

# BANKERS' CONVENTION SECTION

OF THE

## COMMERCIAL & FINANCIAL CHRONICLE.

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### THE CHRONICLE,

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### INDEX TO ADVERTISEMENTS.

A complete index to the advertisements appearing in the present issue of the Bankers' Convention Section will be found on pages 121 and 122.

[As this year's Convention was held in Chicago, we present herewith a review of banking in that city from the earliest days.]

### HISTORICAL REVIEW OF BANKING IN CHICAGO.

By FREDERICK W. GOOKIN.

Less than eighty years ago Chicago, now the second city in the United States and the fourth in rank among the cities of the world, was a frontier military post with scarce a handful of inhabitants. With the story of this phenomenal growth everyone is familiar. Yet it is difficult to realize how rapid the development has been, especially in recent years. Perhaps in no other way is it shown more clearly than in the rise of the city's financial institutions to the commanding position they now occupy.

The history of banking in Chicago is a record of which, on the whole, the city has reason to feel proud. Through all the vicissitudes caused by financial experiments, foolish speculation and ex-

travagant overtrading for which the fertile Middle West has afforded an inviting field, the dominant influence of exceptionally strong and capable men among the Chicago bankers has made for sound practices and has been a steadying force not easily overestimated. For this service the names of George Smith, Chauncey B. Blair, Solomon A. Smith and George Sturges—to specify a few only from among those who have passed away—deserve a permanent place upon the city's roll of honor.

The first bank in Chicago was the Branch of the Illinois State Bank, which opened its doors about the middle of December, 1835, and immediately started off with a flourishing business. This enterprise was launched in a time of wild speculative excitement that extended over the entire country. Chicago was in the midst of her first real estate boom. A deluge of newcomers had more than doubled her population within a year, and the stream of those attracted by tales of golden opportunity showed no signs of abating. In a literal sense the term "golden" is a misnomer, for gold was extremely scarce in Illinois in that day. The circulating medium consisted of little else than notes issued by banks in all parts of the Union, but chiefly by those located in the adjacent States. What assets might be back of these issues no one knew with any certainty.

The issuing of notes to circulate as money was then looked upon as the principal function of a bank. The deposit function was regarded as of less importance and to a certain extent as only incidental. Large paid-in capital, though desirable, was not considered indispensable; mobility of credit was expected to serve the same purpose. It would be a mistake to stigmatize this conception as fundamentally unsound. In its essence it involves no departure from the principles upon which the most efficient modern banking systems are based. The difficulty of its practical application was the absence of any machinery for making credits mobile, and for effectively restricting them within safe limits. To our disgrace, it may be said in passing, no such machinery has yet been introduced into the United States; in this we lag far behind the rest of the civilized world. In the days of "wild cat" banking this machinery had not been perfected. The crude notion that bank notes were money and that their

issue added to the wealth of the community was widely entertained. And while the necessity for keeping banking assets liquid was vaguely recognized, it was far from easy to meet the requirement. The only way was through the maintenance of a sufficient coin reserve, and limiting loans to short term advances to borrowers known to keep their obligations well within their ability to pay promptly at maturity.

Through the year 1836 the speculative fever kept up, and though there were premonitions of the crash that occurred in the spring of 1837, the people of Illinois, vainly imagining themselves too far away to be affected by happenings in the Eastern States, projected a vast scheme of internal improvements, including the building of the Illinois and Michigan Canal, and a network of railroads throughout the State. Then to divorce the State completely from financial dependence upon the East and to provide an abundant supply of local "money," early in 1837 the capital of the Shawneetown Bank was increased by \$1,400,000, and that of the Illinois State Bank by \$2,100,000. All of this additional capital was subscribed by the State and paid for with its bonds. Against these the banks issued notes and expanded their loans, though there was at the time no market for the bonds. The inevitable consequences of such financial folly were not long delayed. In July, 1837, the Legislature convened in special session and passed an act legalizing suspension of specie payments. This enabled the State Bank to run along for a few years, and, as the fiscal agent of the State, to make some show of business. In 1840 the Chicago Branch was removed to Lockport, though for a time an agency was maintained in the city. The bank was finally closed in 1843, when the State forced the return of its bonds in exchange for the stock held by it—an act of great injustice to the other stockholders.

Bad as was the currency in use in Chicago and elsewhere in Illinois prior to 1837, it was much worse for several years thereafter. As might have been expected the first effect of the legalized suspension of specie payments was to drive all specie out of circulation. Resort was necessarily had to makeshifts of one sort or another. Canal scrip, in appearance not unlike bank notes of small denomination and payable at the Chicago Branch of the State Bank, was largely used; while tradesmen's tickets of credit were made to do duty for small change. Besides these, State Auditor's scrip, county scrip and St. Louis scrip were circulated to some extent, and a little later the city was flooded with notes of Michigan banks organized under the vicious land loan banking law of that State.

While matters were in this chaotic condition, George Smith, a young Scotchman, who had first visited Chicago in 1834 and engaged in real estate operations with such success that he had returned to his native land to form a company for future ventures in this field, came back and brought with him Messrs. Strachan and Scott, who opened a private banking office some time during 1837. In the preceding winter the Legislature had granted a

charter to the Chicago Marine and Fire Insurance Company, which, though expressly forbidden to do a banking business or to issue any bills in the semblance of bank notes, was by a strange inconsistency authorized "to receive moneys on deposit and to loan the same." Taking advantage of this authorization the company began in May, 1837, to do a general banking business, and to issue for use as a circulating medium, demand certificates of deposit that were in the semblance of bank notes save as to the wording.

Though these certificates never attained any wide circulation, they showed the way to George Smith. In 1839 he obtained from the Territorial Legislature of Wisconsin a charter for the Wisconsin Marine and Fire Insurance Company, and being joined by Alexander Mitchell, a young banker from Aberdeen, they organized the company and opened a banking office in Milwaukee, with Mitchell in charge. To give currency to the certificates of deposit issued by this company they were redeemed in Chicago at the office of Strachan & Scott, and after that firm removed to New York in 1840, at the office of their successors, George Smith & Co. Smith was a man of uncommon ability, keen, farsighted and of inflexible integrity. During the twenty years he remained in Chicago he was easily the foremost banker in the city and his influence was always exerted in favor of sound methods. Illegal they were called by his rivals, because he circulated paper not authorized by Illinois law. And many attempts were made to break him by gathering up large amounts of the certificates issued by the Milwaukee institution, and the notes of banks he afterward established in Georgia, and presenting them for redemption. He was, however, never caught unprepared, and the result of these raids was only to strengthen his credit. Hostility to him was confined to his competitors; the citizens in general were only too glad to have a circulating medium on which they could depend. In later years as his business expanded he established redemption agencies in St. Louis, Cincinnati and Detroit and also, for a short time, in Galena.

Between 1837 and 1840 there was little increase in the population of Chicago. Then, although the early '40s were years of "hard times," the growth became steady and rapid. By 1844 it is estimated that the number of inhabitants was at least 12,000. The directory for that year shows that besides George Smith & Co., the firms of Murray & Brand and Newberry & Burch were engaged in banking, and Richard K. Swift was established as a "broker." Five years later the city had increased to more than 25,000 people. The directory for 1849-50 shows that George Smith & Co. had removed from La Salle street to Clark street, where, between South Water and Randolph streets, the financial center of the city was located during the next decade. At this time I. H. Burch, Alexander Brand & Co., Curtis & Tinkham, D. C. Eddy and R. K. Swift were the only other bankers. The next year the firm of Tucker, Bronson & Co. was added to the number.

In 1851 the need for a new banking law in Illinois had become so great that another experiment in that line was adopted by the Legislature. This law, which was amended in February, 1853, was in its main provisions copied after that of New York. It was defective in many respects; notably in permitting the establishment of banks with little paid-up capital. A feature that, a few years later, caused the downfall of many of the banks organized under the law, was the requirement that all circulating notes be secured by bonds of the United States, or any of the States, upon which 6 per cent. interest was regularly paid. This was inserted in the expectation that a bond-secured note issue would afford relief from currency conditions, which, in spite of such issues as those of George Smith and a few others, had grown to be almost intolerable. Unfortunately for this expectation there was no way of keeping out of the field notes issued by banks in other States. And the Illinois banks unwisely adopted the practice of redeeming their notes in notes of other banks, and not in specie except at a charge of 1 per cent. It is no wonder that they failed to drive out Smith's currency, which was redeemed at par at its place of issue, and at 1 per cent. discount in Chicago, St. Louis, Cincinnati and Detroit.

The first bank organized in Chicago under the new law was the Marine Bank. Jonathan Y. Scammon was the president and Edward I. Tinkham was the cashier. Its certificate was filed January 13, 1852. A month later the Merchants' and Mechanics' Bank of Chicago was formed, with Levi D. Boone as president and Stephen Bronson, Jr., as cashier. In May the Southwestern Plank Road Company, which had been one of the honest issuers of illegal currency, was incorporated as the Commercial Bank. The same month witnessed the opening of the Union Bank of Forrest Brothers & Co. In June Bradley and Curtiss organized their business as the City Bank. In July George Smith obtained a charter for the Bank of America, and I. H. Burch & Co. announced that they would incorporate as the Chicago Bank. Early in August Dr. A. W. Davisson and T. McCalla opened a banking office at 50 Clark street, and in October their business was incorporated as the Bank of Commerce. In this month also Seth Paine and Ira B. Eddy opened the so-called Bank of Chicago, the "Christian Bank" of Seth Paine & Co., an institution so unique that only lack of available space prevents the inclusion in this article of an account of its extremely interesting though short-lived career. Shortly before Christmas the Farmers' Bank was established by Chase Brothers & Co.

The thriving young city was now liberally supplied with banking facilities, and competition became exceedingly keen. In the words of the *Chicago Democrat*, "banks were becoming as thick as groceries in our town." To keep their note issues afloat was the great desideratum. Alas for the expectations of the proprietors of the new institutions, the currency issued by George Smith—who had grown very rich and powerful—continued to dominate the field. He had prepared for the

changed conditions by purchasing a controlling interest in the Bank of America at Washington, D. C., and had established two banks of issue in Georgia—the Atlanta Bank of Atlanta and the Internal Bank of Griffin. The notes of all three were regularly redeemed at his banking house in Chicago. At this juncture the newly formed Merchants' and Mechanics' Bank began to emit certificates of deposit in the form of bank notes. A loud outcry was followed by an active crusade of the "regulars," under the leadership of Mr. Scammon, against the "irregulars." In December, 1852, the Grand Jury found true bills against a number of the latter, including George Smith and his cashier, E. W. Willard. These indictments amounted to little and apparently were not prosecuted further, as the irregular practices ceased when Mr. Scammon and his associates succeeded in having a stringent statute enacted prohibiting them under severe penalties. It was, however, a barren victory except as it forced the irregulars to legalize their note issues, which continued to circulate as before.

Steady growth marked the period between 1852 and 1857. By the latter year the population of Chicago had increased to 93,000 and the city had come to be recognized as the metropolis of the West. Its banking history during these years was uneventful. A large number of small private banking houses sprang up, but only a few new banks were established and they were comparatively unimportant. Eighteen hundred and fifty-four was a year of short crops and of "hard times" throughout the West. In March, 1855, the Farmers' Bank, the Phoenix Bank, the City Bank and the Union Bank were "closed by protest," and forced into liquidation. These were Chicago's first bank failures. None of these banks were large; all four paid their notes in full. Many of the incorporated banks at this period did not receive deposits, but existed solely for the profit in issuing circulating notes. The returns made to the Auditor of Public Accounts show that on the first Monday in October, 1856, of the 42 State banks then in business in Illinois, only 17 held deposits, the total amounting to \$1,212,882.87, of which \$210,483.33 was due to banks. The following table shows the condition of the three State banks in Chicago on that date:

## RESOURCES.

Banks.	Stocks dep. to secure circulat'n.	Notes of other banks.	Deposited with other banks.	Specie.	Current expenses.	Totals.
Bank of Am.	\$50,000 00	nil	nil	\$7,000 00	nil	\$57,000 00
Chicago Bank	50,611 30	35,200 00	11,795 95	14,800 00	7,182.46	119,589 71
Marine Bank.	143,983 99	10,000 00	176,825 24	69,000 00	nil	398,909 23

## LIABILITIES.

Banks.	Cap'l paid in and invested accord. to law.	Interest dividends on stocks.	Notes in circulat'n.	Individual deposits.	Bank deposits.	Totals.
Bank of Am.	\$50,000 00	nil	\$7,000 00	nil	nil	\$57,000 00
Chicago Bank	50,611 30	18,978 41	50,000 00	nil	nil	119,589 71
Marine Bank.	150,000 00	nil	89,705 00	28,900 30	130,303 93	398,909 23

Neither of the three, it will be observed, show any loans or discounts.

The panic of 1857 found most of the Chicago banks in excellent shape to weather the storm. Nowhere in the country were the effects of the crisis felt, on the whole, less than in Chicago. The reason is not far to seek. In large part the loans

of the banks were made against staple food products, always salable for cash, and liquidation, therefore, was accomplished without undue strain. And having comparatively small amounts of notes in circulation, the Chicago banks were not greatly distressed either by unusual pressure for redemption, or by the necessity for furnishing additional securities to make good the shrinkage in value of those deposited with the State Auditor.

Nevertheless the disturbance for a time was severe. Its effect upon the miscellaneous currency in circulation was shown in the premium on Eastern exchange, which rose to 15 per cent. when the panic was at its height. The storm burst in New York when the Ohio Life & Trust Company of Cincinnati suspended on August 4. It did not reach Chicago until some weeks later. On September 28, E. I. Tinkham & Co.'s bank failed. The next day a run upon R. K. Swift, Brother, & Johnston, then the largest banking house in the city, was precipitated. Their failure was announced the next morning. Deposits amounting to \$1,200,000 had been drawn down to \$798,742.73, as appears from a statement issued by them on October 3. Before the excitement died away, the Bank of Commerce and the Merchants' and Mechanics' Bank succumbed. Both paid their circulating notes in full, as did E. I. Tinkham & Co.'s Bank, also. What losses were suffered by depositors does not appear. Besides these failures many of the small private bankers were either forced to close or found it unprofitable to continue. Of the forty or more who were in business in the city in 1857, nineteen are not in the list printed in the directory for the ensuing year.

Between this time and the outbreak of the Civil War the Chicago banks and bankers enjoyed another period of comparative ease. It was a period of retrenchment and recovery and political unrest, and the general conditions were such as to discourage the formation of additional institutions. Though in 1859 and 1860 a considerable number of small private banking houses were opened, few of them continued for very long.

In 1856, George Smith having acquired a more than ample fortune, decided to return to his native land as soon as he could close up his affairs. The need for a strong bank to take the place occupied by George Smith & Co. caused a group of prominent citizens to join together and establish the Merchants' Savings, Loan and Trust Company, which opened for business on June 10, 1857. This bank is now the oldest in the city. During the fifty-two years since it was founded it has always borne an unblemished reputation and is to-day one of the foremost of Chicago's financial institutions. In 1882 its name was changed to "The Merchants' Loan and Trust Company."

When in the autumn of 1860 the outbreak of the rebellion became imminent, the Illinois banks had more than \$12,300,000 of circulation outstanding, and of the bonds deposited to secure these notes 68 per cent. were those of the Southern States.

