issuing bank instead of being destroyed and new ones re-issued, as is done in the case of notes no longer fit for circulation. The cost of maintaining the redemption department, of sorting the bills, sending them to the various banks, etc., is charged upon the issuing banks, in proportion to the amount of their notes redeemed.

TAX ON CIRCULATION.

Besides the charge for engraving and printing and for the maintenance of the redemption fund, the bank is also required to pay a tax upon the amount of its outstanding circulation. This tax amounts to one-half of one per cent. per annum in the case of bonds bearing two per cent. interest and is computed semi-annually upon a statement furnished by the bank as to the amount of their circulation outstanding. In case securities bearing a rate of interest higher than two per cent. were deposited by the bank, the annual tax is one per cent. The form of report made by the bank as the basis of taxation is as follows:

SEMI-ANNUAL RETURN OF CIRCULATION SUBJECT TO DUTY.

Return of the average amount of Notes of the .... National .... Bank of ...., State of ...., in circulation for the Six Months next preceding the first day of ...., 191 , with the duty thereon, made pursuant to the provisions of Section 5,215, Revised Statutes of the United States, and the act of March 14, 1900, in order to enable the Treasurer of the United States to assess the duty on circulation imposed by Section 5,214 of said statutes, as amended by Section 1 of "An act to reduce internal-revenue taxation and for other purposes," approved March 3, 1883, and the said act of March 14, 1900.

Amount of Circulating Notes received from the Comptroller of the Currency	**$........**
Average amount of Notes in circulation for the period based on U. S. two per cent. Consols of 1930	**$........**
Duty on Average amount of Notes in circulation based on U. S. two per cent. Consols of 1930 at one-fourth of one per cent.	**$........**
Average amount of Notes in circulation for the period based on any or all other U. S. Bonds..	**$........**
Duty on Average amount of Notes in circulation based on all other U. S. Bonds at one-half of one per cent.	**$........**
Total amount of duty...........	**$........**

I, ..., of the above-named National Bank, do solemnly swear that the above is a true statement of the Average amount of the Notes of said Bank in circulation for the time named.

....

Subscribed and sworn to before me this ....
day of ...., 191 ..

....

....

The amount of this tax can be paid either direct to the Treasurer of the United States or to any Assistant Treasurer or National bank depository. In such case a certificate of this payment is sent to the Secretary of the Treasury, a duplicate to the Treasurer, and a triplicate held by the bank. In case it is necessary to make payment direct, it can be made, either in lawful money of the United States, notes of National banks, or by a draft on New York, payable to the order of the Treasurer.

AMOUNT OF CIRCULATION ISSUED.

The amount of circulation put out by a bank is limited by the restriction that its maximum cannot be greater than the bank's capitalization. The exact amount which a bank puts out will be decided by the bank directors, and can be increased or decreased from time to time. In order to increase the amount of circulation, it is necessary to notify the Comptroller of the decision of the bank and to deposit with him the necessary additional bonds as security, at the same time increasing the amount of the redemption fund. The bank will then receive from him the additional notes. Likewise, when circulation is withdrawn, a corresponding decrease in the redemption fund takes place, and bonds no longer required as security are withdrawn by the bank upon the payment to the Treasury of a sum of lawful money, equal to the amount of notes to be withdrawn. It is not permitted, however, that more than nine million dollars in circulation may be retired within the period of a single month. In case a bank has expressed its intention of withdrawing circulation and this limit has already been reached, the bank will be required to wait until a later time.

Profits on Circulation.

The reason for increasing or decreasing circulation will generally be found in the relative profits which the bank can make by using its funds in its current business or by investing them in bonds as the basis for a note circulation. The amount of profit depends largely on the premium which it is necessary to pay in purchasing the government bonds which have to be deposited as security. If the premium is very large, the profit will be proportionately smaller. Likewise, it will depend on the opportunity which the bank would have of using its funds in its regular business of loans and discounts, and the rate of interest which could be obtained from such use. To illustrate these points we will give a typical example to show the method of computing profits on National bank circulation.

Method for Computing Profits.

We will suppose that the bank in question is taking out one hundred thousand dollars in circulation. As security it must purchase one hundred thousand dollars par value of United States bonds, which we will assume to be of the series maturing in 1930, and purchased at 103 or a premium of three per cent. on the par value of the bonds. The interest rate is two per cent. The bank has invested one hundred and three thousand dollars and in return has received interest-bearing securities in the amount of one hundred thousand dollars and its own notes to the same amount. On this it receives two thousand dollars per annum as interest on the government bonds and is enabled to secure the current rate of interest on the amount of its note issue by using these notes in the same way as it would use cash in its ordinary business operations. Supposing that the bank put all these notes out at five per cent. interest in the form of loans and discounts, it receives from this source another five thousand dollars of income, making its total receipts seven thousand dollars a year.

DEDUCTIONS.

On the other hand, there are certain deductions which must be made before we arrive at the net profit from this operation. First there is the tax of one-half of one per cent., or five hundred dollars for the year. Then there is the expense levied upon the bank by the government for the maintenance of the redemption fund and its services in connection with the redemption, sorting, and re-issue of notes. This will vary slightly from year to year but will average about sixty-two dollars and a half per year. The cost of printing is borne by the government, but in the first year that the notes are issued there would be an additional charge upon the bank to cover the cost of engraving the necessary plates.

Loss on Premium.

Besides this we must bear in mind that the three thousand dollars of premium paid on the bonds at the time of their purchase is a direct loss upon the bank and must be provided for by means of a sinking fund. The amount necessary to provide for the accumulation of three thousand dollars in 1930 is $96.87 per year if the bonds were purchased in 1910. Thus there are total deductions of $659.37 and the net receipts, therefore, are reduced to $6,340.63. On the other hand, if this $103,000 had been employed in the regular business of the bank at five per cent. interest, it would have yielded an annual return of $5,150. Thus the net return on the issue of notes is only a fraction of a per cent. greater than five per cent. The following example shows the results in accordance with the figures which we have just given:

$100,000 IN CIRCULATION.

2% United States bonds of 1930 at 103. Interest rate 5%.

Receipts:		
Interest on bonds		$2,000.00
Interest on circulation		5,000.00
Gross Receipts		$7,000.00
Deductions:		
Tax	$500.00	
Expenses	62.50	
Sinking Fund	96.87	659.37
Net Receipts		$6,340.63
Interest on cost of bonds		5,150.00
Profit on circulation in excess of 5% on the investment		$1,190.63

Percentage of profit in excess of 5 per cent, 1.2%

THE PROFIT FLUCTUATES.

It is clear that such an arrangement does not present any very large opportunities of profit to the bank. This will vary not alone according to the premium which it is necessary to pay when purchasing a bond, but also according to the current rate of interest, because the amount of money spent by the bank in excess of the amount of the notes received for issue is an entire loss to them, no interest being received upon this investment. Therefore, the loss of interest will be greater when the rate is higher, and consequently the profit of the bank will then be lower. If the interest rate is high the bank's profits will be low as shown by the following illustration, which is simply a modification of the example given above:

$100,000 IN CIRCULATION.

2% United States bonds of 1930 at 103. Interest rate 10%.

Receipts:		
Interest on bonds		$2,000.00
Interest on circulation		10,000.00
Gross Receipts		$12,000.00
Deductions:		
Tax	$500.00	
Expenses	62.50	
Sinking Fund	96.87	659.37
Net Receipts		$11,340.63
Interest on cost of bonds		10,300.00
Profit on circulation in excess of 5% on the investment		$1,040.63

Percentage of profit in excess of 5 per cent., 1+%.

Volume of Notes Does Not Respond to Business Conditions.

For this reason, banks will be rather slow to increase their circulation at a time when business is prosperous and expanding and when they can use their funds most profitably in the conduct of their ordinary business. They will reap the larger percentage of profits when times are dull and comparatively few opportunities for profitable investment are presented. But when times are dull there is comparatively little need of increasing circulation by the issue of bank notes, and the bank is also likely to find it difficult to use its notes profitably in making loans and discounts. It has been pointed out that one defect of the system is that the volume of circulation is increased at the very time that it is least needed. This introduces the whole question of currency elasticity, which has been discussed with a great deal of animation for several years past. Two general plans have been brought forward, the first that of an asset currency, the second that of a central bank. Two different bills have been introduced into Congress known as the Aldrich Bill and the Fowler Bill, both of which were opposed by the bankers of the country as represented by the American Bankers Association. The result was a compromise measure known as the Aldrich-Vreeland Bill.

The Aldrich Bill.

This act provided for the organization of currency associations composed of National banks in the various cities or of small banks in small towns under certain restrictions. These associations were allowed to issue emergency currency to the amount of forty per cent.

of their capital and a surplus amount of twenty per cent., but not to exceed seventy-five per cent. of the securities to be deposited. This emergency currency is to be issued only by such banks as already had issues of notes secured by bonds. The securities to be deposited could include, besides United States government bonds, bonds of states, cities, railroad and other corporations, and even commercial paper, but in case state, city and industrial bonds were so deposited the amount of circulation taken out of this security might not exceed ninety per cent. of the market value of such bonds; and in case the security consisted of commercial paper not more than thirty per cent. of its value could be issued in the form of notes. It will be seen that this measure is an approach towards a plan of asset currency inasmuch as it permits the bank to deposit its current assets as a basis of circulation in times of emergency, instead of limiting such issues to the security of government bonds.

Some Centralization.

The only trace of a central bank idea is in the fact that such issues may be taken out only by currency associations in case commercial paper (the real asset feature) is to be taken advantage of. Such associations must include banks having a total capital and surplus of at least five million dollars, and for this reason it seems probable that the provision would be taken advantage of largely by city banks and that the emergency needs of the country districts would not be adequately provided for. Certain it is that the practical operation of the law has not been attended with any great degree of success. Only one such association has yet been formed and that was in Washington, D. C.

The Central Bank.

The idea which at present seems to be gaining the greatest favor among banks is that of the Central Bank. It has received the endorsement of many prominent bankers and was heartily commended by the retiring president of the American Bankers Association at the last annual convention of that body. It must not be understood that a Central Bank is by any means a return to the idea of a United States Bank, which was tried by our government in the early years of its existence. Two plans of organization have been suggested, one of which allows the government to become a stockholder in such a Central Bank, and the other of which provides that all of the stock of the Central Bank shall be held by individual banks throughout the country, none of which may invest more than twenty-five per cent. of its capital in the shares of stock of the Central Bank. In any case the Central Bank is designed to be the depository for the United States government funds and thus alter the present treasury system.

Functions of a Central Bank.

Such a bank would be a bank of discount and issue—a bank's bank—and would do for our system what the great banks of England and other European countries have done for them. A Monetary Commission appointed by Congress has been making a most careful examination of the needs of our country and of the systems and practices now in use in all the other great commercial countries of the world with the purpose of devising an adequate system to be recommended for adoption in the United States. It is undeniable that some remedy for present conditions must be sought if our business system is to meet the strain of financial crises without seriously impairing credit. It is only upon such a thorough investigation and comparison of methods throughout the commercial world, and a careful investigation of our own peculiar circumstances and needs, that a well devised measure can be framed. The commission is giving every opportunity for bankers and business men within our own country to give the fullest expression to their views and it seems a reasonable hope that at the end of their investigations a bill may be enacted which will really provide an adequate system and for that reason meet the approval of all parties.

CHAPTER VIII.

BANK DEPOSITS.

The commercial bank may be regarded in the same way as any mercantile institution, the only distinctive feature being that it deals in a peculiar commodity, namely, credit. The bank buys and sells credit in various forms, some banks selling two sorts of credit and some banks only one. All banks sell credit in the form of deposits and some, as we have seen, also sell their credit in the form of bank notes. A bank deposit is simply a demand obligation upon the bank which sells such credit. That is, when the bank sells its credit in this form, it agrees to honor the orders of the purchaser up to the amount of the deposit account which he has purchased. The words "buying" and "selling" are not altogether suitable in this connection, because they have to us the meaning of exchange for money, and convey the idea of a one-sided transaction, whereas the bank usually does not sell its credit for money, but many of its transactions combine both buying and selling, since the thing given or received is the bank's stock in trade. The process, therefore, really amounts to barter.

Selling Deposit Accounts.

We might notice in the deposit business of the bank two purposes: First, it sells credit for money. This it does because it can then loan this money, or a large part of it, out at interest, thereby reaping a profit. Second, it sells or barters its credit for other forms of credit. Here it does not get money which it can use productively in its business and must therefore derive a profit from the terms on which the exchange is made. That is, the bank buys the credit of its customers at a discount. Sometimes, too, it sells its credit on equal terms, taking other credit instruments at their full face value. This is the case when the bank takes checks and drafts and puts their amount to the customer's account. This the bank does as an accommodation to its patrons, in order to attract and hold their business, from which the bank derives a profit. These checks and drafts are collected by the bank, and as soon as they are collected, the bank comes into possession of an amount of money equal to the amount of credit extended to the depositor or else has its obligations to the party from whom the item was collected reduced by that amount. The loaning power of the bank is therefore increased by so much of the amount of the deposit account as the customer does not withdraw by check. Thus the bank seeks deposits, whether in the form of cash, or the various forms of credit, because in this manner it builds up its loaning power and thereby increases its profits.

There are three main sources of bank deposits. First, there are deposits of cash; second, deposits of the various forms of bank credit—checks, drafts, bills of exchange, etc.; third, promissory notes.

Cash Deposits.

The creation of deposits by giving the bank cash is very clearly a case of sale. Money so deposited no longer belongs to the one depositing it, but to the bank. The depositor has given up his title to the money, and in return has received the bank's promise to deliver a like sum in the future as he shall demand it. If that promise is not fulfilled, the depositor has only the right to sue to force the bank to keep its contract and pay the debt, but the money, when once deposited, becomes the property of the bank.

Deposit of Cash Items.

In case the depositor does not bring cash to the bank, but instead brings checks and drafts, the situation is somewhat different. Very likely these items will be entered to the credit of the customer exactly as though the same amount of cash had been handed in over the counter. But the receiving teller has no way of determining whether such credit instruments are good or not until they have been presented for payment to the bank on which they are drawn. We might say that the bank makes a conditional purchase of such property, placing the amount to the customer's credit at the time, but charging this amount back upon him in case the payment of the check or draft is refused.

"For Collection."

In many instances, the bank accepts such items simply "for collection," and when they have been collected credits the depositor with the amount. This is particularly true if the check is drawn on a bank in some other city or town.

and for that reason, a longer or shorter time must pass before the bank can hear from the correspondent to whom the check was sent for collection. In fact, some banks protect themselves by expressly stating on their deposit slips or on the covers of their passbooks that they accept only this responsibility to use due care in collection. The following is an example of such a stipulation:

> **"This Bank, in receiving out-of-town checks and other COLLECTIONS acts only as your agent, and does not assume any responsibility beyond due diligence on its part, the same as on its own paper."**

Depositor Responsible.

In case the check presented for deposit has been credited to the depositor before being presented for collection to the bank on whom it is drawn, and such payment is refused, the customer may have issued checks against this deposit account before it was known that the check was worthless. In this case the bank must look to the depositor for reimbursement for any amounts so paid.

Deposit Accounts in Exchange for Notes.

The third type of transactions whereby the bank sells its credit consists in the purchase of promissory notes. These notes are of three different kinds, according to the kind of transaction out of which they arise. First, there are promissory notes given by the depositor to the bank in return for a loan made to him upon his own credit, or his own credit backed up by other security. When a person in need of funds goes to a private individual to arrange a loan, he naturally expects to have the amount advanced to him in the form of money, because that is the only convenient form of purchasing power or funds which an individual has at his command and can advance to the borrower.

The situation of the bank, however, is different. A deposit account is quite as acceptable to the borrower as cash would be; perhaps more so, since he would not care to handle the actual cash but, even if he received a loan in the form of cash, would at once deposit it in this or some other bank and make his payments in the form of checks. The bank further is benefited by being able to retain at least a part of the sum loaned inasmuch as the borrower would not ordinarily check the whole amount out at once. Any amount that remains with the bank prevents by so much the reduction of the cash reserve of the bank, and consequently its loaning power.

Notes of Outside Parties.

Another class of promissory notes which the bank receives in exchange for deposit accounts are those of other parties than the one receiving credit on the bank's books. Thus it occasionally happens that an individual who has loaned money to another on his promissory note may desire to realize the proceeds of this note before the time that it matures. In this case he may take the borrower's promissory note to the bank and sell it to them at such a price as they will pay for it, ordinarily at a slight discount. The proceeds will then be placed to his credit as a deposit, if it is possible to persuade him to take payment in that form. It might be that the bank would decline to buy the note on any other terms or, if it did, would probably charge a much heavier discount.

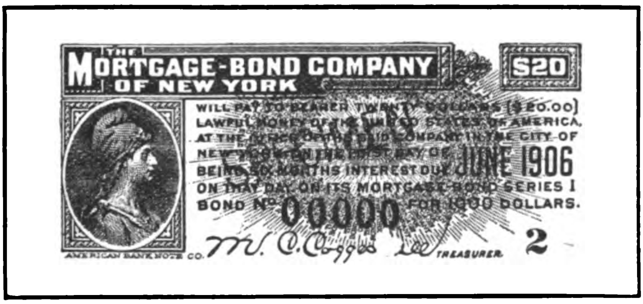
Commercial Paper.

The largest class of promissory notes which are presented to the bank in exchange for deposit accounts are those arising from commercial transactions, that is, where goods are sold upon credit and the purchaser's promissory note for the amount is taken by the seller. Such notes commonly run for thirty, sixty, or ninety days, but the person who has sold the goods probably desires to use the proceeds of these "bills receivable" at once for the payment of wages or other expenses constantly arising in the conduct of his business. Instead of waiting for them to mature, therefore, he will probably endorse them over to his bank, to whom he will take them for discount. The amount of discount will depend on the length of time before the notes become due and will be figured as interest on the amount advanced, for that time. The merchant with such notes to discount will naturally take them to his own bank because it is there that he would be most likely to get the accounts discounted on favorable terms. Naturally, therefore, he does not wish to withdraw the money, but has it placed to his deposit account. He wishes to turn these obligations of his purchasers into a ready means of paying his debts, and the deposit account furnishes for this purpose a means of payment more convenient even than cash.

DEPOSITS OF COUPONS.

There is also one other form of promissory note which is assuming more importance as a means of creating deposits, and that is the interest coupon of a corporate bond. Where bonds are made in the coupon form, a separate interest note is given for each regular interest payment. The holder of the bond does not care to be put to the inconvenience of collecting these interest payments personally, and so they are commonly handled by the banks much as ordinary checks would be. They are made payable to bearer, and in many banks the customer simply lists them on his deposit slip as he would an ordinary check, their amount is placed to his credit and the bank presents them for collection, along with any other interest coupons of the same company which it may have received.

The form of such a coupon is shown below and on page 124 an envelope which many banks use in handling these coupons. Where a customer of the bank has a considerable number of such items to deposit, it is found most safe and convenient owing to the small size of the coupon, to have him place them all in such



INTEREST COUPON.

47.

FROM THE
ELEVENTH NATIONAL BANK
OF PHILADELPHIA.

..........Coupons, ea. $..........	....	....
.... " " $..........	....	....
Total,		

Payable at..........

Due..........

Depositor..........

If payment of any of within Coupons is refused return in this Envelope stating reason.

COUPON ENVELOPE.

an envelope with the amounts entered on the outside much as on a deposit slip.

MANNER OF MAKING DEPOSITS.

The manner of making deposits is simple, and familiar to every one who has any dealings with a bank. The customer enters on a deposit slip furnished by the bank all the items which he wishes to deposit, entering the different kinds of funds, whether checks, coin, or currency, under the proper heads, and adds up the total of these amounts. The deposit slip, the deposits, and the customer's pass book are then handed to the receiving teller, who counts the money, examines the checks, verifies the deposit slip and credits the amount in the depositor's pass book. The amounts are later transferred from the deposit slips to the teller's scratcher, and the slips are then turned over to the individual bookkeepers for entry on the customer's ledgers. The form of deposit slip and pass book are shown on pages 125 and 126.

DEPOSITED IN

The Ninth Street National Bank

OF PHILADELPHIA

By ....

....19

	Dollars		Cents
NOTES,			
NOTES, 1's and 2's,			
SPECIE,			
CHECKS, as follows :			
In Philadelphia, name the Bank; out of town, name the place.			
TOTAL,			

DEPOSIT SLIP.

The
Front Street National Bank
of Philadelphia

Dr.

IN ACCOUNT WITH

Subject to the rules adopted by the Clearing House Association of the Banks of Philadelphia.

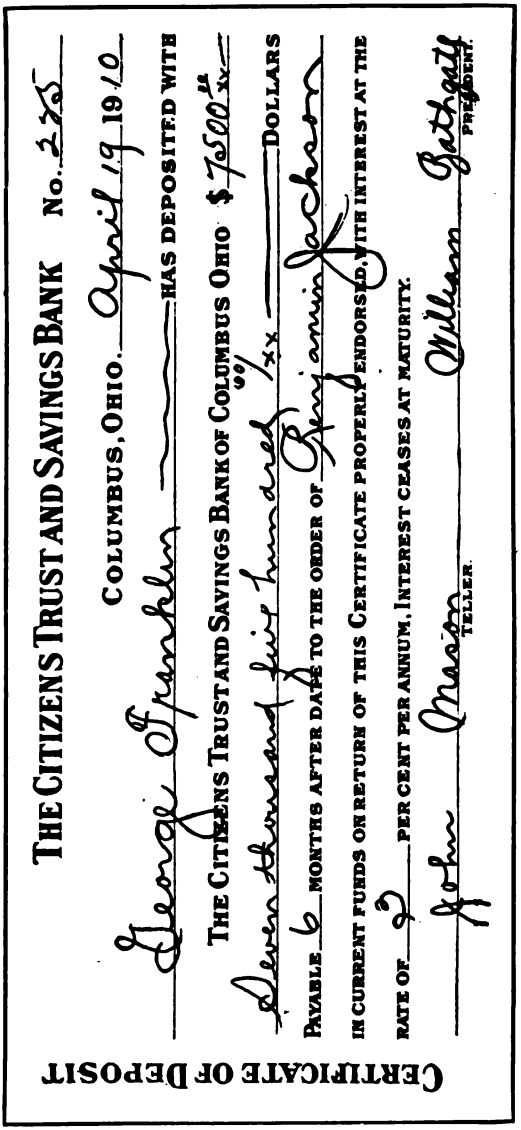
PAGE OF PASS BOOK.

Interest on Deposits.

A general deposit in a bank ordinarily does not draw interest, since it is subject to check. However, some trust companies and banks allow a low rate of interest on daily balances, if their average is above a certain minimum, generally $100 or $200, though sometimes lower. On the other hand the customer of a bank which has failed can claim interest on his deposit from the time at which demand was made for the money and its payment was refused.

Certificates of Deposit.

Another way in which interest is sometimes paid is by issuing interest-bearing certificates of deposit. When a bank issues a certificate of deposit, it certifies over the name of the cashier that a specified sum of money is on deposit and will be paid to the order of the depositor. The time of payment may be either at a specified date in the future, or it may be payable upon demand. Demand certificates are a convenient form by which to transmit money from one city to another, and are used in the same way as are bank drafts and certified checks. Such certificates are not entitled to interest, but where the date of payment is set at some definite time in the future, the deposit is practically the same as a savings deposit and frequently is allowed to draw a low rate of interest. Since certificates of deposit are made payable to the depositor's order they may be endorsed by him to any other party and frequently do thus pass from hand to hand. (See pages 128 and 129.)


CERTIFICATE OF DEPOSIT

THE CITIZENS TRUST AND SAVINGS BANK No. 225

COLUMBUS, OHIO. April 19 1910

George Franklin HAS DEPOSITED WITH

THE CITIZENS TRUST AND SAVINGS BANK OF COLUMBUS OHIO $7500

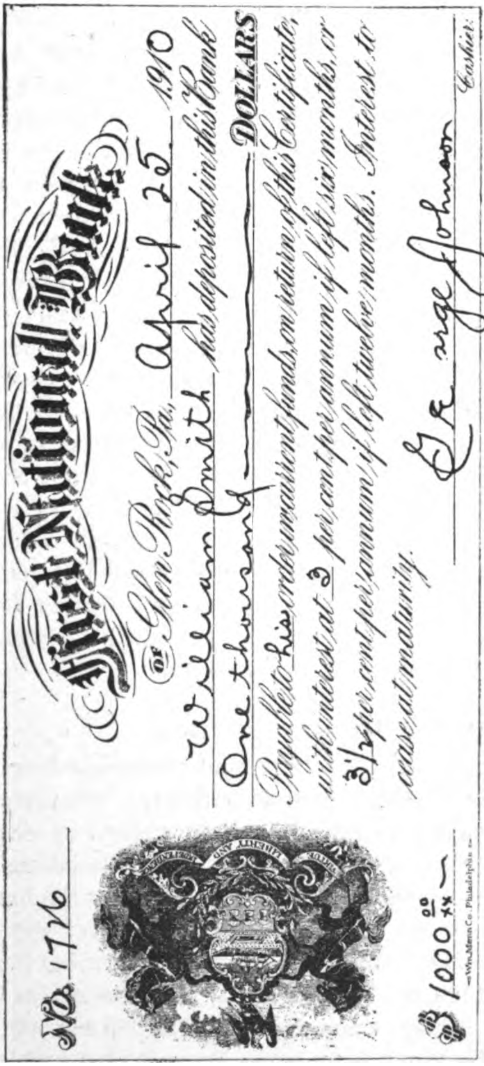
Seven thousand five hundred 00/xx DOLLARS

PAYABLE 6 MONTHS AFTER DATE TO THE ORDER OF Benjamin Jackson

IN CURRENT FUNDS ON RETURN OF THIS CERTIFICATE PROPERLY ENDORSED, WITH INTEREST AT THE

RATE OF 3 PER CENT PER ANNUM, INTEREST CEASES AT MATURITY.

John Mason TELLER. William Bathgate PRESIDENT.



No. 1776

First National Bank of Glen Rock, Pa., April 25 1910

William Smith has deposited in this Bank

One thousand ——— DOLLARS

Payable to his order in current funds, on return of this Certificate, with interest at 3 per cent per annum if left six months, or 3½ per cent per annum if left twelve months. Interest to cease at maturity.

$ 1000 00/xx

George Johnson
Cashier.

Checking Against Deposits.

But the most important feature of bank deposits is the fact that such accounts can be checked against, and these bank checks have become the most important means of ordinary business settlements in the United States. Americans use the system much more extensively than do the business men of any other country and it has been estimated by government officials that 95 per cent. of the current commercial transactions in our country are carried on in this manner. The conveniences of a check as a means of payment are obvious. It can be quickly drawn for the exact amount of the debt, whether large or small, is convenient to carry about or to transmit through the mails, and if carefully drawn, is safer than money, since one can stop payment of a lost check. The treasury department has preserved as examples of unusual checks one drawn by the government for $40,000,000 in payment for the Panama Canal property and another for one cent drawn to the order of President Cleveland to balance his salary on one occasion.

Importance of Deposit Currency.

It is impossible to determine accurately how great a volume of this "deposit currency" circulates but some idea can be gained from the volume of clearings through the various clearing house associations. Of course many checks are paid directly by the bank on whom they are drawn and therefore never appear in the clearings figures. During the year ending September 30, 1909, the clearings of all the associations in the United States amounted to $158,559,487,500. Of course, there are many banks in small places which are not included in this total, because it is only in the larger places that clearing houses are maintained. The clearing house of New York City alone shows total clearings of $103,754,100,091 for the year 1906, its record year. The total volume of deposits subject to check in all banks of the United States as reported to the Monetary Commission on April 28, 1909, was $6,956,502,690.49, and deposits of all sorts amounted to $14,123,935,020.38.

CHAPTER IX.

HOW BANK DEPOSITS ARE OBTAINED AND INCREASED.

The two great problems before a bank are, how to get funds for investment and, how to invest these funds safely and profitably. We will examine the first of these. The size of a bank, like the size of any other incorporated institution, depends to a certain extent on the amount of its capital. But just as one factory having a capital of ten thousand dollars may do a business many times larger than another concern of the same capitalization, so the real size of the bank's business is measured in only the roughest way by the amount of its capital and surplus. The real size of the enterprise depends on how fully a given plant is being utilized. A bank, like any other enterprise, must have customers if it is to succeed. It must have deposits. The bank is organized to furnish a certain service to the community and the problem presented to it in this connection is that of making this service the best possible, and then to get the interest of the public.

Soliciting Accounts.

Ideas of the proper methods to be pursued by a bank in building up its business have changed greatly in recent years, and now it is by no means uncommon to have the bank retain one or more representatives who engage in direct personal solicitation of deposit accounts. Years ago this would have been thought beneath the dignity of a first class banking institution, but the bank which is to succeed in the keen competition of to-day must use every honorable means of building up its deposits, and this has proved to be one of the most effective. If the representative chosen for this work is aggressive and yet at the same time courteous and tactful, he can ordinarily add many new accounts to the bank's list and at the same time pick up an enormous amount of information about general business conditions in the city, as well as the business standing and reputation of the various firms or individuals with whom the bank is dealing, which will prove of the utmost value to the bank. This material should be carefully tabulated by the credit department of the bank, for possible future reference.

Solicitor and Credit Man.

Because of this close relation between the solicitor and the credit department of the bank, it may be found desirable, in case the bank does not feel it expedient to employ one man for the work of solicitation only, to use some man from the credit department of the bank part of the time in the solicitation of new accounts. The profits of the bank are not, ordinarily, sufficiently large to justify a large expenditure of this sort, similar to those incurred by life insurance companies or mercantile concerns.

Use of Letters.

Personal letters sent out by the bank to possible customers may serve the same purpose fairly well, and at the same time be much more economical. Such a letter, if well written, is probably the most effective form of solicitation outside of a personal interview. Letter writing is a fine art. The personal letter of solicitation should call attention to the particular advantages to be offered by the given bank, and make a dignified appeal for patronage. Sometimes it is advisable to supplement the personal letter by the use of printed booklets which can take up, in more detail, the strong points of the institution and the particular kinds of service which it is prepared to render to its patrons.

Special Services.

This is one of the strongest ways of attracting customers and building up deposits, namely, by perfecting one or more particular forms of service likely to appeal to the community or to some considerable class. Many banks, in connection with their own investment work, have perfected a bond department, whose services they place at the disposal of their patrons, and through which information as to various securities can be secured, and the purchase of such stocks and bonds arranged on the most favorable terms. Other banks make a specialty of foreign business, and cater to travelers through the issue of travelers' checks and letters of credit, or by rendering some special service to persons traveling abroad. An example of this is seen in the following extract from the advertisement of a well-known private banking firm: "Our West End Branch at 123 Pall Mall, London, has special facilities for forwarding mail and telegrams. No charge is made for such service, except out-of-pocket expenses. Arrangements have been made with two of our correspondents in Paris for similar service."

HANDLING SHIPPERS' DRAFTS.

Another special form of service may be undertaken by the banks in the giving of unusual attention to the business of some particular class of merchants. Often it is found that shippers of live stock, perishable fruit and vegetables, or even grain, may have special needs which grow out of the peculiar methods of their business. These demand skilled and immediate attention, and the bank which can handle such accounts acceptably is sure to build up its business as a result. Thus if a shipper of perishable goods secures payment by means of a draft upon the purchaser, it is customary to attach to the draft a bill of lading covering the goods so sent. To protect both parties to such a transaction, it is essential that the draft shall be presented for payment or acceptance without delay, and the bill of lading surrendered to the purchaser. Each business has its peculiar usages and demands and the ordinary commercial bank is not posted as to these details or equipped to meet them. Or it may be that it is a particular advantage that the bank has a certain class of business men for the majority of its patrons.

SPECIAL CLASSES OF PATRONS.

Thus, if a large number of people in a community are being paid in the checks of cattle buyers, a bank that has a large number of live stock concerns for its patrons would be in the best position to serve them and might well make an appeal to them on this score. There is a flourishing bank in a large meat packing center which recognizes this opportunity in the following words, taken from its advertisement: "To Banks and Bankers having more or less Live Stock business, this Bank offers exceptional advantages and solicits correspondence as to terms and facilities."

Going to Meet a Need.

Similarly a bank may cater to the needs of a particular section of a city, instead of to a distinct class in the community. That may go along with the attention to a particular class of business, as in the case above referred to. This stockmen's bank is located within a stone's throw of the gate of the largest stockyards in the country and in a section not otherwise adequately supplied with bank accommodations. Thus an enterprising institution may discover an excellent opportunity for the establishment of a new bank remote from the center of a growing city. It may be that this is in the centre of a well-to-do residence district and that the safe deposit vaults become a means of attracting householders in the vicinity of the new institution.

Talking Points.

But whatever the individual characteristics of the bank, all these special departments or services make strong talking points in the bank's advertising or soliciting campaign. It is through just these things that it expects to appeal to the public, and they must be set forth in its advertising matter. Thus a New York city bank puts as a catch phrase on its publications: "Only National bank north of Forty-second Street on Manhattan Island." Most National banks make a special note of the fact that they are National banks and, therefore, under government regulation and, for that reason, presumably in the safest class of institutions. Likewise a bank that is designated as a depository of national, state, or city funds, usually mentions the fact as indicating its particular strength and solvency.

AGE AND REPUTATION.

In the older sections of the country it is not uncommon to find a bank calling especial attention to the length of its life. One Philadelphia bank is proud to mention the fact that it was founded in 1781 and is the oldest bank in America. Another bank, in the same city, makes a point of its age as follows: "A strong recommendation and evidence of success: Transacting business for nearly a century and to pay 160 consecutive semi-annual dividends." Probably the most common form of bank advertisement is the simple statement of the capital and resources of the bank and the list of its officers and directors. There is certainly, however, nothing striking about such a form of advertising, and in most cases it makes but little appeal to the community. The amount of capital and resources really proves little, if anything, as to the safety and prosperity of the bank's business, and it is doubtful if the names of the directors have much more value, except in some few cases where men of wide reputation and known financial standing are included in the list. At any rate, the board of directors can do more to build up the business of the bank by using their efforts to interest individuals with whom they come in contact in their every-day business dealings, than by having their names appear in a solid list in an inconspicuous corner of a daily newspaper.

Only Regular Publications Bring Returns.

A question that naturally assumes a good deal of importance is as to the sort of publications in which it will pay a bank to advertise. As a general proposition, it may be laid down that they should be limited to daily, weekly or monthly publications, which come regularly into the hands of a class of patrons whom the bank desires to interest. Money spent in special advertisements in publications which have no regular existence is practically money given to charity.

A Plan Needed.

Advertising to be successful, should follow out a steady campaign according to some predetermined plan. It should not attempt to cover the whole field in one advertisement, setting forth all the advantages which the bank is supposed to possess, but should be progressive and take up, one after another, its various points of superiority. It should be aimed to make each such statement convey one simple fact as clearly and forcefully as possible. Probably the savings banks are the most progressive class of banks in this particular at present, featuring the advantages of saving against a rainy day and the possibility of sickness or misfortune. If the bank has a safe-deposit department, it makes the most of the protection which this affords against loss by fire or burglary, or in other ways.

Soundness the Best Advertisement.