The rapid depression of these securities caused widespread distrust. Suspensions came in quick succession. Merchants carefully scanned the pages of *Thompson's Bank Note Reporter* before they dared accept any currency tendered them. By November, 1862, only 62 of the State banks were in existence, and two years later only 23 were left. Fortunately for Chicago, her banks at this critical time were not to any large extent banks of issue. A few went down in the general crash, among them the Chicago Bank, of which I. H. Burch was the President. Several of the strongest banking houses in the city at this juncture were private institutions. In the latter part of 1860 Solomon Sturges, who had removed to Chicago from Zanesville, Ohio, four years before, and who had earned a high reputation for prudence and financial sagacity, perceived that it was an opportune time for the establishment of a banking house that would start free from the disabilities that hampered many of the existing banks, and be conducted upon conservative lines. Associating with him his two oldest sons as partners he formed the firm of Solomon Sturges & Sons. The building at Nos. 15 and 17 Wells street, which had been occupied by George Smith & Co. in their later years in Chicago, was rented, and in a short time the largest banking business in the city was built up. It was not, however, long continued. Impairment of his health caused Mr. Sturges to retire from the firm in 1862; and after the establishment in Chicago of many banks organized under the National Bank Act the business gradually fell off, and in 1866 it was closed up and the partners retired. The same reasons that led to the formation of this firm, also caused the Bank of Montreal to open its Chicago Branch in 1860, in charge of E. W. Willard, who for some years had been the cashier for George Smith & Co.

After the general suspension of specie payments on December 28, 1861, and until the National Banking system came into existence, the condition of the currency in circulation in Illinois can only be described as chaotic. The city became the dumping ground for State bank notes, many of which were of doubtful value, yet which continued in use and which the banks were willing to handle in default of anything else, so long as they could pay them out. So abundant were these issues that the legal tender notes were largely driven out by them. Then in 1863 came the National Bank Act. Chicago was quick to take advantage of it. Five National banks were organized that year. Of these the First National is now the third largest bank in the United States; two others, the Fifth (afterward the National Bank of America), and the Northwestern, were among the staunchest institutions in the city until they were merged with the Corn Exchange National Bank in 1900. In May, 1864, the bankers in Chicago determined not to wait for the 10 per cent. tax on State bank notes to accomplish its purpose, but to stop their local use at once. To this end they pledged themselves to receive and pay out "only legal tender notes, National bank notes, and

the notes of such other banks as redeem at par in Chicago." This proved effective, and, in the words of the *Chicago Tribune's* Annual Review, "rag money went down and made no sign." The subscribers to this agreement were twenty-five in number: five National banks, three State banks, sixteen private bankers, and the Branch of the Bank of Montreal.

Banking in Chicago now entered upon what may be called its second stage. The history of the first stage is largely a record of financial experiments upon which Illinois, like many of the other States, had lightly entered, only to discover that natural law is superior to statutory enactments. It is, however, worthy of note that during the twenty-nine years of this early period, bank failures in Chicago were few in number, and the losses sustained by depositors were not severe. Beyond a few isolated reports, statements of notes in circulation and lists of bonds on deposit as security therefor, little statistical information concerning the first stage is available. The amount of a bank's indebtedness to depositors was not at that time regarded as an index of its financial strength. Though the banking law of 1851-1853 called for the publication of quarterly statements of assets and liabilities, only those for October 6, 1856, appear in the biennial reports of the Auditor of Public Accounts. And the special charters to banking institutions which the Illinois legislature began to issue freely after the breakdown of the State banking system in 1860, and continued to grant in steadily increasing numbers until the adoption of the Constitution of 1870 put an end to all "Private Acts," made no provision for any public showing whatever.

At the end of September, 1864, a local flurry occurred, during which the failure of the small private banking houses of C. C. Parks & Co., and J. G. Conrad, was followed by that of the Western Marine & Fire Insurance Company, thus reducing the State banks in Chicago to two engaged in commercial banking—the Merchants' Savings Loan & Trust Co., and the Marine Company (the Marine Bank reorganized)—and two exclusively savings banks, the State Savings Institution and the Merchants' Farmers' and Mechanics' Bank. The Union Trust Company was in existence as the Union Insurance & Trust Company, and the Hibernian Banking Association was established as the Merchants' Association of Chicago, but neither was then doing a regular banking business. During the next seven years the population of the city increased from 169,000 to more than 300,000, and the Chicago banks had a period of unbroken prosperity and smooth sailing. Their growth during these years is fairly shown by the following table:

Date.	No. of banks.	Capital.	Surplus & profits.	Loans & Discounts.	Individual Deposits.	Bank Deposits.	Total Deposits.
		\$	\$	\$	\$	\$	\$
Oct. 2 '65	13	5,110,000	480,022	6,185,581	8,072,863	2,418,097	10,440,960
" 1 '66	13	5,150,000	713,243	8,374,007	8,520,228	2,924,981	11,445,209
" 7 '67	13	5,200,000	1,215,394	9,238,348	9,448,628	3,999,995	13,448,623
" 5 '68	14	5,550,000	1,839,147	13,065,332	13,713,867	5,246,583	18,960,450
" 9 '69	14	5,800,000	2,139,342	14,020,374	10,813,929	4,739,849	15,553,769
" 8 '70	15	6,300,000	2,435,472	16,541,903	14,114,384	5,290,624	19,405,008
" 2 '71	19	7,900,000	3,053,968	21,444,533	17,967,848	9,712,098	27,679,946

To make a really comprehensive presentation, similar statistics of nearly forty State and private banking houses should be included in this table. Unfortunately they do not exist. The requirement of the National Bank Act that statements of conditions should be published at least five times a year was hailed with delight by the press of Chicago. Editorials were written urging that private bankers and State institutions should also be compelled to publish statements as frequently, and lamenting the absence of any statute making such publication necessary. Not until the present State banking law was adopted in 1887 was any heed given to these expressions, many times repeated in the twenty-four years' interval, and then no exactions were laid upon private bankers who still pursue their calling with as much secrecy as they see fit, although the acceptance of deposit accounts ought in any civilized community to involve periodical publication of the banker's balance sheet.

In the '60s many of the men who have made Chicago's banking record notable came to the fore. The city was fortunate in the trying days that were close at hand, to have her financial institutions in the hands of such capable and far-sighted bankers as Chauncey B. Blair, William F. Coolbaugh, Solomon A. Smith, Samuel M. Nickerson, George Sturges, Henry F. Eames, John DeKoven, Lyman J. Gage, Isaac G. Lombard, and Orson Smith. Of these Mr. Coolbaugh was at the time perhaps the most widely known, and the Union National Bank, of which he was the President, was for several years after its establishment considerably the largest of the Chicago banks. In 1865 the Clearing House was founded. George Sturges was the prime mover in organizing it, and to hasten the project for which the need had become very great, he permitted the exchanges to be made in the office of the Northwestern National Bank until a suitable room could be secured and fitted up.

The great fire of October 9, 1871, put the mettle of the Chicago bankers to a severe test. Every banking office in the city was destroyed, with the sole exception of that of the Prairie State Loan & Trust Company, located at 95 West Randolph street, outside of the fire zone. Lazarus Silverman sustained a loss of about \$50,000 from the destruction of his money vault, and the Merchants' Savings, Loan & Trust Co. lost its book vault and most of its books. The other banks escaped without loss of cash or books. Before the ruins had cooled sufficiently to get at the vaults the bankers held a conference. Many were in doubt about what would happen should they attempt to resume business. It was suggested by some that the wise course would be to pay to depositors only 15 per cent. or at most 25 per cent. in cash until a clearer view of the future could be obtained. While this was under discussion, with a possibility that the counsel of the timid ones would prevail, Chauncey B. Blair quietly remarked without rising from his chair: "Gentlemen, I always like to agree with my brother bankers, and in

ordinary matters would yield to the majority, but when it comes to paying my debts or the debts of my bank I have only this to say: I have always paid in full and always shall if I can. Perhaps I shall not be able to pay even 25 per cent. The vault is still closed. It may contain only ashes, but I shall do the best I can to meet all the demands of my depositors." This courageous expression was promptly seconded by George Sturges of the Northwestern National Bank. Mr. Coolbaugh and some others urged that the banks ought to stand together, but as Messrs. Blair and Sturges held firmly to the position they had taken, the meeting was adjourned without action. The next day the Comptroller of the Currency arrived in the city and told the bankers who consulted him that partial resumption was out of the question. When it was found the vaults were intact the decision to pay in full was unanimous. This decision was a great relief to depositors and the country correspondents of the banks who had been anxiously awaiting it. And instead of the runs that had been feared, money came pouring in, and deposits were soon larger than ever.

The rebuilding of the stricken city was made easier as the conflagration occurred in a period of widespread speculative activity and overtrading. Marvellous progress in physical rehabilitation was made in the two years following the fire, but before there was time for complete recovery from its effects, the panic of 1873 threw everything into confusion. As the news of one failure after another came in quick succession, and sharp withdrawals of deposits were accompanied by urgent requests from country banks for loans to tide them over the crisis, word was received that the banks in New York, Boston and Philadelphia had suspended cash payment and had resorted to the use of Clearing House loan certificates. A meeting to consider what course should be pursued by the Chicago banks at this juncture was hastily convened. The session was protracted far into the night. Many advocated following the lead of the banks in the Eastern cities, believing it the only way to avert a general crash. Against this view, George Sturges, President of the Northwestern National Bank; Chauncey B. Blair, President of the Merchants' National Bank, and Solomon A. Smith, President of the Merchants' Savings, Loan & Trust Co., vigorously protested. Firmly believing in the wisdom of a bold policy and resting upon the technically strong position of the city as the country's chief depot of food supplies, they even went so far as to assert that whatever the others might decide upon, the banks under their charge would continue to meet all obligations upon demand. A vote was taken. Lyman J. Gage for the First National Bank voted "No," and it was soon evident that those opposed to the issue of Clearing House certificates were in the majority.

Though some anxious days followed they were tempered by an admirable spirit of mutual helpfulness and no failures of any consequence occurred. The real strain came during the ensuing period of

business depression that lasted until after the resumption of specie payments in 1879. Within that period there were twenty-one bank failures in Chicago, most of which were the result of the crisis or of the shrinkage in values which followed it. This enumeration includes several institutions that went into voluntary liquidation. Few of those placed in the hands of receivers owed large amounts to depositors at the time of collapse. Exceptions were the Third National Bank, which paid its depositors in full with interest; and the Cook County National Bank, the State Savings Institution, and the Merchants' Farmers' and Mechanics' Bank (commonly known as the Bee-Hive Bank), which closed in consequence of dishonest management. The Cook County National failure was one of the worst in the history of the city. It was founded by the notorious David D. Spencer, who in 1873 sold a controlling interest to Benjamin F. Allen, a "Napoleon of Finance," who came to Chicago from Des Moines, Iowa, where he had had a successful career. In the wider field his vaulting ambition soon overleaped itself. The bank's funds went into projects from which they could not be released, and in January, 1875, its doors were closed. Ultimately the creditors received something less than 15 per cent. While Allen was playing with the funds of the Cook County National, Spencer was borrowing the funds of the State Savings Institution, which he used to acquire nearly all of its stock, and the President of the "Bee-Hive Bank" was crippling it by similar borrowing.

The failure of these savings banks in 1877 had far-reaching results. The State Savings Institution, originally incorporated as the Illinois Savings Institution, had achieved a reputation for impregnable financial strength and its deposits amounted to between four and five million dollars. Confidence in savings banks received a shock from which it was many years in recovering. While the excitement was at its height a run upon the Fidelity Trust & Safety Deposit Company caused the downfall of that bank also. Later in the year came the failures of the Third National and the Central National banks, but as these were not altogether unexpected, they only served, so to speak, to clear the atmosphere.

Nineteen years were to elapse before there was another bank failure of large consequence in Chicago. Between 1873 and 1877 the total deposits in the National banks in the city declined from \$28,000,000 to \$26,000,000, and the number of banks was reduced from 19 to 15. By the end of 1888 the number of National banks had increased to 21, and the deposits had reached a total of \$93,000,000, and State and private banks held probably \$40,000,000. During this period the Illinois Trust and Savings Bank, which was organized in June, 1873, upon the old charter of the Bank of Sterling, and had successfully withstood the "savings bank panic" of 1878, paying down its deposits from about \$1,500,000 to \$240,000, rose to prominence among the city's financial institutions. The

Merchants' Loan & Trust Company, as it was now called, also forged steadily ahead; and the other State banks made substantial progress. The great impetus to State banking, however, came with the adoption of the present banking law which went into force December 6, 1888. In its main features it follows the National Bank Act so far as may be; but, while providing for publicity of accounts, State supervision, double liability of stockholders and other safeguards, it permits a much wider range of business. In Chicago this law has had very marked effects; it has largely put an end to private banking, and because of the greater opportunity for profit which accrues to institutions that may be at one and the same time commercial banks, savings banks, and trust companies, the tendency has been for new banks to organize under it instead of the National Bank Act. At the time of the latest published statements—National banks as of Sept. 1, and State banks as of Sept. 2, 1909—the individual deposits held by the State banks were more than \$9,000,000 in excess of the aggregate held by the National banks, and the total deposits were larger by about \$5,000,000. Indeed the competition for certain classes of business has resulted in the formation of State bank adjuncts to National banks, as in the case of the First Trust and Savings Bank, which is owned by the stockholders of the First National Bank upon a plan under which each share in the latter carries an inseparable proportionate interest in the stock of the former. The recent merger of the Continental National Bank and the American Trust and Savings Bank upon a similar plan, is another step in the same direction, and points to what may perhaps become a general movement.

From 1863 until about 1877 the discount rate of the Chicago banks was always uniformly 10 per cent. Then as idle funds accumulated at certain seasons concessions began to be made and soon became the rule. Thereafter the rates became responsive to the law of supply and demand, sometimes falling very low as in the summer of 1882. Meanwhile the maximum contract rate had been fixed at 8 per cent. by act of the General Assembly. Chicago was now rapidly changing from a provincial into a metropolitan city. By the autumn of 1892 the population was not far from 1,250,000, and the deposits held by the banks had reached a total of \$206,000,000, of which \$63,000,000 was due to country banks. These figures are taken from the official reports made on September 24 and October 26 of that year, when a sharp withdrawal had been in progress for several weeks. Warned by the severe stringency of the preceding autumn, when the normal tendency in the United States had been accentuated by the disturbed condition abroad, consequent upon the Baring failure, many of the larger borrowers in Chicago had made such provision for their needs as to be virtually out of the market, and few of the bankers expected even the usual autumnal pressure though they had prepared to meet the financial storm that for some time had been impending. In this they did not count upon the coun-

try banks, from which a heavy demand came with great suddenness, and it did not slacken until after the panic of the following summer.

Again the Chicago bankers had to face the question of issuing Clearing House Certificates, and again they decided in the negative. Although their technical position was not quite so strong as it had been in 1873, a much smaller percentage of their loans resting upon the direct pledge of grain and provisions in store, it was still strong enough to make an independent stand possible. No doubt the maintenance of this attitude put an additional strain upon the banks in the Eastern cities. But it is equally certain that it redounded to the financial prestige of the city and caused many Western banks to transfer their principal reserve accounts to Chicago banks instead of carrying them in New York. No failures occurred as a result of this policy. The collapse of the two banks which closed during 1893, the Columbia National and the Chemical National, like that of the Park National, which suspended in July, 1890, was due to inherent weakness and bad banking.

The years of business depression, widespread liquidation, and unsettled financial conditions that followed the panic of 1893 ushered in what may be called the third stage of banking in Chicago, of which the distinguishing features have been the building up of great institutions by consolidations, and the notable increase in the volume of business transacted. The extent of changes in the Chicago banks between 1895 and the present year can most readily be comprehended by giving the data in tabular form.