But the best advertisement of the bank is to be found in the nature of the institution itself, and indeed it is on this that all forms of advertising must rest, because the appeals of the newspaper or magazine advertisement, the individual letter, or the personal conversation of the solicitor can do no more than set forth attractive features of the bank itself. The prospective depositor wants to know two things about the bank in which he is urged to become a depositor; first, is it strong, safe and well managed; and second, is it aggressive, growing, profitable? To be safe and strong the bank must have efficient management, both in the board of directors and in the executive officers who direct the practical workings of the bank. The obligations of the institution must be chosen with the utmost care so that it is always ready to meet the emergencies which are bound to come from time to time to the business of dealing in credit. Its loans must not only be sound in the sense that they can be collected without fail at some time, but must be collectible soon enough to meet any sudden demand which is placed upon the bank. In the language of the banker they must be "liquid."

Bank Must Meet All Demands.

Aside from the constantly maturing obligations on which the bank can depend for a certain supply of cash from time to time, there must be also a proper proportion of cash on hand to meet the current demands from day to day. Just what this proportion is, is determined only as to its minimum amount, by the various state and National bank laws. A cautious bank president will often find it necessary to keep more than this amount and it is sometimes felt that many banks might safely keep less than this amount, but in view of the frequent reports and examinations provided for under the National banking system, it is impossible to avoid the provisions of the law. The final test of whether the management is really wise and efficient will be found in the continued prosperity of the bank.

Conditions Shown By Reports and By Dividends.

This is shown in the case of National banks by the reports of condition which they are required by law to publish in a newspaper in the locality in which they are situated. Some states make the same requirement as to state banks. The earning of a fair rate of dividends on the amount of money invested is very properly one of the first aims of the bank, and there is naturally a constant struggle between these two objects of safety and the largest profit possible. Growth may easily be obtained at the expense of safety so that in judging a bank, the growth of its business, the amount of its dividends, and the conservatism and soundness of the institution, must be balanced against one another in making an estimate of its claim to one's patronage.

CHOICE OF PATRONS.

For this reason, a bank must use care in the selection of its customers, since customers of a given kind, either good or bad, attract more of the same sort to a bank. When it becomes known that the policy of a bank is liberal or it may be even reckless as to the extension of credit, there is almost sure to be a flocking of customers of the less desirable class to such a bank. Its growth, and the character of these depositors, advertise the bank and tend to increase its business, but the advertisement is not of the most desirable sort nor the growth of a kind which is sound and likely to prove permanently profitable. A prominent banker,* in an address, points out the dangers of such a business as follows:

"The right man without property is a better credit risk than the wrong man with property. Of almost equal importance in gauging the desirability of an account are the habits of the new customer as a borrower. The ideal borrower for a commercial bank makes temporary or reasonable loans. As for instance, the manufacturer who borrows for the purpose of raw material to be repaid out of proceeds of sale; the jobber, for carrying the account or note of merchants pending retail distribution; or loaning the farmer, to gather his crop to be repaid by its sale. In this connection, may I illustrate from personal experience: The President of a small country bank in the south once showed me his statement as of December 31st. I was astonished to note that the bank had no loans and discounts; its entire assets at that date consisting of cash in vault and balances with reserve agents. He explained that all his loans were made either to cotton planters or

* Wm. A. Law, President of the Mercantile National Bank of Philadelphia.

merchants dealing largely with them. The crop had matured early; the weather had been suitable for gathering; prices were favorable and the cotton was quickly marketed; liquidation of mercantile accounts immediately followed, and the entire loans of the bank were paid off. This was, of course, a very extreme case, as fortunately, few banks deal solely with people interested only in one line. A well distributed and diversified business is greatly to be preferred. In selecting a new customer, consider this, too: Suppose because of unsatisfactory balances or for other reasons, it is found best to part company. Is he such a borrower or are his affiliations such that in this event he can either pay off his loans in full or readily obtain similar accommodation elsewhere? If he can, it is safe to loan him.

"The new customer should maintain satisfactory average balances, and this depends not only upon the number of dollars to a customer's credit upon the individual ledger, but often upon the proportion of out-of-town checks and drafts. There is no more difficult problem for the city banker than the country check problem. A leather wholesaler recently told me that when he was starting in business he asked a very successful old merchant how he could best build up his credit. The old merchant replied: 'To build up your credit you must not only show personal character, financial responsibility and earning capacity, but you must maintain generous bank balances. That is essential towards securing liberal credit. I keep large balances with my bank even if I have to borrow money to do it.' Sometime after I noticed the course of this older merchant during a financial pinch. His firm possessed an unusually broad credit. He paid off every note he owed his own bank, borrowing elsewhere, and increasing his balances considerably above normal proportions. The tighter money became the larger his balance grew."

Value of a Given Account.

The matter of the cost of a checking account is one which is receiving more and more close attention from banks to-day. In fact, a modern bank must carefully ascertain the cost and the return from their accounts, if it is to make a satisfactory showing, just as a modern manufacturer must install an adequate system of cost accounting, if he hopes to make satisfactory profits in the keen competition of modern industry. Unprofitable business must be weeded out so far as possible by the bank's management. An unprofitable account is one which yields to the banker in the form of interest on loanable funds, less than the cost of carrying the account. This cost will consist in the clerical work, stationery, exchange, operating expenses of the bank building, etc., which are incidental to the running of a bank business.

HOW TO FIND THE DESIRABLE ACCOUNTS.

Various methods have been devised whereby these expenses may be properly divided amongst the various depositors of the bank to show what the cost of each account is. Then a careful examination must be made of the amount of funds which are really made available for the loan business of the bank by this deposit account. By figuring the interest on this amount, and deducting from it the cost as previously ascertained, the net profit on the account is arrived at. The details of the system are illustrated by the following plan devised by the Milwaukee Chapter of the American Institute of Banking:

"First, we will divide the departments to which the expense is to be charged into two classes—those in which there is money invested—and those that carry no investment. To the first class belong capital, surplus, and undivided profits—individual deposits—deposits of banks and bankers—savings deposits—certificates of deposit—and the reserve accounts; to the second class belong the foreign—collection—and correspondence departments."

"By keeping an exact cost record it is an easy matter to charge each department with its share of the supplies and salaries. In addition to these fixed expenses, each department must carry its proportionate share of such floating expenses as salaries of officers, directors, discount or finance committee, auditing and credit department, and rent, light, heat and such other expenses as are in any way chargeable to these departments. In the actual work of getting figures for our use we found it easier and more practical to figure the expense of the departments of the second class first, and subtracting this from the total expense, obtain the expense of the first class departments.

"It became a question as to the manner of apportioning these floating expenses. We decided that the fairest method would be to divide the expense among the departments in proportion to the money invested in each department. This made it possible to apportion the expense of the departments of the first class, but as there is no investment in the departments of the second class, we had to determine upon some other method in apportioning the expense among these departments. In this case we used, as a basis of apportionment, the number of men that worked in the different departments as compared to the whole force. We recognize that there seems to be some inconsistency in this using of two methods in apportioning the expenses. But we considered the basis of money invested so much the best method we could devise that we used it where we could, especially as this class covered the checking accounts on which we were trying to figure the cost. In this figuring * * * * the various charges were put down more in detail. For example: in the item of 'salaries' there were six divisions; for officers; discount committee; directors; auditing, credit and discount department; bookkeepers, tellers and clerks; and telephone, stenographers and janitors. Every institution has its own method of subdividing the expense account and can arrange the schedule to suit its own methods."

CHART I.

	CLASS I. Departments with money invested.						CLASS II. Departments without investment.		
	Capital Surplus Und. Profits	Individual Deposits	Banks and Bankers Deposits	Savings Deposits	Certificates of Deposit	Reserve Accounts	Collection Department	Correspondent Department	Foreign Department
All Salaries									
Supplies of all kinds ...									
All other expenses									
Total									
	1	2	3	4	5	6	7	8	9

5

CHART II.

	Receiving Tellers	Assistant Receiving Tellers	Bookkeepers	Assistant Bookkeepers	Paying Teller	Correspondent Department	Mail Teller	Assistant Mail Teller	Exchange Teller	Custodian of Records	Chicago or New York Clerk	Check Filer	Counts per Item	Average number of Items	Total daily counts with variations, salaries and handlings equalized	COST OF HANDLING AN ITEM
Salaries	A															
Value of handlings	B															
Counter debits	D C	D 1	D 2	D 3	D 4							D 5	E	F	G	H
Mail debits																
Counter Clearings																
Mail Clearings																
Credits																
Counter Transits																
Mail Transits																
Counter Chicago																
Mail Chicago																
Counter New York																
Mail New York																
Money																
Total Counts																

"By use of Chart No. 1 it becomes possible to determine with fair accuracy the total expense of the checking accounts. This we get by adding columns 2—3—8. Our next step was to find some method of subdividing this total expense so that we could find what charge might justly be made against any one account as the cost of handling that account. It immediately occurred to us that the items, which in one way and another were deposited by any account, were the cause of the labor and so the expense of that account, and that an account having twice as many items as another costs, roughly, twice as much to handle. If then we should divide the daily expense of running the open accounts, figured from Table No. 1, by the daily number of items handled we would get the rough cost of handling an item and could in this way approximate the cost of handling an account. This agreed with several cost systems which had been exploited in the papers recently. But this does not seem a fair method of apportioning the expense to an account as it is certainly true that there are items of different classes which manifestly have different costs. Some items are handled more times than others and these handlings are made by clerks with varying salaries. In order to adjust these differences we devised Table No. 2.

CHART III.—SCALE TO EQUALIZE SALARIES.

Class	Salary	
No. 1	\$25—\$50.	One actual handling equals 1 count.
No. 2	50—100.	One actual handling equals 2 counts.
No. 3	100—150.	One actual handling equals 3 counts.
No. 4	150—250.	One actual handling equals 4 counts.
No. 5	over 250.	One actual handling equals 5 counts.

"On examination one may see that every clerk who handles any of the items created by an active account heads a column, and that the items themselves are recorded on the horizontal lines. This enables us to make a cross record showing the relation that any clerk has to any kind of item. We can now make a record of how many times any clerk handles any item. Entering this record in the upper half of the square, e. g. (See letter C), denoting that the receiving teller actually handles the 'counter debits' C times, makes it possible to trace a history of an item on its way through the different men and so show the relative amount of work caused by any item being handled more or less often than another. By this means we have been able to equalize one variant, the number of times handled.

"The next variant is the relative value of the handlings by men of different salaries. Any attempt to equalize the value of one handling by different men must be in the nature of an estimate and we offer Table No. 3 as such only. While it seems to us a fair one, still we recognize that varying conditions may make this scale impracticable and another one advisable.

"After having determined upon a salary equalization scale, turn again to Table No. 2. At the top is a line recording, e. g., the salary of a teller being entered in the square marked 'A'. The next line shows the value of the handlings as determined by Table No. 3 and shown here by letter 'B'.

"It has been stated that letter 'C' represents the actual number of times a 'Counter Debit' is handled by the receiving teller. If now, by use of Table No. 3, we decide that every handling by a receiving teller is of 'B' value, then C multiplied by B will be the value of one handling of a 'Counter Debit' by a receiving teller. This result is entered and represented by letter 'D' on our Chart No. 2. In our further consideration we will call this result, entered as letter 'D', the count of that item. Repeating this process for each clerk who handles this class of items we get entries D, D1, D2, D3, D4, D5. Adding these and entering the total in the column headed 'Counts per Item' we have 'E' representing the relative number of counts of this class of item, making due allowance for all the variations of salary and number of handlings.

"This same operation carried out for all the classes of items will give us the handlings for one of every kind of item created by a checking account.

"In the column headed 'Average Number of Items' and shown by letter 'F' we will insert the actual number of items of each class that are handled daily. This number should be an average based on a daily count of all the items handled in the bank and extended over a long period.

"By multiplying E and F we get the relative number of counts, with the variants accounted for and equalized, of an average day for each class of item (G). The sum total of this column will give us the total counts of all the items for an average day.

"By the use of Table No. 1 we have determined the amount of expense to be charged against these checking accounts. If we divide the daily expense by the total number of counts (G) we get the cost of one count. This cost is uniform as all the variations have been equalized by Tables No. 2 and No. 3.

"We have now arrived at a point where we can determine the actual cost of the several kinds of items. To do this we multiply the counts per item by the cost per count, which gives us the cost per item.

"The compiling of these tables makes it possible to figure the cost of handling an account with very fair accuracy. To do this we have to get the number and kind of the items deposited by an account and for this purpose have devised a sheet shown here as Chart No. 4. The upper half of this sheet, when filled out, gives us the statistics of an account for one month, and by using the cost of the items as derived from Chart No. 2, we get the cost or handling the account.

"Chart No. 4 has been designed to figure the profit or loss in addition to its being used to collect data. The first column will give the gross balance from which must be deducted the outstanding items as shown on the table near the lower right-hand corner of the sheet, and from this we determine the loanable funds. At the extreme lower right-hand corner is a form to figure the exact cost of handling an account based on the cost of handling the items. The lower left-hand corner shows the form used to figure the return of the loanable funds." (See page 150.)

ADVANTAGES OF SUCH A SYSTEM.

When a bank has installed such a system, it is enabled at any time to ascertain the value of a given account. This is valuable for two reasons. In the first place, it knows just what sort of accounts it can profitably accept, or which it will pay it to solicit. It may not be possible to refuse accounts offered it, but the bank will be in a position to know just what profit can be obtained from an account of a given sort. Furthermore a knowledge of the value of a customer's account is of the utmost importance to the officials of the bank as a basis for decision as to what accommodation the customer is entitled to. For example, a customer who maintains good balances and who draws compara-

CHART IV.

MONTH YEAR NAME

Date	Balance	No. Own Checks	Amount Clearings	No. Clearings	Amount Odd Items	No. Odds	Exchange Paid	Amount N. Y. Items	No. N. Y.	Amount Chicago Items	No. Chicago	Amount Cash	No Credits
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
11													
12													
13													
14													
15													
16													
17													
18													
19													
20													
21													
22													
23													
24													
25													
26													
27													
28													
29													
30													
31													
Gross Bal. Less Items out. Net Bal.													
Net Av. Bal.													

		Cost of Handling Items	
Net average balance		Checks Paid Off Items 2 days	
Interest @ per month (as earned on investment)		" " New York 2 "	
Exchange Paid		" " Chicago 1 "	
Charge for Banking Privilege		" " Clearings 1 "	
Gross worth of Account for month.		Total to be deducted from Gross Balance	
Less Total Cost and Interest Losses		Cost of Handling Items	
Net Worth of Account for Month		Exchange Cost	
Net Loss on Account for month		Interest Paid on Accounts	
		Total Cost	

tively few checks against his account, instead of a large number of very small ones, is one who is sure to be extended the services of the bank on the most favorable terms. If such a customer has items which he desires to have collected through the bank, the charge for the exchange will be the minimum or may be waived entirely. Likewise, when such a customer comes to the bank as a borrower, the officials after examining the records of his account, will be sure to extend to him the largest amount of credit possible, and upon the most favorable terms. Through the system of figuring the cost of their various accounts, they are able to be sure just what accommodation he is properly entitled to.

CHAPTER X.

INSURANCE OF BANK DEPOSITS.

Since all plans of increasing and holding bank deposits must be based finally on confidence in the bank, the strongest and most sweeping means to this end is the guaranteeing or insurance of deposits by some adequate authority. Experiments along this line have been undertaken in several of the Western states within the last three years. The first and best known of these began in Oklahoma in 1907. The Oklahoma act provided for the levying of an assessment of one per cent. of its average deposits on each bank included in the system in order to create a fund for the paying of deposits of all banks which might fail. In case the payment of such claims exhausted this guaranty fund, a special assessment was to be made to raise such additional funds as might be necessary. New banks, as organized, were required to pay three per cent. of their capital into this fund, but at the end of the first year of their existence their contribution was to be adjusted on the basis of deposits.

Scope of the Law.

The law as originally framed was to include all banks within the state, but the Comptroller of the Currency instructed National banks that they were not to participate in this scheme, and in operation, therefore, it included only state banks. As originally drawn, it provided for the absolute guarantee of all deposits of state banks which should fail, but the obligations thus incurred were too heavy and about a year and a half after the passage of the original act it was modified in numerous particulars. It became a system of insurance, rather than guaranty. Membership was still compulsory on state banks but the annual assessments were to be one-fourth of one per cent. of the bank's deposits, until a fund is accumulated equal to five per cent. of the total deposits. After that, only such assessment should be levied as is necessary to keep this guaranty fund at the five per cent. level and the assessment might not exceed two per cent. of the bank's deposits in any year.

RESTRICTIONS ON THE BANKS.

At the same time, a limitation was set upon the amount of deposits, making its maximum ten times the amount of the capital and surplus of the bank, but this limitation did not include deposits of other banks. The fund was to be invested in state warrants up to the amount of seventy-five per cent. of its total, or in such other securities as were lawful investments for state funds. Under this act, it was provided that all deposits of the bank were to be paid by the bank commission in full immediately after the closing of the bank. If the amount available in the guaranty fund was not sufficient to meet these demands, 6 per cent. certificates of indebtedness were to be given depositors for the remainder of their claims, and these were later to be paid in the order in which they were issued, out of the proceeds of the liquidation or from subsequent assessments on the other banks.

NATIONAL BANKS REORGANIZED.

As was to be expected, the deposit guaranty was a very strong argument in favor of all banks which came under the system, and was a powerful means of building up their business by the increase of deposits. In fact many of the National banks thought that its advantages were much greater than those resulting from being under federal supervision, and a considerable number of National banks gave up their national charters and secured charters from the state or resumed business under state charters which they had previously held.

DEPOSITS INCREASED.

Within a little over a year after the law became effective, the deposits of the state banks in the state of Oklahoma increased $25,000,000. This was due, in part, of course, to the National banks which changed to the state form and it may also be partly explained by the deposit of $5,000,000 of the state school funds. But there can be no doubt that deposits were also very greatly increased because of the additional confidence that the public in general placed in banks whose deposits were thus guaranteed.

ADVERTISING RESTRICTED.

In fact many Oklahoma banks started wide advertising campaigns, and drew deposits from adjacent states by their emphasis on the safety secured by the "Depositors' Guarantee Fund of the State of

Oklahoma." Some even stated in their advertisements that the deposits were actually guaranteed by the state. The amended law imposed a penalty on advertising any claim for the bank other than that the deposits are protected by the depositors' guarantee fund of the State of Oklahoma. But in personal appeals to depositors it is hardly likely that the friends of the scheme were as moderate in their claims of the benefits.

Became Political Issue.

That the result was a movement of deposits to the state banks, was admitted by the National banks. As the officials of one of them put the matter: "We boasted of our strength and standing in the community, but we find that 'strength and personality' cut no ice, and the bank with the guarantee will take your business in spite of every effort. We did not like the idea, but when we saw how things were going, we surrendered our National charter and became a State bank. We are glad we did it and have checked the business that seemed slowly but surely going to the other bank. Our experience teaches us that the guarantee is a deposit getter." Political considerations also entered in, since the deposit guaranty was made a plank in the National Democratic Platform in 1908.

Operation of the Plan.

As to the workings of this law, we may notice two cases of liquidation under it, one small one in May, 1908, and the other a large one in September of the following year. The International Bank of Coal-gate was a bank which failed to comply with all the requirements of the act to the satisfaction of the Bank Commissioner and was therefore closed by him in May, 1908. The guarantee fund on hand at the time was more than sufficient to meet the needs in this case, and the depositors were promptly paid in full. The fund was soon restored by the repayment from the proceeds of the bank's assets, of the amount advanced for the payment of depositors.

THE COLUMBIA TRUST CO.

The next test of the system of deposit insurance came over a year later, when the Columbia Bank and Trust Company was taken over by the Bank Commissioner on September 28, 1909. The following morning he opened the doors of the bank and began to pay the depositors. This was the largest bank in the state, and one which had grown very rapidly, under the management of a certain gas and oil land operator by the name of Norton. In one year the deposits of this bank had grown from $365,686.01 to $2,806,008.61, and that was the amount due depositors when the commissioner took up the work of liquidation.

PANIC AVERTED.

There was no panic caused and no run on the bank. The commissioner gave the assurance that all deposits would be paid in full, although the liabilities were nearly three million and there was only about $400,000 in the guarantee fund at the time. The amount of cash and sight exchange on September 28 was $1,134,981.95. The emergency assessment of three-fourths of one per cent. of average deposits on all banks in the system yielded another $248,000, but even then there was still a large shortage. The policy was therefore to pay the small individual depositors first. Payments were made to banks only where they could show that they were in real need of the money at once.

The Course of Liquidation.

Of course there were some charges of discrimination, but in general the administration of the commission was satisfactory. Depositors received their money, and that was the main point. Mr. Norton was compelled to turn over his private estate to the amount of $563,600. Within the space of only about two months all individual depositors had been satisfied either with cash or certificates of deposits secured with gilt edge paper. This is an unparalleled record, and the community was saved from any panic or the disorganization which ordinarily follows on a severe bank failure.

Possibilities of the System.

The Oklahoma experiment in deposit insurance and those subsequently tried by other states have raised several questions as to the possibility of such a system proving really effective. There can be no doubt of the influence that such a guaranty has upon the increase of bank deposits, even drawing funds into banks which otherwise would lie idle. Likewise, if people have confidence in such insurance of deposits, there is much less of a tendency to withdrawals in a time of financial stringency. Both these results are highly beneficial to the business community. Likewise, if the system so works that depositors are paid off as soon as the bank closes, the local panic and business disaster, which ordinarily accompanies bank failures, is avoided.

DISADVANTAGES OF A STATE SYSTEM.

We have seen the difficulty of a state system of insurance in the case of the Columbia Bank and Trust Company, namely, that a single very large failure within the area of a comparatively small state, or one without a great number of banks, is likely to impose a very heavy burden upon banks within that insurance system. For this reason the principle of federal insurance of deposits was advocated, but went down to defeat in the presidential campaign of 1908. From a study of the figures of national banks, it is seen how much lighter would be the burden in the case of a federal provision of this sort. Since the beginning of the system in 1865 there have been but 508 failures, of which 24 were restored to solvency or a total of only 5.3% of the total number of banks chartered. On the average in all these cases, creditors received 82.28% on their deposits.

INSURANCE BY PRIVATE COMPANIES.

Since the agitation for state or national insurance of deposits, there has come forward a proposition by various insurance companies to undertake this work, in much the same way as they undertake other forms of suretyship. Such a proposition has been submitted to the Attorney General for his opinion as to its legality. In replying, he made certain suggestions as to the form of the policy relative to the manner of paying premiums, but expressed his general approval of the scheme in the following words:

> "In my opinion, therefore, it is a matter for the discretion of the directors and officers of a bank to determine whether or not they will enter into any such contract in any given instance, this discretion to be exercised in view of the solvency and general financial condition of the company making the insurance and the reasonableness of the rate of premium; and the form of the policy being modified to conform to the foregoing suggestions, I see no legal reason why a bank may not enter into it."

PLANS BEING PERFECTED.

Several companies have turned their attention to this possible line of new business, but as yet its details have not been very fully worked out. For instance, there is still much doubt as to whether the total amount of deposits should be covered by the insurance or whether it should be limited to a definite amount. Also the companies are divided in opinion as to whether payment should be made immediately upon the closing of the bank or perhaps not until liquidation had been completed. There is this difference between the system of insurance by private corporations and the insurance by public agencies, either state or national. In the latter case, all banks of a given grade would be eligible to insurance on the same terms, and the weaker members of this system would be a menace to the whole. Private companies would employ the best lawyers and accountants to make examinations, and would accept only preferred risks.

Voluntary Associations.

There are so many objections to both of the above systems that it seems, perhaps, that if any system at all of deposit insurance is to come into wide and successful use, it must be based on the mutual principle, that is, be a voluntary system of insurance of their own deposit by banks brought together in some sort of association for the purpose. It is clear at once that to avoid the prime danger of insurance as illustrated in Oklahoma, these associations would have to cover large areas or at least include banks of a large total capitalization, in order to avoid the dangers of being wrecked through one or two large failures. This would preserve the advantage of the insurance by private corporations inasmuch as the association could not only limit the banks which it would accept as risks, but could also exercise certain supervisory functions afterward. Such associations would be really no more than an extension of the present clearing house system.

Supervision of the Member Banks.

If the banks admitted to the association were held up to banking standards as high as those of the present national system, and the association then introduced for its own protection further modifications and requirements as to the manner of conducting their business, it would seem that the association might safely guarantee at least ninety per cent. as it would be able to realize that amount in the liquidation of all banks within such a system which might fail. It is perhaps not too much to hope that as such a system was gradually perfected, the number of insolvencies would be materially reduced. Such an association certainly would be able to enforce any requirements which it might make upon member banks because no bank could afford to be excluded from such an association. Exclusion would be taken by the public as an indication that such a bank was not safe and would increase the flow of deposits from the non-member to the member banks.

Payments Might be Made at Once.

Under such a system, depositors might be paid at once out of a common fund maintained for the purpose, and the fund reimbursed after the liquidation of the failed bank. This would amount simply to a temporary loan of the funds of the association but as far as the local communities are concerned, it would mean an enormous benefit both because funds would be more fully utilized in ordinary times, and hoarding and distrust avoided, and also the paralysis of the commercial life of the community following the failure of a local bank would be done away with. Owing to the well-known conservatism of the banking class, however, it is doubtful if such a reform will soon be undertaken, particularly since attention at the present time is directed toward other changes in our financial system.

CHAPTER XI.

THE BANK CHECK.

A legal definition of a bank check as given by a well known authority* is as follows: "A written order or request addressed to a bank or persons carrying on the business of banking by a party having money in their hands, desiring them to pay on presentment to a person therein named, or bearer, or to such person or order, a named sum of money." Any one who has business dealings to-day is, of course, familiar with the check as the most common means of credit transfer. It may be well, however, to notice what are the essential features in the drawing of a check.

Essentials of a Valid Check.

Since it is an order of one person in favor of another, drawn upon a bank, for a certain sum of money, it is essential that it shall be clear as to the three parties to the transaction and as to the amount of money involved. These, then, are the essentials of the check. No special form is required and a check may be drawn upon any blank piece of paper, but banks always furnish their patrons with blank forms for the purpose, for the convenience of both parties. It would be ex-

* Bouvier.

tremely awkward for a bank handling a large number of checks to have them drawn in different forms and to be of widely different size and shape. While there are slight differences in the printed forms furnished by the different banks, they approximate a standard simi-similar to the specimens shown on pages 164 and 165, one of which also shows the stub, on which the customer keeps his record of all checks issued.

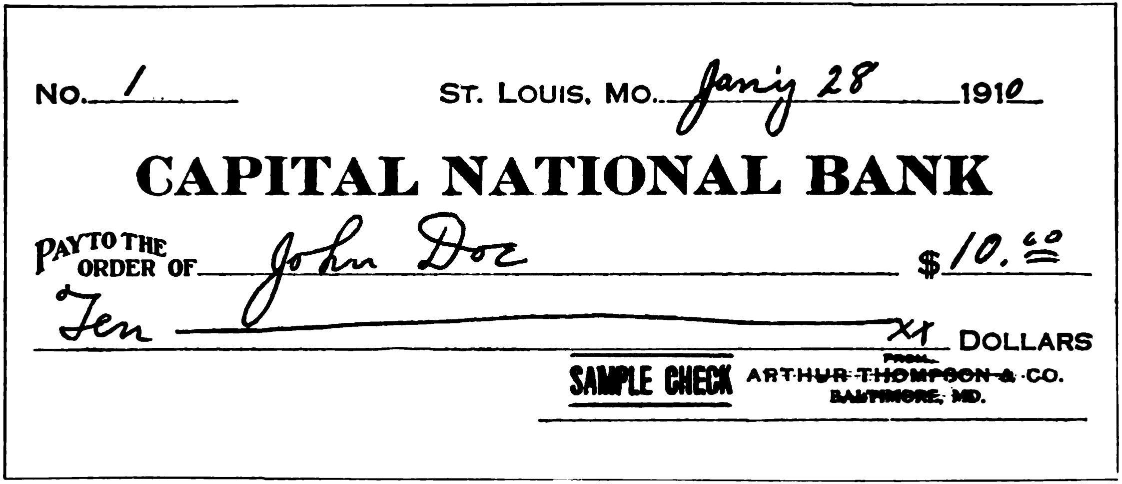
NAMES OF PARTIES.

There can ordinarily be no question as to the proper specification of the name of the bank on whom the order is drawn, since it is printed upon the check itself. However, it is not uncommon to find the printed check of one bank used in drawing an order upon another, by crossing out the name printed on it and writing in the name of the bank on which it is desired to draw. Such a check will be honored provided the necessary funds are on hand. The name of the person in whose favor the order is drawn is filled in on a line provided for that purpose and it is well to take all due precautions to give the name correctly so that the payee may sign his ordinary business signature and there may be no discrepancy between the two. The endorsement on the back of the check should always correspond in every particular with the name as filled in on the face of the check.

NEGOTIABILITY.

The wording of the check should here be noted. The above check reads:

"Pay to the order of ...." and this is probably the commonest and best form of words, al-


No. 1 St. Louis, Mo. Jan'y 28 1910

CAPITAL NATIONAL BANK

Pay to the order of John Doe $10.00

Ten xx Dollars

SAMPLE CHECK Arthur Thompson & Co. Baltimore, Md.

No. 142 April 15 190
To John Doe
For a/c

	DOLLARS	CENTS		DOLLARS	CENTS
Bal. brot ford	11150	00	*Bal. brot ford*	12420	00
Amt deposited	1270	00	*Amt this check*	150	00
Total	12420	00	*Bal. card ford*	12270	00

PHILADELPHIA, April 15 190 No. 142

THE EIGHTH STREET NATIONAL BANK

PAY TO THE ORDER OF Wilson John Doe $150 00/xx

One hundred fifty 00/xx —— DOLLARS

Wilson Smith

though it is very frequent to find the wording "Pay to .... or order." The effect in either case is the same and makes it possible for the person in whose favor the check is drawn to transfer it to another by the process of endorsement. Endorsement may either be "in full" or "in blank." If endorsed in blank the person in whose favor the check is drawn simply signs his name upon the back of it and such a check is then good in the hands of any bearer. However, most banks in cashing such a check require the person receiving the money to also endorse, thus having a complete record of the transaction in case any question should later arise. Endorsement in full does not make the check payable to bearer but to a certain person named in such an endorsement. Thus if the check is made payable to John Smith he may endorse it "Pay to Thomas Brown," and then sign his name to this endorsement.

Wording of Edorsement.

In this case the check would seem to be good only in the hands of Thomas Brown, but the courts have held that it is not to be supposed that the drawer intended to make such a restriction unless he added the word "only." Another form of endorsement in full would be "Pay to the order of Thomas Brown," or "Pay to Thomas Brown or order," and such a check could be again transferred by the endorsement of Thomas Brown below that of John Smith. Brown's endorsement could be either in blank or in full, as he saw fit. Another form of wording of the check is " Pay to

.... or bearer" and such a check is, of course, good in the hands of any bearer and is, therefore, not the best form in which to draw a check except it be for immediate presentation at the bank. The same effect can be secured by filling in on an ordinary check the word "Cash" or "Bearer" in place of the name of any specific payee. In all these cases the bank will require the person who receives the money to put his endorsement upon the back of the check.

FILLING IN THE AMOUNT.

The other most important feature of the check is that the amount for which the order is drawn shall be clearly specified. For this purpose it is written both in words and in figures. In case the amounts thus given should not agree it is very much better, if possible, to get in touch with the drawer of the check and ascertain what was his intention or, if possible, have him draw a new check. No check should ever be altered in any of its essential details but a new check should be drawn in its place. In case, however, it is impossible to get in touch with the drawer of the check it has become a well established custom for bankers to pay the smaller of the two sums named, in case they disagree. Care should always be taken in drawing a check to make both words and figures legible, and to so place them on the check as to avoid the possibility of other words being inserted and the value of the check thereby increased. The writing of the amount should begin at the extreme left hand of the check and the space between the end of the writing and the end of the line should be filled in with a line to prevent the addition of any other words.

NUMBER AND DATE.

The number and date upon a check are not essential features. The number simply serves the maker's convenience and enables him to keep an accurate record of his bank account, trace any lost checks, or verify a particular item. As far as the bank is concerned it makes no difference whether the number be omitted or not. As for the date, however, the matter is slightly different. It is understood that a check is an order upon the bank for immediate payment of the amount named in the check, provided the drawer has that amount on deposit. Checks drawn on Sunday are good. The bank is also required to pay checks in the order of their presentation. If a check is presented without date, therefore, and the drawer has sufficient funds on deposit, the teller will ordinarily fill in the date to furnish a record of the time at which the check was paid, and will then cash the check. Some tellers are so careful as to call up the maker of the check, if possible, to verify the date or even to return the check to him to have it filled in.

POST-DATED CHECKS.

On the other hand, a check is not payable until the date written upon it, even though that date may be in the future. Such a check may be negotiated from one person to another, and banks sometimes pay them regardless of the date, but in case any loss results, the bank can be held responsible, inasmuch as the drawer of the check had given them a definite order to pay certain funds at a certain time, and if they pay them before that time, they do so at their own risk.

Check Should be Presented Promptly.

This suggests the question as to the time for which a check is good. It has been established by numerous cases that the drawer of a check will not be responsible for any loss suffered by the payee by reason of his failure to present a check promptly for payment. Just the length of time which he will be allowed for such presentation will depend on the circumstances, but it is ordinarily held that if a check be drawn on a local bank in the city where both the drawer and payee live, one day is considered a reasonable time. Thus if a bill had been paid by check on Monday, and Tuesday had been a regular business day during which the bank on whom the check was drawn had continued to carry on its business in the usual way, but had failed to resume business after that day, the loss occasioned by its failure would fall upon the payee and not upon the drawer of the check. In case the check had been transmitted through the mails and been presented for collection by a bank in another town, the time would, of course, be extended. Some banks make it a practice not to cash checks drawn more than a year before the date on which they are presented, on the principle that the fact of their not having been presented for so long a time raises a reasonable question and it is best to return them for verification or have a new check drawn.

Stopping Payment.

Since a check is simply the order of the drawer upon his bank to pay the funds to a third party, the person who has drawn such an order may revoke it at his pleasure at any time before payment has been made. In case the bank pays such a stopped check the loss will be its own, exactly as though it had paid a customer's funds without any check having been drawn. It is quite frequent for payment of a check to be stopped because it has been lost. In this case the position of the bank on whom it is drawn is clear, but the position of another bank is rendered somewhat difficult. We will suppose that a check made payable to bearer has been lost and the drawer of the check has thereupon ordered his bank to stop payment. The check has subsequently been presented by another bank to the Clearing House. It was accepted by this bank, endorsed by a merchant who was a regular customer of theirs of good standing. The bank on whom it was drawn returns this check, and the bank by whom it was presented charges it back upon the customer who has deposited it.

FIXING THE RESPONSIBILITY.

It is then a question for settlement between this party and the drawer of the check. In case this merchant has received the check from a regular customer of his, he would naturally look to him to reimburse him for any loss which he might suffer. In this way it might be possible to pass on the responsibility from one person to another until finally the person who found the check and proceeded to use it as his own can be required to make good the loss. On the other hand, the law has held that a merchant paying a bearer check, even to a person with whom he was not personally acquainted is not liable for the loss, inasmuch as he was a "bona fide holder for value." The drawer of such a check must lose the money precisely as though he had lost a note or a greenback.

Payment by Check.

For this reason many persons will not receipt a bill paid by check. The check itself, after being cancelled and returned to the drawer, becomes a receipt. Sometimes, in order that there may be no questions as to the exact purpose of issuing the check, the drawer will specify upon the face of the check the nature of the transaction in settlement of which it was given.

Insufficient Funds.

It sometimes happens that a check is presented for payment at the drawer's bank when there are not sufficient funds on deposit to pay it in full. There are two courses then open to the bank. If the drawer is an old customer and they have reason to believe that it is only through an oversight that sufficient money is not on hand to meet the check, the bank will probably pay the check, thereby creating an overdraft to the customer's account. Of this they will notify him and look to him for payment, but in case he fails to settle, the bank itself must bear the loss. To be absolutely safe, the bank might decline to pay the check to the person presenting it or return it to the bank through which it is presented, marked "insufficient funds."

PAYEE'S POSITION.

Cases have arisen where under these circumstances the payee of the check has desired to deposit to the drawer's account enough money to make the check good and to then have it cashed. It has been held, however, that the bank is not obliged to accept such a deposit nor to reveal the amount of the drawer's balance. Similarly it is not allowed to pay part of a check, even though the payee agrees to surrender the check after such partial payment is made. A check is the drawer's order upon the bank to pay a definite amount of money, and if the bank is not able to comply with the exact form of this order, it should decline to pay the check at all. Similarly it is held that the death of the drawer revokes the authority which he has given to the bank to pay out funds belonging to him. In some states, however, special laws have been made to cover such a case and the bank is authorized to make payments within a short time after the death of the depositor.

FORGED AND ALTERED CHECKS.

The bank is also held liable for the payment of forged or altered checks. It is held that a forged check is not the order of a depositor at all, and that the bank is supposed to be sufficiently well acquainted with its customers so that it can distinguish genuine signatures from those which are forged. For this reason it requires from all depositors a copy of their signatures with which it can make comparison in case of doubt. A check should always be signed as nearly as possible in the same way so as to make the danger of mistakes as small as possible. Also where the customer of a bank has funds deposited to his own private account and also to an account which he conducts as treasurer, trustee, manager or the like, great care should be taken to sign checks drawn against these accounts with the title as well as the name of the drawer. In fact, "John Smith, Treasurer," is the only proper signature for such an account and an incomplete signature, such as John Smith, should not be honored by the bank any more than should a check signed merely with the drawer's initials.

PROTECTIVE DEVICES.

Numerous devices are introduced by banks from time to time to safeguard their checks against possible fraud. We have spoken of the need of drawing all checks with great care so that no blank spaces are left which could be filled up. Many banks use for their checks a form of paper which is designed to prevent any possible erasures or alterations. This consists of a design printed in pale ink over the whole of the check or at least under those portions which are to be filled in by the drawer. Any erasure on such a check removes this design as well as the words or figures, and therefore, makes it practically impossible of alteration. Other banks accomplish the same purpose by using a corrugated roller or stamp to roughen that part of the check on which the figures indicating the amount are written. Another device is that of stamping or punching on the check the maximum amount for which it will be honored. Thus a check stamped "Not good for more than five dollars" or "ten dollars" or "twenty dollars" as the case may be, could be raised only a very limited amount if at all.

Endorsement.

We have already referred to the fact that a check may be transferred from the payee to any other party whom he may designate, and that this new payee may again transfer the check in the same way, if he so desires. We will take up now the legal obligations which such an endorser assumes. The man who negotiates a check by endorsing his name upon the back of it really enters into two contracts, one a contract of sale, by which he transfers his title in the instrument, and the other the technical contract of endorsement.

A Contract of Sale.

Under this first contract, that of sale, he undertakes the same responsibility as in the sale of any other goods. If the thing sold proves to be worthless he must make good the loss sustained by the purchaser, that is, he must be responsible if the paper is not genuine or if the person from whom he receives it was not lawfully the owner of it and therefore was not possessed of the right to give title to it. The endorser of a check is also responsible if he transfers by endorsement the check of an insolvent person whom he knew to be insolvent, at the time of endorsement.

Contract of Endorsement.

By the technical contract of endorsement, the person who has written his name upon the back of a check in effect guarantees to the person to whom he transfers it that he, himself, will see that the check is paid. The liability of the endorser does not begin, however, until a check has been duly presented for payment at the bank on which it is drawn and such payment has been refused by them. The endorser can then be held, upon the serving of proper notice upon him of the dishonor of the check. Some banks go to the extent of formally protesting all dishonored checks before a notary public, and while this is necessary in the case of notes on which payment is defaulted, the courts do not hold it to be necessary in the case of checks. In that case a simple notice to the endorser is sufficient to fix the responsibility of payment upon him. In such a case, where several persons have transferred a check by endorsement, each will look to the one before him, that is, the one from whom he himself received the check, for a settlement, thus finally fixing the responsibility on the party who caused the default in payment.

SPECIAL ENDORSEMENTS.

There are two special forms of endorsement, each of which deserves brief notice. There are restrictive endorsement, and irregular endorsement. In the case of the restrictive endorsement, the endorser specifically avoids the technical contract of endorsement and merely transfers ownership in the paper without undertaking to guarantee the title. A common form of such endorsement is "without recourse," which simply means that the endorser refuses to assume any responsibility for the payment of the check in case it is dishonored by the bank on whom it is drawn. Irregular endorsement is the very opposite to this. Here the endorser is not one who holds the check and endorses it for the purpose of transferring ownership. He enters into no contract of sale whatever, but simply places his name upon it as a guarantor and assumes thereby the obligations and responsibilities incurred by the technical contract of endorsement.

Anomalous Endorsement.

This is also called "anomalous" endorsement since the name of the regular endorser really does not belong upon the check and has not come there in the course of any business transaction. A frequent use of this form of endorsement is by persons desiring to have a check cashed at a bank at which they are unacquainted. In such a case they will frequently secure irregular endorsement by some person who is known at the bank or who perhaps has an account there. The bank will then feel safe in cashing such a check, even though they do not know the person who received the money, since their customer has become guarantor by process of endorsement.

Certified Checks.

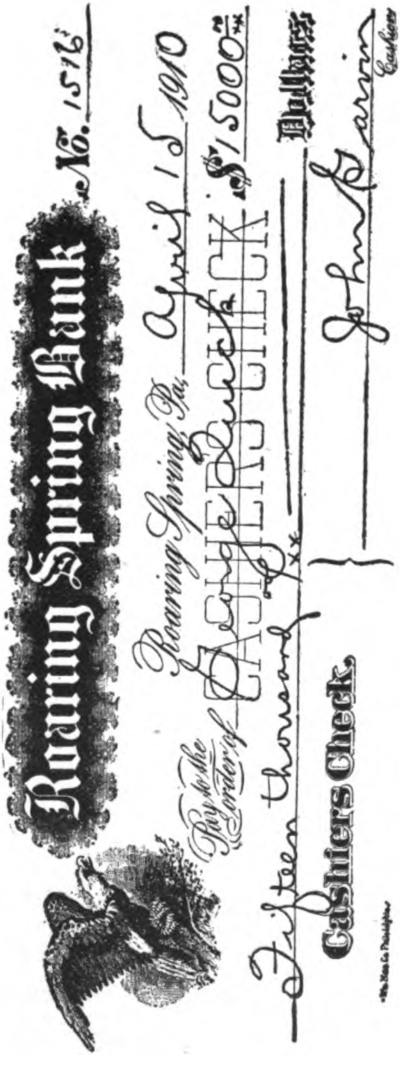
Another way of strengthening a check is by having it certified. In this manner the bank guarantees the payment of the amount. When a check is presented to a bank for certification, the cashier or teller writes across the face of the check "Certified," "Good when properly endorsed" or some similar legend, and signs his name or initials beneath. This should be done only after examining the customer's account to see that sufficient funds stand to his credit to enable the bank to pay the check when presented. By certification the bank makes the check its own obligation, instead of that of the customer, and transfers that amount from the customer's account to its own certified check account.

Overcertification Forbidden.

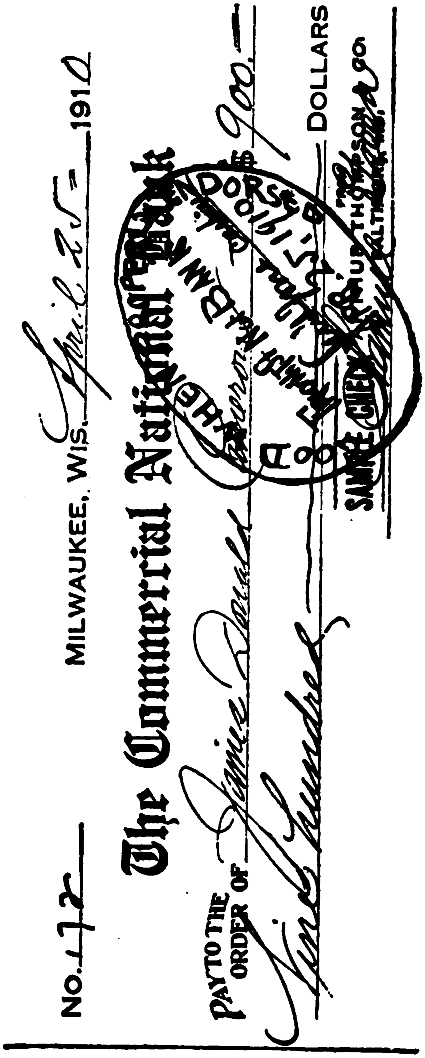
The National Bank Act forbids all National banks to certify a check for a larger amount than the drawer has on deposit with the bank, but until recently National banks were in the habit of evading this section of the law in the case of brokers' checks. The Comptroller of the Currency has taken steps to prevent the practice of overcertification among National banks, but it still exists to a considerable extent among trust companies and private bankers. The certified check is a means of paying large obligations, on which the payee naturally wishes to be assured in advance that the check is good.

The Cashier's Check.

Practically the same result is accomplished by the use of the cashier's check. When one gets a cashier's check from his bank, the amount of the check is deducted from his deposit account and placed to the credit of the bank, and the cashier then draws an order of the bank for this amount in his own name. Both the cashier's check and the certified check are illustrated on pages 178, 179 and 180, as well as the charge ticket by which the bank adjusts its own accounts, when checks are certified for its customers.



CASHIER'S CHECK.



No. 172

MILWAUKEE, WIS. April 25 1910

The Commercial National Bank

PAY TO THE ORDER OF James Donald $900.

Nine Hundred DOLLARS

CERTIFIED CHECK.

No. ..21726..

CREDIT

Certified Check Account

Check of ....*Samuel Green*....

To order of ..*James Donald Cameron*

No. ..172.. Dated..*April* 25, 1910.

Certified for ....*Samuel Green*

$..900.00..

Cashier's Check

The Eighth Street National Bank.

Philadelphia,..*April* 26, 1910..No...21726..

Credit CERTIFIED CHECK ACCOUNT. $..900.00..

Charge .... *Samuel Green* ....

This charge covers certification of Check No. 172, dated ..*April* 25, 1910,.. to the order of .... *J. D. Cameron*,.... which has not yet been paid.

It will be surrendered after payment has been made, upon return of this voucher properly receipted.

Received above voucher ...*April* 26, 1910.

....*Samuel Jones*.
(Cashier)

....*Samuel Green*.....

Certified Checks Should Not be Destroyed.

The following form of notice is frequently attached to certified checks, to prevent any mistake. If the check were destroyed, the customer might forget that the amount had been deducted from his account and thus might overdraw his account. When the unused check is deposited, it is credited to the drawer's account and deducted from the certified check account, exactly as though it had been presented by the person for whom it was originally drawn.

> If this certified check is not used, do not destroy it. The maker should deposit it to his credit.
>
> The Front Street National Bank
> Philadelphia, Pa.

CHAPTER XII.

THE WORK OF THE CLEARING HOUSE.

The Clearing House is the great labor saving device of our banking system. We have seen that a check is an order by one party upon his bank ordering that bank to pay a certain sum of money from his account to some third party. If this third person presents the check to the bank named on its face and there receives his money, the transaction is very simple. But Mr. A., who has his account in the First National Bank, makes payment by check to his employees, tradesmen, and many others with whom he has dealings. They may be located in many different parts of the same city or in other places more or less widely scattered. Probably of one hundred checks which he draws, not ten are actually presented directly to his bank for payment. The butcher, instead of sending a boy to the First National Bank to get his money, simply deposits this check in his own bank and there has it credited to his account. Mr. A's stenographer endorses her check to her dressmaker and the dressmaker endorses it to her landlord, who places it to his account in still a different bank. If checks were not handled in just this way they would be the least convenient instead of the most convenient way of settling current debts.

CHECKS ARE DEPOSITED INSTEAD OF BEING CASHED.

By depositing all checks received for current payments in his own bank, the merchant is saved the inconvenience of collecting them from a number of different banks, but the result, as far as the banks are concerned, is that they are required to do the collecting of checks for the whole community. In our case the First National Bank has paid only a small part of the orders which Mr. A. has drawn against his account with them, but has honored a large number of orders drawn on other banks in favor of Mr. A. Likewise, all the other banks have given cash or credit for orders drawn upon other institutions and have not yet made their own check-demands. The collection of these items from each other would be a large task if no labor saving device were used to lighten the burden. In large cities it is estimated that over 95% of current payments are made by check, and the work of collection by the old method would be enormous.

THE OLD RUNNER SYSTEM.

This old method was by means of runners. A runner from Bank No. 1 took all the checks of other banks in the same city, or in a certain section of the city, and made daily rounds of those banks, presenting these claims for their payment over the counter. In large cities, where banking institutions are widely scattered, such a system involved a great waste of time, besides causing a constant risk and occasional loss. A runner starting out to make the rounds of other banks where he expects to be called upon to make payments for balances owing by his bank, must carry with him a considerable amount of money to meet such obligations, or, after having completed his rounds, where the balance of transactions was in favor of his own bank, the runner would be obliged to carry a considerable amount of cash. It was inevitable that, from time to time, a runner returning from some remote bank with a satchel full of money would be held up and robbed, or that the temptation would prove too great for the runner and he would make off with the money. To do away with the danger and inconvenience of the old system, and to provide in its place a simple and quick method of making collections and settling differences between banks, the Clearing House came into being.

The First Clearing House.

Our Clearing House system began with the establishment of the New York Clearing House in 1853, but was made in close imitation of the system used by the London Clearing House for a long time before that date. The New York association began as a voluntary organization of thirty-eight banks in that city, and to-day wherever banks multiply beyond the number of four or five a clearing house association of a more or less formal nature is likely to appear.

A Simple System.

The essential principle of the clearing house is simplicity itself. Instead of each bank sending a runner or several runners around to all the other banks for the purpose of making settlements, each bank sends the checks it desires to collect to the Clearing House at a stated time. There it offsets the claims against itself by the claims which it holds against other banks, and then either pays or receives the difference between such claims depending on whether such a balance stands in its favor or against it. This will perhaps be made more clear by following the process step by step. The details which we will take are those of the New York Clearing House, which is the largest and most important in the United States, but we will also note certain features of other systems.

METHOD OF CLEARING.

The hour of clearing in the New York Clearing House is ten o'clock and on each business day the clerks of the various member banks meet in the Clearing Room prepared to make settlements for their respective banks. The Boston Clearing House likewise clears at ten o'clock but in Chicago the hour is eleven and in St. Louis it is ten thirty. Philadelphia used to clear twice daily, its first or regular clearance being at eight thirty and another, known as the "Runners' Clearing," at eleven o'clock. In the smaller clearing houses only one clerk is generally sent to the Clearing House but larger banks ordinarily send two, one of whom is known as the "Delivery Clerk" and the other the "Settling Clerk." If the amount of exchanges is very large it may be that it will be necessary to send another clerk to act as assistant to the Settling Clerk, and a porter, or clerk, to aid the Delivery Clerk in handling the large number of checks to be presented for settlement. For purposes of clearing, each member of the association receives a number by which it is known in all transactions with the Clearing House. Desks in the Clearing House are assigned to the clerks of the various banks in accordance with this system of numbering.

MAKING UP THE SETTLEMENT SHEET.

Before taking up the actual system of clearing, we should notice the preparations which must be made before leaving the bank for the Clearing House. At the close of business each day all checks paid by a given bank and to be presented for clearance the next day will be listed upon a "Settlement Sheet." The following morning, after the opening of the bank's mail, any other items which have been received in this manner will be added to the Settlement Sheet in the column marked "Additions" and the totals entered as debit items on the Settling Clerk's statement which he takes with him to the Clearing House shortly before the opening hour. The checks are classified according to the banks on which they are drawn and those for each particular bank are enclosed in an envelope on the outside of which their amount is entered. These are given to the Delivery Clerk, together with a delivery sheet on which all these totals are entered opposite the name of the bank on which they are drawn. There is also a space for entering the amount of checks presented for settlement and a space for the signature of the Settling Clerk of that bank.

CREDIT TICKET.

After these totals have been ascertained, they are all added together to make up the total credit item due the bank on that day's exchanges. This is entered on a credit ticket which is taken to the Clearing House by the Settling Clerk and deposited upon the desk of the Clearing House manager as soon as the clerk arrives there. In the smaller exchanges it is also customary for the clerk to deliver to the clerks of the other banks the envelope containing the checks due his bank as soon as he arrives at the Clearing House. In the New York Clearing House and in most of the larger ones, however, the delivery of this first or credit ticket is the only one that takes place before the formal opening of the exchange.

Delivering the Checks.

Just before the appointed hour the manager appears at his desk in the balcony at one end of the Clearing Room. Each Settling Clerk takes his place at his appointed desk with his settlement sheet in front of him, and the Delivery Clerk stations himself in front of the desk with the checks to be delivered to all the other banks arranged in the order in which their desks have been assigned to them, and with his Delivery Sheet on which to receive signatures of the various Settling Clerks for each package of checks as delivered. The Settling and Delivery sheets are in the forms shown on pages 188 and 189.

Routine of Clearing.

The settling clerk, as each envelope is presented to him, receipts for it upon the delivery sheet carried by the delivery clerk of the bank presenting the checks. If he has an assistant the assistant proceeds at once to enter these items upon the settlement

No. 42. THE FIRST NATIONAL BANK.

Settling Clerk's Statement, ...191

No.	Banks	Debit	Debit	Credit	
1	Bank of N. Y. Nat'l Bk'g Assoc'n.				1
2	Bank of the Manhattan Company				2
3	Merchants' National Bank				3
4	Mechanics' National Bank				4
6	Bank of America..................				6
7	Phenix National Bank				7
8	National City Bank				8
12	Chemical National Bank				12
13	Merchants' Exchange Nat'l Bank				13
14	Gallatin National Bank				14
*	* * * * * * *	*	*	*	*
82	Fifth National Bank				82
83	Bank of the Metropolis				83
84	West Side Bank				84
85	Seaboard National Bank				85
87	Western National Bank				87
88	First National Bank, B'klyn ...				88
90	National Union Bank				90
91	Liberty National Bank				91
92	N. Y. Produce Exchange Bank ..				92
93	Bank of New Amsterdam.........				93
94	Astor National Bank				94
	FOOTINGS				
	BALANCES				

No. 42 THE FIRST NATIONAL BANK

Delivery Clerk's Receipts........ 191

No.	Banks	Dr.	Dr.	Signatures	
1	Bank of N. Y. Nat'l Bk'g Assoc'n.				1
2	Bank of the Manhattan Company				2
3	Merchants' National Bank......				3
4	Mechanics' National Bank......				4
6	Bank of America				6
7	Phenix National Bank				7
8	National City Bank				8
12	Chemical National Bank				12
13	Merchants' Exchange Nat'l Bank				13
14	Gallatin National Bank				14
*	* * * * * *	*	*	* *	*
82	Fifth National Bank				82
83	Bank of the Metropolis				83
84	West Side Bank				84
85	Seaboard National Bank				85
87	Western National Bank				87
88	First National Bank, B'klyn....				88
90	National Union Bank				90
91	Liberty National Bank				91
92	N. Y. Produce Exchange Bank...				92
93	Bank of New Amsterdam				93
94	Astor National Bank				94

sheet. If he is alone he will have to make such entry himself and not be able to complete it until the delivery clerks of all the other banks have passed his window, and the deliveries are completed. It is customary in a great many places to deliver a blank ticket to any bank none of whose checks happen to appear in the day's clearing. This may be very convenient later on in case an error may be discovered by the settling clerk, and is to make sure that no items have been lost or mislaid. After having completed his deliveries, the delivery clerk has no further duties to perform in connection with the process of clearing, and it is generally customary for him to return at once to his own bank, taking with him the checks which have been presented by the other banks. These have all been endorsed by the banks by whom they were presented for payment, generally simply by the use of a rubber stamp bearing the words "RECEIVED PAYMENT THROUGH THE CLEARING HOUSE" and the clearing house number of the bank presenting them.

Debit or Credit Balance.

As quickly as possible now the settling clerk adds up the amount of the checks presented for clearance, which he has entered on his settlement sheet, and proceeds to make up his proof sheet and determine the settlements necessary. This he does by adding up all the credit items or claims of his bank against all the other banks of the clearing house association and also adding up all debit items or the claims of all the other clearing banks against his own. Only the difference of these two amounts will be settled;

that is, if the checks presented by other banks are greater by $1,000.00 than those which the given bank holds against all the other members, there will be a debit balance on the day's clearings of $1,000.00 which must be paid by the bank to the clearing house. Form of proof sheet used is like that shown on page 192.

ERRORS.

As soon as this proof has been completed by the proof clerk who is stationed at a table beside the manager's desk, the amounts are read out by the manager, or if an error has been discovered he announces that fact and the clerks proceed to examine their work in order to discover the mistake. A fine is generally imposed upon the clerk who is found to be responsible, or sometimes only in case the error is not discovered within a certain time, perhaps fifteen or twenty minutes.

METHODS OF SETTLING.

The method of settlement differs somewhat in different places. In New York it is required that settlements shall be made before half past one o'clock. These balances are generally paid in gold coin, United States gold certificates, legal tender notes and clearing house certificates except the fractional amounts, which must be settled in coin. Sometimes the bank makes settlement by delivering a cashier's check to the clearing house. After half past one the creditor banks can call upon the clearing house for the respective balances due them. For these they receipt in the settlement book of the clearing house. In the same way the clearing house receipts for all settlement remittances received from the debtor banks.

NEW YORK CLEARING-HOUSE PROOF, ...191

No.	Banks	Due Clearing-House.	Banks Dr.	Banks Cr.	Due Banks	
1	Bank of N. Y. Nat'l Bk'g Assoc'n					1
2	Bank of the Manhattan Co.					2
3	Merchants' National Bank					3
4	Mechanics' National Bank					4
	etc., etc.					

THE BOSTON WAY.

A peculiar system of settlement has grown up in the Boston Clearing House, which is described in the book on "Clearing Houses"* as follows:

"Many years ago the custom sprang up at Boston of borrowing and loaning balances at the morning exchanges, and the settlement of the same by orders on the clearing-house, and this has grown to be one of the most important features of their clearing system. It had its inception in a small way some thirty years since, as a matter of convenience to debtor banks, and is quite unlike anything else in the clearing-houses of the United States. Before its adoption, debtor banks which found their balances at the morning exchanges too great for convenient settlement with cash, but which could easily call in the necessary amount later in the day were accustomed to send their representatives through the streets to borrow from neighboring banks. Owing to the inconvenience and risk of this practice the presidents and cashiers of the banks began to meet at the clearing-house, and then, after the exchanges had taken place, to borrow and loan their balances. The custom found favor with the banks and has gradually grown to such considerable proportions that some sixty per cent. of the total balances are now settled in this way. On the floor of the clearing-house at each morning exchange may be seen a busy group of bank officials, some borrowing balances, others negotiating loans.

"A may find himself a heavy debtor and may desire to borrow of B, whose balance is a heavy credit. If B wishes to loan to A, he gives him an order on the clearing-house, and the latter uses it the same day in the settlement of his balance. All orders, therefore, on the clearing-house are accepted by the manager in the settlement of balances to the full extent of their face value. But A may not desire but a small part of B's balance, in which event B may find a dozen other banks anxious to borrow, to each

* James G. Cannon.

of which he may loan a portion. Again, some, not finding it advantageous either to borrow or loan, settle their balances by the usual cash payments at the clearing-house. In practice, some banks habitually loan, but never borrow. Others habitually borrow, but seldom or never loan."

On such loans made for the purpose of clearing house settlement, rates of interest about equal to those on call loans are charged. A great many bankers feel that this system involves considerable danger since these loans can be recalled without a moment's warning, but the system is now very firmly established.

ORGANIZATION CLOSE.

The organization of the various clearing houses differs widely, but in almost all cases is rather informal in its nature. Most of them are organized as voluntary, unincorporated associations, acting under a charter and by-laws which they have drawn up for their own regulation. In the smaller places not infrequently the clearing house association is merely a tacit understanding and working agreement between the few banks which use this method of settling with each other.

QUARTERS.

In 1894, the New York Clearing House Association organized the New York Clearing House Building Company for the purpose of erecting a new clearing house building for the use of the Association. The necessary money for this purpose was raised by subscription among the members of the association, each one paying in proportion to the amount of its capital and surplus, and receiving in return for these payments interest bearing certificates of the Building Company. The cost of this building was $2,000,000 and it is decidedly the finest structure of its kind in this country. In fact, there are very few other cities where the clearing house association maintains a building of its own. Philadelphia, Chicago and a few others have such buildings but in most cities such an expenditure is unwarranted and the association occupies rented quarters. Where the number of banks in the association is very small, it may not be necessary even to rent outside quarters for the purpose, but the clerks meet by agreement in a room furnished for the purpose by one of the member banks, moving from one to another each week or each month or according to some other satisfactory arrangement of their own.

Officers.

The New York Clearing House is administered by a president, secretary, manager, assistant manager, and five standing committees. In smaller associations the assistant manager and many of the committees may be done away with, but in other ways the organization is similar. The Clearing House manager is really the executive officer of the whole system but acts under the clearing house committee. He is required to give a bond for the sum of $10,000 and preside over all meetings of the clearing house, where he superintends the process of clearing and the settlement of balances. Another important duty of his office is to see that records are carefully kept of all transactions and a weekly bank statement published, showing the condition of all the banks of the association. The position is one which in a large city requires peculiar qualifications and special experience and for that reason it generally happens that the clearing house manager, although elected for only one year, is retained in his position as long as he is willing or able to serve.

COMMITTEES.

The committees of the New York Clearing House Association, besides the clearing house committee, include the conference committee, committee on admissions, nominating committee, and arbitration committee, each consisting of five members.

MEMBERSHIP.

Banks desiring admission to the New York Clearing House must make application to the clearing house committee, by whom they are referred to the committee on admissions, which in turn examines carefully into their qualifications for membership. In order to be admitted, the applicant must receive a three-fourths vote of those members of the association who are present at the meeting at which their application is considered. The admission fee varies according to the amount of capital of the bank, and no bank whose capital and surplus are less than $500,000.00 will even be considered by the committee. The membership fee for banks having a capital of $5,000,000 or less is $5,000.00 and banks having a larger capitalization than $5,000,000 must pay an admission fee of $7,500.00. The fee for admission to the Philadelphia Clearing House Association is $10,000.00 and members must receive a three-fourths vote for admission and assent to the articles of the association. In smaller places, of course, the fees are proportionately less or may even be done away with where the expenses of the association are small.

NON-MEMBERS.

The New York Clearing House has now fifty members but there are, as in other associations, a large number of banks not actually members of the association which have their exchanges cleared by member banks in accordance with a resolution of the association and the payment of a fee of $500.00 yearly. The following is a specimen of such a resolution:

New York, ...1910.

At a meeting of the * Board of Directors of the......

....

of .... held .... 1910, the following Resolution was adopted:

"Resolved: That this Board hereby agrees to the payment of Five Hundred Dollars ($500) per annum, for the purpose of making its Exchanges through a Bank, member of the New York Clearing-house Association.

"And this Board also consents to the same examinations of this .... as are now required of members of the Clearing-house Association."

....

THE GOVERNMENT AND TRUST COMPANIES.

The New York Clearing House includes within its membership both the United States Sub-Treasury and Post Office. The Sub-Treasury has no voice in the management of the association and makes only a nominal payment for the service of clearing. The Post

* This title may be changed to read, "Board of Trustees, Executive Committee, etc.," as necessary.

Office clears through a member bank and is not required to pay the customary $500.00 fee. Trust Companies in New York City are not admitted to membership in the clearing house but are allowed to clear through member banks if they will comply with the following restrictions:

"No trust company shall be permitted to clear through any member or non-member of this association, unless such trust company shall have been in actual operation for at least one year at the time of making the application.

"No trust company shall be cleared by any bank or trust company, member or non-member of this association, until it shall have been examined by the clearing-house committee, or some other committee of the association duly appointed for such purpose.

"Every trust company clearing through a member of this association, or which may hereafter be permitted to clear through such member, shall furnish a weekly statement of its condition to the manager of this association, in the same manner as weekly statements of non-member banks clearing through this association are now rendered. Such statements shall include:

Capital,
Net profits,
Average amount of loans and discounts and investments,
Average amount of spécie,
Average amount of legal tender notes and bank notes,
Average amount on deposit with other New York City and Brooklyn banks and trust companies,
Average amount of net deposits."

Expenses.

The expenses involved in the maintenance of a clearing house association are distributed among the member banks. Besides the admission fees required of members and the special charges made upon non-member banks who clear through members and the fines collected for infraction of the rules of the association, errors in clearing, etc., an assessment is laid upon the members of the association. This generally consists of a stipulated amount from each bank and a pro rata assessment on the basis of the amount of their clearings. In New York and Chicago a flat assessment is $200 for each bank; in Philadelphia $100 for each bank having a capital of less than $500,000, $200 for banks having less than $1,000,000 capital and $300 for those having heavier capitalization. In Boston the charge is $125 for member banks and from $500 to $1,000 for non-members. The expense of printing is generally kept as a separate item and charged proportionately upon the members of the association. Fines for tardiness and errors are generally small but in the case of one or two places, notably Chicago and Milwaukee, the penalty for tardiness runs as high as $25 for a single offense where the amount of tardiness is as great as ten minutes.

Scope of Activities.

There is considerable difference in different parts of the country as to the exact nature of the services performed by the clearing house associations. In the East their functions are generally limited much more strictly than in the newer associations in the West. Some clearing house associations undertake to secure uniform action of their members in regard to interest rates, charges for collection, or any other matters for which it is desirable that there shall be a definite understanding and uniform charges by the banks. Through the clearing house, also, banks are enabled to aid one another in case of financial difficulties. We have noticed how this was accomplished in connection with the settlement of differences by the Boston banks. It is almost universal, however, to find that the association issues clearing house loan certificates. These are issued by the association to the banks in exchange for deposits of funds with the association and are greatly desired for use in the settlement of balances because of their convenience, being drawn for large amounts and therefore requiring the minimum of labor in making large settlements, doing away almost entirely with the transporting of actual cash to and from the clearing house.

SPECIAL ISSUES OF CERTIFICATES.

In times of financial difficulty, when the available funds of the banks are inadequate to their needs, the various clearing house associations sometimes put out an additional issue of such clearing house certificates based upon deposits of approved securities which the banks deposit with the association for that purpose. A reasonable margin will be left in all such cases between the amount of the certificates so issued and the market value of the securities so as to have the certificates amply secured and therefore acceptable as a medium of exchange. One form of clearing house certificate is shown on the opposite page.

No. ...... New York, ... $..........

NEW YORK CLEARING HOUSE ASSOCIATION.

THIS CERTIFIES that there have been deposited with the NEW YORK CLEARING HOUSE ASSOCIATION by the ....
.... Dollars
in United States Gold Coin, to be held as a special deposit, payable in said coin to the order of said Bank, on demand, to any Bank of the New York Clearing House Association, only on surrender of this certificate indorsed by the Bank demanding payment of the same.

Registered at the New York Clearing House.

NEW YORK CLEARING HOUSE ASSOCIATION,
by W. A. NASH, Acting Chairman Clearing House Committee.

WM. SHERER, Manager.

WEEKLY REPORTS.

Another activity of the Clearing House Association is that of preparing and issuing the weekly bank statement. For this purpose it is required that each bank clearing through the association send to it a report of its condition each week on a form prescribed by the association. Different forms are used for national member banks, state member banks, nonmember banks and trust companies. On next page is the form required of National banks who are members of the association.

THE GENERAL STATEMENT.

The returns thus received are tabulated by the clearing house officials into a general weekly statement which is issued in New York at noon each Saturday. Other days are taken in other cities as the date of its appearance. It is always looked for

NATIONAL.

No. ....

Liabilities.			
Capital			
Net Profits			
Circulation			
Due Banks and Trust Companies....			
Due Other Depositors			
Unpaid Dividends			
TOTAL			
Resources.			
Loans and Discounts			
U. S. Bonds on hand			
U. S. Bonds to secure circulation....			
U. S. Bonds to secure deposits			
Other Stocks, Bonds and Mortgages...			
Premium on U. S. Bonds			
Real Estate, Furniture and Fixtures.			
Due from Banks			
Cash Items and Bank Notes			
Specie			
Legal Tenders			
Overdrafts			
TOTAL			
Certified Checks			
Exchanges			

with great interest by bankers, brokers, and all others who are interested in financial matters, because it shows the condition of the money market. That of the New York Clearing House is of interest all over the United States and even in foreign countries, since the condition of New York indicates pretty clearly the condition of the whole country. The form on page 204 will show the items covered by this weekly statement, though for the sake of space only a partial list of the banks is given.

NEW YORK CLEARING HOUSE.

Weekly Statement of Non-member Banks, for Week ending Saturday, ...191....

BANKS	*Capital	Net profits	Average Amount of Loans and Discounts and Investments	Average Amount of Specie	Average Amount of Legal Tender Notes and Bank Notes	Average Amount on Deposit with Clearing-house Agent	Average Amount of Deposit with other New York City and Brooklyn Banks and Trust Companies	Average Amounts on Net Deposits	Average Amount of Circulation.
New York City:									
Borough of Manhattan									
Colonial Bank									
Columbia Bank									
Eleventh Ward Bank									
Fourteenth Street Bank									
Other Cities:									
Second Nat'l Bank, Jersey City.									
Third Nat'l Bank, Jersey City..									
First National Bank, Hoboken..									
Second National Bank, Hoboken									
Total National Banks									
Total State Banks									
Totals			Increase	Increase	Decrease	Increase	Decrease	Increase	Decrease
* As per official reports—									
11 National Banks,									
33 State Banks,									
$ Increase Reserve									

CHAPTER XIII.

THE MAKING OF LOANS AND DISCOUNTS.

The National bank act includes in its list of activities of banks the discounting and negotiating of promissory notes, drafts, bills of exchange, and other evidences of debt; receiving deposits; buying and selling exchange, coin and bullion; loaning money on personal security; obtaining, issuing and circulating notes. We have seen how, in issuing notes and in receiving deposits, the bank sells its credit. For the rest, its business consists of buying the credit of others. It is here that the profits of banking centre. Only National banks issue notes; not all banks deal in coin or bullion, or buy and sell foreign exchange; the receiving of deposits is in itself a source of expense rather than of profit; and the bank must look to the employment of these funds through its department of loans and discounts, to earn dividends for its stockholders.