Banks.	Change.	Capital Decreased.	Capital Increased.
Central Trust & Sav. Bank	Failed, 1896	\$200,000	
Dime Savings Bank	" "	100,000	
National Bank of Illinois	" Dec. "	1,000,000	
Globe Savings Bank	" "	200,000	
Atlas National Bank	Voluntary liquidation, 1897	700,000	
Prairie State Nat'l Bank	Consolidated as the Prairie State Bank, Aug. "	200,000	50,000
Prairie State Sav. & Tr. Co.	Consolidated with Union National Bank, Nov. "	500,000	
Hide & Leather National Bank	Consolidated with Union National Bank, Dec. "	300,000	
Home National Bank	Voluntary liquid'n, Jan. 1898	1,000,000	
American Exch. Nat'l B'k	Consolidated as America National Bank, Feb. "	1,000,000	1,000,000
National Bank of America	Consolidated with Continental National, Feb. "	500,000	
International Bank	Consolidated with Royal Trust Co., Oct. "	500,000	
Commercial Loan & Trust Co.	Consolidated with Continental National, Nov. "	1,000,000	
Globe National Bank	Consolidated with Metropolitan Nat'l, Feb. 1899	50,000	
West Side Bank	Consolidated with Bankers' Nat'l Bank, July 1900	200,000	
Lincoln National Bank	Consolidated with Corn Exchange Nat'l, Sep. 1900	1,000,000	1,000,000
America National Bank	Consolidated with First National Bank, Sep. "	2,000,000	2,000,000
Northwestern Nat'l Bank	Consolidated with Corn Exchange Nat'l, Mch. 1902	1,000,000	1,000,000
Union National Bank	Consolidated with First National Bank, May "	2,000,000	3,000,000
Merchants' National Bank	Consolidated with Continental National, Oct. 1904	2,000,000	
Metropolitan Nat'l Bank	Consolidated with American Tr. & Sav. Bk., May '05	2,000,000	1,000,000
National Bank of North America	Failed: funds to pay depositors advanced by other Chic. b'ks, Dec. "	1,000,000	
Federal Trust & Savings Bank	Failed: funds to pay depositors advanced by other Chic. b'ks, Dec. "	100,000	
Chicago National Bank	Failed, Feb. 1906	200,000	
Home Savings Bank	" Aug. "	250,000	
Equitable Trust Co.	National charter as Monroe Nat'l Bank, Aug. "	200,000	200,000
Bank of America	Voluntary liquid'n, Oct. 1907	500,000	
Milwaukee Ave. State B'k	Consolidated with Amer. Tr. & Sav. B'k, Jan. 1909	250,000	
Manufacturers' Bank	Consolidated with Drexel State Bank, Jan. "	100,000	
Federal National Bank	Consolidated with Central Trust Co., Feb. "	500,000	
Mutual Bank	Consolidated upon plan of joint stk. ownership; both cos. contin'd Sep. "	50,000	5,000,000
Oakland National	Consolidation, Sept. "		4,000,000
Royal Trust Co.	Consolidated with Bankers' Nat'l liquidated	2,000,000	
North Side State Sav. B'k			
Continental National B'k			
American Trust & Savings Bank			
Commercial National			
Bankers' National			

While these changes were taking place more than thirty new banks were organized, some of them

incorporations of private banking houses under the State law, and there were numerous increases of capital by existing institutions. The net result is an increase in the capital of the Chicago banks from \$33,177,000 in October, 1895, to \$62,925,000 in September, 1909, while the surplus and undivided profits have increased from \$20,985,569 to \$54,770,480 in the same period.

Of the failures named in the preceding table, the most notable were those of the National Bank of Illinois, and the Chicago National Bank and its allied institutions, the Home Savings Bank and the Equitable Trust Company—all the result of injudicious banking and the tying up of assets that should have been kept liquid but were used to promote ambitious railway schemes. In the case of the Chicago National the effects would have been widely felt and perhaps have resulted in other failures of a serious character, but for the action of the other Chicago banks, which, for the protection of the community, took over the burden and advanced funds for the immediate liquidation of depositors' claims.

The wide variation in the number of the Chicago banks in different years has materially affected the proportion of the checks paid by them that have passed through the Clearing House. For this reason the clearings do not accurately represent the volume of business transacted by the banks; yet the figures have perhaps sufficient value to make it worth while to include them in this review.

CHICAGO BANK CLEARINGS.

1865*	\$319,606,228	1880	\$1,725,684,894	1895	\$4,614,979,203
1866	453,798,648	1881	2,249,329,924	1896	4,113,054,108
1867	580,727,331	1882	2,393,437,874	1897	4,575,893,340
1868	723,293,444	1883	2,617,371,581	1898	5,617,335,476
1869	734,661,949	1884	2,259,880,391	1899	6,612,313,611
1870	810,679,036	1885	2,318,379,003	1900	6,799,535,898
1871	808,936,754	1886	2,604,762,912	1901	7,756,372,455
1872	903,060,503	1887	2,969,216,210	1902	8,394,872,351
1873	1,047,027,828	1888	3,163,774,462	1903	8,755,553,640
1874	1,101,347,918	1889	3,379,925,188	1904	8,989,983,764
1875	1,212,817,207	1890	4,093,145,904	1905	10,141,765,732
1876	1,110,993,624	1891	4,456,885,230	1906	11,047,311,804
1877	1,044,678,475	1892	5,135,771,187	1907	12,087,947,870
1878	967,184,093	1893	4,676,960,968	1908	11,859,814,945
1879	1,257,756,124	1894	4,315,449,476		

\* Nine months.

Perhaps the best index to the development of the city as a financial center during this third stage is found in the increase in the deposits of the banks.

DEPOSIT LIABILITIES OF THE CHICAGO BANKS.

Date.	No. of Banks.	NATION'L BANKS.	Date.	No. of Banks.	STATE BANKS.	Total Both.
		\$			\$	\$
Oct. 2 1890	23	108,521,702	Oct. 8 1890	15	45,474,658	153,996,360
Sept. 25 1891	24	118,649,456	Nov. 14 1891	13	55,361,717	174,011,173
" 30 1892	27	138,349,602	Oct. 26 1892	21	68,189,233	206,538,835
Oct. 3 1893	25	112,945,586	Nov. 8 1893	20	67,345,958	180,291,544
" 6 1894	24	134,614,115	Dec. 14 1894	19	74,949,854	209,563,969
Sept. 28 1895	25	122,907,968	Sept. 21 1895	20	77,936,305	200,844,273
" 6 1896	24	109,760,418	" 1 1896	22	76,005,763	185,766,181
" 5 1897	22	148,311,629	Oct. 26 1897	22	96,657,361	244,968,991
Sept. 21 1898	19	170,637,900	Sept. 21 1898	19	104,966,118	275,604,018
" 7 1899	18	210,861,587	" 8 1899	17	133,502,431	344,364,018
" 5 1900	16	239,036,337	Oct. 1 1900	16	154,875,667	393,909,994
" 30 1901	14	265,167,889	" 15 1901	16	178,542,433	443,710,322
" 15 1902	13	278,266,372	" 13 1902	22	208,049,802	486,316,174
" 9 1903	14	272,416,717	" 15 1903	25	234,276,045	506,692,762
" 6 1904	15	296,570,660	Sept. 7 1904	33	274,459,144	571,029,804
Nov. 9 1905	16	314,163,768	Nov. 10 1905	36	338,605,866	652,769,634
" 12 1906	16	323,295,421	" 13 1906	43	355,170,368	678,465,789
" 22 1907	17	330,613,222	" 19 1907	43	343,420,719	674,033,941
Sept. 23 1908	16	369,490,393	Sept. 24 1908	44	360,727,116	730,217,509
June 23 1909	16	402,292,754	June 24 1909	43	403,589,119	805,881,873

Aside from the magnitude of the totals, the most significant thing shown in this table is the steady gain of the State banks upon the National banks in number and in aggregate volume of business. Not less significant is the notable increase in savings deposits and bank deposits as shown in the follow-

ing table. The dates are the same as in the preceding table.

Year.	Individual Deposits (Including U. S.)			Bank Deposits.			Savings Deposits State Banks Only.
	National Banks.	State Banks.	Total Both.	National Banks.	State Banks.	Total Both.	
	\$	\$	\$	\$	\$	\$	
1890	61,563,6	30,498,0	92,061,6	46,958,0	4,000,0	50,958,0	12,487,5
1891	67,171,8	35,748,1	102,919,9	51,477,6	4,143,1	55,620,7	14,610,5
1892	79,690,2	45,986,9	125,677,1	58,659,4	4,278,3	62,937,7	18,823,9
1893	69,482,6	45,645,2	115,127,8	43,462,9	5,609,5	49,072,4	15,446,9
1894	75,548,8	48,869,8	124,418,6	59,065,2	7,337,4	66,402,6	18,732,6
1895	69,480,7	49,167,2	118,647,9	53,427,2	6,756,1	60,183,3	21,480,4
1896	66,143,9	46,558,4	112,702,3	46,616,5	6,093,1	52,709,6	23,354,1
1897	72,964,6	62,481,3	135,445,9	75,346,9	10,618,6	85,965,5	23,557,5
1898	85,462,8	62,658,9	148,121,7	85,175,1	11,332,0	96,507,1	30,975,1
1899	103,477,4	78,910,4	182,387,8	107,384,1	12,191,2	119,575,3	42,400,7
1900	105,528,8	82,205,4	187,734,2	133,507,5	18,556,4	152,063,9	54,101,5
1901	124,727,1	86,905,0	211,632,1	139,440,7	24,413,5	163,854,2	67,223,8
1902	134,542,9	95,428,0	229,970,9	143,723,4	27,042,4	170,765,8	85,639,3
1903	129,069,6	101,577,9	230,647,5	143,317,2	27,450,7	170,767,9	105,197,4
1904	137,391,8	123,710,3	261,102,1	159,178,8	30,591,7	189,770,5	120,157,1
1905	150,696,1	161,278,7	311,974,8	163,407,5	32,419,4	195,826,9	145,916,1
1906	153,993,1	165,856,3	319,849,4	169,302,3	38,144,9	207,447,2	151,169,1
1907	149,168,5	152,893,4	302,061,9	181,444,7	32,509,4	213,954,1	158,017,9
1908	156,331,3	172,035,0	328,366,3	213,159,1	43,293,4	256,452,5	145,398,5
1909	172,907,8	193,974,7	366,882,5	229,384,0	48,312,7	277,697,6	161,291,6

Note.—In all the above the last two figures have been omitted.  
\* Approximate. Total deposits reported by State banks was \$45,474,658, of which \$12,497,591 was savings deposits.

From this it appears that the rapid increase in the savings deposits, held only by the State banks, makes up a considerable proportion of the gain shown by these banks. It also appears that between 1892 and 1907 there was an increase of \$151,000,000 in the bank deposits, and that while in the former year the National banks held about \$58,000,000 bank deposits as against \$79,000,000 individual deposits, in 1907 they held \$181,000,000 bank deposits as against \$149,000,000 individual deposits. Separate statistics for trust companies cannot be given for the reason that all of these companies in Chicago are engaged in general banking, with the exception of the Farwell Trust Company, which makes a specialty of dealing in investment securities, and the Pearsons-Taft Land Credit Company, which makes real estate loans and issues collateral trust bonds against them. Although these companies are organized under the Illinois banking law, because of the character of their business their figures are not included in the statistical tables given in this review.

As bank balances are the first to be drawn down in time of stress, it will be apparent that the technical position of the Chicago banks was somewhat less favorable in the panic of 1907 than in previous crises. Moreover, the increase in manufacturing and merchandizing in the city had been so great as to make the grain and provision trade of somewhat less relative importance than in the earlier stages of her development, while the devolution of that trade more and more into the hands of a few large houses had steadily reduced the proportion of loans secured by warehouse receipts for the commodities named. In spite, therefore, of the much greater strength and larger resources of the Chicago banks in 1907 than in 1873 and 1893, an independent stand would have been much more difficult, and while it is possible that they might have stood out and declined to resort to the use of Clearing House Certificates, they wisely decided to fall into line with the banks in New York and other cities. The crisis passed without any local failures, and to-day the Chicago banks have entered upon a new period of prosperity with every prospect that their



growth in the last decade will be far exceeded in the next.

#### THE CONVENTION AND THE CENTRAL BANK PLAN.

So far as concerned the interest of the outside world in its deliberations, the discussion of the proposal for a central bank of issue, introduced at the opening of the proceedings in President Geo. W. Reynolds' annual address, was the salient incident of this year's Bankers' Convention. Mr. Reynolds' speech on this subject was aptly timed to attract public discussion. A week before, Mr. E. B. Vreeland, chairman of the House of Representatives' Banking and Currency Committee, had taken ground for a central bank of issue, in a speech to a Pennsylvania bankers' convention. Mr. Vreeland's argument did not go very far; it rested in the main on the defects of our present bond-secured banknote circulation. This system, Mr. Vreeland set forth, introduces and perpetuates a wholly unscientific basis of regulation for expansion and contraction of such currency. Each separate bank "figures upon its own profits as to whether the volume of its note issue shall increase or decrease," the inevitable outcome being that the volume of circulating medium, at any given time, "depends more upon the price of government bonds than upon the needs of business." Mr. Vreeland's conclusion was, that a central bank with monopoly of circulation, with a limited dividend rate, and with some measure of government control, is the ideal solution. On the very day of Mr. Reynolds' speech of September 14 to the bankers at Chicago, President Taft, addressing the Boston Chamber of Commerce, took occasion, after noticing the defects of our present bank circulation system, to refer to the central bank plan, declaring that "it is quite apparent \* \* \* that the trend of the minds of the Monetary Commission is toward some sort of arrangement for a central bank of issue, which shall control the reserve and exercise a power to meet and control the casual stringency which from time to time will come in the circulating medium of the country and of the world."

The speech of Mr. Reynolds, therefore, was at once ensured a hearing; all the more so from the fact that his analysis of the plan, his suggestions of the necessary details, provisions and restraints, and his comments on the probable working of such a system from the practical banker's point of view, gave a clearer comprehension of the problems involved than has been embodied in any other recent review of the subject. The more important provisos suggested by Mr. Reynolds were that the capital of such a bank should be at least \$100,000,000, its shares to be owned either by other banks or by the public at large; that its note issues should be secured in part by a metallic reserve and in part by high-grade endorsed commercial notes of a short maturity; that it should be the sole depository of

government funds and should hold the re-deposited reserves of national banks of the central reserve cities; that it should accept no deposits from the public at large, but should discount for it, such discounts being, however, limited to real commercial bills of high grade, running not more than ninety days. Two boards, in Mr. Reynolds' view, should exercise control over such a bank: one, a "general governmental supervising or overseeing board," should be appointed jointly by the President of the United States, the Secretary of the Treasury, and the Comptroller of Currency, and confirmed by the Senate; the other should be elected by the shareholders, and the officers of the bank should be named for long terms, or for life, by the supervising board after conference with the second board.

That discussion of the central bank expedient, as a solution of the currency problem generally, should have been stimulated into immediate activity by these several speeches, was to have been expected. According to our information, the subject became at once the chief theme of discussion or controversy at the Bankers' Convention itself, and, in perhaps a less degree, it may be said to have occupied attention in public discussion generally. It appears that in the convention, a very considerable difference of opinion developed, and, so far as we have observed, opinion outside of the convention has by no means been unanimous. Newspaper comment on the matter has for the most part, so far as we have observed, been more than usually reserved and disposed to await the fuller discussion of the matter before taking sides positively on the question of a central bank of issue. And this in the main appears to us to be the attitude of the average citizen. Certain objection to the central bank expedient he can foresee; at the same time, he is ready to recognize certain theoretical merits of the proposition.

It is usually the conclusion, under just these conditions, that a "campaign of education" is in order, and we presume that some such public canvassing of the merits of the question may be looked for under the auspices of the Monetary Commission, and perhaps under those of the Bankers' Convention Committee itself. But it is already manifest that discussion of the subject on this basis, in order to bring about any useful results, must address itself chiefly to the objections alleged against the central bank expedient.

That such a solution of the currency dilemma was impracticable politically, has long been believed by some of the most thoughtful men who have studied the question. The New York Chamber of Commerce Committee on Reform of the Currency, reporting in October, 1906, placed the central bank of issue first on its list of alternative expedients. But the committee's report frankly recognized that the proposition might not be feasible; and its chairman, Mr. John Claffin, in submitting the report, expressed his own judgment that the public mind was not pre-

pared for the expedient, and that it was politically out of the question.