THE BANK BUYS CREDIT.

The bank may buy either with cash or with credit, and the kinds of things it will buy are numerous, though restricted to one certain field. That is, the banker does not buy commodities as does a merchant, but evidences of indebtedness, in various forms. National banks are not even permitted to buy real estate except such as they are obliged to take over to secure the payment of a bad debt. It is essential that the property which the bank buys shall be in some form which can be quickly turned into cash to meet the demand obligations which it has assumed. It buys, therefore, only evidences of indebtedness secured by endorsement or by the pledging of property.

Call Loans.

Bank loans are of two sorts, call loans and time loans. Call loans are also known as demand loans, and are made more largely to brokers than to any other class of business men. The rates of interest are usually not very high, since the money is subject to recall at any time, but by loaning money on demand, the bank is able to employ its funds much more fully than it otherwise could. As it requires only one day or less to secure the repayment of a call loan, money which could not safely be put into even thirty-day loans can be loaned in this manner and be made to earn two or three per cent., instead of lying idle. In times of panic, however, call money becomes extremely scarce and the demand acute, with the result that rates advance sharply. A rate of 185% for call loans was quoted in the panic of 1893, but in ordinary times 7 or 8% is considered high for call money.

Collateral Security.

The safety of such loans is usually secured by the deposit by the borrower of collateral security in the form of stocks and bonds, of a market value of about 20% in excess of the amount of the loan. In agricultural centres, warehouse receipts, issued against deposits of cotton or wheat or other commodities, form one of the principal kinds of collateral security for both call and time loans. The grain buyer of the West and Northwest almost always secures a large part of the money with which he makes his purchases by negotiating call loans on the security of this "wheat paper."

INCREASE OF COLLATERAL.

The demand loan is commonly made without the formality of a promissory note, the bank merely placing the amount of the loan to the borrower's account as a deposit. Since the bank holds the collateral securities in its own possession it can safely do this. However, there is always the possibility that the value of such security may decline and thus leave the bank without sufficient protection. When that happens, the bank requires the borrower to deposit additional security or to have the loan at once called. This demand will be made in some form like the following:

The Chemical National Bank
Of the City of New York.

New York, May 1, 1910.

Mr. John Doe,

....

Dear Sir:—

Please send us about $10,000 additional collateral to our loan of $100,000 dated April 25th, 1910,

and oblige,

Yours respectfully,

CHANGE IN INTEREST RATE.

It also is frequently necessary to increase the rate of interest charged on a call loan, even when it is not desired to have the money repaid. In such case, a notification will be sent to the borrower that the rate of interest is to be advanced and that if he does not desire to continue the loan at the advanced rate, he should make immediate arrangements to settle for the amount.

MANNER OF CALLING A LOAN.

The banks of New York observe certain usages as to the time to be allowed borrowers in which to repay call loans. These customs have become thoroughly established and give the borrower the advantage of a few hours in which to arrange for the repayment of his loans. He understands that if demand is not made before one o'clock on a given day, that the loan is to be continued at least until the following day. When repayment of a loan is to be demanded, a call will be made in the morning, and the borrower is then given until two fifteen in the afternoon of the same day in which to make repayment.

SELLING COLLATERAL.

If, for any reason, a borrower fails to make repayment for a call loan when demanded, or to furnish the added security when it is called for, the bank proceeds to secure repayment by selling the bonds or other securities which had been deposited with them as collateral. This power is always given to the banker expressly in the terms of the collateral as note or agreement shown by the following form:

$.......... PHILADELPHIA, ... 191

ON DEMAND, for Value Received,............

promise to pay to the order of

.... DOLLARS,

with interest having deposited as collateral security for the payment of this note and of any other liability or liabilities to the holder hereof, due or to become due, or that may be hereafter contracted, whether direct or contingent, and whether now or hereafter acquired, the following property, viz:......................

....

....

....

....

....

with the right on the part of the holder hereof to repledge the securities above mentioned, or to substitute or exchange for the same other certificates of like tenor and amount, and also from time to time to demand additional collateral security, and upon failure to comply with any such demand this obligation shall forthwith become due, with full power and authority to the holder hereof, or assigns, in case of such default or of the non-payment of any of the liabilities above mentioned at maturity, to sell, assign and deliver the whole or any part of such securities, or any substitutes therefore or additions thereto, at any brokers' board, or at public or private sale, at the option of the holder, at any time or times thereafter, without advertisement or notice to the undersigned, and with the right on the part on the holder hereof to become purchaser thereof at such sale or sales, freed and discharged of any equity of redemption; and after deducting all legal and other costs and expenses of collection, sale and delivery, to apply the residue of the proceeds of such sale or sales so made, to pay any, either or all of said liabilities, as said holder hereof shall deem proper, returning the overplus to the undersigned; and the undersigned will still remain liable for any amount so unpaid: it being further understood and agreed that said THE FRONT STREET NATIONAL BANK OF PHILADELPHIA shall have a like lien upon any and all funds, moneys, balances, stocks, bonds, notes and other property at any time in the hands of said Bank belonging to the undersigned or any endorser or guarantor hereof, as security for this note and for any and all liability or liabilities to said Bank, matured or unmatured, or that may be hereafter contracted, whether direct or contingent and whether now or hereafter acquired, of the undersigned or any endorser or guarantor hereof; which lien shall be enforceable in like manner and shall be subject to all the provisions hereinabove and before mentioned and set out.

In the event of an application for the appointment of a Receiver for the undersigned or any party hereto, or to the making of a general assignment by, or the filing of a petition in bankruptcy by or against, the undersigned, or any guarantor or endorser of this note, or any part hereto, or of any other act of insolvency of any of said parties, however expressed or indicated, all the aforesaid liabilities shall, without notice, at the option of the said holder, become immediately due, without demand for payment thereof.

It is further agreed that upon any transfer of this note, the said Bank may deliver the said collateral or any part thereof to the transferee, who shall thereupon become vested with all the powers and rights hereinabove given to the said Bank in respect of said note and collateral, and the said Bank shall be thereafter forever relieved and fully discharged from any liability or responsibility in connection therewith.

PAYABLE AT
THE FRONT STREET NATIONAL BANK
OF PHILADELPHIA.

....

COLLATERAL LOAN CLERK.

In loaning money on the security of stocks and bonds, it is necessary for the bank to maintain a very efficient organization, usually under the direction of a collateral clerk who devotes his whole time to this part of the bank's business and follows the fluctuations of the market, in order that the loans may be properly protected by a fair margin at all times. He must see that the bank is protected, must call loans when it is deemed necessary, and attend to the disposing of the collateral security when the bank is obliged to look to the proceeds of such sale for the return of the amount loaned.

SUBSTITUTION.

It is also the custom to permit the substitution of other stocks and bonds than those originally given as security, to suit the convenience of the borrower. Such substitutions must be made subject to the approval of the collateral loan clerk who sees that the security is not impaired by such a change. The accompanying form illustrates the manner of substituting collateral.

DEPOSITS AND WITHDRAWALS OF COLLATERALS

Corn Exchange National Bank

Loan of		Present Market Value
SECURITIES DEPOSITED:		
....	@	$ ....
....	@	....
....	@	....
....	@	....
....	@	....
....	@	....
	Total,	$ ....
SECURITIES WITHDRAWN:		
....	@	....
....	@	....
....	@	....
....	@	....
....	@	....
....	@	....
	Total,	$ ....

Philadelphia, ... 191

....

WAREHOUSE RECEIPTS.

Another form of collateral security which is extensively used for brokers' loans, is the warehouse receipt. Such a receipt is really a negotiable certificate of deposit of grain or cotton or other commodities deposited in a warehouse under the regulation of a produce or cotton exchange or of the state authorities. These receipts will be accepted as security for a loan up to a reasonable margin. Since the security is an actual stock of staple goods, the bank can readily realize the amount needed to settle the loan, in case the borrower should fail to pay, by selling the wheat or cotton pledged as collateral.

SAMUEL'S STORAGE WAREHOUSES

Corner 2nd and Water Streets

P. SAMUEL, Prop.

Argyle and Queen Streets Stores No. 500

[illegible]hiladelphia, ______________ 190

This is to certify that we [illegible] *and hold on storage the following described merchandise, and wi*[illegible] *to* ______________ *or order upon surrender of this Receipt,* [illegible] **Endorsed,** *and on payment of storage and other charges and advances, as indicated below. Storage from* ______________

MARKS	Pckg's	DESCRIPTION	WHERE STORED
Storage	*(per month)*		
Labor			
Advances			
Freight			$$$$$$ *Proprietor*
Cartage		Partial deliveries are endorsed on the back of this certificate.	
Insurance		Bond of Indemnity must be given in case of loss of this certificate.	
Cooperage		Fire Insurance to be effected by owner of goods.	$$$$$$ *Manager*

Life Insurance As Collateral.

Still another form of collateral, which is coming into more and more use, is the life insurance policy. Long ago, life insurance policies were assigned to creditors to secure debts which the insured person was unable to pay. But such policies were often in the common life form, or the older form of endowment policy, and the creditor might have to keep up the premium payments and wait for years before getting back his money.

Cash Surrender Value.

The bank must have its assets in a form which can be quickly turned into cash in case of necessity, and for this reason the modern policy with a cash surrender value is well suited to use as collateral. On such a policy the banker can safely loan an amount equal to the cash surrender value at the time, inasmuch as the policy amounts to a demand certificate upon the insurance company, and if drawn on any of the well known companies, there can be no question as to its payment. The security is constantly improving, likewise, as additional premiums are paid. In fact, some of the insurance companies have made slight modifications in their policies for the very purpose of making them more readily available as collateral. In assigning a policy for such a purpose, it is generally required that the insurance company be notified of the fact, on the company's form which they furnish for that purpose, and the name of the bank with whom it is pledged.

Bills Receivable.

"Bills Receivable" are another form of collateral which is sometimes used to secure bank loans, although in the larger number of cases such commercial paper is sold directly to the bank, that is "discounted" by it. All these forms of collateral may be used for the securing of time loans as well as for call or demand loans.

ENDORSEMENT.

Besides personal and collateral security, there is one other important way in which a borrower may strengthen his credit and that is by having his promise backed up by the promise of some other party. Just how much this strengthens his own credit will depend entirely upon the standing of this party who thus in effect becomes his guarantor. For example, a man who is just starting in business in a community where he had lived but a short time might not be able to secure credit at the banks in his new locality very readily. However, it might be that he was well acquainted with persons who had lived there a considerable time and whose credit was well established. In this case he would try to persuade one or more of these well known business men to endorse his note before he presented it to the bank or made an effort to secure a loan from it. We have seen that by endorsement the endorser assumes responsibility for the payment of the note in case the maker should be unable to take it up at maturity.

VOLUME OF THE BANK'S LOAN.

Time loans are commonly made for periods of thirty, sixty, or ninety days, depending on the needs of the borrower. They may be made for a longer period, but it is more usual to have them extended or renewed. The question as to the amount of loans that will be extended by the bank at a given time, the amount of interest which will be charged, the nature of the security demanded, and the margin which must be maintained, will depend upon the general conditions of the money market and the particular circumstances of the bank. All questions of this sort are settled ultimately upon the discretion and authority of the directors of the bank and they are held responsible for the liabilities incurred. But in practice, particularly if the meetings of the directors are infrequent, the actual decision is made by the president, vice-president, or cashier, but is binding upon the directors and will be submitted to them for their ratification at the earliest convenient moment.

DISCOUNTS.

The technical distinction between loans and discounts is that in the case of loans a given amount of money or credit is advanced to the borrower at the time of making the loan, and this principal amount must later be repaid, together with interest. In the case of discount, however, the interest is deducted in advance, and the customer does not receive an amount of cash or credit equal to the face of the obligation which he exchanges for it, but less than that amount by the sum of the interest to be charged. In the business of discounts, the bank purchases from its customers the obligations which it holds against other parties for the future payment of money.

SOURCE.

These obligations mostly arise from the system of doing business on credit, and are based on actual sales of property. When a merchant or manufacturer sells on credit he ordinarily takes the purchaser's promissory note payable thirty, sixty, or ninety days after date. This he turns over to his bank by endorsement, and receives in exchange a credit account of an amount equal to its discounted value. By reason of his endorsement he becomes a guarantor of the amount in case the maker of the note should fail to pay it at the time of maturity. But besides this guaranty, the bank will ordinarily examine the obligation somewhat on its own merits, to discover the standing of the maker of the note and his probable ability to pay promptly at the time of maturity.

LIMITS OF DISCOUNTS.

The larger the demand for money on such bills receivable, in proportion to the funds which the bank has available for the purpose, the more rigid will be their inspection of the items offered to them for discount. Preference is, of course, given to the bank's customer before the requests of outsiders will be accommodated. Likewise, there will be a discrimination amongst customers of the bank, unless all can be supplied. The bank will endeavor first of all to accommodate those whose patronage is most valuable to it. The man who maintains a large balance and makes relatively infrequent and reasonable demands upon his bank for credit will be the one who will find it easiest to obtain a loan or discount when he needs it, whereas the customer whose account is generally low and occasionally overdrawn, or whose requests for credit are large and frequent, will find it more difficult and will be given credit only upon harder terms or stronger security.

Credit Department.

In the larger banks, it is customary to maintain separate departments for loans and discounts but in the smaller banks, the work is grouped in a single department and may even occupy only part of the time of a single clerk. A good credit department is one of the most essential features about a bank which is to be continuously successful, and we will discuss some of the features of the work in the following chapter. The work of the discount and loan department requires a very close attention to details and a good clerical system. Accurate records must be kept, not alone of the obligations which the bank itself has assumed, of their date of maturity, and the like, but also a close watch must be kept of the various collateral securities deposited with the bank.

Offering Book.

Some banks keep an "offering book" in which they enter the details of all requests which are made for credit from the bank. This includes the name of the maker, endorsers, time, and other details of the offering and these are submitted to the board of directors, finance committee, or president, for their action. Such as are refused are crossed off, and the others are approved by the signing of the names or initials of the proper officials. In the smaller banks an offering book is hardly needed.

Discount Register.

A "discount register" is a book kept for the recording of all discounted paper accepted by the bank. This shows a complete record of each item, giving a description of the paper, including the names of the borrower and endorser, the date at which it will become due, the amount of the discount charge, and the proceeds. Different banks have their own ideas as to the best form and rulings for this discount register. On the opposite page is a specimen form which has much to commend it.

BOOKKEEPING ENTRIES.

Some banks carry all loans and discounts as separate items to the general ledger, but in a bank that handles any large amount of business, this adds very materially to the bookkeeping work. It is better to keep the discount register as the record book of original entry, and carry only daily or weekly totals to the general journal. The total amount of the face of the notes is charged to "bills discounted;" the total discount is credited to "discount" account; and the "individual deposit" account and "sundry" account are credited with the proceeds, in their respective proportions.

LOAN AND DISCOUNT TICKLER.

In order to keep a proper watch of the loans and discounts, the items are all entered as soon as made, in a "tickler." The tickler is simply a memorandum book, where each note is entered under the date on which it becomes due. The form shown on page 221 is a convenient one.

The discount department also maintains a discount ledger or, as it is sometimes called, a liability ledger. By an examination of the accounts as here shown,

Date of Discount	Consecutive Numbers	Preceding Numbers	Drawer	Endorser	To Whom Credited

(Left Side)

Date of Note	Time	When Due	Amount	Discount	Proceeds	Where Payable	When Paid	Amount Paid or Renewed

(Right Side)

the officers of a bank are able to tell what are the liabilities of the various customers to the bank, both as borrowers on their own account and as endorsers for others. This is of particular importance in the case of National banks, inasmuch as the National Bank Act forbids the loaning of an amount greater than 10 per cent. of the capital stock of a bank to any one individual firm.

Records of Securities Held.

Besides the books used for the keeping of an accurate record of the loans themselves, there must be such other books as are required to furnish an adequate record and check system on the stocks and bonds or other securities taken as collateral for the bank's loans. The bank must be careful to see that all such securities are properly assigned to the bank, that interest payments or dividends are properly collected and accounted for, that a complete record of any substitution is made, and that a receipt is obtained from the borrower when the loan is repaid and the securities surrendered. Occasionally, as we have already mentioned, a bank holds time paper as collateral and in such case there should be a memorandum of the due dates of all such paper, in order that the date of maturity may not be passed without presenting such items for payment. In such case the endorsers would be released from their liability and it would be possible that the bank might suffer loss. Such a memorandum is generally kept in connection with the note tickler in order that all items requiring presentation may be handled together.

Friday, April 22, 1910.

Number	DRAWER	ENDORSER	Where Payable	Amount Due	Amount Paid	REMARKS

CHAPTER XIV.

HOW THE BANKER CHOOSES HIS LOANS.

The whole business of banking centers in the loan department. The bank is in business to make a profit, and this it can do only if its funds are kept profitably employed and earning interest. On the one hand, the community demands that it be accommodated with credit by the bank. Only by a liberal policy on the part of bankers can the business of a town or city flourish and increase. But on the other hand both shareholders and depositors, who have intrusted their money to the bank, demand that it shall not be lost through too easy a policy toward borrowers.

Two Dangers.

If credit is too closely restricted, there will be no profits, because funds lie idle; if credit is too greatly expanded, profits will be destroyed through the failure of some borrower to repay his obligation. The most important single service to be rendered to a bank by its executive officers is that of selecting only such loans as will be repaid promptly and without fail at the time of their maturity. Comparing a bank to a mercantile institution, this department of discounts and loans is similar to that of the sales department of the mercantile enterprise. The discount and loan department of the bank is the one through which it markets its product. And it needs an efficient credit department quite as much as does the merchant. The bank has credit to sell, and if it is to succeed, it must find a safe and adequate market for its product.

What Makes a Good Loan.

The question then arises constantly as to what makes a good loan, and under what circumstances credit can safely be given. The cashier of a large city bank* analyzes credit by saying it is based on character, capacity, capital and collateral. He discusses these four points as follows:

"If the borrower have character, but lack capacity, capital or collateral, you will hardly loan him, for honesty of purpose will not pay the dull, lethargic man's debts.

Character the Foundation.

"If the borrower have capacity, but lack character, he may get away with all the assets over night. There are many concerns, however, which will chance much upon character if the customer be thought to possess capacity, but it always has been and will be —a gamble.

Capacity.

"It is reasoned in granting credit to this class that the credit is kept within a limited amount; that the man is quite sure to make money due to his

*William Post, Cashier, The Central National Bank of Philadelphia.

ability, and that as a matter of policy he will pay his account. It turns out safely in a large percentage of instances, but the easy-going credit man should remember that it may be a part of this customer's policy to pay promptly many accounts until he finds you off guard, and then rob you. If strong, adverse currents set in, or if the customer has been able to run up an unusually full line of credit, he may adroitly and successfully hide away all the quick assets. At this point his capacity will be in evidence. He will perform the trick so neatly that the door to prosecution will not only be closed, but the remnant of assets in sight will be so small that not even the buzzard concerns which hang upon the flanks of a distressed business community will think it worth while to go after the fragments.

CAPITAL.

"If the borrower have capital without character or capacity, and you grant him credit, he may join you very early in wishing that his capital had been tied up in a 'spendthrift trust.' Men of this type have been found in the bread line.

COLLATERAL.

"If the borrower offer collateral but be without character, you may discover that the security has been stolen, over-issued, raised in amount or 'laundered' in the market.

"If the borrower have character and capacity, you have a combination which will more than likely win out, one which will magnetically draw either capital or collateral, or both. We think there is hardly a line of trade in which, if character and tried capacity can be brought together, credit cannot be obtained for a start or capital attracted to the venture.

"At almost all times there are men with funds to invest, who are looking for character and capacity, to which they may unite their capital for a return to both interests. The problem of finding this dual combination is discussed daily among men of affairs. It comes up in the counting-room, in the factory, in the sales department, in the buying department, in the board-room of great corporations, and at the club.

"If the credit man be certain of both character and capacity in an established business, he will need to give but a passing notice to the statement, for with character behind the schedule it will have been made up honestly, and with capacity behind it the man did not deceive either himself or you. It means that the statement speaks conservatism, and that he has both technical ability and ability to finance. The sales made in this country in the course of a year upon character and capacity, with capital a minor factor, would run into the hundreds of millions of dollars, and the percentage of loss entailed under good credit management has been very low.

For Example.

"Manufacturing druggists will have twenty-five thousand accounts upon their books, and a very considerable proportion of these will be small stores or physicians scattered from Maine to Texas, sold upon character and capacity, and if carefully checked up the losses will be small. Department stores will lose millions annually to those who check up as having character and capacity, and the losses are not large, due to good credit management. Many other lines are handled successfully in the same way.

"Some of your friends will tell you that a lot of these people are honest because 'honesty is the best policy.' Possibly you will prefer to agree with us in the conviction that the greater number are honest from principle—they would owe no man.

"No finer tribute to the character and capacity of the American business man can be noted here than to point to the closing months of 1907 and the period of shrinking values and lesser business following that time, with its comparatively few large failures.

Some Factors More Needed Than Others.

"If in determining the credit risk you have character, capacity and capital, you have a winning group.

"If to these three factors collateral be added, your loan should be impregnable.

"If the risk contain capacity and capital, with character left out, you have a very strong but dangerous combination, provided the tide sets in against the purchaser or borrower.

"If the risk contain character and capital, with capacity or brains out of it, that means a dull, shiftless management, and you can afford to keep your eye upon it: the signs will indicate incompetency or a dry rot. Some would urge that this combination should win out. Not so; bad management will eat big holes in capital, and a strictly honest man, dull of brains and conception, can drop his capital at a pace you cannot keep up with. Other houses in the same line of trade, with alert modern methods, will be cutting the ground from under him."

How To Find Out.

Circumstances differ very widely, of course, in different parts of the country, but these four principles are the basis of credit everywhere. We have seen in the last chapter how the value of collateral security is determined upon. It is a matter that requires constant watchfulness and close attention to detail, but is based on market quotations to a large extent, and very little a matter of discretion. Character is a question which must be decided upon by the individual bank authorities, in the light of such information as they are able to get hold of. Clearly it will be largely personal in its nature, and the weight which is given to this element will vary according to the ideas of individual bankers. Capacity, likewise, is a matter of individual judgment except in so far as it rests upon an actual producing plant. On this and the question of capital rests the real burden of such scientific investigation as can be made of the basis of the borrower's claim to credit accommodation.

The Borrower's Statement.

This last matter is one which has been receiving a great deal more attention during the last ten or fifteen years by bankers all over the country, and through the activities of the American Bankers Association and the various state associations, standard forms have been devised for the securing of statements of the condition of borrowers. Such a statement is aimed to show the financial strength of the borrower just as a balance sheet does in the case of corporations. On one side appears the assets of the borrower and on the other his liabilities. Assets consist of plant and equipment, merchandise, cash on hand, accounts receivable, book or open accounts, and possibly other sundry items such as treasury stock or the like. Liabilities consist of bills payable, including perhaps notes and bank loans outstanding, liability on capital stock, if the concern is incorporated, mortgages, bonds and, in some cases, a surplus account. By comparison of these two schedules, if they are honestly made, the banker can determine the net worth of the borrower.

THE ITEMS COVERED.

To illustrate the method of analyzing a borrower's statement of his financial condition, we will notice the details as shown in the following specimen:

ASSETS.	LIABILITIES.
Cash.	Bills Payable.
Merchandise—Manufactured.	Open Accounts—Salaries—Rent, etc.
Merchandise—Raw Material.	Dividends unpaid — Undivided Profits.
Bills Receivable.	Stocks.
Open Accounts.	Bonds.
Plant.	Mortgages.
Machinery and Equipment.	Depreciation.
Furniture and Fixtures.	Net Worth.
Interest and Real Estate.	Miscellaneous or Sundries.
Treasury Stock.	
Good Will—Franchises.	
Miscellaneous.	
Net earnings or dividend record.	
Ratio of quick assets to debts.	

The above cannot be regarded as a typical statement and therefore we have omitted figures. It is rather intended to show all the items which may appear on such a statement. The ordinary report is much shorter, particularly if the business is run as a private concern or as a partnership and not as an incorporated company.

CASH.

he first item in the assets column, "Cash," is relatively simple. It may be either in the form of cash on hand or cash in bank. A large amount of cash on hand is generally not regarded as the best sort of quick assets inasmuch as it would be very easy for the borrower to get such funds out of reach in case he became insolvent, and was not too scrupulous. Such an item cannot be verified. Cash in bank can sometimes be verified, though not always. If the proposed borrower maintains an account at the bank from which he is requesting a loan, his account can be readily looked up, but he may have accounts in other banks in the same place or in other places, and the figures for these accounts must be accepted as he gives them, in many cases.

PROPER AMOUNT.

How large this cash item should be, will vary largely with the nature of the business in which the borrower is engaged. The credit man should use his own best judgment, generally supplemented by the opinion of others engaged in the same line of business, if he can get hold of them. Business conditions and the time of the year are likely also to affect this item, since in some lines of business there is a very wide seasonal fluctuation, and the merchant or manufacturer may be almost without cash in certain months and have a very large amount of it at some other time, when payments are made.

MERCHANDISE AN IMPORTANT ITEM.

The second item is one which should be very carefully examined by the banker or credit man and will naturally have considerable weight with him in making up his estimate of the borrower's financial condition. In deciding how much credit it is safe to extend, he will base his judgment on the relation of quick assets to the debts which they must settle. Now it is a very difficult matter to properly place this item of merchandise among quick assets. It will be noticed that we have made a division of the merchandise account into two items to cover both raw material and finished products. Raw material, in a large number of cases, will not be a sort of merchandise which can be marketed readily in case of emergency. What is raw material for one manufacturer may be really a half-finished product, which is almost or quite useless for any other purpose than that of this particular manufacturer, and therefore not a form of goods which could be disposed of quickly or at a price commensurate with the purchase price. On the other hand, even manufactured articles ready for the market will differ very widely in this particular of ready salability. If the article is a staple commodity, it may be that it is fair to enter this item as a quick asset at its regular sale price, but if it is a highly specialized product its market will be comparatively narrow and a forced sale would almost invariably bring only a relatively small return.

NEW STOCKS OR OLD.

Another point which must be noted here is as to whether the stocks of goods entered here are what may be called "live stocks" or "dead stocks." It is not infrequent to find rather large amounts of a merchant's inventory covered by stocks of goods which he is carrying along from season to season or year to year, and yet which have become so hopelessly old as to be almost valueless in case of a forced sale. A cautious credit man will make a very careful analysis of merchandise items, both from such information as the borrower himself will give and as he can gather from all other available sources.

OPEN ACCOUNTS.

The next two items "Bills Receivable" and "Open Accounts" are often grouped together on many a borrower's statement, but in order to get a really accurate impression of the concern's affairs these should be separated. Open accounts may mean considerably different things in different companies. In a concern which is spread over a large area and represented by agents in different localities, these open accounts may be in the form of money due from agents. In general, however, they represent, of course, book accounts and the credit man should examine to see whether bad debts are being carried along on the books as open accounts when, as a matter of fact, they properly should be entirely charged off. As a general proposition open accounts cannot be regarded as a very quick asset.

Bills Receivable.

Bills Receivable, on the other hand, represent accounts covered by the promissory notes of borrowers, and these should be discountable in case of a forced liquidation. If the item is very large it may reasonably raise the question as to the standing of the borrower with banks. One is inclined to wonder why, if his credit is good, he has been unable to have these bills receivable discounted and thus secure the funds which he needs. It is likewise possible for an unscrupulous business man to pad this item with dead accounts, which are carried along and renewed from time to time, perhaps adding interest but could not possibly be classed as quick assets and probably could not be collected at all.

Plant.

The next item is one which can readily be verified by the bank officials, since titles to real estate are matters of public record, and it can be readily ascertained whether the firm actually owns the property which has been scheduled, and whether it is unencumbered. The question of valuation at which it is put in will be a matter of opinion, but real estate men or other property holders in the same vicinity can almost always be found who will furnish information on that point.

Machinery and Equipment.

The credit man must likewise rely on others to quite an extent to verify the valuation which is scheduled for machinery and fixtures. Like the building in which the business is carried on, this item should be written down from time to time as the property becomes old and worn out, unless an adequate depreciation account is maintained and scheduled on the liability side. Even comparatively new machinery may become practically valueless in a short time by reason of new improvements or changing conditions, and this item, therefore, needs the closest scrutiny.

FURNITURE AND FIXTURES.

The item "Furniture and Fixtures" is one which can readily be swelled out of its proper proportions. Such property will bring next to nothing in the case of a forced sale and in a large majority of cases it is much better to write it off entirely within a period of perhaps two or three years of its purchase. Another item which may very properly be stricken out of many a borrower's statement is that covering "Interest in Real Estate." Such an item is likely in many cases to be of the most intangible sort, which cannot be counted on at all definitely for the furnishing of funds of any definite amount or at any definite time. Some borrowers will try to inject here a large item covering the proceeds which they hope to realize as their share in the division of property at some future date, upon the death of a relative. The facts in regard to this item can ordinarily be got from the borrower himself and the attempt to drag in any doubtful values here is likely to have the effect of weakening his statement instead of improving his credit rating.

In the case of an incorporated company the appearance of "Treasury Stock" as an item of its assets is likely to raise the question as to why they have been unable to sell such authorized stock issues. It is certainly not calculated to create an impression of great financial strength.

GOOD WILL.

"Good Will" is an asset of undoubted value, but not one which can properly occupy any very large place in the borrower's statement. In case his business continues and is prosperous and he were to sell it out to some person or firm who wish to continue the same line, it might be that such an item would be the most valuable of his assets and he could obtain for it a sum as large as that at which he has scheduled it in his statement, but the banker is thinking of the possibilities of realizing on the assets in case of insolvency or inability to meet his obligations, and under those circumstances good will would not be a salable commodity. Likewise if an item called "Franchises" appears on the borrower's statement it is well to examine closely the exact nature of these franchises, as to whether they are revenue-producing at the time or can be disposed of in case of need, for a cash consideration.

BLANKET ITEMS.

The item "Miscellaneous" on a borrower's statement means absolutely nothing until it has been thoroughly thrashed out to ascertain just what it is supposed to cover. It is likely to create one or two impressions: first that the borrower is trying to drag in questionable assets and pad his statement, or second, that he is rather careless in his method of keeping accounts or poorly informed as to his own precise standing.

LIABILITIES.

On the liabilities side, we sometimes find all the bills owing by the company classified under one head, but is it rather better to analyze them into "Bills Payable" and "Open Accounts" where this can be done. The amount owing on these two items will receive immediate and careful attention by the person to whom the statement is handed, because it is the ratio of these liabilities to the quick assets that determines the real commercial standing of the borrower. There can be no hard and fast rule laid down as to what this ratio should be put perhaps one dollar of indebtedness to one dollar and a half of quick assets is as near an average as could be suggested. It will depend, of course, on the peculiar conditions of the business itself, the local money market, the borrower's reputation for honesty and ability, and a large number of other matters.

BILLS PAYABLE.

If "Bills Payable" is a large item, it seems to indicate that the concern has been obliged to buy its machinery or materials on credit and has thus not been able to avail itself of cash discount. Likewise if the open accounts are large it may be well to investigate what points they cover, such as salaries to officers or employees. If the "Bills Payable" appears as even dollars, it may raise the suspicion that the figures given are approximate rather than actual. The bank will also be likely to examine as carefully as possible to ascertain how many banks and note brokers the borrower has already persuaded to extend him credit. If he has been obliged to go to half a dozen, instead of securing the whole line from a single source, it seems to indicate that he has not been able to inspire any great amount of confidence among lenders.

Funded Debt.

"Stocks and Bonds" are items which are readily verified, and are significant as showing in some cases that a company is so loaded up with fixed charges that its prospect of meeting any other obligations is entirely wiped out. The mortgage schedule, as we have mentioned in connection with the assets, is one which can easily be verified, and this should certainly be done. This is for two purposes, first to find out whether or not any such mortgage has been omitted, and second to make sure just what it covers, if there is an encumbrance. If it covers merchandise, the quick assets will be to that extent diminished in value; and if it includes also the bills receivable and similar assets, the proposed loan is no place for a bank to put its money.

Depreciation.

A "Depreciation Account" is characteristic of incorporated enterprises, and if it does not appear, it should be made certain that the valuation of the plant and equipment is being cut down each year enough to fully cover this shrinkage.

Net Worth.

Just what "Net Worth" means depends upon the ideas of the man making the statement. In some cases it represents all that the proprietor has invested in the business, and his liabilities may show only two items —bills payable and net worth. An attempt should always be made to discover exactly what the term is intended to cover, in every case. Likewise, if there is an entry called "Miscellaneous" or "Sundries," it should be thoroughly thrashed out and not allowed to cover up the facts.

Insurance.

In connection with the borrower's statement, the amount of insurance carried should be carefully noticed. If it is too large for the amount of the risk, it is likely to excite suspicion, whereas if it is noticeably small, the lender is sure to feel that he is not properly protected.

Getting the Statement.

It is perhaps in order to add a word as to the ways of obtaining statements from borrowers, and of the use to be made of them. All that can be done by the bank is to ask for the statement. It may be that the borrower dislikes to give it. This may be from a mere natural reticence as to his own private affairs, but since he understands that it is to be regarded as confidential, there is no real reason for him to persistently hold back, unless he knows that the showing would be unfavorable. If a man hangs back and promises to send in his statement, and fails again and again to do so, the bank may very properly feel that his patronage is not to be desired, and may break off relations. It may be, on the other hand, that the party is a business man of the utmost honesty and sincerity but of the old school of business, who regards the statement as a distasteful innovation. If the matter is rightly presented to him, he is sure to see the point, and realize that it is for his own interest as well as for the protection of the banker.

BENEFIT TO BOTH PARTIES.

In fact such a statement may be of the greatest benefit to a business man, because it will make him really take a full, fair view of his own situation and financial standing. He may have been deceiving himself and keeping himself up on false hopes, but after he has gone over his statement in detail with the banker and been called upon to justify and fortify every claim he has made, he is pretty sure to have an idea of the matter which has been scaled down to the actual facts.

SIGNING STATEMENTS.

It is best, if possible, to have the signature of the borrower attached to the statement, since it is then easier to hold him liable in case the banker suffers loss through loaning him money on the strength of a statement which is false. In New York State there is a law which makes it a criminal offence to give such a false statement for the sake of making a loan, but in most States it is still necessary to rely on the old laws which cover cases of obtaining money under false pretenses.

STATEMENTS MUST BE VERIFIED.

In any event, the statement furnishes only the figures to be used as the basis of a final judgment. This final judgment, as we have seen, gives a considerable play to personal opinion and requires a considerable familiarity, not alone with general business and financial conditions, but a wide acquaintance with the peculiar usages and conditions of the various trades and kinds of business. When the banker or credit man of the bank gets the borrower's statement, he must thoroughly thrash it out. He may properly begin by going over the statement thoroughly, point by point, with the maker of it, questioning him, and perhaps causing him to somewhat modify his statements and ideas. The next step may be well to get the opinion of others interested in, or familiar with, the same line of business, but without, of course, divulging the exact names or figures and purposes for which their advice is asked.