There are many who believe that the public mind is better prepared to accept the central bank proposition now than it was in 1906; that the panic of 1907, the "currency famine," the recourse to irregular and extra-legal forms of money, and the blockade of depositors' bank accounts because of inability to maintain cash reserves, have predisposed the average thoughtful citizen to favor an institution which, if ideally managed in the crisis, ought surely to have averted the worst of these difficulties. We are unable to say whether this is true or not of the general public; it is true, we presume, to a considerable extent of the banking community, though even of this we shall know more when opinion has been more thoroughly canvassed.

We suppose that the objections generally held against the central bank plan may be classified as political, sectional, practical, or sentimental. It was clearly enough the political objection which Mr. Claflin recognized in 1906, and to which Mr. Taft referred last week, in his reference to the necessity of keeping the monetary system and the central bank "free from manipulation for political purposes." Political interference, as generally pictured, would be of one or the other of two somewhat different sorts—one, the use of the bank's facilities and power to favor an administration party; the other, use of its offices as reward for political activities. The first of these conditions has never appeared to us a serious possibility; the notion itself is a survival of Andrew Jackson's days, when something of the sort, if it did not actually exist with the old United States Bank, was at any rate believed to exist. The second suggested avenue of political interference cannot be pronounced an absolute impossibility to-day, when the existing executive departments of the government are themselves not free from it. We imagine that much of the subsequent discussion will converge on this aspect of the question.

For ourselves, we cannot regard the discussions of this month as anything more than preliminary and tentative. Even Mr. Reynolds' very able and enlightening review did not settle such questions as would hinge, for instance, on the concentration of reserves and of public deposits. Government deposits in the national banks, which in times of excessive surplus revenue have risen as high as \$200,000,000, are the product of taxes drawn from communities throughout the whole United States; it is from those markets that circulating medium was absorbed through excessive public revenue. Therefore the demand, that such moneys be re-deposited in banks of the localities whence they were withdrawn, is by no means the outcome of selfish desire of the banks of such localities to get a share in the public funds; it voices the dislike to artificial depletion of a community's own supply of currency. How this dilemma would present itself if such deposits were to be converged in a central bank at New

York or Washington, is a question to consider; or, if the alternative of numerous branch banks were to be considered, the question of competition with existing institutions would arise. The mere question, where the central bank itself should be located, is a matter of some importance. The question of the bank's relation to the general money market—how far, for example, it should on occasion, like the Bank of England, raise as well as lower the bank rate and restrict the market's supply of credit—is a matter to be pondered. There are problems, by no means yet even tentatively worked out, in the matter of actual control, by government or by outsiders.

We mention these considerations, not as fatal to this plan or to any plan, but as showing the need of much more light upon the problem, and of very careful deliberation on the whole matter of currency reform. We presume the question will be thus debated. It is highly improbable that a bill for a central bank, or for any final solution of the currency question, will occupy the coming session of Congress. The Monetary Commission itself has not yet concluded its labors or formally agreed on any plan, and we have reason to doubt that the central bank will be either advocated, or exhaustively discussed, in the President's next message to Congress or in the Secretary of the Treasury's report.

#### SOME FEATURES OF THE CONVENTION'S WORK.

With the growth of the American Bankers' Association in membership and influence, and with the extension of the scope of its activities into the various different branches of the banking field, the function of the Annual Convention is confined, and wisely and properly so, to registering its judgment on the work done and in giving expression to its opinion on important current questions. It is gratifying to note that the action of the 1909 Convention on the questions which came before it was conservative and that the Convention took a firm and determined stand against several of the most prominent popular fallacies of the day.

It was, of course, a foregone conclusion what the course of the Convention would be on the scheme for a guaranty of bank deposits. Last year the Association collectively, and all its sub-divisions separately, almost unanimously condemned the proposition. It was improbable that the Association would stultify itself by taking any different action on the present occasion and it would have argued that the bankers were lacking in a knowledge of the fundamental principles underlying sound banking to imagine that they could ever be got to give even quasi endorsement to such an untenable and indefensible suggestion as the guaranty proposal.

Notwithstanding, however, that it was known beforehand what stand would be taken on this question, no one would have thought that absolute unanimity of opinion could be depended on in opposition to a proposal which has been commanding a

wide degree of support from politicians and legislators in some of the smaller Western States. Since last year's Convention recorded its judgment so emphatically in disapproval of the notion, a number of these Western States have enacted laws providing for various guaranty schemes. The banking fraternity, however, as represented by the members in convention assembled, have, it would appear, remained unaffected by the craze which has been gaining headway in some of the remoter sections of the country. At all events, a resolution condemning the mutual guaranty of deposits either by the State or Nation was adopted without a dissenting vote, showing remarkable unanimity of opinion.

Not less emphatic was the position of the Convention with reference to the proposal for postal savings banks, on which subject also past action indicated what present action would be. Here likewise the Convention, without a dissenting vote, adopted a resolution declaring it the sense of the Association "that we should condemn in unqualified terms the proposition for the establishment of postal saving banks or any other system by which the Government enters directly into banking relations with the people." Another resolution declared "that the American Bankers' Association is opposed to any financial legislation based upon the argument that it was a party pledge and should be redeemed." This it will be seen has reference to President Taft's recent remarks that the Republican platform in the Presidential election of last year had declared in favor of postal savings banks and he believed that the party should redeem its pledges.

A third resolution adopted with equal unanimity reads as follows: "Resolved, that we believe the proposed plan to invest postal savings bank deposits to the extent of \$600,000,000 or \$700,000,000 in United States bonds simply to maintain such bonds at par is unsafe and unwise legislation and if enacted would ultimately lead to lack of confidence in our National credit."

There was a fourth resolution which formed part of the series, but which was not adopted, making the action of the Convention with reference to the other resolutions stand out in still bolder relief. The resolution which the Convention failed to accept dealt with a substitute proposal for the scheme of postal savings banks. On this the Convention declined to take a definite stand and we think that the fact that it did not is further evidence of the prudence and deliberation with which the Bankers' Association generally acts. The resolution in question recommended as a substitute for postal savings banks the maintenance of separate savings bank departments by National banks, the assets to be segregated and accounts separately kept for the protection of the depositors in that proposed department. It is known that some of the National banks are already receiving savings deposits, but whether Congress should confer express authority upon the National banks to solicit such deposits and establish savings departments is manifestly a large question upon which action should be deliberate and taken only with the utmost caution. This fact was recog-

nized by many of the members in attendance and hence the resolution met with vigorous opposition. The final outcome was that the whole matter was referred to the Currency Commission of the Association, evidently a wise disposition of the question.

If a mercantile bank—a bank of loan and discount—whether organized under National law or under State laws is to have the right to receive deposits at all, it certainly is proper that such deposits should be separated from the ordinary commercial deposits. The two classes of deposits stand on a totally different footing. That aspect of the matter received considerable attention at the hands of the Savings Bank Section, and this gives prominence to the fact that discussions in the Savings Bank Section, which has a separate day for its meeting at the annual gatherings, are not limited to subjects in which savings institutions alone have an interest. H. M. Zimmerman, the Michigan Commissioner of Banking, specifically discussed the subject of the Segregation and Safeguarding of Savings Deposits. Our readers need not be told that many banks of loan and discount and also many trust companies have savings departments. The subject, hence, is one that appeals to both these classes of institutions.

It hardly seems necessary to argue that savings deposits, where held by general banks, should be invested with especial care, should be sharply differentiated from other deposits and should in other ways have preferred treatment and consideration. Mr. Zimmerman in his address well said that savings deposits have always been regarded as trust funds when left with the ordinary "mutual" savings banks, which is the only type of savings institution known here in the East. He argues with much force that these deposits should also be so regarded, both legally and morally, when placed with other institutions. The nature of such deposits is certainly not changed, he says, no matter what may be the character of the corporation or association into whose hands they are placed. The investment of such funds in ordinary commercial business risks would not be countenanced by the courts if in the hands of administrators or guardians. Neither should it be countenanced when these funds are in the hands of corporations which are not required by the laws of the State in which they operate to invest them in the most stable securities to be had.

Many States already insist on this distinction and Mr. Zimmerman argues that all should. In other words, he urges the adoption of a general law by the Nation as well as by the States that any institution chartered by either which holds itself out to the public to receive savings deposits should be required to segregate them and invest them in a definite and prescribed manner. It is his opinion that with the adoption of such a requirement many, if not all, of the alleged reasons for the insurance of deposits and the establishment of postal savings depositories would disappear. The suggestion is in any event an excellent one.

It is to be noted, too, that the Committee on Savings Bank Laws of the Savings Bank Section has

been giving careful and detailed consideration to the subject during the past year. It will be seen from the report of that Committee, published on a subsequent page, that at a meeting of the Committee last February in conference with a number of prominent bankers it was unanimously conceded that savings deposits, wherever held, should be segregated and safeguarded. The opinion is expressed, too, in the report that at the spring meeting of the Executive Committee of the Savings Bank Section in 1910 the Law Committee will be prepared to submit the draft of a skeleton banking law for the safeguarding of savings deposits. In Michigan, as pointed out by Mr. Zimmerman, savings depositors have been the special objects of care and solicitude on the part of the lawmakers. The statute in that State provides that separate books of account shall be kept, that all investments in the savings departments shall be kept entirely separate and apart from the other business of the bank. It appears from the report of the Savings Bank Law Committee that the general situation as to savings bank laws in the different States is this: Eighteen States have no savings bank laws; eight States allow stock banks to be organized with departments for commercial and savings business; other States permit organizations of stock savings banks; in New England, some of the Middle States,

and a few of the Western and Southern States, mutual savings banks (without stock) are provided for.

Another paper read before the Savings Bank Section is of interest far beyond the confines of the savings bank circles. We refer to the paper of Robert M. Rother on "Partial Payments Compared with Sinking Funds." Mr. Rother argues that sinking funds are a doubtful assurance to the lender and an expensive undertaking to the borrower. To have any value at all the provisions for a sinking fund must be conscientiously carried out, and the accumulated funds must be advantageously invested. The first is not always done and that the investment of the fund is subject to all sorts of contingencies is self evident. Mr. Rother contends that however sound in theory a sinking fund may be, its administration cannot be placed beyond the pale of human weakness; it always was and always will be an unknown quantity—a speculation. The partial payment plan, he declares, is free from these uncertainties. The specific amounts to be paid each year on account of principal and interest are determined in advance, and the liability of the issuing corporation is reduced with every payment. There is no guessing; it is fixed figures and facts from first to last.

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# BANKING SECTION

## AMERICAN BANKERS' ASSOCIATION

Thirty-Fifth Annual Convention, Held at Chicago, Sept. 14, 15, 16 and 17, 1909

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### *Some Problems of the Comptroller's Office.*

BY HON. LAWRENCE O. MURRAY, Comptroller of the Currency.

Every public officer, clothed by law with extended powers and wide discretion, has many difficult problems to meet. Perhaps the hardest one of all to settle, to the satisfaction of a critical public, is the general problem of the internal administration of his own office. This, to a public officer is the fundamental problem. No matter how high his ideals may be, no matter how devoted he may be to the settlement, in a fair and equitable way, of every particular question, whether legal or commercial, that comes before him, if the machinery of his office is below the necessary standard of efficiency, his administration is doomed to failure.

Bank supervision and bank examinations exist for but one reason—to offer greater security to the creditors of the banks. If examining and supervising are to be done at all, they ought to be as well done as possible under existing laws. If poorly done, the State or the Federal Government, as the case may be, affords only a false and misleading security to the depositors. The public official, whether Federal or State, charged with the duty of enforcing banking laws, who is a party to a form of administration that beguiles the depositor into a sense of security which has no basis in fact, perpetrates a fraud upon the public.

#### CO-OPERATION WITH BANKERS.

There has always been a great deal of criticism of the National bank examiners, and perhaps there always will be. Some of it is just; much of it is very unjust. When I became Comptroller, I determined to find out exactly how the bank examiners did their work, and there seemed no better way than to ask the bankers themselves. A letter was sent to the president of each National bank, asking how the examiners were doing their work; whether or not it was being well done; and whether the examiners took time enough to go into the details of the bank as the law contemplates, and asking them, in a general way, to point out every defect in bank examinations.

About 2,000 bank officers severely criticised the manner

in which bank examinations were made, and offered suggestions for improvement. Such a percentage of criticism showed something radically and fundamentally wrong. Some of the remedies suggested were excellent; some were impossible. But one important fact was established beyond any question—there was room for great improvement in the work.

The careful reading of the letters of criticism put the Comptroller's office in possession of specific and reliable information as to just how the work was being done. About forty of the examiners were then called to Washington for a conference. At this conference they were told, in language as plain as could be used, that some of them did excellent work, that some of them gave fair service, that some of them were incompetent and their work both a farce and a fraud.

This conference developed clearly the need of closer co-operation between the bank examiners themselves, as well as between the bank examiners and the Comptroller's office. Examiners had gone on for years, working in the same district, conferring with nobody, each following his own methods of examination, often faulty and crude, and knowing nothing of a borrower's standing and little of the value of securities, except what they learned in the banks in districts to which they were assigned. An examiner cannot make a reliable estimate of the value of the assets which he finds, unless he has a broader basis of information than he will be able to get by going around and examining only certain banks, and none other. The service was therefore reorganized on a new basis. The country was divided into eleven districts; some one of the very best examiners in the service was named as chairman of each district, and the examiners assigned to each district were required to attend a joint meeting in their district at least twice a year.

These district meetings of examiners are now not only clearing houses for the exchange of information on credits, but the examiners attending discuss many matters of

mutual interest, such as better methods for doing their work; the adoption of new forms and blanks; good and bad banking practices; good and bad bankers. They return to their work better equipped for effective service.

At these meetings, each examiner brings to the chairman of his district a report on every bank which he considers in an unsatisfactory condition, and discusses in the meeting the condition of the bank, and why he regards it as unsatisfactory. From all these reports of the individual examiners, the chairman makes up a final report for the Comptroller, and sends a copy of his report to each of the other chairmen for their information and for the information of the examiners in the other districts.

The meetings already held have been most successful. The information submitted in the reports by the chairmen form the basis upon which a credit bureau is now being built up in the Comptroller's office. A copy of the report of each chairman has been sent to each of the other chairmen, and as the reports are available for the examiners assigned to the different districts, it is now possible for any examiner who is interested in any particular line of credit, or in any securities, to write to the chairman of the district to which he is assigned, and find out what the other ten chairmen know about the particular subject of his inquiry.

#### RELATIONS OF BANK EXAMINERS TO BANKS.

One of the first things to which I gave attention was the relation of the bank examiners to the banks. I can think of nothing more indefensible or fatal to any sound system of bank examination than to have men examining banks who are themselves stockholders in or borrowers from these banks. An investigation of this matter showed that some of the bank examiners were stockholders, many of them were borrowers; some of them were officers in corporations which borrowed money from the banks which they were themselves examining; others were officers or directors of National banks, and some were officers or directors of State banks.

No one can defend such a situation as that. A National bank examiner ought never to borrow a dollar from any National bank, nor own a share of stock in one. A bank examiner who does his full duty is engaged in business sufficiently important and responsible to require his best and undivided attention to the work at all times.

Every National bank examiner, therefore, who was either a borrower or a stockholder in any National bank, or engaged in any other business than that of examining banks, was required to dispose of all the stock held in National banks; to resign as an officer or director of business corporations; to at once pay any loans which he might have in National banks; to agree in writing that hereafter, while a National bank examiner, he would not borrow, either directly or indirectly, from any National bank; that he would not acquire stock in any National bank, either directly or indirectly; that he would not accept public office of any kind or nature whatsoever, and that he would not become an officer of any corporation.

For forty-five years the Comptroller's office has been receiving letters from banks which had been criticised, stating that the examiner's report on which the letter of criticism was based was unfair, and the reason given was that the examiner making the criticism was a stockholder in or borrower from a rival bank. Since the recent order was issued, no such letter has been received, and none ever will be as long as that order stands.

For the first time, therefore, since the National bank act went into effect, forty-six years ago, there is not an examiner in the service to-day who owes a National bank a dollar; there is not an examiner in the service who owns a share of stock in any one of the seven thousand National banks; there is not an examiner in the service who is an officer or director of any corporation which borrows a dollar from any National bank; there is not an examiner engaged in any business except examining banks, and there is not

a man in the service who is not giving his best energy, his best thought, and his undivided attention to his work.

#### OATH AND BOND OF BANK EXAMINER.

As the National bank act does not specifically require it, no oath of office has ever been required of the bank examiners. Neither does the law require that the bank examiner shall give a bond for the faithful performance of his duty. But it seemed to me that, as a matter of good administration, the men who actually handle twice a year nearly a billion dollars in cash, and pass on the valuation of nearly ten billion dollars of assets held by the National banks, should not only take an oath of office, but should give a bond to the Comptroller of the Currency, in a substantial sum, for faithful performance of their duty. So every examiner now in the service has taken an oath of office required of all government officials, and everyone hereafter appointed will do the same. Every examiner has given a bond to the Comptroller, in the sum of \$20,000, for the faithful performance of his duty, so there are to-day outstanding and in force bonds given by the National bank examiners in the penal sum of two millions of dollars.

#### BANK PROMOTERS.

Every Comptroller of the Currency takes a natural pride in seeing the banks grow in number, in strength, and in popularity. I believe in the expansion of the system, but I believe that that expansion should be along normal, safe and conservative lines. I do not believe in the organization of a bank in a community where there is no good reason for its existence. I do not believe in the organization of banks in communities where the business that would naturally come to the bank is insufficient to warrant success; nor do I believe in the organization of any bank in a community where the Board of Directors will not be composed of men of business ability equal to the best to be found in that community.

If we are to have a great system of banks, sound, well managed and prosperous, the greatest attention and scrutiny must be exercised before the government issues a charter. In the National system we want banks organized in places where the demand is spontaneous and originates with the people living in the place who feel an actual need of banking facilities. I do not believe in the organization of banks by promoters who go about the country, calling public meetings, and by methods of advertising characteristic of the circus, endeavor to arouse enthusiasm for the organization of a bank.

In some cases the promoter is satisfied to organize a bank for a fee of five to ten dollars on each share of stock, while in others he is contented with a commission of from 3 to 6 per cent. on the capital stock and surplus fund. In other cases he expresses a willingness to organize a bank with the understanding that he is to be elected to office, receive a salary, and be given the privilege of having a company in which he is interested loan the funds of the bank on a commission basis. There is still another type of promoter who makes a business of organizing banks for the sole purpose of having his company supply furniture and fixtures. And in some cases promoters have charged the bank more for organization expenses than its net earnings would amount to in five years, even if it should not lose a dollar in bad debts.

The Comptroller's office knows every bank promoter now operating and has a special report on file concerning him. It has full information as to the methods used, not only as a general rule, but in each particular bank. It has a fairly good file of the alluring advertisements and the handbills which they have spread broadcast in the places where banks have been promoted.

As soon as an application comes to the office for the establishment of a bank, if it bears any of the earmarks of the application of a promoter, although his name may not appear upon it, a letter is written to every man signing the application, raising these questions: First, did the idea of the organization of the bank originate with the



people of the community themselves, and is it the outgrowth of a necessity for banking facilities, or is it the plan of a bank promoter; and, secondly, if the bank is established, will the business which will naturally flow to it be of such volume and character as to reasonably insure success?

The answers to these matters, in a great many instances, are that the organization of a bank was entirely the idea of outsiders who came there for the purpose of organizing, and that they signed the application with very little consideration as to the probable outcome of the venture. In these cases, the promoters are asked to make a deposit of a sufficient amount of money to cover the expenses of a competent examiner from my office to go to the community and make an honest and thorough investigation of the whole situation; and if his report is to the effect that there is no necessity for its reorganization, no field for the bank, no reasonable chance for its success, the application is promptly disapproved.

#### CLEARING HOUSE EXAMINERS.

I believe in co-operation between the Comptroller and the Superintendent of Banks of the different States; in co-operation between National and State examiners, at least in the examination of allied institutions; in co-operation of the National examiners and the clearing house examiners, and where there are no clearing house examiners, in co-operation of the National examiners and the clearing houses.

At present the ideal examination can best be made by clearing house examiners, owing to the manner in which they are paid and the unlimited time at their command, and I would like to see at least one examiner so equipped in each of the large cities of the country. It has been suggested to me that the Comptroller ought to look with disfavor on the clearing house examiner, because the necessity for such an examiner seems to reflect on the work and the efficiency of the National bank examiner. I take exactly the opposite view. I am heartily in favor of clearing house examiners, and I have instructed the National bank examiners, in the cities where there are clearing house examiners, to co-operate with them fully; and the co-operation goes to the extent that the clearing house examiners and the National bank examiners go into the banks at the same time and make a joint examination.

#### CLEARING HOUSES AND NATIONAL BANK EXAMINERS.

But the great majority of clearing houses have no examiner, and cannot afford to have one, by reason of their limited membership. In all such cases, however, the clearing houses may, if they desire, utilize the results of the work of the National bank examiner. If any clearing house association in the United States, no matter how large or how small, requests me to have the National bank examiner for the district in which it is located co-operate with the clearing house in the interest of better and more conservative banking, I will direct the bank examiner to do so. He should report only really dangerous conditions and tendencies. The only condition required is that the request be signed by all the banks composing the clearing house, or at least that the co-operation be requested by a committee properly authorized to make such a request.

#### CO-OPERATION BETWEEN THE NATIONAL AND STATE EXAMINERS.

In every State, with possibly the exception of Massachusetts, there are very closely allied institutions, one under the National system and one under the State.

It has been the policy of the Comptroller's office for several years to make an effort to arrange with the State superintendents to have the State institutions examined at the same time that examinations are made of the allied National banks, but the effort has been in the main a failure. When the State examiner was ready to examine the State institution, the National bank examiner would not be ready to examine the National bank, or vice versa.

During the last year instructions have been issued to the National bank examiners advising them that the joint examinations must be made if possible, and putting all the inconvenience of it upon them. They are told to arrange in advance positively for certain dates upon which the joint examination can be made; and, if necessary, to delay the examination of the National bank until such time as it may be convenient for the State officer to examine the allied State institution. So that now we have, for the first time, an effective co-operation between the National and the State examiners, in all the allied banks. The examination of these allied institutions at the same time will accomplish nothing unless the examiners have a conference after the examinations have been made, and fully discuss with each other what they find in the banks. That kind of co-operation is correcting bad conditions where any are found to exist.

#### NATIONAL BANK EXAMINERS AT LARGE.

There are conditions existing to-day, and continually arising in banks in various parts of the United States, with which the regular examiner of the district is wholly unable to cope, either because of insufficient time or because he has not that positive and forceful character and determination necessary to handle that particular situation. It therefore seemed wise to appoint some National bank examiners at large, whose duty it would be to make examinations of banks found to be in an unsatisfactory condition. Five of the best examiners in the service, men of tact, good judgment and of wide experience, have already been appointed, and they have examined and by direction of the Comptroller have forced the directors to put into satisfactory condition, during the last nine months, many banks which have been severely criticised for years.

The bank examiners at large have another and equally important duty to perform, and they are performing it well. As these National bank examiners at large are going all over the United States and examining banks in different districts, they are requested to report whether or not the regular examiners for the district are doing their work carefully, accurately and conscientiously, and in the painstaking way required by the Department. They are, therefore, not only examining and improving the conditions found in many banks, but they are reporting what they find out about the work of the other examiners.

#### DIRECTORAL CONTROL.

I come now to the question of directoral control, and I approach it with no inclination to controversy.

The director of a bank who poses before the people as the trusted custodian of their funds, and who is using his trusteeship for the purpose solely of personal gain, who is recklessly speculating with the people's money by borrowing unwarranted sums upon insufficient security, is the greatest menace to the safety of the banking system to-day. The elimination of this type of director from the control of banking institutions and the fostering of a keener sense of responsibility among a certain class of bank directors of the duties of their high office is being attempted by me through all the means at my command.

No matter how effective a law the Comptroller may have at his disposal; no matter how efficient the bank examinations may be, in the last analysis the internal management of the bank makes for either success or failure. The three forces, good examination, strict enforcement of the law, and directoral control, are absolutely essential; but the most important of all is the directoral control. As every Comptroller takes an oath of office to see that the National banking law is enforced, it seems not only my official duty, but that I am bound morally, to make an effort to bring home to the management of every bank, where it is either careless or inefficient, a due sense of its legal and moral responsibility to its depositors. When the government gives to a body of men a charter which authorizes them to receive other people's money, and at the same time the law fixes upon a government official the duty of supervising

these corporations, he is doing no more than the law requires of him when he inquires of the directors how they are performing the duties which they take an oath to perform.

The reasons for my determination to make an effort to stimulate directoral control were two: First, a National Commission is now making a study of the entire banking situation in this country. And as in the present banking law the duties of directors are not specifically set out, it seemed well to ascertain definitely just how the seven thousand banking corporations chartered by the government are internally managed by the board of directors; so that, if, in the new law, it seems wise for Congress to specify in detail what the duties of directors shall be, it will have the statistics as to just how the banks are managed at the present time. And, secondly, I desired to find out just how the banks are managed, so that, with no additional legislation at all, bad conditions may be remedied by good, effective administration. And I have found such a remedy. I now know exactly how every bank in the country is managed, and the few badly managed ones will be examined hereafter four times a year, and in the presence of the directors. And in the banks where the management is either careless or not up to a fair standard, the directors will be asked to adopt such rules for the internal management of the banks as will remedy for all time all ground for just criticism, either from the Comptroller or from anybody else.

And I can say to you now that I firmly believe that before the end of this year every single bank will comply with this reasonable request. The result will be that within a few months there will be on file in the Comptroller's office a letter from the boards of directors of every bank whose internal management is subject to any criticism, agreeing to meet all reasonable requests of the Comptroller's office; and further agreeing that the internal management of the bank, in the future, will be vigorous, effective, constant and watchful.

I assumed the active control of the Comptroller's office just a year ago, and during the year an investigation has been made as to the management and condition of every one of the seven thousand National banks. I have gone over the reports of the examiners of every bank, as well as the answers made by the directors to the questions put

to them, and I can say to you this morning that for honesty of purpose, for painstaking devotion to the heavy duties and responsibilities placed upon them, for keen business ability and devotion to the interests of the nearly six million depositors, for the wise handling of the assets of the banks, in round numbers nearly ten billions of dollars, the officers and directors of these seven thousand National banks as a whole have no superiors in any corporation in the world. And it is in hearty co-operation and accord with these officers that I desire to work, to correct every condition which we may find that is not up to a reasonable standard.

I have been asked repeatedly what my position is on the question of guaranty of bank deposits.

Gentlemen, I believe in just one kind of guaranty of deposits. I believe in the guaranty which comes from the Comptroller of the Currency doing his duty under the law, from the bank examiners doing their duty and from the executive officers and directors of the bank doing their full duty and in accordance with the oaths of office which they take. That is the only kind of guaranty of deposits in which I believe. That kind is practicable, and it does not cost the banks an extra dollar, nor permit depositors to lose a dollar.

#### CONCLUSION.

I have briefly touched on some of the problems that confront the Comptroller's office. In the near future other problems will come up, and an earnest effort will be made to meet them in a fair and business-like way, and if improvement can be made in the management of the Comptroller's office, I want to be among the first to suggest the improvement, and the first to make it. I am not one of the public officers who believe that the way the government has been doing things for fifty or one hundred years necessarily is the best way. I am looking for a way to make betterments every day, and the moment they can be made, with safety and security, they are made.

I have but one request to make this morning, and that is that in the solution of the problems coming before me you give me, when you feel I am right, your kindly consideration, your encouragement and your support; and when you feel I am wrong, your fair criticism, for fair criticism is as helpful as honest approval.

## *National Wealth and the Farm.*

BY HON. JAMES J. HILL, Chairman of the Board, Great Northern Railroad.

The well-being of a country, its political institutions, the direction of its industrial progress and ultimately of popular genius itself depend intimately upon the amount, distribution and employment of its capital in the shape of cash and credit. This is the motive power of the national engine. It always has been so. "Commercialism" has been common and must be common to every time and every race above the barbaric level. Men are always seeking to better their condition. The increase of wealth is an outward and visible sign of an increase in intelligence and power. The use made of that wealth will determine largely the quality of the next national era and the ideals that move the new generation. The bankers of a country, for centuries past, but more completely now than ever before, rank high among the custodians of the nation's future. This gives to the deliberations of a body such as yours a profound and far-reaching significance.

I may, therefore, be excused for departing from precedent if I devote this opportunity to a brief review of one of the larger national needs of the United States, since the wealth and industry of the whole country are represented here, rather than to some topic directly connected with the conduct of the banking business. It will be, I hope, more profitable to leave these matters to the experts among your

own number and to consider instead the rapidly changing balance of our industries which leads to disturbance and possible disaster to the nation. If there be any dislocation of the process of wealth-building in sight, the bankers of the United States have more interest in a clear perception of the fact and an effort to forestall misfortune than any other class.

The public is now to some extent awake to the relative value of the different occupations as sources of wealth. The farm is our main reliance. Every other activity depends upon that. The farms of this country are now adding annually over eight billion dollars to the total of our assets; a total which, unlike that of manufacturing and other industries, represents not value conferred by human labor upon some material already existing, but value actually created out of elemental things. This is the annual miracle of the earth; quite as wonderful as if a new planet should appear in space each twelvemonth. It is the mother of every other form of human industry. Our tillable area may be made to support millions of people greatly multiplied after the last bit of mineral has been extracted from the earth, and man's ingenuity in fashioning tools and fabrics has passed its limit. There is no comparison, in volume, in value and in relation to human

enterprise and the very continuance of human life between the cultivation of the soil and any other occupation.

So far the majority of people will agree. What they fail to realize practically is the declining status of agriculture in this country. They are misled by the statistics of farm values and products, mounting annually by great leaps, into thinking that this absolute increase implies a relative advance of this industry as compared with others. Exactly the opposite is the case. I refer not merely to the quality and results of our tillage, concerning which something may be said a little later on, but to the setting of the human tide away from the cultivated field and toward the factory gate or the city slum. This is something whose consequences for evil are as certain as if the aggregate deposits in all the banks of this country were decreasing by a fixed percentage every ten years, while their loans were increasing by another percentage just as stable. You would know what catastrophe that assured by and by. It means the same thing, in kind and consequences, when the agricultural population, the producers and depositors in the great national treasury of wealth, is declining year by year, while the city population, which thrives only by drawing drafts upon the land and cannot live a year after these cease to be honored, rises at its expense. Yet not only is such a crisis approaching, but it is being hastened by legislative stimulation in favor of other industries while overlooking this.

In 1790 only about 3.4 per cent. of the American people lived in towns. At the time of the Civil War the percentage had risen to 16. In 1900 more than 31 per cent. of our population was urban. The change is portentous; and there is no doubt that the coming census will show it to have proceeded in the last ten years with accelerated speed. In spite of the warnings of economists, the amelioration of farm life, the opening of new and attractive employment on the land through the spread of irrigation and the growth of the fruit industry, the encouragement of public men and the wider dissemination of agricultural education, the percentage of our population who work on the farm constantly declines. If that proceeds too far, it is as if dry-rot had eaten through the timbers supporting some great structure. We should consider now the change accomplished and that impending.

In the earlier history of the country, it is well known that the great majority of its people followed the cultivation of the soil. The census of 1870 was the first to group the population of ten years old and upwards in great divisions according to occupation. The drift away from the land became pronounced in 1880. Since then the process has been continuous and the results cumulative. The percentage engaged in agricultural pursuits of the whole number of persons ten years old and upwards engaged in gainful occupations in this country is as follows by decades:

1870.....	47.36	1890.....	37.7
1880.....	44.3	1900.....	35.7

From all the States, East and West alike, comes the complaint that the children will not stay on the farm, and that other labor cannot be enticed there except by high wages for a few weeks in summer. It is quite probable that the new census will show this farm population reduced to 30 per cent. of the whole. We may certainly say that it does not exceed one-third. And, unless this tendency is counteracted, no one can now predict to what inconsiderable fraction it may one day be reduced. Totals of farm products expressed in dollars and those expressed in bushels or pounds tell quite different stories. We maintain the showing because new and fertile land is still being opened, while at the same time older lands are abandoned or deteriorate. The possibility of this disappears with the appropriation of most of our available unoccupied land. The further fact is that we are now and have been for more than a generation, in spite of our boasted progress, in the grip of a revolution that has preceded declining wealth and falling institutions wherever it appeared since history began.