Good Credit Department Needed.

A good credit department will perfect a system for tabulating all the information that it is enabled to pick up from time to time with regard to borrowers. In the case of regular customers of the bank who, in the course of their business, come to it more or less frequently, the bank will be in possession, after a time, of a series of statements showing the progress or changes in their business. In such a case, it may be well for the borrower to simply make such statements at regular intervals, annually or semi-annually, for example. These should be compared with one another in order to get a proper idea of the customer's rating. By this comparison it can be seen whether proper allowances are being made for depreciation of property, whether outstanding obligations are increasing or diminishing, and various other matters affecting his standing.

Co-operation Between Banks.

A considerable amount of information can often be gained from the ratings given business men by the mercantile agencies, but these in themselves are insufficient for the purposes of the banker. Their value is in the history of the person inquired about. There is more and more of a feeling that the credit department is the most vital and important part of the bank's equipment and that credit must be reduced, so far as possible, to an accurate and scientific basis. There is growing up a feeling of co-operation among banks and they are becoming more willing to furnish each other with such information as they themselves are able to gain. This is often of the greatest value, inasmuch as a customer who is carrying only a reasonable amount of credit with a given bank may be greatly overstraining his credit by attempting to carry as large an amount with several other institutions. It is of great importance that each one of these banks should know of his relation with all the others.

CHAPTER XV.

BANK RESERVES.

As bank loans and discounts increase, deposits increase also, because most of these loans are extended in the form of deposit accounts rather than as cash advances. But each dollar of deposit account placed to the customer's credit means that the bank is pledged to pay a dollar out over its counter whenever the holder of that deposit account sees fit to demand it by drawing a check upon the bank. The banker is anxious, on the one hand, to loan out the concern's funds as fully as possible, because only in this way can he make money and pay a dividend to the stockholders. But, on the other hand, the bank's prosperity also depends upon its maintaining itself in a position to meet promptly all claims made upon it by depositors. To do this, it must hold proper reserves against its deposits. This question of proper reserves is one of the most difficult and important which the banker encounters.

Need For Reserve.

As we know, depositors might demand every dollar of their accounts at any time and the bank must in that case pay them or become insolvent. But its officers know that the customers will not make such a sudden demand, and that if the bank maintains a good reputation for soundness, the current demands will be but a small percentage of the total deposits. Instead of demanding payment from the bank, business men will simply exchange rights to such payment amongst themselves in the form of checks, that is—"deposit currency." The ordinary business man, when he receives a check, does not have it cashed at the bank, but instead deposits it to his own account and makes his own purchases by drawing checks against his account. But, on the other hand, the banker will be called upon, from day to day, to pay checks to a larger or smaller amount, and sound business policy dictates that he shall have a fund in excess of any probable need.

RESERVES OF NATIONAL BANKS.

So important is the question of reserves that the National Banking Act and the various State banking laws have deemed it advisable to regulate the matter to the extent of prescribing the minimum amount of cash reserves which a bank shall be required to hold against its deposit accounts. The provisions of the National Bank Act require different minimum reserves in the case of each of the three classes of National banks, namely: country banks, reserve city banks, and central reserve city banks.

THREE CLASSES.

The central reserve cities are Chicago, New York, and St. Louis. The reserve cities are much more numerous, and include all the large cities of the country, such as Boston, Philadelphia, New Orleans, San Francisco, Denver, Minneapolis, and about thirty others having a population of at least 25,000 people. Country banks are those located in all the other smaller cities and towns throughout the country. The provisions of the National Bank Act as to reserve cities and central reserve cities are that National banks in these cities shall at all times have on hand, in lawful money of the United States, an amount equal to twenty-five per cent. of their total deposits, and that country banks shall maintain a reserve of at least fifteen per cent. of their net deposits. Of this fifteen per cent., in the case of country banks, they are required to keep only six per cent. in their own vaults in lawful money, and the remaining three-fifths may consist of funds which they have on deposit with any National bank in a reserve city, which has been authorized by the Comptroller of the Currency to act as their reserve agent. Any funds on deposit with the treasury as a five per cent. redemption fund for their notes may be counted as part of the reserve of six per cent. which the bank must retain in its own hands.

Reserve City Banks.

Reserve city banks are required to keep one-half of their required twenty-five per cent. reserve and may deposit the other one-half or twelve and one-half per cent. of net deposits with an approved reserve agent in one of the central reserve cities, and may count their five per cent. note redemption fund as a part of the reserve which they are required to keep in their own vaults. Central reserve cities must keep the whole of their twenty-five per cent. reserve in their own hands, except that they too may count their five per cent. redemption fund as lawful money on hand. The form as furnished by the Comptroller of the Currency for computing legal reserves is shown by insert 244A.

PROTECTING THE RESERVE.

In order to carry out this provision as to reserves, it is provided that no National bank may "increase its liabilities by making any new loans or discounts" while the reserve is below the legal percentage, except by buying sight bills of exchange. Neither shall it, under such circumstances, declare a dividend to its stockholders until the reserve has been restored to the proper level. In case the bank fails to restore its reserve to the proper amount within thirty days, the Comptroller of the Currency is authorized with the approval of the Secretary of the Treasury to put such a bank in the hands of a receiver and wind up its affairs.

ACTUAL RESERVES FLUCTUATE.

As a matter of actual fact there has been a tendency by National banks to keep in their reserve fund National bank notes as well as lawful money, namely, coin, treasury certificates and legal tender notes. But, on the other hand, the banker's business judgment will often dictate that he keep on hand an actual reserve larger than the required legal reserve, at least during those parts of the year in which he has learned to expect an especially heavy seasonal demand. Thus the report of the Comptroller of the Currency for 1909 shows that on the dates of the five

reports made in the course of the year by National banks, the actual available reserves showed the following percentages:

AVAILABLE RESERVE OF NATIONAL BANKS 1909.

Percentages of Deposits.

Central Reserve City Banks..	25.98	25.73	25.76	26.82	25.44
Reserve City Banks.........	30.76	31.94	30.73	30.15	29.05
Country Banks	26.04	26.57	25.92	25.09	24.58

COUNTRY BANKS KEEP ABOVE THEIR LEGAL REQUIREMENTS.

It will be noticed here that the country banks, for whom the legal reserve as required by the act is only fifteen per cent., are the ones which keep the most above that minimum. This is probably due to a large extent to the fact that they find from experience that country patrons have more of a tendency to present checks for payment in cash rather than utilizing the credit system as fully as do business men in the reserve cities.

STATE REGULATION.

State banks have the amount of their reserves prescribed by the State laws under which they are regulated, and the required reserve is generally fifteen per cent. It has always been a rather sore point with bankers, particularly those under the national system, that trust companies ordinarily are not required to keep any legal reserve, but have the whole question left to their own discretion. In practice many of them do operate on a very small reserve, even less than five per cent. in many cases, and rely for any unexpected demand on funds which they keep on deposit with other banks.

Secondary Reserve.

But besides his cash reserve, the banker must look to other sources to meet possible demands for cash. In determining whether he will keep a cash reserve greater than that prescribed by the law, there are several factors which he must take into consideration. First, he must determine as accurately as he can from his past experience and familiarity with the class of patrons with whom he is dealing, just what will be the probable demand upon his bank from day to day for cash. Besides his cash reserve, he will arrange to have a secondary reserve with which to meet these demands.

Cash Deposits and Proceeds of Maturing Paper.

In addition to current withdrawals, there will be current new deposits of cash which will be a partial offset and—in addition to this—the short-time paper which the banker is purchasing through his department of loans and discounts will ordinarily furnish a fairly regular stream of funds which will come into the bank as these short-time obligations mature. Some of the bank's loans also are in the form of call or demand obligations and in case the cash reserve is subjected to heavy withdrawals and is not sufficiently increased by deposits of cash, or through the repayment of time loans, the banker can call in his demand obligations. As a matter of fact, however, the cash proceeds of such a step are not likely to be very large. The banker, to be sure, has reduced his liabilities to the extent of these recalled loans and has, therefore, prevented the possibility of having his cash reserve further decreased by checks drawn against these loan accounts. But in order to actually build up a cash reserve at such a time the banker should have on hand a certain amount of quick assets which can be readily disposed of without sacrifice, for cash. For this purpose of a secondary reserve nothing is so well adapted as first class bonds.

Bonds as Secondary Reserve.

The bond department of banks is steadily increasing in importance, as bankers are realizing more and more the value of such first class security for the purpose of increasing their stability at times when unexpected heavy demands are made upon them and it becomes necessary that they realize quickly upon certain of their assets. A particular advantage possessed by bonds in this connection is that first class bonds can be disposed of in times of depression at a relatively higher price than any other class of assets.

Always a Market.

At such a time security is the most important consideration with investors, and a high class bond is the most secure form of investment. In times of depression the value of merchandise decreases rapidly, real estate becomes unsalable and the prices of stocks drop very rapidly, because their earnings decrease or entirely disappear. But at such a time, the interest payments on bonds must be kept up before any other obligations are met, and the holders of the bond obligation of a railroad or other incorporated company are the creditors who stand in the first position of preference. For this reason the demand of investors shifts strongly toward bonds in times of depression and, relatively speaking, they are the most readily salable assets which a bank can rely on at times of special need.

BONDS MUST BE HIGH GRADE.

For the purpose of a secondary reserve, government bonds may well be held as part of the bank's investments, but the demand for United States bonds to be used as security for note issues so nearly exhausts the supply that the premium which must be paid for such bonds reduces all chance of profit to a minimum. Bonds of States and cities may be added to government bonds, and the remainder is then made up of the securities of railroads and the highest grade of industrials. In order to ascertain just what is the standing and earning power of the company whose bonds it is proposed to buy, the bank, if it be a large institution, will employ a trained investment manager to investigate.

WORK OF THE BOND DEPARTMENT.

The bond department is to the bank's long-time investments just what the credit department is to its work of making loans and discounts. On its reports will be determined the price which the bank will feel justified in paying for a given security. The manager of this department will keep strictly up-to-date and familiar with all new issues, in order that the bank may be able to keep its funds earning the largest possible return. It may be that from time to time new bond issues will appear which are offered at a lower price than that of securities now held, due not to the fact that the bond is not good but because the company is not so well known. The bond department may be able to satisfy itself that such securities are sound and can then dispose of those already on hand at a higher valuation and put the proceeds into the new issue, and still show a certain margin of profit. Thus the bank gets the maximum return from its invested capital while at the same time giving its depositors the most ample protection through this secondary reserve of quickly salable bonds.

CHAPTER XVI.

COLLECTION DEPARTMENT.

The work of the collection department of a bank is one which is very important in the case of a large city institution. It is purely clerical in its nature, but if well organized on efficient principles it contributes much to the smooth and successful working of the bank. The items handled by the collection department may be classified under two heads with regard to the place where they are to be collected. First, there are city collections and second there are out of town or "foreign" collections. As to time they may also be classified into time and demand items. In some banks the collection department is divided and all time items are put in the hands of a separate clerk, called the "Note Teller," and in very large banks "transit dep't."

Collections For Others Than Patrons.

Collections may further be divided into those which are made for depositors of the bank, those which are made for correspondent banks and those which are made for outsiders. Most banks are rather unwilling to take collection items for other than their own customers, but can hardly refuse to do so, although they may discourage the practice by charging outsiders a high rate of exchange. The items which they take from their customers for collection may be handled in one of two ways. In case there is little or no question as to the payment of the claim when presented, they may credit the proceeds at once to the customer's account, but more often it is taken simply for collection and is entered in another part of the customer's pass book and not along with other deposits. Where a customer is presenting a large number of collections, the bank may find it convenient to open a separate pass book for these items.

PASS BOOK AND REGISTER.

When the customer presents notes or drafts to the collection teller they are entered in his collection pass book or the collection record in his regular pass book. The clerk then takes the note or draft, enters it in his collection register and files it away in his wallet or card index under the date on which it falls due. In case it chances that this is a demand draft or a note due upon the date on which it was presented, or the following day, he proceeds at once to have this presented for collection through a runner of the bank, in case they are city items, or through a correspondent bank in case they are foreign items. The headings of the collection register are shown on page 252.

ANOTHER METHOD.

In the case of city collections it is not necessary to fill in items for "Where Payable" or "To Whom Sent" and many large city banks keep separate registers for the two departments, city and foreign collections. In case the business is very large the bank may find a register such as we have illustrated

COLLECTION REGISTER.

WHEN LEFT	NO.	DRAWER	ON WHOM DRAWN	WHERE PAYABLE

(Left hand page.)

COLLECTION REGISTER.

DATE	TIME	WHEN DUE	AMOUNT	FOR WHOM COLLECTED	TO WHOM SENT	

(Right hand page.)

too clumsy for their purposes and may, therefore, use a shorter form and supplement it by a card index system. The register may have only four columns, covering date, where payable, when due, and amount, and the card may be in a form like the following:

FOREIGN COLLECTIONS GRAIN EXCHANGE NATIONAL BANK	
	To *Petersburg, Va., 1st National 4-26-1910*
	Payer *W. C. Randolph* *$1,000.00*
	Where Payable *Petersburg, Va.*
	Date *4-25-1910* Time *3 days* Due
	Depositor No Protest
	Harrisburg, Pa. Date Credited or Returned
	No *69,675* *April 28, 1910*
	First National
	Date

"FOREIGN" COLLECTIONS.

If this collection was promptly paid the bank which had taken it for collection would strike off the word "Returned" on the card above as soon as they received notice that it had been paid and would enter the date below to show when the proceeds had been credited. The card would then be turned over for entry at the general ledger desk. In this way the proper credits would be allowed to the depositor who left the item for collection and the proper charge made against the bank which had received the money. In a large bank, where general ledger and individual ledger desks are separate, a charge and credit slip covering the account will be sent from the general ledger desk to the individual ledger desk in order that the proper entries may be made. Slips of different colors are used for different charges and credits, such as interest, protest fees, expense, etc. This system is illustrated by the following slips:

Front Street National Bank

Philadelphia, *April 15th,* 1910

CHARGE *Commercial National Bank, New York*

Interest on *Loan $10,000*

Due *April 15th, 1910* *$50.*

CREDIT *Interest a/c* *J. B. Smith*

Asst. Cashier

Front Street National Bank

Philadelphia, *April 1st,* 1910

CHARGE *Commercial National Bank,* *$5.00*

PROTEST FEES *$5.00 on William Robinson & Co.*

CREDIT *First National, Cooperstown, Pa.*

THE COLLECTION TICKLER.

In handling time drafts and notes presented before their date of maturity, the collection department uses, besides the register, a tickler for the purpose of keeping a record of the dates on which these items become due in order that they may be presented promptly at their maturity. All items of a given date are listed together and filed together in the clerk's wallet. On the day on which local items of this sort become due, they are turned over to the bank's runners to be collected the same as other city demand or sight obligations. Those for out-of-town banks are sent them a sufficient time in advance of their maturity so that they may be presented by the correspondent bank on the proper day. Where a bank in one city is sending quite a number of collections at the same time to a bank in another city for collection, these notes and drafts will be listed up on a separate letter form, the original of which is sent to the correspondent bank and a carbon preserved by the bank sending the items. This is known as a "cash letter."

REMITTING THE PROCEEDS OF COLLECTIONS.

The amounts collected by the correspondent bank may be remitted as soon as collected or such credits may be allowed to accumulate for a time and be remitted at certain regular intervals. Large city banks are more and more making it a point of their collection service as correspondents that they remit collections immediately upon payment. But whether the money is remitted or not, the bank which has made the collection should promptly send a letter of advice, covering all items received for collection, whether paid or unpaid. Those which have been refused should be sent back with a letter specifying the reasons for which payment was refused. Some banks with a large volume of collection business reduce this letter of advice to a standard form which contains a list of all the ordinary grounds of refusal, and simply enclose this form, after checking the particular reason which fits the case. Such a form is shown below:

FIRST NATIONAL BANK.
Milwaukee, Wis., April 15, 1910.

Pinned to This is Your Collection Unpaid.

Reason for Non-Payment is Checked Below.

Payment refused—no reason given.	Cannot pay at present.
Amount not correct.	Does not owe this.
Wants extension of time.	Has paid it.
Payment refused — reason endorsed.	Party will write.
Claims did not order goods.	Parties cannot be found.
Will remit.	Presented, notice given but no response.
Not due.	Never pays drafts.
Closed up.	Refuses to pay exchange.
Not in town.	Party will settle with agent.
Goods returned.	Goods not satisfactory.

LIABILITY OF ENDORSERS.

In this connection we may properly notice the manner of handling items on which payment has been refused and the liability of endorsers. Many items when turned over to the bank are endorsed to it, but the bank does not care to undertake any responsibility for these items other than to use due diligence in endeavoring to collect them. It has been common, therefore, for banks when placing their endorsement upon collection items, to make it a restrictive endorsement by adding the words "For collection only" or some similar form. The New York Clearing House has recently abolished restrictive endorsements for all items which are presented to it for collection unless they be guaranteed by the bank presenting them, but a large number of such collections are simply between banks in different localities and do not pass through the Clearing House and on such collections the restrictive endorsements are still used.

PROTEST.

In the case of collections returned unpaid they should be promptly protested and notice sent to endorsers, in order that they may be held to their responsibility in accordance with their endorsement. This work of protesting properly devolves upon the payee of the note or draft but he may request the bank to attend to it for him or may use their notary for the purpose. The purpose of protesting is simply to make a formal written statement, acknowledged by a notary public, as to the fact that a note, draft, or similar negotiable instrument has been presented and dishonored. While not absolutely necessary in regard to domestic transactions it is a very wise precaution and makes it possible to hold the endorsers after serving notice of the protest upon them. The form of protest and notice follow:

United States of America.

END. }

***BE IT KNOWN*, That on the day of the date hereof, at the request of**

the holder of the original Instrument of Writing, of which a true copy is above written, I, the undersigned, *a Notary Public for the Commonwealth of*

Pennsylvania, by lawful authority duly commissioned and sworn, residing in the City of Philadelphia during the usual hours of business for such purposes, presented the same at the

and demanded the payment thereof, which was refused and answer made

Whereupon, I, the said Notary, at the request aforesaid, *HAVE PROTESTED*, and do hereby solemnly *PROTEST* against all persons and every party concerned therein, whether as Maker, Drawer, Drawee, Acceptor, Payer, Endorser, Guarantee, Surety, or otherwise howsoever against whom it is proper to protest, for all Exchange, Re-exchange, Costs, Damages and Interest, suffered and to be suffered for want of payment thereof:—Of which demand and refusal I duly notified the Endorsers.

THUS DONE AND PROTESTED at Philadelphia, Pa., aforesaid, the day of 191

I certify that I am not a Stockholder, Director or Clerk in the Corporation for which I hereby act as Notary Public.

WM. M. TAYLOR, *Notary Public.*
Cor. 40th and Sansom Sts.,
Philadelphia, Pa.
Commission expires Feb. 5, 1913.

Philadelphia, ...191

Mr. William Lindsay.

At the request of the Holder,

THE CONTINENTAL NATIONAL BANK,

I, the undersigned, NOTARY PUBLIC FOR THE COMMONWEALTH OF PENNSYLVANIA, have this day protested a note for $500.00, dated May 2nd, 1910, drawn by Thomas Gray (the same being due, demanded and refused), and you, as endorser, will be looked to for payment, of which you hereby have notice.

Please notify the other parties.

B. S. LINCOLN, *Notary Public,*
Cor. 18th and Sumner Sts., Philadelphia, Pa.

My commission expires February 5, 1912.

CHAPTER XVII.

DOMESTIC AND FOREIGN EXCHANGE.

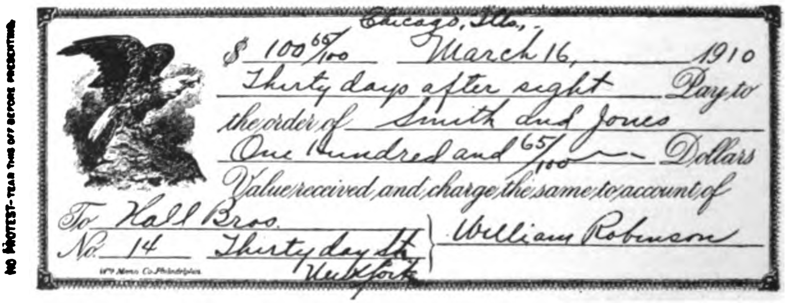
In the natural course of their business, banks, besides selling credit to their customers or buying credit from them, enter into a large number of similar dealings with each other. These transactions between banks in the same town or city are settled through the clearing house for the sake of economy of labor, and by this means only relatively small balances need be settled in cash. The same result is accomplished as between different cities and sections of the country, by the use of domestic exchange, and international transactions use foreign exchange in the same manner.

THE PERSONAL DRAFT.

The modern business man does not make all his purchases in his own city and in most cases his sales too are not confined to his neighbors. These purchases and sales are settled either by a bank check, draft or domestic bill of exchange. The check we are familiar with. A bill of exchange or personal draft is similar to a check, but has this difference. It is drawn by one person upon another instead of being drawn upon a bank. When the local merchant has sold a bill of goods to a man in another city he may, if they have a business understanding to that effect, draw upon the purchaser for the amount of his bill. This draft he may make payable either to himself or to some third party and it may be payable at sight or on demand, like a check, or may be made payable at some future date, as perhaps in thirty or sixty days.

Acceptance.

Under such circumstances it will be presented as soon as possible to the person on whom it is drawn, for his "acceptance." If it is drawn in accordance with his agreement with the seller of the goods or for any other obligation which he acknowledges as valid, he will write the word "accepted" across the face of the draft and sign his name below. It thus becomes his promise to pay the sum named in the draft at the specified time, and is as good as his promissory note.


NO PROTEST—TEAR THIS OFF BEFORE PRESENTING

Chicago, Ills.,

$ 100 65/100 March 16, 1910

Thirty days after sight Pay to the order of Smith and Jones

One Hundred and 65/100 Dollars

Value received and charge the same to account of

To Hall Bros. William Robinson

No. 14 Thirty days St. New York

Balancing Credits.

If the particular merchant, of whom we are speaking, chance to be a western grain dealer, selling regularly to a commission house in New York City, and was also making frequent purchases in New York from other concerns there, he would settle these purchases by drafts drawn upon the commission firm. These drafts would be drawn payable to the order of the various parties to whom he owed money and would in part, at least, extinguish the indebtedness of the commission house to him for grain which he had sent them. These other parties named as payees in the draft might collect them in person from the firm on whom they were drawn—the so-called "drawee," but, particularly if they were drawn as time drafts, the payees would leave the work of collection to the bank.

THE BANK'S PART.

The acceptance of the drawee having been secured, the draft is taken to the bank to be bought or discounted by the banker exactly like any other bill receivable. Its amount will be paid or credited to the original payee who by endorsement turned over the draft to the bank. At maturity the bank, as owner, can secure payment from the commission firm on whom the draft was drawn. If this concern happens also to be a customer of this bank it can merely deduct the amount of the draft from his account and the whole transaction will be closed without the use of cash, by a mere book entry. If it chances that he banks elsewhere and the draft is made, as is common, payable at a bank it will be settled through the clearing house.

COLLECTING BY DRAFT.

We will suppose that after drawing against the commission house for such amounts as will settle all the bills which he owes in New York City the grain merchant still has a balance due him. He will draw a draft for this amount to his own order and since he wishes this money paid not in New York City but in his own town, he will present it to the bank, which will either buy it or take it for collection. If it is sufficiently assured of the validity of the transactions and the financial strength of the concern on whom it is drawn, it may at once credit the proceeds of the draft to its customer. Otherwise, it may simply take it for collection. In either case it will send it to its New York correspondents to be presented to the drawee and collected in due time. The amount credited to the drawer of the bill of exchange will always be less than its face amount and the principles that determine the amount of this charge will be taken up later on.

SECURITY.

The commonest security which is furnished to the purchaser of a domestic bill of exchange is the bill of lading. This is made in a negotiable form and is turned over by the shipper of the goods along with his bill of exchange, and gives the bank title to the goods until they have been paid for by the man in New York—the consignee—on whom the draft is drawn. The bank in sending the draft to its New York correspondent sends with it the bill of lading and thus the New York bank is likewise protected. If it is a demand draft the consignee will have to pay it before he will be given the bill of lading and be enabled to get his goods. In case of a time draft, the bill of lading may be surrendered as soon as the consignee accepts the bill of exchange drawn on him. Or, on the other hand, it may be that he will be allowed to make partial payments for the goods as they are delivered to him.

On page 264 appears facsimile of a bill of lading.

THE BANK DRAFT.

It might be, however, that the local shipper would have bills which he owed in New York in excess of the amount that was owing him on shipments of grain. In this case, after settling the obligation so far as possible by drawing upon the commission house, he would settle the balance with a bank draft. In this case he would pay in his money at the local bank in exchange for the right to draw upon the bank's New York correspondent for an equal amount. This bank draft he would then negotiate to the order of the person in New York to whom he owed money and would send it to him for collection. Or, he perhaps more probably would have this New York party named as the payee of the draft as originally drawn.

NEW YORK EXCHANGE ACCEPTABLE EVERYWHERE.

We have seen how traders in different parts of the country are enabled through the agency of banks to make settlements with each other by offsetting the claims of one section against those of the other, but it remains to be shown how the banks adjust these transactions between themselves. If the merchants of Chicago, Minneapolis and New Orleans, and all other parts of the country, were selling to people in New York City just as much as they were buying from them, these accounts could be made exactly to pay each other, and be entirely settled by domestic

Form [illegible] — Rev.

Uniform Bill of Lading—Standard form of Order Bill of Lading approved by the Interstate Commerce Commission by Order No. 787 of June 27, 1908.

THE BALTIMORE & OHIO RAILROAD CO.

ORDER BILL OF LADING—ORIGINAL.

SHIPPERS No. ______

AGENTS No. ______

RECEIVED subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading.

at Detroit, Mich ______ Feby 1 1910.

from Hunter Milling Co ______ the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly indorsed shall be required before the delivery of the property. Inspection of property covered by this bill of lading will not be permitted unless provided by law or unless permission is indorsed on this original bill of lading or given in writing by the shipper.

The Rate of Freight from Detroit Mich

to Yorks Pa ______ is in Cents per 100 Lbs.

If Times 1st	If 1st Class	If 2d Class	If Rule 25	If 3d Class	If Rule 26	If Rule 28	If 4th Class	If 5th Class	If 6th Class	If Special per	If Special per

(Mail Address—Not for purposes of Delivery.)

Consigned to ORDER OF Wm Jamison Co

Destination York Pa ______ State of ______ County of ______

Notify Same

At Phila ______ State of ______ County of ______

Route ______ Car Initial ______ Car No. ______

No. Packages	Description of Articles and Special Marks	Weight (Subject to Correction)	Class or Rate	Check Column
200	Bbl Flour			

If charges are to be prepaid, write or stamp here, "To be Prepaid."

Received $ ______ to apply in prepayment of the charges on the property described hereon.

______ Agent or Cashier.

Per ______

(The signature here acknowledges only the amount prepaid.)

Charges Advanced

$ ______

Washington Ave Wharf
Jan 10 1910
William Brown

Hunter Milling Co Shipper. William Brown Agent.

Per JW Whitaker Per Wm Bates

(This Bill of Lading is to be signed by the shipper and agent of the carrier issuing same.)

bills of exchange. Even if New Orleans merchants were shipping a great deal more cotton to New York than was needed to pay for all the purchases they were making in New York, they could still use bills drawn against those sales for paying their debts anywhere else in the country because New York City is the financial center of the whole United States and a New York draft is acceptable throughout the country. Chicago drafts are acceptable through the West, and drafts on smaller places are used locally.

THE BANK BUYS NEW YORK EXCHANGE.

But let us suppose that there is an unusually large cotton crop. Cotton is marketed promptly and the grower is anxious for his money. The cotton factor or buyer must pay cash to the planter, and he in turn wishes to realize upon his shipments at the earliest possible moment. Therefore, as soon as he sends his cotton North he draws on the New York firm to whom he has sold it for the amount of the purchase price. Like the grain merchant noticed before, he takes these New York drafts to his banker to realize on them. Being secured by bills of lading, the banker buys them at such a figure as he and the factor agree upon and places the proceeds to the customer's credit at once or as soon as he is advised by his New York correspondent that the document has been paid or accepted as the case may be. In some cases he may pay cash but if so he is very likely to charge a heavier discount.

RATE OF DISCOUNT.

We may well examine the conditions which determine the amount of this discount charged by the banker in buying domestic bills of exchange. First, there is the question of time. If the drafts are drawn payable on demand the time for which the money must be advanced is short, only long enough to send the draft to New York and have it collected by the New York correspondent of the New Orleans bank. But if it is a thirty, sixty or ninety day draft the banker in buying it is advancing that amount of money as a loan for this period and on it he must charge interest exactly as on any loan. But, besides this interest element the discount contains another charge—exchange. This is not merely to pay for the clerical cost of handling such collections, but varies in proportion as the banker desires New York funds or is over-supplied with them.

Exchange Desired by the Banker When His New York Credit Is Low.

At the beginning of the crop moving season the banker in the cotton section has very likely withdrawn practically all of any balance he may have had with New York banks, because of the local need of this money to use in the form of loans to his customers who require money in advance with which to harvest their crop. But every time he buys a draft on New York from one of these cotton shippers he sends it to his banker in New York, who collects it and places it to the New Orleans banker's credit. After a while he has bought about all the New York exchange he can handle. He has a big balance to his credit in New York and scarcely any funds in New Orleans.

LATER THE NEED DISAPPEARS.

As this point approaches, he will be less and less desirous of buying any additional New York exchange and will consequently pay a smaller and smaller price for it, that is, will charge a constantly greater discount. The reason for this is clearly seen. After a time the funds which he has on hand become practically exhausted and if he is to continue to buy exchange he must have some of the money which is now standing to his credit in New York actually shipped to him for the purpose. Naturally he adds this charge for transporting the money to the amount which he deducts in the form of exchange. At this point, however, the price of exchange will become stationary because the banker could go on indefinitely buying exchange at that price in New Orleans, sending the drafts to New York for collection and having the proceeds shipped back to him. If the cotton shippers can make better terms with some other banker more desirous of building up a balance in New York, they will sell their exchange to him. But for any given section at the same time there is likely to be little if any such difference but rather a uniform rate of exchange, although between different parts of the country at the same time the rates may vary widely, depending on whether money tends to move toward New York City or away from it.

TRADE MOVES IN BOTH DIRECTIONS.

Of course, this piling up of credits in New York City or other centres will be balanced partly at least by a flow of money in the opposite direction. New York merchants and manufacturers will be at the same time selling to people in the Southern States and in this way increasing their credit obligations in New Orleans. Many of these will be settled or offset against the New York credits by the means of selling New York exchange through the New Orleans banks. The southern planter, wishing to make purchases of new machinery, household goods, or whatever it might be, from New York or elsewhere in the North, will pay for them by means of bank drafts on New York or will be drawn upon by the New York merchant for the amount, although this is much less common. Every draft which a bank sells to its correspondents will, of course, by that much lessen the amount of that bank's New York balance, and it may be that in this way the New Orleans bank would sufficiently reduce its account so that it would not be obliged to actually have money shipped to it from New York. It certainly will not wish to withdraw the whole of its account at the end of the crop moving season, but will leave a fair balance there in order to meet any other demands which it may have for New York exchange in the following months.

Loaning a New York Balance.

Another reason for maintaining a large New York balance might be because the banker found that he could employ his funds more profitably in New York than he could in his own locality. In this case, instead of having money shipped back to him after he had remitted a large number of drafts to New York for collection, he would have the New York correspondent loan this money in New York on his account. But if he wishes to go on buying cotton paper and cannot sell enough New York exchange to replenish his funds he will have to increase the discount or exchange which he charges enough so that this charge will cover the cost of having the money sent to him. This cost depends on the location of the bank and the manner in which money is remitted. At the beginning of the crop moving season New York exchange would be much desired by the banker, and in order to get it he might make no charge whatever for exchange, or even pay a slight premium, although this would probably not be necessary. He could afford, however, to do so because in that manner he would save himself the cost of actually sending money to New York to build up his balance. But as we have seen, he ceases, after a time, to be at all anxious to purchase additional New York exchange and will do so only at a discount large enough to still yield him a profit.

INTERNATIONAL SETTLEMENTS.

International transactions are settled by means of foreign bills of exchange in a manner quite similar to that which we have described in connection with domestic drafts. There is an enormous volume of buying and selling between Americans and persons in other countries. The principal items of our so-called international balance sheet are shown on page 270.

VOLUME OF EXPORTS AND IMPORTS.

The total volume of our international transactions cannot be stated with any degree of accuracy because many of the items as shown in the above schedule are what may be termed "invisible" items of trade. It

THE UNITED STATES IN ACCOUNT WITH THE WORLD.

Debits.	Credits.
Imports of merchandise.	Exports of merchandise.
Gold.	Gold.
Payment for foreign loans.	Loans made to bankers and others in the United States.
Purchases of foreign securities.	Purchases of American securities.
Payment of interest and dividends on American securities held in Europe.	Payment of interest and dividends on European securities owned by Americans.
Passenger and freight rates paid to foreign vessel owners.	Expenses of European travel in the United States.
Remittances by persons within the United States to their friends in Europe.	Remittances to immigrants into the United States.
Expenses of American travel.	

is clearly impossible to find out just how much has been paid for expenses of foreign travel or in the purchase of securities, payment of dividends or interest on these securities, or is sent home to friends or relatives by immigrants to this country. The figures as to exports and imports of merchandise are, of course, available and show exports of $1,860,773,346 for 1908, and imports of $1,194,341,792.

MONEY SETTLEMENTS TO BE AVOIDED.

It is even more important that settlements for this enormous volume of trade shall be made, so far as possible, by offsetting the claims of the people in one country against those of the citizens of other countries and thus avoid the actual shipments of gold, than in the case of domestic exchange. Clearly the cost of shipment of money to settle such international transactions is greater, a longer time is required, and there is then the inconvenience also of exchanging the money of one country into that of another. This last difficulty is largely avoided by making all international settlements by means of gold bars, accepted by weight and certified as to fineness by the governments under whose authority they are made.

FOREIGN EXCHANGE.

The manner of making foreign exchanges is similar to that which we have described in the case of domestic drafts but is more specialized in the hands of a few, mostly private bankers, with strong foreign banking connections. There are four principal forms of foreign exchange, the documented bill of exchange, the banker's or finance bill, the traveler's letter of credit, and the commercial letter of credit.

DOCUMENTED BILL.

A documented bill of foreign exchange is simply a draft drawn by an exporter in one country upon the purchaser of his goods in some foreign country, and having attached to it certain documents necessary for the protection of the various parties who handle this bill of exchange. The draft itself is drawn in a form similar to the following:

£.......... Chicago, Illinois, ...191

Sixty days after sight of this FIRST OF EXCHANGE (second unpaid) pay to the order of ...., the sum of .... Sterling, value received, and charge to the account of

JOHN DOE GRAIN COMPANY,

To By ....

JONES BROTHERS & CO.,

No. ...., Liverpool, England.