The effect of a constant decrease in the number of those engaged in producing any foodstuff, while the number of consumers steadily grows, is already evident in our markets. We exported last year 68,000,000 bushels of wheat, which was about 30,000,000 bushels more than we had to spare. We drew down our supplies to that extent, and the market responded with the highest prices known for many years. Last May wheat that had been shipped from Kansas City to Chicago and sold there was resold and shipped back to Kansas City at an advanced price. In the same month wheat was taken out of storage in New York City, shipped by steamer to Galveston and sent by rail to supply the immediate needs of mills in the wheat belt. This season there will be an unusual wheat crop, probably 700,000,000 bushels or upwards. At six and a half bushels per capita for home consumption and seed, this leaves us a surplus of 115,000,000 bushels. We shall probably export 125,000,000 bushels, under the pressure of foreign demand, leaving us nearly as badly off as we were last year.

With our annual increase of over 1.5 per cent. in population from natural causes and immigration that has not been less than three-quarters of a million any year since 1902, there will be from two to two and a half million more mouths to feed every year. Having in view this increase in population, the declining average yield per acre of cultivated land in the United States after it has been farmed for a few years, the rise of per capita consumption, with a higher cost of living and the movement of the working population away from the land, the time is now approaching when we shall not only cease to be a wheat selling nation, but will find it necessary to import a portion of what we consume.

Last year the value of our total exports classified as foodstuffs, either crude or partly or wholly manufactured, and food animals, amounted to \$438,000,000. We imported of the same classifications nearly \$329,000,000. The idea that we feed the world is being corrected, and unless we can increase the agricultural population and their product, the question of a source of food supply at home will soon supersede the question of a market for our own products abroad. Our foreign trade in the past has rested mainly on our exports of products drawn from the earth directly, or only once removed. Our manufactures for export are to a large extent natural products subjected to a few simple processes. How are we to meet the immense trade balance against us, how prevent financial storms of frequent occurrence and destructive force, how feed the coming millions, if the farmer, who pays most of the bills, has retired to the city or the country town in order that his children may the better enjoy their automobiles and enter into the delights of the social game?

Since the percentage of those at work on the soil declined by about one-fourth in the last thirty years, we have to consider not only the increase of food demand over its domestic supply but also that disturbance of the balance between one form of industry and another upon which prosperity and stability depend. This industrial interdependence appears to be one of those universal laws that prescribe harmony and proportion as essential to health. Just as the soil itself must have a change of crops, as every member of the body must have its appropriate exercise, as a hygienic food ration must include a proper amount of each of the chief chemical constituents to produce physical and mental vigor, so human occupations must be distributed with reference to one another if the big machine is to work without loss of efficiency or collapse. Up to this time other industries than agricultural would have flourished and grown amazingly in the United States without any artificial stimulus, because the large percentage of the total population engaged in agriculture furnished an adequate market. This condition is changing rapidly.

If, in a population of 100,000,000 people, which we shall have shortly, 45 per cent. are engaged in agriculture, then 45,000,000 people are calling upon the labor of 55,000,000

for clothing, professional service, commercial help, tools and furniture and all the smaller comforts and luxuries. If, instead, the agricultural percentage is reduced to 30, only 30,000,000 people instead of 45,000,000 people make such demands, while 70,000,000 instead of 55,000,000 compete in supplying them. A stationary or declining product, a soil becoming annually less productive, a revolt against the life of the farm and a consequent rise in wages amounting, since 1895, to 55.6 per cent. for ordinary day labor on the farm without board and 61.3 per cent. with board, compel such a rise of all prices as bears ruinously upon town and country alike. Our real concern is not so much to save the home market from the inroads of the foreigner as to keep it from destruction by an enlarged city life and a neglected country life, a crowded artisan population clamoring for food and a foreign demand for the product of their wages limited to fields where the competition of all the world must be met and overcome.

This problem besets Great Britain to-day. We must not seek voluntarily that calamity which has been forced upon her by physical conditions. The time of her greatness was the era of prosperous agriculture, with other industries proportioned to it duly. Long after that balance was disturbed, she maintained herself because the growth of her colonies was equivalent to added farms in England. At the same time she improved her domestic agricultural methods and doubled her product. Thus she protected and preserved herself until the growing tyranny of her trade unions made much of her production too costly for the markets of the world. Their limitations on output, their embargo upon exceptional skill and industry, their opposition to enterprise and their practical control of legislation have at the same time raised prices and lost markets. From such a dilemma Great Britain has turned to the socialistic hallucination; and even some of her truest friends doubt whether she has vitality and recuperative power enough to save her from permanent decline.

There are few more interesting chapters in history than those detailing the relation between industrial development, the food supply and the growth and decline of political institutions and national greatness. Civilization is mostly the story of the triumph of the human stomach in its struggle for food equal to the work of physical and mental evolution. Events and epochs that puzzled the historians of the past are explained by a study of common human experience. An economic cycle runs through all the affairs of men from the earliest times. There is a period of foundation-laying, in which agriculture is the accepted resource of the State, and national strength is built upon it. Then the demand for an enlarged life stimulates the manufacturing and the commercial interests, and there ensues a period of great prosperity, which sees the rise of great fortunes, the relative decline of the food supply, the introduction of luxury, the growth of indolence and a universal increase in prices. Never yet has this enhanced cost of living, when due to agricultural decline and inability to supply national needs, failed to end in national disaster. Professor Ferrero, in his story of "The Greatness and Decline of Rome," after describing the agricultural depression of Italy, the ruin of her peasantry and the distress of all classes that followed, attributes it "simply to the increased cost of living." This, rather than imperial ambition or race decay, is the key by which history unlocks the secrets of the past.

Once the valley of the Euphrates was earth's garden spot. Its greatness passed with the deterioration of its soil. When Greece was at the summit of her power, her ambition was to capture the grain trade by holding sway over the Black Sea and the Bosphorus. Even in good seasons Attica is said to have been obliged to import about 12,000,000 bushels of wheat. Every one of the great nations of antiquity guided its foreign relations and directed its invasions and conquests with a view to obtaining an adequate food supply. That was the value of Egypt to the Roman Empire. That determined her policies in the East. Spain in her greatness scoured the world for the food

which her own soil had ceased to yield. With the decline of agriculture every one of these nations lost its leadership and either disappeared or remains a mere name.

The consumers of bread throughout the world increase by probably from four to five millions every year. In our own country we shall require from 13,000,000 to 15,000,000 bushels more annually for seed and home consumption. The domestic supply cannot be maintained by present methods. Not only is the cultivation of the soil being neglected, but it is also notoriously ineffective. Our wheat product per acre from the older lands falls steadily. Our national average is less than half that of England or Germany, both of which have soil inferior to our own. Only by bringing rich new land under cultivation have we prevented the fall from becoming abrupt. Good farms in the Mohawk Valley in New York State forty years ago were worth from \$100 to \$150 per acre; now many are sold at from \$25 to \$30. This is not because wheat has become cheap, for it is dear not entirely because of Western competition, but because there is neither good cultivation nor enough cultivators. The younger generation throngs the cities, and the land, rented by its owners to tenants careless of everything but immediate profit, is abused and robbed of its fertility. In New York State 20,000 farms are for sale. The southern central portion shows a progressive loss of population. Professor Tarr, of Cornell University, in an article published during the present year, says: "I have driven much over the country roads of this section, and have been astonished at the evidence of general decline in the farming industry, especially in the hilly sections. Abandoned houses in all stages of decay abound, and in some cases the forest is encroaching on the pasture." Schuyler County had 3,815 less population in 1895 than in 1860, Tioga County 2,000 less and Yates 992 less. If anybody imagines that this process of exhaustion and abandonment or transfer to other uses is peculiar to the East, let him look at Iowa, whose average wheat crop in the five years 1883-87 was 29,682,560 bushels, and in the five years 1904-08 was 9,976,488 bushels. In 1908 it was 8,068,000.

All this has come about notwithstanding economic changes favorable to the occupant of the farm. In the introduction to the census of 1870, relating to the agricultural interest, we read this: "It is sufficient barely to allude to such notorious facts as corn selling in New England at 90 cents and being burned for fuel in Iowa; wheat selling at \$1.35 in New York and for 45 cents in Minnesota; beef bringing \$7 a hundred on the hoof in the East, while cattle are being slaughtered for their hides in Texas." Such inequalities are unknown to-day. The perfection of our transportation system has made a market accessible to every farmer, and carries his produce at the lowest rates in the world. His life has become more comfortable and desirable. But the increased cost of living bears most hardly upon him, while it entices his children to the centers where they think that the larger income now found necessary may be won more easily. And while the enhanced price of grain may induce him to enlarge his wheat acreage, it does not lead him to more careful tillage.

The situation, then, sums itself up thus: We have almost reached a point where, owing to increased population without increased production per acre, our home food supply will be insufficient for our own needs; within ten years, possibly less, we are likely to become a wheat-importing nation; the percentage of the population engaged in agriculture and the wheat product per acre are both falling; at the same time the cost of living is raised everywhere by this relative scarcity of bread, by artificial increase in the price of all manufactured articles, and by a habit of extravagance which has enlarged the view of both rich and poor of what are to be considered the necessaries of life. These plain facts should disturb and arouse not only the economic student but the men who are most intimately related to the wealth of the nation and most concerned that it shall not suffer loss or decrease.

You deal with wealth in its most condensed and univer-

sal form. That wealth is the slow accretion of many centuries. It changes its form and occupation with wonderful facility; but so slight at all times is the margin between the world's production and its consumption, that its savings have been acquired almost as slowly and painfully as the miser's hoard. Practically only a few months lie between a universal cessation of production and the destruction of the human race by starvation. The marvelous diversity of modern industry and its products blinds us to the bare simplicity of the situation. Those who, like you, are main factors in supplying to industry the means to carry it on, who open up the main and lateral channels through which the fertilizing stream of capital may be turned upon the otherwise barren field of labor, should be always mindful of the first great source and storehouse of national wealth, and the most sensitive whenever it is depleted or endangered.

What we must come to—and the signs of the times indicate that we cannot make head in that direction too rapidly—is the smaller farm, with a more intensive agriculture. We support, in round numbers, ninety millions of people on three million square miles of land. We should be able to support 150 per square mile as easily as 30; and then we should have but a fraction of the density of population of Denmark with 167 inhabitants per square mile, Holland with 448, or our own State of Rhode Island with 407 in 1900. But the education of a whole people in right methods of tillage is a stupendous task. It took England nearly fifty years to do this, with powerful agencies at command and with a control over her farmers through leasehold conditions that no one in this country possesses. She has raised her average wheat yield from 12 and 15 to upwards of 30 bushels per acre. If it should take us fifty years, we would by that time probably have doubled our population also, and barely kept pace with our necessities. But we have not yet accomplished the mere preliminaries of such a process.

Not only have we not begun, except in a few cases so rare that they furnish striking illustrations for magazine articles and experiment station bulletins, to mend our farm methods, but the machinery by which the great body of farmers may be reached—as they must be reached if any change worth considering is to be brought about—has not yet been determined upon. While we do considerable for the boys and girls who attend them through our more than threescore agricultural colleges, but little impression is made upon the bulk of all the people engaged in farming. Here are some extracts from a letter written recently by an intelligent farmer for publication: "I don't think one-half of 1 per cent. of the farmers of the State are in touch with the State Agricultural College and Experiment Station. It is practically unknown to the mass of the farmers." That is true everywhere. There were more than ten million people at work on the farms of this country in 1900; and it needs a big school and a big teaching force to take them all in.

That is what we have to do. There are between six and seven million farms in the United States to-day. Their annual product of over \$8,000,000,000 could be doubled without adding anything to the labor or money now expended. The average wheat yield of the country is now about 14 bushels per acre in good years. The same land might produce 30 bushels if properly cultivated. The average cotton yield is about four-tenths of a bale per acre, and possibly four times that amount could be raised as easily. The same holds true of the whole list of farm products. The farmer has been discouraged by seeing every other industry preferred to his. A false policy of stimulating these by legislative favors has naturally tended to tempt the intelligent, energetic and ambitious into other occupations.

While much praise is due to what is now being done, and well done, by the agricultural experiment stations and colleges, by the Department of Agriculture and by farmers' institutes and other agencies, the job is too big for them. When we set out to educate the children in

the public schools, we do not establish one or two large ones in each State and expect them to go there. The farmer is almost as numerous, as much in need of instruction, and is unable to leave home in search of it or to absorb it through literary channels, as the child. The education must be taken to him. If all the graduates of all the agricultural colleges were sent out as missionaries to the farm, there would not be enough of them to do the work. But it is the sort of work in which every State should engage without delay.

What has to be taught is not abstruse. While high-grade farming can furnish employment for the best intelligence, instruction in a few simple subjects will enable the ordinary farmer to double his product. He needs to be taught how to prepare a field properly for the seed; how to select and where to get the seed that will yield the best return; how to cultivate each crop; how to combine stock-raising with tillage, and how to rotate his crops and preserve unimpaired the richness of his soil. On his own farm, with the material and the object lesson before him, under instruction that comes with public authority and sanction, he will be a pupil apt to learn. It is on a par with the importance of the public school. We have not yet made a beginning; but every other interest and every other item of proposed legislation might well wait until we do.

The returns of Great Britain's Board of Agriculture show that there are less than 15,000,000 acres under the plow to-day as against 18,500,000 acres thirty-five years ago. An investigation of the decline in the agricultural population in France has disclosed two main causes. One is this same rise of prices, which sends the young to the cities because they believe that they can reach independence sooner there than on the farm, where they must labor for years before they can put enough capital together to engage in business for themselves. The other is the temptation to indolence, extravagance and inefficiency offered by the pension system. With support given by the State to civil as well as military servants, and promised to old age unaccompanied by any other claim, men seek the comparative ease and excitement of the town in early years, believing that in age and infirmity some one else will pay for their self-indulgence. But every nation will still learn and progress by bearing manfully the consequences of its own mistakes. They will stand or fall hereafter as heretofore according to their care of the one great resource—the soil; the one indispensable occupation—agriculture; and the maintenance of a proper economic relation and balance between it and all others.

It is not illogical, and I hope it will not prove unhelpful, to make this presentation of our industrial case to the associated bankers of the country and to invite their co-operation. The strength of capital and the mightier force of credit hold up your hands. "Credit," said Daniel Webster, "has done more, a thousand times, to enrich nations than all the mines of the world." The banks are creators, distributors and conservators of credit. This power, mightier than armies, is within certain limits, under their control. They can, subject to the large and general business conditions that govern us all, use this force to encourage or to discourage. You can do as much by the influence and advice to which your calling so often lends weight. I can best express the possibility and value of this by quoting from the last address of President Chapman, of the Minnesota Bankers' Association: "The banker as an individual hardly recognizes the important place he holds in the community. He is the confidant of the widow, the orphan, the business man, the farmer and the professional man. To men engaged in no other occupation do the people look for guidance and advice in business ventures more than the banker. . . . It is to you, gentlemen, largely, that the father of the young man living in the country comes for advice as to what school or college the boy is to attend or what profession he should follow; and it is your duty to be so

advised and posted regarding conditions in the cities that you can intelligently advise that father whether it is to the boy's interest to leave a farming community where the chances are that in five or ten years he can own a farm and be worth \$10,000 to \$50,000 in intelligently farming the land, or whether he should go to the great cities and become the future motorman and street car conductor." Thus I am able to reinforce by the words of one of your own order my opinion that you can do much, both by direct influence and by promoting such an educational campaign as I have outlined, to restore the prestige of the farm and to raise it to that pre-eminence in profit as well as in attractiveness which is its own due and the nation's hope.

The eminent historian to whom I have already referred, scanning the history of more than twenty-five hundred years with the eye of the philosopher, determined to

extract from this vast store of facts, according to the modern scientific method, some fixed principle in the affairs of men, announces this as his conclusion: "The only durable conquests, even in ages of barbarism, are conquests made by the plow." If this was true of the rude ages when men lived for the sword, and the tiller of the earth was either a slave or a still more wretched peasant, it is far truer to-day when civilization has built her imposing fabric upon the expected bounty of the earth. We must maintain, protect and extend these conquests by which the race has won its way. It is not, as in the old mythology, Atlas whom we see groaning beneath the weight of the world upon his shoulders, but the homelier and humbler figure of the cultivator of the soil. It is for each of us, in every capacity, public and private, to do what in us lies to enlighten, reinvigorate and sustain this common benefactor of our kind.

## *The Efficacy and the Limitations of Bank Supervision by Examination and the Responsible Source of Bank Management.*

BY JAMES B. FORGAN, President The First National Bank of Chicago.

Bankers and their customers alike are deeply interested in this subject. For some years past this interest has manifested itself in a growing demand that bank supervision should be as thorough and bank examinations as efficient as it is possible to make them. In response to this demand there has been a steady development of method and a widening of scope in government examinations—both National and State. The clearing house associations of some of our larger cities have organized examination bureaus, and private audits by chartered accountants have become of much more general and more frequent use. These developments have greatly enhanced the efficacy of bank supervision and improved the efficiency of bank examinations.

So marked have been these developments and improvements that there seems now some danger that the limitations of bank supervision by examination will be overlooked and that too much reliance will be placed in the efficacy of external supervision. The public must not be deluded into the belief that official examinations will relieve them of the fundamental duty of exercising their own discrimination in the selection of a bank. The entire credit system on which the business of the country is built up having its very basis in the exercise of such discrimination, any delusion which proposes to relieve the public of it would, morally and economically, be most injurious, tending to carelessness and general demoralization in business affairs as well as to a lowering of the standard of business sagacity and social efficiency.

There is a growing tendency on the part of the public to blame government or other authorities charged with the supervision of banks by examinations for failures when they occur. This tendency of public opinion I regard as unfortunate, untenable and unjust. In considering these questions let me call your attention to three kinds of bank supervision:

*First*—By the Government in the interest of the public.

*Second*—By the Clearing House Committee in the interest of associated banks.

*Third*—By the directors in the interest of their stockholders and depositors.

As State supervision is modeled after that of the National Government and serves the same purpose we may confine our consideration of government supervision to that authorized by the National Bank Act and conducted by the Comptroller of the Currency.

The authority of the Comptroller of the Currency is, of course, statutory, which places limitations on his jurisdic-

tion and restricts it to such powers as are conferred upon him by the National Bank Act. The powers thus conferred upon him, briefly stated, are as follows:

In connection with bank organizations he is empowered—

1. To require a copy of the articles of association,
2. To approve each bank's name and its organization certificate,
3. To authorize banks to begin business,
4. To certify payment of stock,
5. To compel oaths of directors;

And during bank operation—

1. To approve or disapprove increase or decrease of capital stock,
2. To require reports from banks and to fine them for refusal,
3. To designate or approve additional reserve cities and additional central reserve cities,
4. To appoint a receiver
  - a. When a bank has refused to redeem its circulating notes, or
  - b. When it shall be dissolved and its franchises declared forfeited, or
  - c. When a creditor obtains a judgment against it which remains unsatisfied thirty days, or
  - d. When he shall be satisfied of its insolvency, or
  - e. When its legal reserve is short and it fails to make it good within thirty days, or
  - f. When its capital is impaired and it fails to pay it up after three months' notice,
5. To appoint examiners who shall examine into all the affairs of the bank, examine officers and agents and make their reports to him.

The Act gives him inquisitorial power as to amount of assets, but only inferentially as to character of assets. He is required to "examine into all the affairs of the bank" and is given discretionary power to decide when an impairment of capital takes place and to take summary action thereon. In order to do so he must, of course, investigate and pass upon the value of the assets. It is not, generally speaking, his function to exercise his judgment as to current credits so long as they are within legal limits as to amount. The exercise of such judgment would neither be desirable nor practicable. That responsibility rests on the bank's officers and directors. The Comptroller seems to be unnecessarily hampered by legal restriction in determining when losses have occurred. Under the terms of the Act no obligation due a bank can be considered bad until interest is past due six months, and not then if it is secured or in process of collection. Such a narrow definition of a bad debt can only embarrass him and his examiners in arriving at a correct conclusion as to the impairment of a bank's capital. Under his power to

appoint a receiver he is given the power to decide when a bank is insolvent. He is again hampered here by the Federal Courts' definition of insolvency, which is "inability to pay current debts as they mature," and he could be enjoined in the District Court for any abusive exercise of his discretion.

Notwithstanding these limitations and restrictions, I believe it may truthfully be said that under no other banking system in the world are such executive authority and plenary powers conferred on any one man as are vested in the Comptroller of the Currency. Nor do the laws of other countries place such restrictions and limitations on banking operations as are placed on those of our National banks.

Considerable attention has recently been directed to the possibility of improving the Government's supervision of National banks by the passage of further restrictive laws and by extending the Comptroller's powers so that he may enforce them by fining or otherwise punishing those who break them. If all the suggestions that have been made along this line were enacted into law the Comptroller's office would become so overburdened with executive duties that no man with any proper sense of the responsibility involved would accept the position. The more general and undefined the powers of the Comptroller are, the more useful to our banking system will the administration of his office be made. To charge him with specific duties, which are impractical because impossible of fulfillment, will only weaken the administration of his office and detract from its usefulness. Any attempt to regulate individual bank management by specific legal enactments and to hold the Comptroller responsible for their enforcement would prove futile, for as has been well said by Senator Aldrich in this connection, "we cannot legislate good judgment and honest purpose into the minds and hearts of men." Realizing this, our legislators should be careful that bank management is not hampered with such petty legal restrictions as only retard the natural and legitimate development of the business, stunt the growth of individual banks and impair their ability to compete for international business with the older and greater banks of other countries.

Under our system of free, individual and purely local banking, rising industries of all kinds in any given locality must provide themselves with banking facilities by organizing and usually controlling their own local banks. The natural tendency of this is to place the management of new banks directly under the control of their principal local borrowers, hence, our banking laws have had to be strongly restrictive and prohibitive. This is a weakness inherent in our system of numerous small independent banks.

It is evident, however, that restrictive measures which may be necessary to regulate a country bank with very limited resources, when applied to large city banks with resources aggregating many millions, would prove exceedingly irksome, tending only to retard their progress, curtail their legitimate enterprise and impair their usefulness to the community.

Some evils which it is sought to correct by further restrictive legislation are, as I have already intimated, inherent in our system. For instance, there is found in some of our small banks a large line of trade paper entirely out of proper proportion to their resources and frequently discounted for the president or a director or for corporations in which they are interested. It has been proposed to place legal limitations on the aggregate amount of such paper which a bank can discount for any one customer. It is, of course, the abuse and not the legitimate use of banking facilities which it is sought to prevent by this legislation. By thus attempting, however, to prevent such abuses which only occur in a few cases, the legitimate and helpful use of banking facilities may be seriously curtailed. If the credits as originally granted by the bank's customer have been carefully and judiciously made and the paper has all been taken by him in good faith for merchandise sold and delivered, and if these

facts have been properly checked up by the banker, as they should be, a safer, sounder or more legitimate line of discounted paper cannot be conceived. The only limitations necessary to be placed on it, other than the bank's capacity to handle it, are such as every sensible banker will place for himself, viz.: a limit on the amount of the obligations of each individual maker, in proportion to his standing and credit, as these may easily be ascertained on inquiry.

In the great majority of cases it is the prosperous industries in a community that require banking facilities, and their successful owners that take steps to provide them. As a rule, the officers appointed are honest and trustworthy, comprehending their fiduciary relationship to their depositors as well as to their stockholders and having due regard to the well-recognized principles and methods of banking as well as proper respect for the banking laws under which the bank is organized. Hence, fortunately, success is the usual result and failure the rare exception, as is shown by the small percentage of failures that take place. Abuses calling for governmental interference creep in when the men in control of a bank, through recklessness or mismanagement, are unsuccessful in their other enterprises. Under their baleful influence, the executive officers appointed and controlled by them, gradually forgetting their responsibility as trustees, ignoring correct principles of banking and defying the law, become demoralized and permit the use of the bank's facilities for improper purposes. By granting constant renewals of what were originally trade notes, instead of enforcing their payment, they permit their controlling borrowers to carry along their delinquent debtors. Gradually accommodation notes are permitted to go through as representing actual transactions, until the parties in control of the bank, besides having borrowed on their direct obligations all the law permits, have become liable as endorsers on a wholly unwarranted line of discounted paper, which is not what it professes to be, but is composed of renewals of bad credits, accommodations, kites or otherwise worthless paper, together with all the other abominations to which mismanagement and bad banking fall heir. Such a condition of affairs is a most difficult one for the Comptroller or his examiners to handle. The longer it lasts the worse it becomes, and it is difficult from a legal standpoint to allege a cause for action. The only thing that can be done is to promptly take exception to such business in its incipient stages, keep on objecting to it and finally take action when it becomes so bad that an impairment of capital or insolvency takes place.

This evil, however, diminishes as industries grow and increase, and banks grow with them. Villages become towns, and towns cities, and banks develop with them, increasing their resources, diversifying their business, distributing their credit risks and gradually becoming independent of any single controlling interest or influence. Just as in other lines of business, the weak and poorly managed drop out of the race and the strong and well-managed survive. With our business rush and rapid growth, together with the necessity there has been of employing men to manage our banks who have had no previous knowledge or experience in the business, the wonder is that failures have been so few. The results afford no basis for serious complaint against the Comptroller's department, as it has been administered, and disclose but little necessity for new laws to regulate it or bank examinations as they are conducted under it. Both are developing as the system develops and are steadily improving in efficiency.

Many of the suggested changes in the administrative features of the National Bank Act are such as, under the general powers conferred upon them, the Comptroller, his deputy and examiners can best work out for themselves. Some of them, however, are quite necessary and desirable. It would, for instance, be ideal to have a corps of trained examiners, adequately paid by salary and under civil service rules, both as to their appointment and the tenure

of their office. Also to make the position of Comptroller of the Currency such as to inspire the ambition of leading and successful bankers to fill it. But these suggestions, however desirable, do not seem practical or available at the present time. They must await the further development of our system and in the meantime we should take such practical steps as may make them possible in the future. Good, capable and faithful service are not always nor mainly dependent upon adequate remuneration. This is conspicuously the case in the public service. The fact affords no excuse, however, for perpetrating and perpetuating a palpable injustice. The pay of the Comptroller is now and has long been totally inadequate. As a matter of simple justice as well as of sound public policy his salary should at least equal that of the presidents of large city banks. Instead of being regarded as a position from which bank presidents may be graduated the Comptrollership should be considered a post-graduate honor and a distinction of the highest order to be conferred on men who have previously filled a president's position and demonstrated their ability by the success they have achieved. These ideals can hardly be realized, however, so long as the acceptance of the honor by one holding such a position would mean the reduction of his income by from one-half to two-thirds, besides having to give up a permanent position for one of limited term of service.

The pay of the Comptroller's deputies and examiners should also be such as to command the services of experienced and competent men. The policy adopted by the present Comptroller of appointing as examiners men of previous banking experience, giving preference to those who have been connected with sound, progressive and well-managed institutions and refusing to consider applications from officers or employees of badly managed banks, cannot be too highly commended. However, as he will have to compete for the services of such men with practically all the good banks in the country, their remuneration should be made such as will enable him to do so successfully.

It is most desirable, almost essential, that bank examiners should have had a bank training. Without it, unless they are men of very exceptional natural ability and adaptability, they are liable to be impractical in their work and erroneous in their judgment, applying theories to problems which will not solve them and failing to exercise that sound judgment which, as a rule, is only acquired through practical experience in the business. On the other hand, the experience of a bank examiner is of incalculable value in the evolution of a bank training, provided he has previously been long enough in the banking business to have acquired something of what may be called the banking sense—a sort of intuition by which a banker reaches conclusions and makes decisions that are generally his best. Policies controlling successful bank management must be in accord with the laws of political economy and with sound financial theories. Such laws and theories will not, however, solve the problems connected with individual applications for loans, no two of which are ever alike. The theoretical banker, who knows it all and can give you a definite rule for all he does, is not generally the successful one. Accompanying theoretical knowledge there must be sound judgment and applied common sense. Bankers have human nature to deal with in all its varying propensities. They must, as Burns advises,

"Keek thro' ev'ry other man,  
Wi' sharpen'd, sly inspection."

Not coming into daily contact with the borrowing public and having constantly to pass judgment on transactions after they have been completed, bank examiners have little opportunity for the development of this banking sense, and unless they have by previous experience acquired it they are very liable to get into a too critical frame of mind and to become over-technical and theoretical in forming their judgments. Having been a bank examiner myself I speak from experience. The value of a bank's resources

cannot be measured by the rules of mathematics, accountancy, political economy or finance, and yet bank examiners, as well as bankers, should be familiar with all of these sciences.

A year ago when playing golf on the old links at St. Andrews, Scotland, I saw a party of players coming towards me with quite a gallery following them, showing that they were recognized as experts at the game. Turning to the old man who was carrying my club, I asked him who the players were, which he told me. Recognizing among their names that of a well-known authority on the game, I remarked that I supposed he was a very good player. "Weel," said the caddy, "he used to be among the best, but two years ago he wrote a book on the science of golf and he has not been much of a player since." I have sometimes wondered since if there was not some practical sense in the old man's observation. The gentleman's close attention to the technique of the game may possibly have affected his natural ability to play it; while thinking of how to place his feet he may have neglected to keep his eye on the ball.

Borrowing from their own banks by officers and directors is another matter which it is thought should be regulated by further prohibitive or restrictive legislation. That there has been serious abuse of banking privileges along this line is only too true, but, as I have already pointed out, it is due to an evil lying at the very foundation of the development of our banking system, the arbitrary prohibition of which now would be almost revolutionary. The trouble lies in one man being permitted to act on both sides of a transaction, i. e., both as borrower and lender. Officially, he passes judgment on his personal credit, and it is not human nature that he should degrade himself in his own estimation. Bank directors who know their responsibilities and care to assume them will not permit such practices.

It may be necessary under our system to do as some of our State legislatures have already done, prohibit loans to salaried officers, except with the full consent of the Board of Directors, regularly recorded in their minutes. It is a mistake, however, to pass laws which are too easily circumvented. It only induces evasion which is always demoralizing. As a rule, salaried officers of banks should have little occasion to borrow, and it is open to question if when they do they should not do so at their own banks, always on satisfactory security and with the knowledge and approval of their directors; never in my opinion otherwise. It is certainly better so than that they should be compelled to go to some officer of another bank, or to some personal friend and customer, with whom reciprocal arrangements for mutual accommodation could be so easily established.

However this may be, it is certain that to absolutely prohibit loans to directors, or to place legal restrictions on loans to them, or to corporations in which they are interested, that do not apply to other customers, would completely upset our present banking system, destroy the integrity of its directorate and seriously impair its usefulness. The best directors banks can have, and those they now do have, are the men connected with the leading commercial and manufacturing industries, whose close touch with business affairs makes them the best judges of credits in their various communities. If by being directors they are debarred from the legitimate banking facilities to which they are entitled, they will cease to be directors, and the inevitable result will be that dummies will take their places, possibly to do their bidding. The demoralizing effect of such a condition of affairs, affecting practically every bank in the system, can easier be imagined than described. It does not follow from this that the present practice of showing directors' liabilities in reports to the Comptroller should be discontinued, or that examiners should not take special cognizance of them to see that the bank is not being illegitimately or unreasonably used for the special benefit of those controlling it. This is always a legitimate and most necessary subject of investigation.