THE DOCUMENTS.

The documents which accompany such a bill are the bill of lading, hypothecation paper and marine insurance policy. The bill of lading in some cases is a through bill of lading, including both rail and ocean transportation, and in other cases, the first bill of lading is simply a railway bill to the seaboard, where it is exchanged for an ocean bill of lading. Its form is like that which we have already shown in connection with domestic drafts. The hypothecation paper is given for the protection of the banker who purchases the bill of exchange, and it pledges the goods shipped as security to the banker who advances money to the shipper by purchasing the draft. It authorizes the banker to sell the merchandise and reimburse himself from the proceeds, in case payment of the draft is refused by the person to whom the goods are sent and on whom the bill is drawn. Where a large concern is disposing of a great many bills of exchange to its bankers in the ordinary course of its business, they will give to them a general hypothecation power to avoid the inconvenience of making out a separate hypothecation paper to cover each individual bill of exchange. Such a general hypothecation paper is shown below.

GENERAL POWER OF HYPOTHECATION.

BILLS OF EXCHANGE.

TO THE CORN EXCHANGE NATIONAL BANK,
Chicago, Ill.

To the Cashier:—

Anticipating all future sales to you of bills of exchange with shipping documents for goods and produce attached as collateral security, and held by you for their due payment, we agree as follows; to-wit:

You may insure any goods and produce forming the collateral security (if not already insured, and the policy or policies deposited in your hands), from sea risk, including loss by capture, and from fire on shore, and add the premiums and expenses thereof, to the amount chargeable to said bills, but it shall not be imperative upon you to effect any insurance;

You may sell any portion of the goods and produce aforesaid by you deemed necessary for payment of such premiums, expenses, freight and duties, take such measures generally, make such charges for commission, and be accountable in such manner, and not further or otherwise, as in ordinary cases between merchant and his correspondent;

You may take conditional acceptance to such bills to the effect that on payment thereof, at maturity, or under discount, the documents handed to you as collateral security shall be delivered to the acceptors, and this shall extend to acceptances for honor;

In case default be made in acceptance of the said bills on presentation, we agree immediately, on receiving notice from you that you have been advised by telegraph, or otherwise, of such non-acceptance, and without waiting for or requiring the protest of said bills, to pay you the amount thereof with all charges of every description incurred by you in consequence of such non-acceptance, or give you satisfactory margin in cash or securities, all in addition to your possession in the United Kingdom or elsewhere of the goods and produce securing said bills, or the documents therefor; and we further agree that your account of the disbursements, commission and charges so incurred shall be received by us as sufficient and final evidence thereof;

In case default be made in acceptance or payment of any of the said bills, or if the drawees or acceptors should suspend payment, or be adjudicated bankrupt, or execute any deed of arrangement, composition, or inspectorship, or take any other step whatsoever toward effecting a compromise or arrangement with their creditors during the currency of the said bills, you may at any time after any of the aforesaid events taking place, sell the goods or any part thereof, without notice to or the concurrence of any person whomsoever, without waiting for the maturity of the said bills, and either by public auction or private sale, and you may act in all respects as if you had been the direct consignee of the goods and produce, charging such commission as is usual between a merchant and his correspondent in ordinary cases, and shall apply the net proceeds of any sale, after deducting any payment under the powers herein contained, with interest thereon, and the usual commission and charges, in payment of the bills with interest, re-exchange and other charges, and may apply the balance, if any, toward the liquidation of any debt and liability of ours to you, whether or not the same be then payable or ascertained, it being hereby agreed that the goods themselves, until sale, shall be liable for and be charged with the payment of all such bills, with commission, interest, re-exchange and other charges, debts and liabilities; and we agree that all account sales and accounts current furnished by you, in respect of the said goods and produce, shall be received by us as sufficient and final evidence of their accuracy;

We further authorize you, in case the net proceeds of the sale of such goods shall be insufficient to pay the amount of the said bills, with disbursements, interest, re-exchange and charges, to draw upon us at the exchange of the day for the amount of such deficiency, and we engage to honor such drafts on presentation, or to pay you the amount of such deficiency when notified of the amount;

In case the aforesaid Power of Sale shall not have arisen during the currency of the said bills, you may accept payment from the drawees and acceptors thereof, and on payment deliver the said bills of lading and shipping documents to such drawees or acceptors;

In case the drawees or acceptors should wish to secure delivery of any portion of the goods held as collateral security for the said bills before maturity thereof, you are authorized (but not so as to be binding on you) to make such partial deliveries on receiving payment of a proportionate part of the said bills;

The said delivery to you of the collateral securities aforesaid shall not prejudice any of your rights in and to said bills in case of dishonor, nor shall any proceedings taken on said bills prejudicially affect your title to the said securities;

All rights, powers and authorities hereby given you shall extend to and may be exercised by the holders, for the time being, of the said bills and shipping documents;

It is understood that in the event of bills being paid under discount, rebate of interest shall be allowed as follows:

One-half per cent. per annum in addition to the advertised rate of interest for short deposits allowed by the leading London joint-stock banks if the bills are taken up in the United Kingdom of Great Britain and Ireland; and

The current minimum rate of discount of the National banks of France, Italy, Belgium and Germany, respectively, if taken up respectively in those countries.

Chicago, Illinois, June 1, 1910.

CERTIFICATE OF INSURANCE.

Buyers of domestic drafts do not need insurance protection on the goods covered by such bills of exchange, because the railroads over which the goods are shipped are held liable for their safe delivery, and this liability is fully covered by the inland bill of lading. Ocean carriers, however, are not held to any such responsibility and it is therefore necessary that the shipment be covered by a marine insurance policy, which should in all cases be attached to the bill of exchange, in the form of an insurance certificate. Large exporters secure an open policy of insurance to cover all shipments of goods which they may export within a given time. Under this open policy the exporter can issue a separate certificate covering the amount of each particular consignment of goods and this policy protects the purchaser of the bill of exchange or any subsequent holder. In fact it is sometimes the purchaser of a bill who insures the goods and adds this charge to the deduction which he makes for exchange.

Rate of Exchange.

The amount of this deduction will be determined as in the case of domestic bills by the relative supply of foreign drafts offered to purchasers and the demand which they have for foreign exchange. If the banker's foreign credit balance has been largely increased by recent purchases of bills of exchange he will buy more bills only at a heavy discount, because if he continues his purchases of foreign exchange he will soon have his funds on hand so reduced that he will be obliged to have the money owing him abroad shipped to him. The cost of such a shipment is approximately two and one-half cents for each pound sterling so shipped. Thus in quoting the price of British foreign exchange this will be added to or deducted from the par value in American money as expressed in pounds.

Par of Exchange.

An English pound sterling is worth \$4.8665 American dollars, that is, the amount of pure gold contained in an English pound would make \$4.86-2/3 in American money. This is called the "mint par" of exchange. If the volume of transactions, both exports and imports, exactly balance we should have also a commercial par of exchange, and bankers would pay \$4.86-2/3 for every pound sterling of foreign bills of exchange which they bought, less a very small deduction to cover the clerical work. But it is seldom that such a balance is approached and therefore the quotations for sterling, that is English exchange, will fluctuate from about $4.83 to $4.90. It cannot go much below this lower figure, because if it did exporters and importers would find it cheaper to actually ship the gold needed in their international transactions than to buy and sell bills of exchange at such a heavy discount.

Supply and Demand.

The foreign exchange business is subject to very great fluctuations due to the fact that both supply and demand are extremely subject to seasonal influences. Two of the largest items in our exports are cotton and wheat, and as a result the offerings of foreign bills of exchange are extremely heavy during the fall months, from September to December, whereas the heaviest seasonal demand for foreign exchange occurs in the summer time when a great number of Americans are traveling abroad. Extraordinary demands for foreign exchange come about, from time to time, when the floating of a large war loan or some peculiar condition in the stock market brings about large purchases or sales of securities. To equalize this extreme fluctuation in the demand for foreign exchange, the banker avails himself of a form known as the banker's or finance bill. A finance bill is simply a draft by the banker of one country upon a bank or banker in another country. Let us suppose that a New York foreign exchange dealer had been selling foreign exchange in the form of letters of credit during the summer months until his foreign balance had been practically exhausted, and he finds that he can still dispose of more exchange on favorable terms.

USE OF THE FINANCE BILL.

He will draw a finance bill for the amount which he believes he will require before the supply of cotton and wheat paper in the fall will naturally build up his foreign credits. The draft he remits to his foreign correspondent who presumably will accept it and place the amount to the New York banker's credit and allow him to sell additional foreign exchange against it. The transaction amounts to a temporary loan and the London banker will charge a rate of discount equivalent to interest for the time for which the finance bill is drawn. The same expedient may be used in case the New York banker can use funds for investment abroad at a higher rate of interest than he could in New York. Finance bills are generally drawn for thirty, sixty or ninety days and are drawn upon German and French bankers as well as upon London. Unless the banker drawing them has a very strong personal connection with the foreign bank, he is required to furnish collateral security to cover their amount.

Probably the form of foreign exchange which is most familiar to people other than bankers is the letter of credit. These are of two sorts, the traveler's letter of credit, and the commercial letter of credit. Letters of credit have long been issued by several well known firms of private bankers and in the modified form of traveler's checks are now issued by the American

Bankers Association and several large express companies. The traveler's letter of credit is illustrated by the following specimen form:

THE .... NATIONAL BANK OF NEW YORK.

No......... New York City,............191

£..........Sterling.

To the MANAGER:

This letter will introduce to you

M ....

in whose favor we have opened a credit of

.... Sterling,

and whose sight drafts to that extent upon

THE LONDON CITY AND MIDLAND BANK, Limited, of London, we engage shall meet with due honor, if negotiated within .... months, from this date.

The amount of each payment you will please endorse on this letter, and your negotiation of the draft will be considered a guarantee that the requisite endorsements have been made. You will please observe that all such drafts be drawn against the Letter of Credit of The National Bank of the Republic, No..........

This letter must be attached and remitted with the last draft drawn.

Recommending M......................................

to your usual courtesy,

Yours very truly,

....

To Messieurs, our Correspondents, and
all other Banks or Bankers to whom
this Credit may be presented.

N.B.—The bearer is advised to keep the List of Correspondents separate and apart from the Letter of Credit to prevent both from being lost or stolen together, also to affix immediately his usual signature at place indicated on the inside of the cover of the List of Correspondents as a precaution against forgery in the event of the List of Corre-

spondents or Letter of Credit falling into improper hands. THE .... NATIONAL BANK OF NEW YORK will not be responsible for the consequences arising from an omission by the bearer to observe these precautions.

Making Payments.

This letter of credit will be honored by all the correspondent banks abroad because they have been advised in advance that it has been issued, and they receive from the bearer of the letter a receipt for all advances which they make, and this receipt they can present as a voucher to the London City and Midland Bank and be reimbursed. In order to make sure that the holder of a letter of credit does not overdraw the account which he has purchased, it is necessary that all payments made upon the account shall be entered as made upon the back of the letter. Thus when the traveler presents his letter of credit to any of the correspondent banks they can notice what payments have already been made and will pay only the amount of the balance remaining due him, or some lesser amount. In advising their correspondents of the issue of a letter of credit the issuing bank also sends them a copy of the purchaser's signature and this they can use for comparison when the letter is presented to them for a payment and thus avoid the possibility of being imposed upon by forgeries. The charge made for travelers' letters of credit is generally at the prevailing rate of foreign exchange, plus one per cent. as a commission to the issuing bank.

Commercial Letter of Credit.

The commercial letter of credit is similar to the traveler's letter but is used for the purpose of making payments abroad instead of for personal expenditures in travel. Instead of being actually sold for cash it is very frequently issued against a sufficient deposit of collateral or the guarantee of reimbursement by a customer of good credit standing. By its use an American importer can purchase goods all over the civilized world on a cash basis and yet is not obliged to actually make the cash payments until the drafts of these foreign exporters are finally presented at the bank in the United States from whom he has purchased his letter of credit. At the same time the foreign exporter is enabled to receive his payment on a cash basis as soon as he furnishes the local correspondent of the issuing bank with satisfactory evidence that he has made the shipment of goods according to his contract. This evidence is ordinarily in the form of a bill of lading and is attached to a draft upon the American bank with whom the American importer is dealing. A specimen commercial letter of credit is shown below:

THE .... NATIONAL BANK OF PITTSBURGH

Pittsburgh, Penn., June 6, 1910.

To Messrs. John Smith & Co., No. F.D. 110.
Smyrna, Asiatic Turkey.

Gentlemen:—

We hereby authorize you to value on The London City and Midland Bank, Limited, in London at sixty days' sight, for any sum or sums not exceeding in all, 5,000 pounds, Sterling, for invoice cost of figs and dates,................ for account of Green Brothers & Co., Pittsburgh,.......... goods to be shipped to the United States.

The Bills of Lading must be issued to the order of the shipper and endorsed in blank.

The shipment must be completed and the bills drawn within six months from this date, and the advice thereof, in duplicate, sent to the London City and Midland Bank, Limited, London, accompanied by one Bill of Lading and abstract of Invoice, and on receipt of these documents the Bills will be duly honored.

The remaining Bills of Lading with certified Invoices and Consular Certificates must be sent direct to Messrs. W. H. Robinson & Co. of New York City, for account The .... National Bank of Pittsburgh, and a certificate to that effect must accompany draft.

We hereby agree with the drawers, endorsers, and *bona-fide* holders of drafts drawn under and in compliance with the terms of this Credit, that the same shall be duly honored upon presentation at the office of The London City and Midland Bank, Limited, London.

Drafts under this Credit must bear upon their face the words: "Drawn under The .... National Bank of Pittsburgh, Credit No. F.D. 110, ... dated June 6th, 1910."

Insurance effected here.

Respectfully yours,

....

(Signature of Bank's Officer.)

ADVISING THE LONDON CORRESPONDENT.

Besides the original letter of credit which is sent direct to the exporter or given to him by the foreign buyer of the concern, there are three copies. One of these copies is sent to the London bankers on whom the letter is drawn, and with it are sent instructions to accept drafts in accordance with the terms of the letter. The issuing bank retains one copy for its own records, and the other copy goes to the concern who bought the letter of credit.

CHAPTER XVIII.

BOOKKEEPING OF THE BANK.

The system of bookkeeping in a bank presents one feature of difference which distinguishes it from the bookkeeping system used in other business houses, due to the fact that the bank deals only in money and credit and that credit items are treated in bank bookkeeping as though they were cash. It would be impracticable and entirely unnecessary, from an accounting standpoint, for the bank to try to distinguish between these two items.

THE BOOKS USED.

The books needed, therefore, are a cash book, and the necessary ledgers to accompany it. We have already noticed in connection with the different departments of the bank's work the systems of records which must be kept by the different departments and from this point we will now go on to discuss the manner in which the various bank transactions are all gathered together and recorded in the bank's general bookkeeping department. We will assume, for convenience, that every bank has at least two tellers, one of whom is a paying teller, and the other a receiving teller, in order to show how the various debits and credits originate.

The Receiving Teller.

Beginning with the receiving teller's department, we know that the items which he receives include cash and cash items of a wide variety, and that, in a great many cases, his work may be further subdivided and such items as come to the bank through the mails may be put in charge of a correspondence clerk, who acts as a receiving teller so far as out-of-town items are concerned. We have already seen how the receiving teller lists up all the deposit tickets presented by the bank's customers on a scratcher which he uses as his record of receipts in order to make up his proof sheet for the day's business. These deposit tickets are, during the course of the day, sent to the bookkeeping department and there, before being posted to the Individual Ledger, are oftentimes entered upon another scratcher. For the sake of convenience it is customary to have the bookkeeping department located as close as possible to the receiving and paying tellers' cages, although in large city banks it is very common to find the bookkeeping department located in a gallery or on the second floor of the bank's building for the sake of economy of space.

Individual Depositors' Ledger.

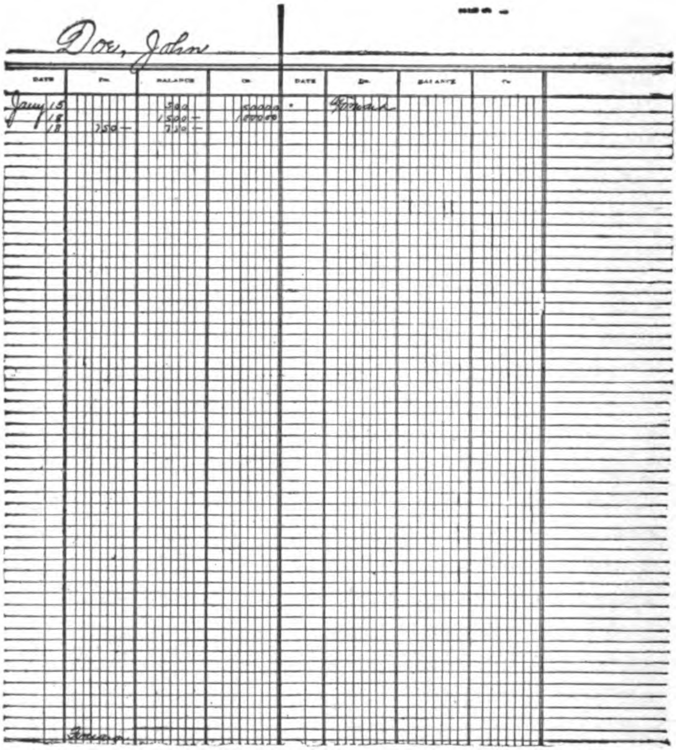
Except in the case of very small banks it is necessary to have several volumes of the individual ledger in which the names of depositors are classified alphabetically; thus the first volume may include the names of depositors from A to F, the second those from G to K, the third those from L to Q, and the fourth those from R to Z. This arrangement greatly facilitates the work of the bookkeepers since the deposit slips can be sorted out and the bookkeepers kept at work upon each of these four ledgers at the same time. Likewise it renders much more simple the work of checking over the accounts in order to locate possible errors in the work. At the close of each day's business the receiving teller makes up a proof sheet for settlement purposes, and the total as shown by his scratcher should correspond with the total taken from the scratchers kept by the bookkeeping department. Thus each of these scratchers serves as a check upon the other.

DISCOUNT CLERK'S CREDITS.

In addition to the sources of deposit to which we have already referred and which come to the bookkeeping department from the receiving teller, individual deposits receive credit through the process of discounting commercial paper. As we know, the bank desires, whenever possible, to make such purchases with its own deposit credit instead of paying cash. When a note is discounted for a customer the discount clerk sends to the individual ledger bookkeeper a credit slip covering such transaction. This credit slip becomes the basis of a credit entry to the customer's account in the individual ledger in a manner similar to that which we have described in the case of the deposit slips which are turned over by the receiving teller. The proceeds of the collection of notes and drafts left by a bank's customers are passed to their credit in the individual ledgers by like credit notices.

Two Forms of Ledger.

There are two forms of individual depositors' ledgers in common use, the three-column ledger, and the Boston ledger. The form of the three-column ledger is shown below:



Three-Column Ledger.

Account in Three-Column Ledger.

In this form of ledger the depositor's name is entered at the top of the page and each page is ruled in two sections, having headings for the date, debit entries, credit entries, and balance. Whenever a depositor makes a deposit at the receiving teller's window, the amount is entered from his deposit ticket, when it arrives in the bookkeeping department, in the column headed "Credit." For instance in the form shown on page 286, John Doe deposited $500 to his account of January 15th. Since he made no withdrawals from his account, the balance for that day is likewise $500. On January 18th he made another deposit of $1,000 and this is likewise placed in the credit column in which the $500 already to his credit appears, thus showing a total credit of $1,500. The balance of $1,500 is then extended into the balance column.

Boston Ledger.

The Boston Ledger, as shown by the form on page 288, differs from the three-column ledger in that the dates are entered at the top of the page, and the names of the depositors are printed in a middle section for the convenience of making entries, both for the three days shown to the left of this column as well as the three days to the right of it. Thus a single page of the Boston ledger contains ruling for six day's work. It will thus be seen that the Boston ledger shows a large number of accounts on a single page and is advantageous in the case of active accounts, but is very cumbersome in the case of those which are more or less inactive. Another advantage of the Boston ledger is due to the fact that it does

DATE Jan'y 15			DATE Jan'y 16			DATE Jan'y 17			NAME.	DATE Jan'y 18			DATE Jan'y 19			DATE Jan'y 20		
Checks	Dep.	Balance	Checks	Dep.	Balance	Checks	Dep.	Balance		Checks	Dep.	Balance	Checks	Dep.	Balance	Checks	Dep.	Balance
									ANDREWS, JOHN									
									BROWN, JAS									
									COX, A.B.									
	500-	500-			500-			500-	DOE, JOHN	750-	1000-	1500- 750			750-			750
									ERVIN, CHAS.E.									

BOSTON LEDGER.

away with the necessity for a scratcher, since this work is performed by merely adding the items in the columns headed "Deposits" and by adding the items in the column headed "Checks." The three-column ledger, on the other hand, makes it possible to ascertain the balance on any customer's account at a glance and is particularly advantageous in the case of inactive accounts inasmuch as each depositor has a sheet of his own and the balances do not need to be disturbed until a change occurs, whereas in the case of the Boston ledger all balances must be extended daily.

Debits in the Individual Ledger.

The items which appear as debits in the individual ledgers come from the paying teller in the form of checks in a way very similar to that which we have outlined in the case of the deposit tickets which come from the receiving teller. As we have seen in a previous chapter, the paying teller keeps a scratcher of all checks which he pays out, and from time to time during the day sends these checks to the bookkeeping department to be entered by the individual bookkeepers. Since the checks are generally numerous, it is often found convenient to paste in the scratcher adding machine lists showing the total of all the checks drawn by a customer and received by the bookkeeper at any one time from the paying teller. A posting is then made to the individual accounts in the ledgers of the totals as shown by the scratcher.

An Example.

Referring to the example shown on the specimen three-column ledger form we see that on the 18th of January checks were presented against the account of John Doe in the amount of $750. This was probably in the form of several different checks which were entered on the scratcher, or listed on the adding machine and this slip pasted in the scratcher, and only the totals carried to the debit column of the ledger. Deducting this from the $1,500 which stood to his credit on that date there remains a balance of $750, which is entered in the balance column. The same transaction is shown by the entries in the specimen form of Boston Ledger shown on page 288.

CASH BOOK.

We turn now to the general books of the bank, chief among which is the cash book. The use of the cash book is seen from the following description:

CASH DR.	CASH CR.
Individual Deposits (credited (1) from the Receiving Teller, and (2) from the Discount Register).	Individual Deposits (debited from the Paying Teller).
Interest and Discount (on notes discounted, credited from the Discount Register).	Bills Discounted (debited from Discount Clerk, representing the total of Discount Register for day).
Bills Discounted, collected by the Note Teller (representing total of the notes matured that day).	Various Banks for cash remittances sent to them.
Various Banks, for remittances received (reported by the Mail Clerk).	Collection and Exchange (representing deductions made by our correspondent for their compensation for collecting items contained in our "Cash Letters").
Various Banks, for collec-	

tions made by us for them but not remitted.

Collection and exchange on above collections.

Various Banks, debits for collections made by them but not remitted.

General Expenses of the Bank.

FORM OF CASH BOOK.

There is no uniform style of cash book but the form chosen will depend upon the size and needs of each particular bank. In the case of a small bank it will be in the form of an ordinary cash book having both debit and credit sides and bound in a single volume, but a large bank will ordinarily have two books, one known as a credit journal, covering cash receipts, and the other designated a debit journal, covering cash payments. The reason for the reversing of the cash book is found in the convenience which it affords to the bookkeepers in posting.

CASH BOOK ENTRIES.

The totals of the paying teller's work appear on the credit side of the cash book as a debit to the several ledger accounts of individual depositors, and the totals of the receiving teller are entered on the debit side of the cash book as a credit to the same general ledger account. The maturity value of all paper discounted during the day is entered on the credit side of the cash book as a debit to loans and discounts, as, in effect, this represents money paid out by the bank in purchasing such discounted paper. The profit which the bank makes on such transactions is to be regarded from an accounting standpoint as money turned back to the bank by the customer whose paper was purchased in payment for the bank's services, and is accordingly entered as an item of interest and discount on the debit side of the cash book. The proceeds of such discounts from the standpoint of the several books are considered as being placed to the customer's credit and will appear on the debit side of the cash book under the heading "Individual Deposits."

Cash Entries From Discounts.

The amount is taken as a total from the discount register, but, as we have seen, separate credit slips are sent to the individual bookkeepers. After the discount clerk has discounted notes and enters them in his discount register they are transferred to a book known as a Discount Tickler. The notes are here arranged in the order of their due date so that all notes due on April 1st appear under that date and all notes maturing on April 2nd are carried under that date, and so on, whatever the maturity date may be. As these notes mature they are turned over to the note teller, who has the duty of collecting such paper from the maker. The proceeds from such collections, representing in effect the total as shown by the tickler for that particular day, appear upon the general cash book as a credit to loans and discounts. Should any notes have been sent at any time prior to their date of maturity to correspondent banks for collection, the total of the discount tickler appears, nevertheless, upon the general cash book as stated, but an offsetting credit becomes necessary in order to charge the accounts of the correspondent banks with the notes held by them which mature that day.

ACCOUNTS WITH BANKS.

The accounts with other banks are handled in practically the same manner as are individual depositors' accounts, but are generally kept in a separate Ledger called a "Banks' and Bankers' Ledger." In case the volume of such business is large, this ledger may be kept in several volumes, each of which covers the accounts of a group of correspondents arranged either alphabetically or territorially as the system employed may direct. In its dealings with correspondents the bank makes a distinction between the accounts which these correspondents keep with it and the accounts which it keeps with them. The former covers those accounts which appear upon the books of the bank with credit balances, representing amounts due by it to its several bank depositors, while the latter covers those accounts opened for the purpose of charging its correspondents with cash letters sent to them for collection and immediate remittance or for collection and credit. When the bank receives from any of its correspondents certain items, which have been accepted by said correspondent as cash and credited to the accounts of its depositors, the letter is spoken of in banking parlance as a "Cash Letter," and it serves the same purpose in this connection as does a deposit slip in the case of an individual depositor.

TREATMENT OF COLLECTIONS.

The totals of the cash letters are entered upon the debit side of the cash book to the credit of the accounts of the correspondents sending same. Similarly, where the bank has collected various items for its correspondents, but has not yet remitted the proceeds, the totals of such collections will be credited to such correspondent banks on the debit side of the cash book. Likewise the profit which the bank makes on such transactions, in the form of exchange or collection charges, will appear on the debit side of the cash book as a credit to "Collection and Exchange" account. On the opposite side of the cash book will appear items covering remittances sent to correspondent banks or for items collected by them but not yet remitted, and for charges of exchange or collection which such correspondent banks may have made for collecting items which have been sent to them. In order to verify the correctness of the accounts between correspondent banks it is customary for them to exchange monthly or semi-monthly statements showing the standing of their respective accounts. Such a statement is spoken of as an "Account Current," and is simply a transcript of their ledger accounts.

Expense Accounts.

In addition to the expense items which we have just mentioned, namely, the payments made to correspondent banks on account of exchange and collection, there are, of course, other current items of expense incurred by the bank in the conduct of its business. These include such items as salaries of officials and employes, rent, taxes, advertising, supplies, stationery, etc. These represent cash spent by the bank and will, therefore, be entered on the credit side of the cash book as debits to the various expense accounts. The expense accounts of a bank can be grouped under fewer headings than those of a manufacturing or mercantile concern, owing to the fact that it deals simply with a single commodity—credit, instead of with a diversified product.

THE DAILY STATEMENT.

The cash account, which we have discussed in connection with the cash book, together with the accounts of the other assets and of the liabilities of the bank go to make up the daily statement setting forth the condition of the general ledger accounts. Most of the accounts of assets and liabilities are kept in detail in subsidiary books, the aggregate totals being entered in the general ledger in controlling accounts. The accounts shown on the daily statement are given below, and the general ledger covers the same accounts.

GENERAL LEDGER ACCOUNTS OF A BANK.

Accounts showing debit balances.	*Accounts showing credit balances.*
Cash, including exchanges for the Clearing House.	Capital Stock.
Due from Reserve Agents.	Surplus.
Due from Banks.	Undivided Profits.
Collateral Loans.	Individual Deposits.
Bills Discounted.	Bank Deposits.
United States Government Bonds for Circulation.	Special Deposits.

Accounts showing debit balances.	*Accounts showing credit balances.*
Premium on United States Government Bonds account of circulation.	United States Government Deposit.
United States Government Bonds for United States Deposit.	Certificates of Deposit.
Premium United States Government Bonds account of United States Deposit.	Cashier's Checks. Certified Checks. Sundry Collections.
Bonds and Securities owned.	
Due from United States Treasurer other than 5% Fund.	
United States 5% Redemption Fund.	Circulation.
Collection and Exchange.	Dividends Unpaid.
Expense.	Collection and Exchange.
Taxes.	Interest and Dividends on Securities owned. Interest on Loans.
Teller's and Clerk's Difference Account.	Discount. Teller's and Clerk's Difference Account.

The General Ledger.

The cash book entries are posted daily to the general statement by the general ledger bookkeeper, and the general ledger should, likewise, be posted from day to day. There is no distinguishing feature of the ledger of a bank in which it differs from the general ledger of other business concerns. Its purpose is simply to gather under appropriate headings all the different items of debit and credit which apply to the various accounts so that it may readily be seen what changes have taken place in these accounts from day to day.

CHAPTER XIX.

BANK REPORTS AND EXAMINATIONS.

We have seen the system by which a bank keeps a record of its current transactions, and from which it should be able to discover the exact condition of its affairs from day to day. In addition, it is well that the officers make frequent examinations, either by themselves or with outside assistance, in order to make sure that there is no disguising or covering up of irregularities. Even the most trusted clerks and executive officers are from time to time found to have used the funds of the bank with which they are connected or by which they are employed, for their own ends, and the closest watch is needed if such danger is to be avoided. Besides the bank's own system of accounting and voluntary examination of its affairs, for its own information and protection, there are three outside authorities that usually have the right to demand reports from it or to make examinations of it. These are the Clearing House Association, the State Superintendent of Banking or similar officer, and the Comptroller of the Currency.

Clearing House Statements.

The clearing house in New York City requires that all banks which clear through it, non-members as well as member banks, shall send to the clearing house before eleven o'clock each Saturday a statement of the bank's condition during the preceding week, stated in the form of averages for the period. From these returns, the clearing house officials make up the weekly bank statement, or rather two statements , one for the member banks and one for non-member. A specimen of the weekly statement is shown in the chapter on the clearing house, and the following is the form used by the bank in reporting its condition to the association:

COPY OF STATEMENT

of the

.... for week

ending the ....day of ....191 ,
as required by Section 16 of the Constitution of the New York Clearing House Association.

Average amount of Loans and Discounts.......		
Average amount of Specie		
Average amount of Legal Tender Notes		
Average amount of Deposits, other than U. S...		
Average amount of United States Deposits.....		
Average amount of Circulation		

NEW YORK CLEARING HOUSE.

Please send a copy of the Weekly Statement of your Bank to the Clearing House before 11 o'clock A. M. on each and every Saturday.

WILLIAM SHERER, Manager.

Correct.................................

EXAMINATION BY CLEARING HOUSE.

Some clearing house associations not only undertake to regulate the nature of the business of the member banks and the manner in which it is carried on, but provide for making examinations to ascertain the true condition of the bank's affairs. It has been particularly true in the East that the Clearing House Association undertook merely the technical process of clearing, but in the West the associations have somewhat enlarged these functions and the tendency seems to be growing in all parts of the country, and it may be that in time they will establish and maintain standards to which all their members must conform, so that membership in a clearing house association will be more or less of a guaranty of solvency or at least of efficient and conservative management.

State banks are under varying degrees of supervision, depending upon the laws of the particular State in which they may be situated. In some of the eastern States, the supervision is practically as close and as rigid as is that of National banks, but in other States it is slight in amount and rather poor in quality, owing to the fact that bank examiners are often appointed from political motives rather than because of special training or real efficiency in the work. The forms of reports used by the State of New York will serve as good illustrations of the better class of State supervision. Reports of the condition of the state banks are required quarterly on dates set by the Superintendent of Banks. The various institutions are notified in the following form:

State of New York
Banking Department

Albany,....................

To the Cashier of the

....

....

Sir:—

.... the .... day of ....
191.... is hereby designated in respect to which the Incorporated Banks, Banking Associations and Individual Bankers, organized under the Laws of this State, shall make report of their condition to me, as required by Section 20 of Chapter 689, Laws of 1892.

You will please take due notice of this call, and transmit your report of your condition at the close of business on that day to me within TEN DAYS, from the date hereof, as required by Section 21 of the Law above cited.

....
Superintendent of Banks.

The form of the Quarterly Report is on page 302A.

PUBLISHED STATEMENTS.

This report must be accompanied by several separate schedules similar to those used in connection with the National bank reports, which we will see later. State banks are also required to publish statements of their business in the local papers at the time of making their regular reports, and to furnish the State Superintendent of Banking with a copy of this published report, together with the affidavit of the publisher of the paper in which it has appeared.

REPORTS OF NATIONAL BANKS.

All National banks are required by the Comptroller of the Currency to make at least five reports of their condition every year and he can, at any time, call for a special report if he deems it advisable. There are no regular dates on which these reports are expected so that the bank could prepare for them, but the Comptroller calls for them at irregular periods, at his own discretion. The bank is supplied with the necessary forms by the Comptroller, and these include a condensed form of report which must be published in a local paper, and a set of forms for a detailed report which must be filled out and sent to the Comptroller. The published report must be cut from the newspaper and pasted upon a special form of certificate of publication which includes the affidavit of the publisher, and must be executed by him before a notary officer competent to accept the acknowledgment. The forms of these reports and certificates are shown by specimens on insert 302A and page 303.

OATH OF PUBLICATION.

State of ....
County of .... } ss.

Cut the printed notice from the newspaper and attach here. Forward notice to Comptroller of Currency as promptly as possible.	.... being duly sworn, deposes and says that he is the publisher of .... a .... newspaper published in the............ of ...., County of ...., State of........., and that the annexed advertisement of the Certificate for Voluntary Liquidation of the .... National Bank of .... has appeared in each issue of said paper for a period of at least sixty days, beginning the ....day of .... and ending the .... day of .... 191 .

....

Subscribed and sworn to before me, a .... in and for the State and County aforesaid, this.............. day of ....191 .

{ Seal of Officer }

....

....

Special Reports.

The report sent to the Comptroller must be sworn to by the president or cashier and must be sent not later than five days after the call has been sent out by the Comptroller. The officials must also make a special report at the time of declaring dividends. This must be within ten days after the declaring of such a dividend, and must state the amount of the dividend declared and the amount of net earnings of the bank in addition to this dividend. They must also send semi-annual reports of the amount of the bank's circulation on the first of January and of July of each year, as a basis for taxation on their note issue. The matter of promptness is very important, inasmuch as a penalty of one hundred dollars a day is charged for any delay in making reports beyond the five-day limit, and two hundred dollars for failure to report promptly the volume of circulation. For this reason, a bank cannot put off the making of its report for the sake of improving its condition; likewise it is a criminal offense to make any statements on this report which are not absolutely true and in accordance with the actual state of the bank's business.

Suggestions of the Comptroller.

A few years ago the Comptroller of the Currency sent out a circular letter to National banks, explaining in some detail the manner in which he desired to have reports made up, and this letter is still well worth examination as showing the scope and use of these reports.

"Sir:—In order that the business of this office may be facilitated and your own convenience promoted, you are particularly requested to cause the utmost care to be bestowed upon the preparation of the reports sent in by your bank.

Guided by the errors and omissions heretofore most common, I beg to make the following suggestions:

1. See that the footings of the report are absolutely correct; that all schedules are properly filled; and that the aggregate of each schedule agrees with the amounts entered opposite its title on the face of the report.

2. Have each item under the heads Resources and Liabilities checked over to see that it is accurately set down and is in its proper place.

3. Item 4 of liabilities does not include circulation for which lawful money has been deposited and the bonds withdrawn; but it does include all the notes of your bank issued upon the security (and not exceeding the amount) of whatever bonds may be, at the date of the report, on deposit with the Treasurer of the United States to secure the circulation of your bank. Whatever amount of your own notes may be on hand and in the Treasury for redemption should be entered in the proper place below the total circulation so as to appear as a deduction from that total. The difference circulation outstanding, and should be so extended.

4. Opposite iten. 3 4 aı 5 of Resources state the kind of bonds.

5. The average reserve and rate of interest paid should always be entered. In case no interest is paid, the fact should be stated by the word none.

6. The books of the bank should be so kept that the amount of each of the items required in the report can be ascertained at any time and properly stated; this is particularly necessary with respect to the subheadings of Specie.

7. The exact amount of legal-tender notes on hand should be stated and *never included with any other item.*

8. Whenever the report shows that the bank holds one or more mortgages on real estate, a brief memorandum should accompany it explaining the manner in which each mortgage was acquired.

9. Full information as to progress made in reducing overdue paper, and improving the position of bad debts, with a note to each item as to its probable value, should accompany every report.

10. It is *important* that the charter number of the bank

should appear both in the report and at the head of the publisher's certificate forwarded to this office.

11. In case it is not possible to have the report promptly attested by three directors, it should, nevertheless, be sworn to and forwarded immediately upon receipt of call; the report will afterward be returned for completion.

12. Every report should be sworn to before some officer having an official seal, who is *not* connected with the bank, and care should be taken that the seal is affixed.

By carefully noting the above and guarding against the errors most common to reports, as pointed out, a large amount of unnecessary correspondence will be avoided.

Very respectfully,

..............., Comptroller."

BANK EXAMINATIONS.

But even in addition to the detailed information furnished by these written reports of state banks to the Superintendent of Banking, and of National banks to the Comptroller of the Currency, it is deemed advisable from time to time to make personal examination of the affairs of the bank by an examiner, acting as agent of the State Banking Department or the Federal Treasury Department. Such examinations have the effect of lessening any chances of fraud on the part of the bank's officers or employes and likewise lessen the possibility of innocent errors, and keep the work of the bank up to the highest pitch of efficiency. It may be undertaken either for the purpose of verifying the figures given in the report, making a special examination of some department of the bank, an appraisal of its assets, or cover a complete examination of the whole business of the institution. We need not bother with the details of state examinations as they are similar to those for National banks, though on the whole somewhat less rigid. We will notice the details of the examination of National banks, which are made twice a year.

No Regular Time for Examinations.

The visit of the bank examiner, like the call for reports of condition, comes at irregular intervals and without previous notice to the bank. An examiner may be sent to go over the affairs of any National bank at any time that it is deemed wise by the Comptroller of the Currency. He performs his work either after the close of the bank's business in the afternoon or before it opens in the morning, so far as possible, to avoid interference with the regular work. In the case of a large bank it will be necessary for the examiner to use several assistants, and even then the work may extend over several days, or even weeks.

Procedure.

But the procedure is much the same as in a small bank, consisting in theory of a careful audit of the bank's accounts, examination of the conduct of the business, appraisal and verification of its assets. The work begins with the counting of the cash and checking these figures against the items shown on the teller's book. In a large bank, the counting of the cash alone is a heavy item and it is customary to take amounts marked on the outside of bags of coin and packages of paper currency as correct in making up the first set of figures, and then detail one or more assistants to the verification of these amounts. If it is necessary to continue the counting of the bank's cash from one day over to the next, the amount uncounted is sealed by the examiner until the work can be resumed.

VERIFYING LOANS.

After the cash has been counted, the next step is to verify the loans and discounts, collateral, stocks and bonds, and any other assets which the bank may have on hand. A particular note is made of all loans made to officers or directors of the bank or to enterprises with which they are connected or in which they are interested. Very likely there are some items, such as notes which have been placed in the hands of an attorney, or sent away for rediscount or collection, which must be verified by correspondence, and for this purpose the following form is used:

Treasury Department

Office of the Comptroller of the Currency

Washington, D. C.

TO THE CASHIER:—

You are respectfully requested to forward, at your earliest convenience, to the National Bank Examiner, whose name and address is stated below, the information asked for in this circular.

This information is requested solely for the purpose of reconciling the account of the within-named bank with your bank at the date of examination of the former.

The account of every national bank with another bank is verified in the same manner.

An addressed envelope for your reply is enclosed.
Respectfully,

....
Comptroller.

..............................,
National Bank Examiner.

..............................,
P. O. Address.

VALUE OF SECURITIES HELD.

In verifying the stocks and bonds held by the bank, as investments or as collateral, careful note is made as to their actual worth in the market as compared with the valuation at which they are carried on the bank's books. Likewise careful attention must be given to any real estate appearing on the records of the bank, examining the deeds to see that they are correctly recorded and the title good. Especial care must be given to the figuring of the reserve to see that it corresponds with the legal requirements and to see whether this reserve is maintained at other times than simply at the date of the examination. The form shown on pages 310 and 311 is used for calculating the legal reserve:

VERIFYING THE INDIVIDUAL LEDGER.

A large item in the work of examining a bank with a great number of depositors is the verification of the individual ledger. The only way of making an absolute audit is to call in the pass books, but this the national examiner does not do. A common practice is to take a balance sheet of the individual ledgers on the date of the examination and to compare the totals with the amounts shown in a general ledger statement, and in addition to choose some given day a week or more previous to the day of the examination and to make a similar test for that date. Overdrafts are carefully scrutinized, and they figure as one of the important items in the report of the bank's condition.

SCRUTINIZING THE EXPENSE ACCOUNT.

A careful examiner will take particular care to see that the expense account of the bank bears only a reasonable proportion to the size and nature of the business. A particular item in this connection is the amount paid in salaries to officers of the bank. Lastly, an examination of the loans and discounts should be made with reference to the quality of the paper held, which includes both the value of collateral and the standing of the borrower. This last will include not only the borrower's reputation, but the condition of his business affairs and the amount of his obligations at the given bank and, so far as can be found out, the amount of credit extended to him by other institutions. The scope of the information obtained by a national bank examiner will be more clearly seen from a careful examination of the form shown on pages 313 to 320, inclusive, on which he makes his report to the Comptroller. If this report shows that the condition of the bank is unsatisfactory in one or more particulars, the Comptroller, after having considered the report, notifies the bank of the details in which it was found deficient and makes any suggestions which he deems advisable for the correction of same.

NOTICE. Fold pages together but do not use any fasteners.

Fill Indorsement with Typewriter.

No. of Bank, ...

EXAMINER'S REPORT

OF

The ....

LOCATED AT

....

............, *190*

....

Examiner.

IMPOR

Please answer "yes" c
following questions as t
bank, No. ....
signature.

Did you count the cash, a
Did you examine and list
all collateral held therefor,
Did you note all loans a
and officers, and to enterpri
terested, as instructed?
Did you examine and list
held by bank, and all re
owned or held by it, and Tr
bonds, as instructed?
Did you take off or verify
individual ledger or ledger
Did you check off last
corresponding banks and fi
Did you verify outstandi
certified checks, and cashie
Did you take off balance
amine stock certificate bool
Did you examine profit
counts, as instructed?
Did you examine minute
discount committee meet
meetings, as instructed?
Did you examine into c
reserve for thirty days pre
Did you compare bank's
dition to Comptroller with
Have you sent out ver
2193) as follows:
1. To all banks and ba
which, balances are due?
2. To all parties from w
rowed on bills payable, cert
and bills rediscounted?
3. To all parties to who
for collection?
4. To all officials in whos
municipal funds are deposi
5. To the U. S. Treasure
tion Agency) for verificati
Form 2195?

....

2-1538

TANT.

or "no" to each of the
to examination of this
______________, over your

is instructed?
: loans and discounts and
as instructed?
nd discounts to directors
ses in which they are in-

all stocks, securities, etc.,
al estate and mortgages
easurer's receipt for U. S.

a balance of accounts on
s?
statements received from
nd them correct?
ng certificates of deposit,
r's checks, as instructed?
of stock ledger and ex-
, as instructed?
and loss and expense ac-

s of directors' meetings,
ings, and shareholders'

ndition of lawful money
ceding examination?
opy of last report of con-
its books at same date?
fication circulars (Form

kers to which, or from

om money has been bor-
ficates of deposit, or notes

m items have been sent

e names State, county, or
ted?
r (care of N. B. Redemp-
n of 5 per cent. fund on

....

Examiner.

OTHER EXAMINATIONS NEEDED.

In spite of the official examinations, however, many defalcations have occurred in banks and other financial institutions, which could have been prevented from attaining anything like the proportions they did, had such institutions supplemented the work of the government or state examiner by that of a competent certified public accountant, acting on behalf of the stockholders or the Board of Directors. Apart from any examination which contemplates only one or two departments of a bank, the most reliable examination, and the one which is of most service, is that which embraces all departments made as of a given date. An examination of this kind not only furnishes a thorough verification of the accounts of each department, but prevents a switching of shortages from one department to another which, under any other kind of examination, can readily be done. The examination by a National bank examiner is made, as we have seen, in accordance with rules laid down by the Comptroller of the Currency, and all reports are made to him. These reports are seldom, if ever, seen by the officers of the bank and unless the examiner sees fit to inform them of the bank's condition they are none the wiser. Nevertheless, if anything should go wrong with the bank, it is the officers and directors who are held responsible, and the blame must rest upon them unless they have surrounded themselves with all the possible safeguards for the prevention of a defalcation.

EXAMINATION BY A CERTIFIED PUBLIC ACCOUNTANT.

The certified public accountant under these conditions, stands ready and prepared to render his services to the directors and officers of a bank, to whom he submits his report. A bank under these conditions, moreover, reaps the benefit of suggestions for an improvement in the system of accounting employed, which the accountant is able to give as a result of his years of experience and study. It is seldom that a bank obtains from a national examiner any suggestions for an improvement in its accounting system. In reference to the subject of examinations made by certified public accountants, Hon. Charles G. Dawes, Ex-Comptroller of the Currency and President of the Central Trust Company of Illinois, of Chicago, expresses himself as follows:

"In reference to the advisability of a periodical examination of the affairs of banks and trust companies, made by experts, for the benefit of the officers and directors of such institutions, I will state that I deem such a course as most advisable. While in the larger cities the public examiners have, as a rule, a compensation sufficient to enable them to make a proper examination, the National bank act in its provision for compensation of examiners, outside of the central reserve cities, in effect places a premium upon hasty and incomplete work. This defect has been recognized by most of the Comptrollers of the Currency, and the attention of Congress invited to it. However, both in the central reserve cities and elsewhere, a periodical examination by experts of the affairs of banking institutions I deem important."

Difference in Scope and Method of Examinations.

The principal difference between the examination made by a certified public accountant and one made by an official examiner, either government or state is that the main feature of the official examination is the appraisal of assets, as the Comptroller of the Currency and the state authorities generally are interested in the solvency of the institution. If any asset reported by the examiner does not meet the approval of the Comptroller, he will immediately inform the bank to reduce its value or to eliminate it altogether. We might say that the official bank examiner, in devoting his attention primarily to the clerical work, does not devote the proper length of time to an audit of the books. He takes a balance sheet off the ledger but does not call in and balance the pass books of depositors. He examines the collateral for loans, but does not verify from the borrower the correctness of the amount. The examination of the national bank examiner would be far better if he exercised his power "to examine any of the officers and agents thereof on oath." This power is rarely, if ever, exercised by the examiner, but it is the most important power which he possesses.

The examination by the certified public accountant concerns itself very little with the appraisal of assets. His duty is to set forth the facts as he finds them and not to comment upon any matter of business policy, and by reporting to the Board of Directors, or to the stockholders, the exact condition of the affairs of their institution, he paves the way for changes in the accounting system of the institution whereby improvements may be inaugurated which will safeguard to even a greater extent the money entrusted to them by the depositors. By presenting a report of the affairs of the bank to them, he indirectly furnishes information which oftentimes results in a change being made in the character of the assets on hand.

CHAPTER XX.

CIVIL AND CRIMINAL LIABILITIES.

The first duty of those in control of the affairs of the bank is to so manage the business that it shall be safe and solvent at all times. But the protection of the bank's customers as they should be protected is an ideal that frequently comes into conflict with the desire to make the largest possible profit and pay the biggest dividends on the money invested. Without some positive regulation from outside authority, many banks would not keep up to the necessary standard of caution and trustworthiness. Laws have been passed by both the State and National governments to settle this responsibility on the shoulders of those to whom the public intrust their money, and to provide penalties for failure to properly handle and account for such funds. These regulations are designed to prevent loss not alone through dishonesty, but through bad management as well, and relate to two classes of persons, first those who are in control of the bank's affairs and use their position of trust to the harm of the bank, and second those who hold clerical positions in the bank and in this way are able to make away with its funds.

Responsibility of Stockholders.

The first responsibility for bank losses falls upon the stockholders. That is, in case the bank fails they must leave the whole of their capital interest to meet its debts, as do the stockholders of all incorporated companies. But in addition to this, the National Bank Act provides that stockholders in all National banks shall also be liable for an additional amount equal to the amount of their stock holdings. Many States have also seen fit to make stockholders in State banks liable for double the amount of their capital subscriptions.

The Board of Directors.

But the stockholders are not the actual managers of the bank. They delegate this work to a Board of Directors, and it is on them, therefore, that the real responsibility lies. This is a responsibility, unfortunately, that has too often not been felt by the directors, but has been put off by them upon the president or executive committee or even upon the cashier. Many boards of directors have become mere figure heads, meeting at rather long intervals to ratify any and every action that the president or committee has seen fit to take in the meantime. Such directors never make an examination of their own to ascertain the actual state of the bank's affairs, and while lending their approval do not really know whether its business is being run on sound principles or not. In New York State the law compels directors to examine in June and October. Many a bank has failed or suffered loss because of directors who did not direct, and for this reason the Comptroller of the Currency has insisted that when National banks are examined this point must be looked into. His idea of the proper scope of a bank director's knowledge of his bank is shown in the following set of questions which he has prepared for the use of bank examiners:

THE EXAMINER'S ENQUIRY.

Treasury Department.
Office of the
Comptroller of the Currency.

To the National Bank Examiners:

Hereafter upon entering a bank for the purpose of making an examination, the board of directors should be immediately convened by the direction of the examiner, to enable him to obtain the information necessary to answer the following questions. The members of the board should be advised that the inquiries are made by direction of the Comptroller of the Currency.

This statement must accompany and form a part of report of each examination.

LAWRENCE O. MURRAY, Comptroller.

1. What is the number of directors of the bank?
2. What number was present at this examination?
3. How many of the directors know the condition of the bank in all its details?
4. How many have but a general knowledge of the condition of the bank?
5. How many know nothing at all about the condition of the bank?
6. How many attend board meetings with regularity?
7. Have the directors full knowledge of the habits and general standing of the bank's employees?
8. Do the directors approve loans before or after they are made, or leave this important duty to a committee, or to the officers of the bank?
9. If they approve loans, is their approval of record in each case?

10. Can the directors certify to the genuineness of the signatures to the notes discounted by the bank?
11. Do the directors authorize overdrafts?
12. Do they tacitly permit officers to allow overdrafts?
13. Do any of the directors, other than members of the discount committee, examine and verify loans and discounts?
14. How often do the directors examine and list all collateral held by the bank?
15. How often do the directors examine and list all stocks, securities and real estate mortgages owned by the bank?
16. Do the directors direct the calling in and balancing of pass-books and satisfy themselves as to the correctness of the work?
17. Do the directors require the verification of accounts current at irregular or stated dates and satisfy themselves as to the correctness of accounts?
18. Have the directors verified outstanding certificates of deposit, certified checks and cashier's checks?
19. Have the directors examined into the condition of the lawful money reserve?
20. Do they know whether or not bank notes are carried into the reserve?
21. Does a committee of the directors count the cash periodically?
22. Has a committee of the directors ever checked up the stock ledger?
23. Have the directors compared the bank's copy of its last report of condition and statement of earnings and dividends with the books of the bank as of the same dates?
24. How many of the directors read the letters of criticism from the Comptroller?
25. Do they read carefully the replies made in answer to letters from the Comptroller?

26. What steps are taken by the directors to correct matters criticized by the Comptroller?
27. How many of the directors have read the National Bank Act?
28. How many know the duties of directors and what the courts have decided as to the responsibility and liability of directors?

RESTRICTIONS TO BE OBSERVED.

There are several specific restrictions laid down by the laws to guide directors, by regulating the manner of conducting the business of the bank, instead of leaving it to the discretion of directors and officers entirely. Thus National banks are restricted in the following particulars:

1. No National bank may start in business until 50 per cent. of its capital has been paid in. The remaining 50 per cent. must be paid within the next five months.
2. Every director must own at least ten shares of the capital stock.
3. No director, officer or employee of the bank may act as proxy for any stockholder.
4. The bank may buy or hold only such real estate as it is obliged to take over to secure the payment of a bad debt, or as is used as the site for its own bank building.
5. No check shall be certified for an amount larger than that which the drawer of the check has on deposit with the bank at the time.
6. No rate of interest higher than the legal rate for the State in which the bank is situated may be charged.
7. The bank may not declare a dividend until there has been accumulated a surplus equal to twenty

per cent. of the bank's capital, or if such surplus has not yet been accumulated, ten per cent. of the profits must be added to this fund before a dividend is declared.

8. A National bank is not permitted to deal in its own shares, but may take them in settlement of a bad debt. In that case they must be disposed of within six months.
9. A debt due a National bank on which interest is in default for six months, may not be counted as a good debt, unless amply secured and in process of collection.
10. A National bank may not draw money from its capital account to pay a dividend.
11. No loan may be made to a single individual or corporation in excess of ten per cent. of the capital of the bank actually paid in.

Forfeiture of Charter.

Under these regulations, the directors are restrained from the unsound practices that have been all too common in the management of other corporations, such as declaring dividends out of capital, trading in their own shares, and the like. To enforce these provisions of the banking laws the authorities have the power to take away the bank's charter as well as to enforce the double liability of shareholders for loss arising from such violations of the law.

Penalties.

Besides these general regulations of the manner of conducting the affairs of the bank, Article 5,209 of the National Bank Act lays down penalties for the misconduct of officials and employees as follows:

"Every president, director, cashier, teller, clerk or agent of any association who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of the association, or who, without authority from the directors, issues or puts in circulation any of the notes of the association; or who, without such authority, issues or puts forth any certificate of deposit, draws any order of bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or who makes any false entry in any book, report or statement of the association with intent, in either case, to injure or defraud the association or any other company, body politic or corporate, or any individual person, or to deceive any officer of the association or any agent appointed to examine the affairs of any such association; and every person who with like intent aids or abets any officer, clerk, or agent in any violation of this section, shall be deemed guilty of a misdemeanor, and shall be imprisoned not less than five years nor more than ten."

EXAMPLES.

To illustrate the application and operation of these requirements and restrictions we can perhaps not do better than to notice in detail two specific cases of their violation and the action that was taken in regard to it. These illustrate an unfortunate tendency for bankers to regard the institution of which they are president as "their" bank, and to use its funds for their own purposes without regard to the fact that they are, or should be, in a position of trust as regards the patrons of the bank. These cases are, first, that of the failure of John R. Walsh of Chicago, second, that of Henry Lear of Doylestown, Pennsylvania. The first is that of a man who was interested in perfectly legitimate business enterprises, but allowed his bank to become involved through the difficulties of these other concerns. The second is that where a president and cashier of the institution became embarrassed through stock market speculation and made away with the bank's funds in order to make good their own personal losses.

THE WALSH CASE.

John R. Walsh was a man who had risen by his own efforts to a position of some prominence in Chicago and was president of the Chicago National Bank, a bank which at the time of its last statement showed a capital of $1,000,000, a surplus of $1,000,000, and deposits of $14,000,000. He was also at the head of the Equitable Trust Company and the Home Savings Bank, which had together deposits of nearly $10,000,000. Besides this, however, Walsh became interested in the Bedford Stone Quarries in southern Indiana and because of freight difficulties began the construction of a railroad to carry the products of these quarries to certain connecting lines. He involved his banks in purchases of the securities of this railroad enterprise and, because of his position, was enabled to have the securities taken over at his own valuation. In this way the bank was loaded up with $2,614,377.00 of bad investment which finally involved the bank so deeply that it was closed by the Comptroller of the Currency and Walsh was arrested and indicted by the grand jury on a charge of making false bank statements and misapplying funds.

THE INDICTMENT.

There were originally 182 counts in the indictment but it was later reduced to 150, covering transactions in "memorandum notes," sales of bonds, and payment of funds in these improper transactions. The directors testified that they had known nothing of these loans but had allowed Walsh to make them, or he had made them, without consulting or informing the directors of them. Walsh entered as a defense that he had considered the use he had made of the funds to be legitimate, that the loans had been necessary to protect the bank's original investment, and that the security was not worthless. He also argued that he had sacrificed the whole of his own and his wife's fortune to make good the loss and that he had acted for the interest of the bank, not for himself, and had been free from criminal intent. The prosecuting attorney, however, pointed out that Walsh had obtained control of certain large properties without cost to himself, having obtained the funds by discounting memorandum notes at his bank on worthless or inadequate security and he had also sold bonds of the concerns to his bank when the lines were not yet in operation and the bonds of the most doubtful value. His employees had been used as dummies in signing the necessary notes to carry through the transactions.

THE VERDICT.

The case went against Walsh and a verdict of guilty was returned, based on 54 counts of the indictment, and Walsh was sentenced to serve five years in prison. The comment of the presiding judge is worth noticing. He said: "It is my deliberate conviction that a more reckless and utter disregard for the law has never been shown in any case within my experience. Feeling thus, it was with considerable misgiving, if I may so speak, that I sat yesterday for more than three hours and heard the counsel for the defendant argue that the government had failed to show criminal intent. I had occasion to say, in a ruling upon a motion made by defendant's counsel, that no man can serve two masters. To my mind that is the key to this whole situation. The defendant was a banker, and a man who is a banker should be nothing but a banker. He must not use the bank's money for railway or other speculation. Whereas, proof showed that the defendant loaned to himself substantially seven-tenths or three-fourths of the entire assets of this National Bank, which was invested, not in property which had been developed, but in railroads and other properties which he hoped to develop."

THE DOYLESTOWN NATIONAL BANK.

In the case of the Doylestown National Bank, George P. Brock, the cashier of the bank, and Henry Lear, president of the bank, were both shown to have been engaged in unsuccessful speculation in the stock market. Lear was also interested in numerous local enterprises. Both were indicted for embezzlement, abstraction, and wilful misapplication of funds of the bank. The case was tried on this last ground and it was shown that the cashier overdrew his account by issuing checks which were not charged as they should have been, but were carried in the drawer as cash until such time as he saw fit to take them up by giving his personal note for the amount. Such an action was of course making him a loan and should have been passed upon by the directors, but they knew nothing of the transaction. Several of these checks were drawn to the order of a firm of Philadelphia brokers, and clearly indicated the nature of the transaction for which they were used. Brock maintained that the cashier's checks were issued to customers, but the evidence was against this and showed clearly that they were overdrafts of Brock's own account.

Similar loans were made to Henry Lear, President of the bank, and it was shown that he had his attention called by the Comptroller of the Currency to the fact that his indebtedness to the bank was larger than it should have been. Both Brock and Lear were convicted of wilful misapplication of funds, and this verdict was upheld upon appeal and both were sentenced to five years imprisonment in the state penitentiary.

NEED OF AN OBJECT LESSON.

Some people have been inclined to think that the action in these cases was unduly severe, and have expended a great deal of sympathy. But the fact remains that these men stood in a position of trust to the creditors of their respective banks, and that they used that trust to further their own ends and purposes, using others' money in their own reckless and selfish operations, without any thought of the possible distress and suffering that the loss of this money was bound to inflict on those whose confidence they had betrayed. It may be that there are some grounds for criticism of the precise details, but it cannot be denied that it was high time that a lesson was to be taught to those occupying positions of trust in American banks and they be made to realize that the bank is not "their" bank to use its funds for personal schemes as they might see fit. Only as the public find that money in a bank is safe from those who are supposed to guard it, can they be expected fully to use the banking system by placing their funds on deposit, where it will build up the banking reserves of the country and serve to broaden the basis of our credit structure.

CHAPTER XXI.

THE TRUST COMPANY.

The trust company represents a special form of banking which comes relatively late in the financial development of a country, becoming important only when capital has been accumulated in considerable amounts. The commercial bank deals in credit and aids in the creation of wealth. It discounts bills and issues notes. But the Trust Company deals in capital, and its principal work is not to increase wealth but to protect or conserve that already in existence. The commercial bank handles active funds; the trust company principally those which are inactive, and it therefore supplements the work of the commercial bank. Of course, no sharp line of division can be drawn between the two, because some institutions combine the activities of both the bank and the trust company, where the banking laws are not such as to prevent such an arrangement. In such cases the two kinds of business constitute two separate departments, which should be kept absolutely separate and distinct from one another.

ORIGIN OF THE TRUST COMPANY.

While the trust company is in a certain sense a development out of the banking system, the distinctive activities of trusteeship were largely performed before the days of trust companies by private individuals. It was a private individual who acted as trustee, administrator, guardian, or receiver. But as wealth accumulated and such trusts became more frequent and involved larger and larger sums of money, such hit-or-miss arrangements for the administration of accumulated wealth proved to be very inadequate.

Faults of the Old System.

A man would frequently name in his will an old business associate as the executor of his estate or as the guardian of his children or as the trustee of a fund which he wished to set aside for some particular purpose. But such an arrangement puts a responsibility on the person so named which may be very unwelcome. It is likely to be an added care in an already busy life, or to interfere with plans of retirement from active business, or with a trip abroad, or a vacation nearer home. Often for one of these reasons or by the death of the person first named, or because of his refusal to act, a new trustee would have to be found before the funds had been disposed of and the estate finally settled. Besides the inconvenience of such a change, a new man would have to acquaint himself with all the details and requirements of the situation, and such a change of management was often very unfortunate to those concerned.

The Matter of Security.

Another difficulty of the old system was due to the lack of adequate security. Even an old business associate may prove to be dishonest or unable to resist the temptation to use trust funds for his own purposes. While such a step might be taken with complete confidence that the results of such a use of the funds would be most favorable, many a trust fund has been entirely wiped out in this manner, and the trustee at the same time stripped of his private fortune, which he had risked in the same venture, with the result that he is entirely unable to restore the money which he had thus applied.

Advantages of the Trust Company.

To meet such needs as this the trust company has come into existence. In place of an often unwilling, sometimes dishonest, and none-too-safe trust agent, likely to die or resign at any moment, it offers a highly-trained, permanent agency, always ready and willing to serve in this important capacity, and safe and honest beyond any reasonable doubt. The modern trust company has both increased and perfected the work of the old private trustee, and made what was a grudging, uncertain, personal relation a well-defined and well-regulated business service at a moderate rate of remuneration. The Knickerbocker Trust Company, of New York, points out the following advantages of the trust company as trustee:

"A trust company is preferable to individual trustees, because it possesses every quality of desirability which the individual lacks, to wit:—

(1) Its permanency; it does not die.
(2) It does not go abroad.
(3) It does not become insane.

(4) It does not imperil the trust by failure or dishonesty.

(5) Its experience and judgment in trust matters are beyond dispute.

(6) It never neglects its work or hands it over to untrustworthy people.

(7) It does not refuse to act from caprice or on the ground of inexperience.

(8) It is invariably on hand during business hours and can be consulted at all times.

(9) Its wide experience of trust business and trust securities is invaluable to the estate.

(10) It is absolutely confidential.

(11) It has no sympathies or antipathies and no politics.

(12) It can be relied upon to act up to its instructions.

(13) It does not resign.

(14) All new investments of value suitable for trust estates are offered in the first instance to trust companies, and in that way it has a choice of valuable security; and as its purchases are on a scale of magnitude, it can usually buy at a rate which is lower than that at which the individual trustee can purchase."

ALLEGED DISADVANTAGES.

On the other hand, it is contended that the trust company has no personal interest in those for whom it acts and that while it does furnish undoubted security of the funds entrusted to it, it does not take the pains which are necessary to obtain the highest rate of return when such funds are invested. Such a lack of interest would undoubtedly neutralize the superior opportunities for investment which the trust company derives from its position, but since the growth of its business, and therefore its prosperity, depends upon the reputation which it makes for obtaining a satisfactory return from invested funds, it seems fair to assume that no efforts will be spared to make this return as large as possible.

Functions of the Trust Company.

We will discuss the work of the trust company under four principal heads: first, individual trusts; second, corporate trusts; third, safe deposits; fourth, insurance and suretyship. We will also have a word to say about the savings and banking business which trust companies sometimes include in their activities, though these are not a part of a trust business in the strict sense.

Individual Trusts.

We begin with the individual trust, because this is the field first entered by trust companies and it will always remain a very important part of their work. Trust companies are given power to act as executor, administrator, guardian, or trustee, either by being named as such in a will, by selection of the beneficiaries of a deceased person, or by appointment of the court. In such capacity, the company takes out the necessary testamentary letters upon the probate of the will and proceeds to advertise the settlement of the estate, and superintend the collection of moneys due or accounts payable, and when all these claims have been settled makes the proper report and accounting to the court.

As Guardian.

Similarly, a trust company may be appointed as a guardian of children not yet of age or of persons who by reason of their youth or because of insanity, habitual drunkenness, or the like, are deemed incapable of managing their own affairs. Such appointment will be made by the court and the trust company will then proceed to manage the affairs of such person until discharged from that office by the court, upon the coming of age of such minors, or when other incapables are restored to normal health. Under a trust agreement, the company may hold both real and personal property, and it is becoming very common to transfer real estate to a trust company under a trust deed, instead of using a mortgage as formerly.

Agent, Attorney or Receiver.

Any person desiring to be absent from his home or business can appoint a trust company as his agent or attorney in his absence, to receive all rents, bills or other payments in his stead, and to make all payments of salaries, taxes or whatever may be necessary in the owner's absence. In the case of business failure or insolvency, trust companies are frequently named as assignees or receivers, and as such, conduct the business under general direction of the creditors or of the court by whom they were appointed. In fact, there is no capacity in which one individual can act for another, whether living or dead, which cannot be filled by the trust company, under the proper legal authorization.

Corporate Trusts.

Corporate trusts are similar in a general way to individual trusts, a corporation being regarded as a legal person, having many of the same powers as natural persons. In the course of its business it often has occasion to use the trust company much as does an individual. There will, of course, be no occasion for an executor or administrator, since a corporation does not die but is given the right of perpetual existence. In case of business embarrassment, however, it may assign its business to a trust company or the creditors may have such a company appointed by the court to act as a receiver and manage the company's affairs until it shall be again in a prosperous condition and its creditors satisfied, or, if necessary, to wind up its affairs. It is very common also for corporations to appoint trust companies as their agents for the performance of special services, such as acting as trustee under a mortgage or trust deed, or as fiscal agent, registrar or transfer agent.

Trustee Under a Mortgage.

As trustee under a mortgage, the trust company protects the purchasers and holders of the bonds of the company. It authenticates all bonds or short-term notes issued subject to the provisions of such a mortgage. It does this by placing upon it some certificate intended to identify the security, such as the following: "It is hereby certified that this is one of the bonds described in the mortgage or deed of trust within mentioned." This is then signed in the name of the company by its president or other official. In case of default of the company on a bond so certified, the trust company looks after the interest of the holders of the bonds.

FISCAL AGENTS.

As fiscal agent the trust company distributes interest and dividend payments to holders of the corporation's stocks and bonds, holds such sinking funds as may be set aside for the extinguishment of the outstanding obligations of the company or the protection of its security holders and attends to redemption of bonds or short-term notes of the company, and any similar matters which may be entrusted to it. As registrar, it certifies that each stock certificate or bond has been properly authorized, and thus prevents over-issue of these securities and therefore protects the purchasers. This is as far as the trust company is bound to go in guaranteeing the securities which it handles, but many people have supposed that the trust company puts their stamp of approval on all stocks and bonds for which they act as registrar, trustee, or fiscal agent.

DEGREE OF RESPONSIBILITY.

To-day the best companies are beginning to take more responsibility in this particular and are doing all in their power to protect investors. They frequently hold themselves morally bound even where there is no legal responsibility. They often prescribe the wording of the mortgage or trust deed and make sure that there is no flaw or technical error in it, as well as recognizing the responsibility for fraud or gross negligence on the part of employees. Corporations, particularly if not already well known, may derive considerable benefit from the reputation and standing of the trust company which acts as trustee under their mortgage or as registrar of their securities.

THE TRANSFER AGENT.

Along with these duties generally goes that of acting as transfer agent. Where securities are actively traded in, there will be very frequent need of recording these changes of ownership and of having the names of new holders properly entered upon the books of the corporation. The large stock exchanges require that all active stocks shall have a transfer agent, who maintains an office convenient to the exchange, where the holders of securities, or their duly appointed attorneys, may arrange for the transfer of such securities. The New York Stock Exchange requires that any company desiring to have its securities admitted to exchange dealing must "maintain a transfer agency and registry office in the City of New York, Borough of Manhattan." Both the transfer agent and the registrar must be acceptable to the committee on stock list and the registrar must file with the secretary of the exchange an agreement to comply with the requirements of the exchange in regard to registration. For this service the trust company is admirably fitted.

CORPORATION AND TRUST COMPANY.

The same company may act as trustee of a corporate mortgage and registrar of the company's securities, but the exchange expressly forbids the same company to be, at the same time, both registrar and transfer agent. However, they express a distinct preference for the trust company in the capacity of trustee, as shown by the following quotation from the requirements of the Stock List Committee:

> "The Committee recommends that a Trust Company or other Corporation should be appointed Trustee of each Mortgage or Trust Deed; when a State Law requires the appointment of a local individual Trustee, then a Trust Company or other Corporation should be appointed as Co-Trustee."

Indeed the trust company often watches over the financial interests of a corporation from the start, acting as manager of a syndicate which collects the necessary capital to float its stock at the time of its organization, or to sell further issues of stock or of bonds when it needs additional capital for the development of its business.

SAFE DEPOSIT.

The trust company does not merely attend to the safeguarding of funds or securities of individuals or corporations. In addition to these services it generally maintains a safe deposit department where it stores personal property of many sorts whose owners consider them to be too valuable to be kept in their own possession. This was one of the earliest of banking services but has now been largely given over by commercial banks to trust companies. The company is usually obliged to construct extensive safes for the proper storage of its own valuable papers, deeds, bonds, mortgages and cash, and is, therefore, naturally in a favorable position for furnishing a like service to the public. In the large cities a few concerns devote themselves entirely to this branch of the business, but it is much more common to find a trust company occupying the main floor of a building which bears its name, and devoting the basement to safe deposit vaults.

PRIVATE BOXES.

Here are provided compartments of various sizes to suit the needs of individuals, firms or corporations. These are arranged around the sides of a burglar-proof room to which no one is admitted except those presenting proper identification cards; sometimes a pass-word is also used as an additional precaution. The deposit vaults are guarded both day and night, and often a record is kept of every person entering them. The renter of the box or his agent, on showing proper written authority, may open the box in the presence of a representative of the trust company. The trust company retains one key to each of these deposit boxes and furnishes the renter with a duplicate. In case this is lost, the lock must be cut open and the expense borne by the person at fault.

GENERAL DEPOSITS.

The objects stored in safe deposit boxes are of many kinds, but mostly money, securities or other valuable papers, and jewelry. Most companies maintaining safe deposit departments also receive deposits of valuables (other than stocks or bonds or jewelry) for safe-keeping, where no safe or deposit box is rented. In such case the depositor receives from the company a certificate of deposit as follows:

This certificate must be presented upon the withdrawal of the deposit or any part thereof.

THE NEW ERA TRUST COMPANY.

No....... Date, ...191

This is to certify that ....
has deposited with THE NEW ERA TRUST COMPANY for safe keeping ....
said to contain .... valued at $......
for which the sum of $........ has been paid to this Company.

In consideration whereof the said deposit is to be safely kept by this Company, subject to the conditions and regulations thereof, or sooner if demanded by said depositor, it shall be returned to .... in good order upon the surrender of this Certificate and identification of the depositor if required.

....
Safe Deposit Supt.

Record Forms.

On the back of this certificate are printed such conditions as the company may make as to the nature of deposits accepted, conditions of withdrawal or of settlement in case of loss. The company generally reserves the right to replace the deposit in kind if they prefer to do so instead of paying for it at the depositor's valuation. There is generally included also a form of release to be signed when the deposit is withdrawn. This is sometimes also included on another card along with a form acknowledging the receipt of the certificate of deposit, like the following:

RECEIPT AND IDENTIFICATION FOR VALUABLES.

Date 191

.... hereby acknowledge the receipt of Certificate of Deposit No. ...... for .... deposited

by .... in the Storage Vaults of The New Era Trust Company, valued at $........ and containing either certificates of stock, registered or coupon bonds, money, jewelry, or precious stones, and hereby agree to the rules and regulations of THE NEW ERA TRUST COMPANY in force at this date and such reasonable rules and regulations as may be hereafter adopted.

....

....

Date 191

Received from THE NEW ERA TRUST COMPANY the above mentioned deposit and .... hereby release said Company from all liability therefor.

....

INSURANCE AND SURETYSHIP

Another important service of trust companies is that of insurance and suretyship. The business of life insurance is a special form of trust but can be best performed by a large and highly specialized company, organized for that express purpose, and has, therefore, almost entirely ceased to be included in the work of modern trust companies. Life insurance and the payment of annuities were the most important activities of some of the early trust companies but they have discontinued the business either by refusing to take new risks or in some cases even by re-insuring their old risks in some company devoted entirely to the business of life insurance. A more modern development of the insurance business is that of title insurance, and many trust companies maintain a separate department which undertakes the work of examining and insuring titles to real estate, and we sometimes find such concerns known as Title and Trust Companies.

Fidelity Insurance.

In the field of fidelity insurance the trust company has taken over a work formerly done by private individuals, and has so improved the service as to create a large field for itself. Until recently comparatively few persons were required to furnish bonds to guarantee their honesty, except such government officials as were required to handle public funds. Their bonds were generally signed by their personal friends. But to-day business is organized on a large scale; instead of in the old one-man fashion, where the owner himself handled the cash and locked it up in a safe every night, big corporations now require their cashiers, agents and clerks to furnish fidelity bonds to guarantee honest handling of the money entrusted to them, and the fidelity insurance business has consequently assumed large proportions. In fact, there are a considerable number of companies who devote themselves to this business alone, but trust companies also frequently combine it with other trust functions.

Banking Department.

Some trust companies conduct a general banking business, but frequently direct especial attention to some particular banking service, such as foreign exchange, savings accounts, or collateral loans on stocks and bonds, life insurance policies, or other personal property. It is almost necessary that the trust company maintain a banking department for the proper disposal of its own funds, as it has a large volume of receipts coming in from the various trusts which it manages, and in the same way a large number of disbursements must be made. It is natural, therefore, that the banking department should be extended to furnish a similar service to the public. The laws of most States limit very carefully the kinds of banking activities which may be engaged in by a trust company, and generally require that such work be done by departments entirely separate from the general trust section.

Savings Department.

The savings department is found in a very large number of trust companies, and is more similar to a trust than to a commercial banking transaction. Most states lay down special rules for the conduct of a savings bank business and we will notice them in a separate chapter.

Organization.

Trust companies may be organized in most states under general articles of incorporation, but many of the older companies were organized by special enactment of the legislature and have since had their activities extended or modified by supplementary enactments. The trust company law of New York specifies the capitalization of trust companies, providing for a minimum capital of one hundred thousand dollars in towns of not over 25,000 inhabitants and larger sums, ranging up to a minimum of five hundred thousand dollars, in cities having a population of 250,000 or more. Thirteen or more incorporators are required for the organization of such a company and the State Superintendent of Banking is given power to grant or refuse authority to start a trust company within the state according as he sees fit. If he believes that such a company is not needed in a given locality, or that the laws and requirements have not been complied with, he may withhold his consent.

Various State Regulations.

In Pennsylvania trust companies must pay to the state treasurer a bonus of one-third of one per cent. of the authorized capital of the company before beginning business. Each company must have a paid-up capital of $125,000 or more and must present a sworn statement to that effect, together with a list of the company's officers. Massachusetts requires at least fifteen incorporators and a process of advertising their intention of organizing, securing from the State Commissioner of Savings Banks a certificate to the effect that such a company would promote the public interest and the filing of records of organization. The amount of capitalization cannot be more than one million dollars, nor less than two hundred thousand dollars. Massachusetts also requires all trust companies to maintain a fixed reserve against the deposit accounts equal to fifteen per cent. of such deposits as are subject to withdrawal within ten days' notice or less. Illinois has a trust company law which forbids trust companies from carrying on a banking business, and even places some restriction upon their power to accept trusts.

Directors and Officers.

Like other corporations the trust company is managed by a board of directors selected from among the body of stockholders, and to whom are entrusted all questions of the general policy and direction of the company's affairs. The actual daily routine of the business is in the hands of paid executive officers, elected or appointed by the board of directors. The number of such officers will depend largely upon the size and diversity of the business carried on by the company. Generally, unless the business is very small, it is found wisest to have an executive head for each department, so that its work can be adequately supervised by a man so familiar with its needs as to render it most efficient. The president of the company may be at the head of the department of individual trusts, which because of its extremely personal nature and the delicate and confidential relations involved, is generally the most important of the departments.

Control of the Different Departments.

Frequently there are several vice-presidents, each in charge of a department, although both president and vice-presidents are sometimes engaged in private business enterprises and have only an official connection with the trust company. The treasurer attends to the actual financial operations of the company, carrying out the policies of investment decided upon by the board of directors or the president, and also having in charge the company's assets. He is generally at the head of the banking department, and is responsible for the vaults of the company and the care of all its securities, its cash reserves and the like. The bank cashier generally acts as secretary of the company, keeping the records of its meetings, notifying officers of election, and other ordinary secretarial work. The trust officer who is the executive head of the department of corporate trusts has a position of great responsibility as well as the officer who is at the head of the department of individual trusts.

LEGAL COUNSEL.

The work of both is minutely regulated by law, and unless this officer is himself a good lawyer, he will have to depend upon a lawyer employed by the company as a corporation counsel, for technical advice in many matters. As it is comparatively unusual to find a man possessed both of the necessary legal qualifications and of marked executive ability, it is ordinarily best to have the heads of the departments selected purely with reference to the needs of their own department and to employ a first-class lawyer to furnish legal advice for all departments. In a large company this office may be expanded into a legal department, employing such assistants as may be necessary.

BOOKKEEPING.

The bookkeeping of the trust company is, in general, similiar to the bookkeeping of commercial banks and savings banks. Since the trust company is the custodian of a large amount of property, both real and personal, which belongs to others, a great many separate forms of records must be devised to secure a proper oversight of the property while under the management of the trust company, and to make it possible to render an accurate accounting, either to the court or to the individuals for whom the trust was undertaken. Most laws require trust companies to make statements to the State Banking Department or Commissioner of Trust Companies, at least twice a year, but there is at present no examination of their accounts which compares in care and strictness with the federal examination of national banks.

Examinations.

In view of the great trust reposed in the directors and officers of the company, it is well for them to undertake occasional examinations of the affairs of the company, to make sure that accounts are kept with due diligence and accuracy and that the interests of their patrons are properly safeguarded. In a great many cases the directors are not themselves possessed of sufficient technical information to make an adequate examination without professional assistance. In such cases they should call upon a certified public accountant or firm of accountants, who are thoroughly trained for such a service and, because of the penalties attached to any delinquency, are above any question as to their integrity.

Income of the Company.

The charges made by trust companies vary considerably according to the laws of the various states or the lack of any such specific regulation. In the case where trust companies are appointed as executors, administrators, guardians or receivers, their charges are subject to the scrutiny of the court, and only such amounts will be allowed as have become established by practice in the case of individuals rendering a similar service. Where estates or other trusts involve extremely large sums of money, lower rates, in proportion, are often charged for the service. In large cities where trust companies are numerous, standard rates will be fairly well established by competition between the different companies.

INCREASE OF TRUST COMPANIES.

It is probable that the great increase of trust companies in recent years has been due, in part, to the fact that they have not been subject to as rigid supervision as have banks, particularly those incorporated under the federal government. Having been given a wider latitude in the conduct of their business, earnings have been proportionately higher and the trust company has prospered at the expense of the commercial bank. There have been some abuses and consequently talk of the desirability of taking over the regulation of trust companies by the federal government.

GOVERNMENT SUPERVISION.

This would undoubtedly lead to a more rigid supervision and some restriction of their activities and a consequent decrease of their earnings, but also an increase in the confidence felt in them by the public. Some states, even now, control by statute the kind of securities in which individuals or corporations acting as trustee may invest such trust funds. United States bonds, state and city bonds, and first mortgages upon improved real estate are the investments almost universally approved. First mortgage bonds of many of the well-known railroads which have not defaulted on their bonds in at least ten years may properly also be included and often the bonds of counties, school districts, and the better grade of industrial and public service corporations. It is to be remembered that these investments are made with others' funds, and the law can hold the trustee liable for loss resulting from speculative transactions, although if an unusual high rate of return is reaped from such a speculative venture, it must all accrue to the person or estate to whom the invested funds belong.

CHAPTER XXII.

SAVINGS BANKS.

There are three fairly distinct fields of banking, each serving a peculiar need in the business life of to-day. The commercial bank supplies the needs of the busy man of affairs, who requires, from time to time, some means of buying or selling credit. The trust company caters to that class in the community which has surplus funds which they desire to have invested or managed by some other person, because of their own inability to do so. The savings bank appeals to still a different class. It exists for those who have, or can accumulate, funds only in such small amounts as not to admit of profitable investment alone, and yet which, taken together, make a total well worth considering on its investment possibilities.

TEACHING THRIFT.

By showing such persons how their savings can be made to yield them a profit, the savings bank becomes instructor in industry and frugality. It is thus a benefit to the community both because of this influence upon the individual members of the community and because it accumulates money which would otherwise be lying idle at the risk of loss, or be spent for things which bring no return, and this money they direct to the productive enterprises of the community. Furthermore, besides teaching industry and economy the savings bank makes easy and attractive the accumulation of funds which can later be used to actually improve the condition of the saver, instead of being frittered away from day to day in foolish expenditures. The mechanic may thus put aside each week a small portion of his wages, with which he finally buys additional or better tools, takes a course of training in a technical school which will increase his earning power, or starts in business for himself.

THE PURPOSE OF SAVINGS BANKS.

No one would be likely to deny the great benefit of the habit of saving both to the community and to the individual, but this has brought a great deal of sentimental nonsense into the discussion of savings banks. Many people have tried to put savings banks in a class of purely philanthropic enterprises and have maintained that the management should be gratuitous and all profits should go to the depositors. Such institutions have generally paid exclusive attention to security and the return on savings has been a minor consideration. But if saving is to be made attractive, every effort consistent with safety must be made to make such saving profitable. For this reason the old idea of savings institutions is rapidly passing away, and a new one taking its place, which aims to have the savings bank produce a profit to both parties, those who direct as well as those who patronize it The philanthropic motive is very likely to run out after a time or to attract persons who are conspicuous for good intentions rather than for business acumen. If, however, those who conduct a savings bank can pay to the depositors such a part of the profits of the enterprise as will be an inducement to them to save and increase the volume of deposits, and at the same time can keep for themselves any additional profit secured from the business, men of real ability will be attracted, and the business become a sound commercial proposition.

ORIGIN AND GROWTH.

Early savings banks in America were copied after those of England and were organized in the trustee form. These institutions were directed by boards of trustees, who gratuitously devoted their services to the management of its affairs, and often at first actually performed, free of charge, the necessary clerical work of the bank. The American sentiment swung away from this aristocratic scheme to the more democratic types where service is paid for. Many trustee banks still exist in the New England states and in New York, but Minnesota is the only state outside of this limited section in which the idea really took root, and Minnesota has but ten banks of the trustee type. As for the whole country, the growth of savings banks organized as stock corporations has steadily distanced mutual savings banks in late years and the last report of the Comptroller of the Currency shows 1061 stock savings banks and 644 mutual savings banks. The total of savings deposits on April 28, 1909, was $3,918,413,214.

SAVINGS BANKS DIFFER FROM COMMERCIAL BANKS.

The principal peculiarity of savings banks is that they do not permit checking accounts and that the employment of their funds is somewhat restricted. Since the aim of the savings system is to employ the funds accumulated by the bank, for profitable investment, it is desirable that the smallest cash reserve be kept on hand to make current payments. If checks could be drawn against deposits it would be necessary to keep a much larger cash reserve. Therefore, savings banks require notice in advance when withdrawals are to be made.

Notice of Withdrawal.

The amount of notice will depend upon the particular bank, each one making rules as it sees fit. Sometimes banks may permit the withdrawal of small sums without any notice, and some banks require only a short time, such as ten days, no matter how large the amount to be withdrawn. The commonest practice, however, is to have the length of the notice correspond somewhat to the amount of money which it is proposed to withdraw. Where notice is required it is seldom less than ten days nor more than ninety days. In this way all but five or ten per cent. at the most, and frequently very much less of the amount of deposits, need be kept as a reserve, and practically all of the funds of the bank may be productively employed and bringing in income.

Security of Investments.

It is also highly essential that savings accounts shall be made as safe as possible, and it is therefore permitted that they be invested in none but the best investments. Government bonds always head the list of permitted securities, a list which varies in different places according to the various state laws. The law of New York state permits the investment of savings bank funds in bonds of the United States, of New York state, and of other states which have not defaulted in the payment of their debts during the previous ten years, either principal or interest of such debts, bonds of certain other cities specified in the law and on the security of first mortgages on real estate up to only a very safe margin of their value. This is fifty per cent. in the case of productive real estate and forty per cent in the case of unproductive property.

Organization and Supervision.

Savings banks are organized under the laws of the various states, sometimes in accordance with a general corporation law, sometimes according to the provisions of special banking laws, and in the absence of either of these by special act of the legislature. They are usually made subject to the inspection and supervision of the state superintendent of banking or similar officer or bureau, where one exists. The mutual savings banks are merely associations organized without capital, but stock savings banks secure subscriptions to their capital and issue stock certificates in the same way as do commercial banks or other corporations.

Notice of Intention.

The first step in the organization of savings banks is commonly the publication of a notice of intention. This must be published in the papers for several successive weeks and must specify the nature of the business to be undertaken, the location of the proposed bank, the names of the incorporators, and in case of a stock bank the amount of the capital. In some states this is followed by an application to the proper state official for authority to organize such a savings bank, and the application must receive his approval after he has canvassed the situation as to the need of the community for such a bank, the standing and reputation of the incorporators and any other question which he deems to bear on the subject. In some states a certificate of association takes the place of the application and must be filed with the proper state authorities as a preliminary to incorporation. The signers of either of these papers are the real incorporators of the bank, and in the case of the mutual savings bank offer their services as trustees, agreeing to accept and discharge the responsibilities and duties of that office. In the case of a stock institution they are stockholders, prominent in its organization, and will very likely be members of its board of directors. If the preliminary papers are favorably acted upon by the proper state authorities, the incorporators proceed to hold a meeting for the election of directors and other officers, drawing up by-laws, and appointing the necessary committees. The organization of a stock savings bank does not differ essentially from that of any other banking institution, consisting of president, one or more vice-presidents, secretary, treasurer, cashier and other officers.

STATE REGULATION.

The regulation of savings banks by the state is extremely rigid in most of the New England states and such others as have large numbers of mutual savings banks, but in the states where banks are organized under the stock form of organization the laws are much less rigid. Besides limiting the nature of the investments which a savings bank may hold, some states place a limit upon the size of deposits. It was originally intended that the savings bank should render a peculiar service to the poorer class of people, and for that reason the laws of some states do not permit savings banks to receive more than a certain amount on deposit for any one individual. This maximum is set at $5,000 in Pennsylvania and New Jersey, but in some other states is as low as $1,000. This rule is generally not made to apply to charitable or religious organizations, and individuals frequently avoid it by opening several accounts, of which they represent themselves as trustee. In many states the matter is left entirely to the banks themselves, to be regulated as they see fit.

Surplus.

Savings banks are generally required to accumulate a surplus for the protection of their creditors. In the case of mutual savings banks this is figured on the basis of deposits, and varies from three per cent. to fifteen per cent. Stock banks are required to accumulate a fund of from ten to twenty-five per cent. of the amount of their capital stock.

Rate of Interest.

In the stock savings banks a stipulated rate of interest is allowed on all deposits, and the surplus earnings are then distributed to the stockholders as a dividend. In the mutual bank all earnings, after meeting the expenses of the society and setting aside whatever amount may be required for a reserve, are distributed among the depositors. Some mutuals make this distribution simply in proportion to the amount of the deposit, but others divide depositors into several classes according to the length of the time they have been associated with the association, character and amount of their accounts, and allow different rates of dividends on this basis. In some states the maximum annual rate is set at five per cent. and special dividends may not be declared oftener than once in three years.

Directors or Trustees.

The organization and management of the savings bank are not particularly different from those of a commercial bank. There is a board of directors, which has general supervision and conducts the affairs of the bank either directly or through various committees, such as a finance committee, investment committee, auditing committee, and perhaps one or two others. In a mutual savings bank the board of trustees takes the place of the board of directors and has entire charge of the affairs of the savings association. The officers of a savings bank consist of a president, one or more vice-presidents, secretary, cashier or treasurer and, in the case of large institutions, very often an auditor and counsel. The treasurer is the financial executive of the mutual savings bank and occupies the same position as the cashier in a stock savings bank. In large mutual banks, another officer, known as the comptroller, is appointed to assist the treasurer in his work.

CLERICAL FORCE.

The actual clerical work of the savings bank is carried on by a paying teller, receiving teller, or the two combined in the hands of one clerk, together with such bookkeepers, clerks, messengers and other assistants as may be needed. In a large bank there may be several paying or receiving tellers. Naturally the nature of the business is such as not to require separate note tellers, collection clerk and discount clerk.

ROUTINE OF A SAVINGS BANK ACCOUNT.

The manner of opening and conducting a savings account is but little different from that which we have seen in connection with the commercial bank. The depositor wishing to open an account will put his name and other information which the bank may desire upon a signature card which it furnishes for the purpose. In making a deposit, he lists the separate items on a deposit slip and turns them over to the receiving teller, who enters them in the depositor's book. Most savings deposits are in the form of cash, but checks or other cash items will generally be accepted by the bank for collection, and be credited to the depositor's account as soon as collected. The headings and form of the savings bank pass book differ somewhat from those of the regular pass book, as we see from the specimen on page 366:

HAMILTON SAVINGS BANK No.________

DR. ________ IN ACCOUNT WITH ________ CR.

DATE	WITHDRAWN	DEPOSITED	BALANCE	DATE	WITHDRAWN	DEPOSITED	BALANCE

Pass Book Must be Presented.

This pass book must be presented by the depositor, not only when he desires to make a deposit, but also whenever he desires to withdraw money from his account. Withdrawal may be made in one of two ways, either by a receipt signed by the depositor or by an order of the depositor upon the bank to pay to some other person. In either case the pass book must be presented to have the withdrawal recorded. The form of receipt signed by the depositor is shown on page 368. It is usually filled out by the paying teller, and simply signed by the person making the withdrawal. It will be seen that such an order is by no means the same as a check upon a commercial bank, and cannot circulate as checks do from hand to hand, because the depositor's pass book must be presented with such an order before the payment will be made.

Out-of-Town Accounts.

It is now becoming quite common for savings banks to solicit accounts from a distance, and remittances are sent by mail accompanied by the pass book and a letter of transmittal. The bank then enters the amount of deposit and notifies the depositor in a letter like the following:

Chicago, Ill., Jan. 1st, 1910.

Mr. John Doe,
Harrisburg, Pa.

Dear Sir:—

Your favor of the 28th ult. containing a deposit of \$100.00 has been received. This amount is credited on the pass book which we return to you herewith.

Yours very truly,
Richard Roe,
Cashier.

Countersigned by

Chicago, ______________ 191___

$ ______________

Received of

The American Trust & Savings Bank

______________ Dollars,

which amount has, in my presence, been charged on my Pass

Book, No. ______________

Correct:

______________ *Bookkeeper*

______________ *Owner of said Paoo Book*

Savings Bank Accounting.

The accounting system of the savings bank does not differ particularly from that of other banks, except in the matter of keeping the interest accounts of depositors. Most banks compute interest at fixed periods every three months, or six months, or annually, and for this purpose use an interest and balance sheet like the following:

January, 1910.

Number	6 Mos.	3 Mos.	No. Int.	Int.	Balance	Number

Computation of Interest.

By the use of this form a trial balance is secured of all the customers' accounts and at the same time the interest is computed. This interest will be entered upon the customer's pass book the next time it is presented at the bank. Most banks allow interest on only such sums as have been left on deposit for at least three months, and such a form as that shown above is adapted to the use of such a bank. Here all sums that have been on deposit less than three months are left in the "no interest" column. If this bank were one which allows four per cent. interest, it would simply compute two per cent. upon all sums which have been carried to the six months' column and one per cent. upon all sums in the three per cent. column and carry this total to the interest column. This amount is then added to the customer's previous balance and placed in the column headed "balance."

INVESTMENT RECORD.

A complete set of record books must be kept covering all the investments made by the bank. In the case of mutual savings banks, this accounting system will be comparatively simple, because the funds are invested only in bonds and first mortgages, and the accounts are comparatively inactive. In the case of stock savings banks, however, purchases of commercial paper are made, and for the purpose of keeping watch of these accounts, loan registers, ticklers, and other books of record, such as we have spoken of in connection with the commercial bank, will be required. Every savings bank will keep a mortgage loan book and insurance record, to cover the records for those respective transactions and also an interest book, containing the record of income received by the bank upon its various investments and loans. The cash book, journal, and general ledger of the savings bank present no peculiar features. The stock savings bank will also maintain a stock ledger, registry and transfer record, and a dividend book.

SAVINGS DEPARTMENTS.

In recent years there has been a very strong tendency towards the organization of savings departments in connection with regular commercial banks, both State and National, as well as with trust companies. In some of these, the savings department has become the most flourishing department of the bank's work. Such savings departments are generally not separated from the other business of the bank, except in so far as their accounts must be kept in a separate set of books, and interest credited to them from time to time. Such a department draws large supplies of cash into the bank, which is generally a highly desirable feature of them. The funds obtained from such a savings department are not kept separate from the general funds of the bank, but are used for purchases of commercial paper, the making of loans and discounts, or any other purposes which the management of the bank deems fitting.

Volume of Savings.

The importance of savings banks in the United States to-day may be judged from the following figures. There were in the United States in 1909 1,703 savings banks with 8,883,863 depositors. The amount of deposits was $3,713,405,709.80, or an average of $420.45 for each depositor. The average for each depositor in New York was $509.28, and the total savings of the country amounted to $41.75 per capita for all people in the United States.

CHAPTER XXIII.

PRIVATE BANKERS.

It is a mistake to suppose that the private banker has disappeared with the growth of incorporated banking enterprises. Instead, he has merely ceased to occupy the whole field of banking as he did in the very early days, and has come to cultivate more thoroughly one portion of it left relatively unoccupied by other banking institutions. His is simply another case of specialization, and the lines along which the business of the private banker has developed cause him to resemble the trust company rather than the commercial banker. The private banker is largely engaged in financial rather than commercial operations, and the term "investment banker" is one which is frequently applied to the private banker. In the advertisement on opposite page, a prominent firm of private bankers set forth in their own way the kind of business in which they are engaged. It will be noticed that their appeal is strongly to the investor.

Investment Services.

Thus the private banker aims to secure the fullest possible information as to securities, and to put this information at the service of those having money to invest. If the person then becomes interested, the

Banking Facilities and Investors' Service

INVESTORS' SERVICE: We furnish to investors, free of charge, accurate descriptions and information on securities, with earnings and financial reports on railroads and corporations.

INVESTMENTS: From a large and carefully selected list, we offer Investment Securities in large or small amounts, and make up, when desired, special lists of investments suitable to the varying needs of private investors, trustees, banks and corporations.

We investigate carefully our issues of Investment Securities through technical, legal and financial experts, and have on file for inspection the detailed reports received.

DEPOSITS: Receive accounts subject to cheque and allow interest on daily balances at current rates.

INTEREST AND DIVIDENDS: Collect and remit, free of charge, dividends and interest for account of clients.

SAFE DEPOSITS: We receive securities for safe deposit in specially constructed vaults in the Building, furnished with every safeguard known to modern science.

LOANS: We make and negotiate loans against collateral, for individuals, banks, corporations, railroads and firms, and underwrite issues of high-grade Investment Securities.

STOCKS: As members of the New York Stock Exchange we execute orders for the purchase, sale or exchange of securities in New York, and on the various exchanges in this country and abroad.

FOREIGN: We issue Letters of Credit for Travelers, as well as our new and convenient Traveler's Cheques, and drafts on all parts of the world, furnish foreign money and passports to travelers, and make collections and execute commission orders in foreign markets.

____________________ & Co.

BANKERS

__________ Street - - - Philadelphia

__________ Street - - - - - - - - New York private banker is ready to sell him such bonds or stocks as he desires or, through his stock exchange connections, to obtain such securities for him. As members of the exchange, these firms are in a position also to sell or exchange securities in case the investor desires to make a change. As a further appeal to the investor, there is the service, offered wthout charge, of collecting interest and dividend payments for clients, as well as furnishing a safe deposit vault where securities may conveniently be stored in perfect safety, thus saving the purchaser any inconvenience or risk, and at the same time making it most likely that his future transactions will be entrusted to the same firm.

Deposits With Private Bankers.

Both the deposit and the loan services of the private banker are calculated to appeal to the same class of patrons. The investor finds it decidedly convenient to allow any funds which he may realize from time to time from the sale of securities, repayment of bonds, or dividend and interest payments, to remain in the hands of the investment banker until he finds another favorable opportunity for using them in the purchase of other securities. It is especially true, if, as here, he is permitted to check against this deposit account and to receive interest on such balances as remain undisturbed from day to day.

Loan Department.

The loan department presents two distinct services to the patron of the private banker. First, it enables him to secure additional funds with which to make purchases. It may be that he sees a particularly tempting opportunity to make a purchase, at a moment when all his money is employed. He is glad to turn to his banker, from whom he can borrow the necessary sum upon the collateral which he holds in the form of stocks and bonds. The profit which he makes by buying at the most favorable moment will be large enough to leave him a net profit on the transaction after paying the banker interest on the loan. On the other hand, if he has surplus funds he may arrange through the banker to loan them to some other person who needs temporary accommodation, which he can secure upon collateral.

Foreign Exchange.

Even the foreign exchange feature of the business appeals to much the same class of patrons. A considerable amount of international trading in securities go on, both by foreign investors here and by Americans abroad. The private banker's foreign draft is the most convenient method of making payments on such transactions, and when the financier goes abroad in the summer, it is to his banker that he again turns to get the readiest means of making payments in foreign countries, that is, the traveler's check or letter of credit. The private banker deals with the moneyed class just as the savings bank deals with the wage earner and the commercial bank deals with merchants and business men. We will now examine the nature of the private banker's business.

Functions of the Private Banker.

The wide difference between the ordinary commercial bank and the private bank is shown by the fact that the fundamental functions which make up the business of a commercial bank are deposit, discount, and note issue, and not one of them is usually found in the private institution. Note issue is, of course, out of the question because of the provisions of the National Bank Act. Discount and deposit are practically excluded by the nature of the business engaged in. The private banker is not desirous of furnishing working capital to the community in exchange for short time obligations drawn against the proceeds of commercial transactions, but rather in the financing of corporate enterprises,—the furnishing of permanent capital. This creates a peculiar form of service known as underwriting, which the private banker performs either alone or by forming a syndicate for the purpose. The underwriting of securities is a well-established feature of present day business methods. By it the private banker discounts whole issues of corporate securities, much as the commercial banker discounts commercial paper.

Underwriting.

When a corporation desires to put out an issue of stocks or bonds it has two alternatives to choose from, as to methods. First, it can endeavor to sell these stocks and bonds direct to the public and thus secure the necessary money for starting a new business or reorganizing or extending an old one. But such a method is one which has many drawbacks. In the first place, the corporation is not organized for the sale of securities, but for the conducting of some manufacturing business, transportation, or the like. Their organization may be practically perfect for conducting such an enterprise, but it is specialized in just those lines and has no particular fitness for the marketing of securities. The private banker, on the other hand, specializes in just this line. He is, therefore, thoroughly familiar with the best methods, and is equipped for supplying the funds which may be needed temporarily, and for getting in touch with that class of the public who will become the ultimate purchasers of the securities. For this reason, in a large number of cases, the concern which desires to put out an issue of stocks or bonds will find it desirable to have them underwritten by a private banking firm or trust company.

THE BANKER'S PROFIT.

When the private banker underwrites an issue of securities, he agrees to take the whole issue at a stipulated price. This price will be sufficiently below that which he believes that he can secure, so that it will leave to him a fair margin of profit. On the other hand, it is doubtful if the concern which is putting out the stocks or bonds could reap any larger net return if it attempted to sell them direct. Let us suppose that it is a well-established company whose securities may confidently be expected to sell above par, say at 103. The banker would perhaps underwrite such an issue at 98. This gives him a profit of $5 for every $100 of stocks or bonds sold, and if the issue sells readily, it may seem that the profit is unduly large. But if the company attempted to market the securities itself, it would be put to the clerical expense which is now borne by the private banker and in addition would very likely be obliged to take a lower price for at least a part of the securities.

The Value of Ready Money.

Time is one of the important elements in such a transaction and a corporation which is putting out a new issue of stocks and bonds for the sake of financing new construction, desires to have the proceeds of such a sale within a very short time and is, therefore, quite likely to find itself obliged to sacrifice them in order to effect a quick sale. The banker, however, has funds of his own and of his customers available for just such purposes, and if necessary can call upon other financiers or private bankers to unite with him in the form of a syndicate in order to furnish the funds as they are needed. A large private banking concern has an extensive patronage amongst investors and is, therefore, in a position to be of the utmost service to any company desiring to float a new issue of securities.

Commercial Paper and Collaterals.

There are, of course, some private bankers who also buy commercial paper, and there is no reason why they may not do so if they care to perfect the necessary organization for handling that class of business. In some States, however, foreign concerns conducting business in this country are forbidden from engaging in such commercial banking transactions. Almost all private bankers make extensive loans upon collateral security as an incidental part of their investment business. We have already seen how such opportunities come naturally in their way. This is one of several points in which the activities of private bankers and brokers touch each other. Brokers are constantly loaning their available funds to their customers upon the collateral security of the stocks and bonds bought, and to this extent the broker acts as a banker.

Bankers and Brokers.

Indeed, many such concerns style themselves "Bankers and Brokers" or "Brokers and Bankers", depending on which department is considered as the fundamental one. Even the report of the Comptroller of the Currency admits this difficulty in drawing the line between the two classes, and he says, that of the 4,325 individuals or firms listed in bankers' directories as private banks, perhaps one-half of these are firms whose business is confined to brokerage and exchange. Private bankers very frequently find it profitable to hold membership in the exchanges for the purpose of trading for their patrons, and it is only a question of degree as to the name to be given to bankers doing a brokerage business and brokers doing a banking business. It will also be seen that the present development of the bond department of many of our commercial banks makes them approach somewhat more nearly to the form of the private banking firm.

Small Deposit Accounts Not Wanted.

Deposits are of the utmost importance to the commercial bank, but to the private banker they are only an incident. His principal business is to employ his own funds or those of his patrons in profitable investment or other lines of business, and the large amounts of money necessary for such operations are not accumulated by soliciting small individual deposits. In the case of the commercial bank, the capital represents a comparatively small amount in contrast with the large bulk of deposits and in the same way the amount of money used by the bank for making long-time investments is comparatively small as contrasted with the large bulk which is employed in purchases of short-time commercial paper. But with the private banker, instead of a definite capital, he furnishes for investment his own extensive resources, together with those of such other persons as he can interest and persuade to handle their investments through his office. In the course of this investment business, as we have seen, funds are from time to time released from one investment and stand as deposits upon the firm's books until such time as they may be advantageously reinvested. But such deposits are an incident rather than an object of primary consideration. The commercial banker builds up his deposit account so that he may have funds available for use as opportunities present themselves for the purchase of commercial paper. The private banker, however, keeps his eyes open for opportunities of profitable security investments and when such an opportunity is presented he secures the co-operation of other persons with available funds to take advantage of it.

FOREIGN BUSINESS.

Besides the investment business the other field most commonly given over to private bankers is that of foreign transactions. Dealing in bullion or coins of other countries which was originally an important part of a bank's work is now hardly found at all in the ordinary commercial bank, but is left largely to private banking concerns. This is due partly to the fact that private bankers very frequently have branch houses in other countries. Thus the three or four firms of private bankers in the United States who are prominent in the business of international banking have branch houses located in several of the European capitals and other important commercial cities. Likewise, we have in New York and some of the other large cities in the United States, the branch houses or local representatives of large Canadian, English, French, German, and other foreign banking houses. For this reason it becomes much more convenient for such a private banking concern to issue foreign exchange in the form of drafts, letters of credit, or travelers' checks, than for other banks not possessed of such a ready means of handling foreign transactions. This monopoly has been considerably lessened in late years by reason of the fact that travelers' checks are now issued by a large number of American banks through the agency of the American Banking Association, and are also put out by several prominent express companies.

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