It will, however, be found in nearly every case that the best loans in the banks are those to its directors, who are engaged in the legitimate, successful and profitable enterprises of the communities in which they live.

A serious defect in the Bank Act, as the courts have interpreted it, is that false reports made to the Comptroller are not a misdemeanor as are false entries in the books and false statements made with intent to injure or defraud the bank itself. This is all wrong and should be promptly corrected. The making of false reports to the Comptroller should be regarded as the most heinous offence of its kind and should be punished accordingly. A false report to him means a fraud on the public whose representative he is. It should be part of the duty of examiners to check up reports made to the Comptroller. The integrity of the system depends on the reliability of the statements made from time to time to the Comptroller and published in the newspapers. There should be no weakness in the administration of the Comptroller's office in regard to the criminal prosecution of bank officers who are guilty of falsification or misrepresentation. Such offences should be nipped in the bud. When an examiner discovers anything in the books, the securities, the loans or the records that misrepresents actual conditions it should be a case for criminal proceedings and the law should be such as to facilitate prompt action.

At an early stage of my banking career the inviolability of bank reports was strongly impressed on my mind. A bank agent in my native town misappropriated some of the bank's money. According to the rules of the bank a monthly statement had to be rendered to the head office. In this statement the agent and accountant had both to certify that they had counted the cash and that it was all on hand as stated. The regular accountant being absent, a clerk, who was a friend of mine and whose honesty was unquestioned, was temporarily filling his place and it became his duty to sign the statement. The agent, claiming that he had something important to attend to and that he wished the statement dispatched at once, induced the young man to sign it, without giving him an opportunity to count the cash in his custody, but promised that he would do so next morning. The next day he put him off again, and after a few days, when the young man found that the agent had no intention of fulfilling his promise, he wrote his brother, who happened to be a clerk in the inspector's department at the head office in Glasgow. He simply stated the facts to his brother and asked his advice under the circumstances. His brother showed the letter to the head inspector, who promptly dispatched two men to the branch to investigate. They found a deficiency in the agent's cash and had both him and the clerk arrested, the former on a charge of embezzlement, the latter for having signed a false bank statement. The agent was tried and sentenced to the penitentiary inside of thirty days, and it was only due to the action of the leading men of the community, who, knowing the circumstances, got up a largely signed petition to the court in the young man's behalf, that he escaped punishment, but the incident ended his banking career and he is now a respectable farmer in this country.

There is a matter on which a difference of opinion has for some years existed between the Comptroller's department and some of the most conservatively managed banks in the system. While it may not be considered germane to my subject, I should like, if I do not weary you, to discuss it now. I refer to the contingent account not shown in the published statement. Like many other banking practices, sound when kept within reasonable limits, it is susceptible of abuse and may be made the means of misrepresenting a bank's true condition. When built up beyond reasonable limits and its existence is only known to the officers, directors and a few favored stockholders, great injustice may result. Outside shareholders, ignorant of the true book value of their stock and of its real earning power, might be induced to sell it to inside parties at much less than its actual value. This, however, would

be a misdemeanor on the part of the officers and directors and could be controlled by the criminal code as other frauds are. The injury would, however, be confined to the deceived shareholders. No harm could come to depositors from a bank being stronger than its statement discloses. In the interest of the bank itself as an institution, as well as in the interest of the stockholders who own it, a reasonable contingent fund is desirable and generally necessary. Such a fund furnishes a reserve strength to protect a bank's resources against contingencies of which there are plenty. In exceptionally prosperous years when profits are large provision should be made for possible losses in lean years. Thus a bank's earning powers can be steadied and sudden or violent changes in the book value of its stock prevented, much to the benefit of the stockholders. For example, the year 1908 was one of abnormally large banking profits, while so far this year, owing to the low rates prevailing for money, profits have been abnormally small. Last year, therefore, it was possible to make liberal allowance for losses, and in view of the panic, just then passed, it was good banking that this should have been very generally done. This year there has been no margin of profit on current business out of which, after paying dividends, the usual necessary provision for losses can be made. At the close of 1908 it might have been impractical to specifically apply the amount then appropriated, while in view of general business conditions and their effect on the bank's customers the directors had good reason to anticipate considerable loss on current loans, and when they had thus cause to expect it who will say that it was anything short of their duty to provide for it? It is neither necessary nor advisable that whenever loss is threatened on the accounts of certain customers still actively doing business a portion of their current loans should be charged off as if loss on them had already occurred. Such an appropriation should be made as in the judgment of the directors seems necessary, charging it to profit and loss account and crediting it to contingent account, where it can remain until the anticipated losses materialize, which they generally do. Such appropriations should, of course, be regularly shown in the statement of profit and loss account rendered to the Comptroller, and the contingent fund should be kept in the general ledger open to the investigation of examiners. In my judgment no sound, conservatively managed bank can afford to be without such a fund. It protects the new shareholder who invests in the stock at the market price, based on the bank's published statements, against fluctuating values of its resources in consequence of losses having to be provided for on loans or other assets in existence at the time he makes the investment, and I think he is entitled to such protection. Further, it has a most beneficial effect on the management to feel that the bank is running ahead, instead of lagging behind in the procession.

The Comptroller's Department will doubtless agree with all I have thus far said on this subject, but will ask why the contingent fund should not be shown in the published statements as undivided profits are. It will claim that the public and the shareholders are entitled to know the actual condition of the bank, which they cannot do if there are hidden profits not shown in the statements. My answer is that there are or should be no hidden profits. The contingent fund represents an amount which the directors have deemed it necessary to deduct from the profits and set aside to provide for anticipated losses in current loans in order to maintain their integrity. While, therefore, the ledger and balance book will show the fund in a special account, when a statement of the bank is published the amount of it can quite properly be applied where it belongs. It should be deducted from the current loans, reducing the amount of them as published to the realizable value placed on them by the directors.

The main thing looked for by the public from governmental supervision is reasonable assurance that bank statements, which are mere figures after all, can be relied on. In view of this and of the natural desire on the part

of bank managements to make the best showing possible in their published statements, and the general tendency being decidedly along this line, it would be a wholesome policy on the part of the Comptroller to encourage if not to require the maintenance by the banks of a reasonable contingent fund. It would lead to the keeping of an anchor to the windward for the benefit of all concerned. It would certainly be an improvement on the present erroneous practice, against which no exception seems to be taken. I refer to the very general practice followed by the banks of overstating their accumulated profits by including in them discount on time loans collected in advance. All notes discounted up to the date of the statement appear in it at their face value, while their real value is the price at which they are purchased, that is, they are subject to the rate of discount received on them from the time the statement is made to the various dates of their maturities. How would a banker regard a customer's statement if he learned that in taking inventory of stock on hand the customer had added the selling profit to the cost price, thus "counting his chickens before they are hatched?" And yet in bank statements this is the common rule to which correctly made statements are the rare exceptions.

The objects being the maintenance of the integrity of the assets and the adjustment of profits and losses one year with another, so that the growth of the surplus may be solid as well as steady and uninterrupted, the publication of the fluctuating amount of the contingent fund would only confuse the public, hurt the bank and nullify all the benefit to be derived from it. Rather than show it in the published statement it had better remain in profit and loss account as part of which, if shown, it would erroneously continue to be reckoned. A short statement by each bank to the effect that proper provision has been made for all known or anticipated losses and that loans are shown in the published statement at what is believed to be their estimated realizable value would be more satisfactory to the public and more easily understood by it.

The National Association of Credit Men, from whom, I have noticed, there emanates from time to time a good deal of sound business sense, recently appointed committees of their State organizations to investigate the condition of the State banking laws. After careful investigation these committees are required to answer to a general committee of the National Association the following questions:

1. "Does your State have a State banking department with a superintendent at its head appointed by the Governor?"
2. "Is your State banking law considered by bankers, lawyers and business men generally adequate in its requirements in the way of
  - a. Maintenance of reserve,
  - b. Frequent and searching examinations and authoritative supervision,
  - c. Prevention of over-extension of credit to heavy borrowers,
  - d. Penalties for the making of false statements of condition,
  - e. Economic liquidation in cases of failure?"

These questions, it strikes me, furnish an almost complete synopsis of everything that governmental supervision can be expected to accomplish, and, with the exception of providing for adequate punishment for the making of false reports to the Comptroller, our National Bank Act already covers them all. With adequate pay provided for the Comptroller, his deputies and examiners and with some unessential amendments in minor details the powers now conferred upon these officials appear to me to be quite sufficient to enable them to accomplish all that can possibly be accomplished through governmental supervision.\*

The department in its methods is showing its ability

to keep abreast with the development of the banking system and its administration is steadily improving in the value and reliability of its service both to the banks and the public. As an illustration of this and of the ability of the department officers to develop their own methods under the general powers they now possess without specific legal enactments for every move they make, which would hinder and hamper more than they would help them, let me draw your attention to some of the department regulations recently inaugurated:

Bank examiners can be neither stockholders or borrowers from National banks.

Savings banks, trust companies or other State banking institutions allied with National banks are examined simultaneously with them.

Bank examiners are to be selected from men of previous banking experience who have been connected with sound, progressive and well-managed institutions.

Banks are classified in the department according to the character of their management and such as are classified poor are being examined four times a year in the presence of their directors, from whom a letter is required promising that conditions subject to criticism will be attended to and corrected, while those whose management is classified as very bad are being handled in a still more vigorous manner.

Examiners are now required to make such careful and complete reports in writing of all evidence discovered by them tending to show criminal violation of the Federal Statutes that the Department of Justice may determine from them without further investigation whether or not there has been a criminal violation of law.

The National bank examiners through the country have been divided into eleven districts with a chairman appointed by the Comptroller for each district. Examiners in each district are required to meet twice a year to have a general discussion of methods of examination and to prepare reports of banks in the district whose condition is unsatisfactory and of any lines of doubtful credit in them; each examiner to report to the chairman for his own particular section and the chairmen to furnish the Comptroller with a complete report of the proceedings, retaining a copy for reference at future meetings. The chairman of each district at his discretion can report to the chairman of any other district such information as he may deem advantageous.

The efficacy of government supervision by examination lies primarily in its restraining influence on bank management. The knowledge that the banks are to be examined holds the officers in check. This followed by the criticisms of the Comptroller based on the examiners' reports is efficacious in inducing or compelling bankers to comply with the law and with proper banking methods and to face and provide for losses as they occur. This should afford the public reasonable assurance. Such are the benefits to be derived from governmental supervision, and the degree of their accomplishment is the measure of their efficacy. All external supervision is, however, based on the examination and consideration of transactions after they have occurred. It cannot control the making of loans or investments at the time they are made. It has no control of initiative management. It cannot, therefore, be held responsible for errors of judgment or lapses of integrity. Its business is to discover such and its efficacy depends upon its ability to do so. It is at best a human device and in common with all such devices its limitations should not be ignored or forgotten.

The next branch of our subject is "clearing house supervision in the interest of associated banks." As you are doubtless all aware this method of local supervision was first inaugurated in Chicago three years ago. Its main strength is derived from the fact that it was evolved from the voluntary action of the banks themselves for their own benefit individually and for their protection collectively. Thus "its just powers are derived from the consent of the governed." Similar bureaus have since been organized in St. Louis, Minneapolis, St. Paul, San Francisco, Kansas City, Philadelphia, St. Joseph, Milwaukee and Los Angeles,

\*Since this was written the Comptroller of the Currency has expressed himself as follows:

"After a year's trial of the Bank Act, I can say to you frankly that it gives me all the power I want, and even more. If I were to-day to go again before the National Currency Commission, and the question were asked me as to what changes were necessary, I

would answer, that in my opinion the only essential change was one giving bank examiners in the country districts more compensation.

"Of course, some trivial administrative features of the Act could be made a little better, but I do not want, and I do not believe any other Comptroller will ever want, any more actual power than the present banking law now gives."

while other cities are showing their interest by investigating our methods and the benefits to be derived from them.

A short statement of the Chicago method may therefore be of interest to you. Neither the committee having the matter in charge nor the examiner are hampered in their work by any code of rules and regulations adopted by the associated banks. Both were given an absolutely free hand. The committee was by resolution instructed to secure the services of a suitable man of experience to examine the seventeen member and some forty non-member banks clearing through members. Having secured the services of such a man, the committee in turn instructed him to engage the necessary help (he has now five assistants) and proceed in his own way to make thorough examinations of all the banks. The following extract from the original letter addressed by the committee to the president of each bank will fully explain the method adopted:

"The examiner will furnish you for the use of your directors a detailed report on the condition of your bank at the date of his examination. He will file in the clearing house vault, under his own custody, a copy of such detailed report. He will also make a separate report to the Clearing House Committee expressing in general terms his opinion of the condition of each bank as he finds it and calling special attention to any unwarranted conditions or gross irregularities discovered. His detailed reports will not be examined by the Clearing House Committee except when it may appear necessary to do so from the general report of conditions made to it."

And the following from a letter sent out later to the directors of each bank as the first examinations of them were completed will show that the method was intended to benefit directors and that their co-operation in correcting anything open to criticism was desired and expected by the committee:

"The Clearing House Committee, desiring the co-operation of bank directors in maintaining a high standard in the condition of banks in the city, has requested the official examiner to notify the directors of each bank, individually, when he has completed and delivered his report to the president so that every director will have an opportunity of perusing it. The committee urges upon every director that he should, as a part of his directorial duty, carefully examine such reports as promptly as possible after he receives notice of their existence."

Bank directors have been most enthusiastic in their commendation of the method. They find that it gives them an opportunity of judging of their bank's condition as a whole, which the mere passing upon individual loans at their meetings does not afford.

Our experience has been that the banks have almost unanimously adopted every suggestion made by the committee. The method has worked with but little friction, and while I cannot discuss such details as would show its efficacy, I can say that the result has been most satisfactory to all concerned and that much good has been accomplished for the Chicago banks individually and collectively. The organization being entirely voluntary partakes somewhat of the nature of a gentleman's agreement, under which each bank binds itself to conduct its business under proper methods. The disciplinary effectiveness of the method lies in the fact that they are all measured by the same standard, viz.: that their statements as rendered to the Clearing House Association shall be satisfactory to the committee, in view of the examiner's reports upon them, otherwise they cannot continue to enjoy clearing house privileges. In no sense, however, does the association or its committee assume responsibility for the individual management of the banks or for the quality of all the loans current in them. This responsibility, as I have said before, rests, and must always rest, on the officers and directors of each bank. All the committee undertakes is to pass judgment, and that only approximately being based on the examiner's report, on the reasonable integrity of each bank's assets and the general reliability of its

statement. In the fact that the members of the committee are well posted on local credits and financial affairs lies the superior efficacy of clearing house supervision. But the committee is not omnipotent; it is only an ordinary human agency. Like the Comptroller, it has no control of the initiative management of the banks under its supervision. It fully realizes the heavy responsibility laid upon it. It is no easy problem to decide when summary action should be taken in connection with a badly managed bank's condition, which depends on the condition of its customers, while both they and it are interdependent on each other. Conditions must become very bad and expostulation be exhausted before any supervisory authority, however constituted, will assume the responsibility of action that will lead to the closing of a bank's doors. If it were otherwise and such action were taken simply because something in the bank was unsatisfactory such authority would be accused of shutting up a solvent institution, not only by its stockholders, but by its depositors themselves in whose behalf the action would be taken.

It may, therefore, be said that bank supervision by examination on the part of a clearing house committee, while probably the best and the most effective external supervision possible, has its limitations, which should be recognized by the intelligent public, and it should not be held to a degree of responsibility which it does not assume.

We will now consider supervision by directors in whom is vested the primary responsibility for bank management. Their supervision is in the combined interests of the stockholders who elect them and of the depositors who confide in them. They govern and direct as a board, requiring the presence of a quorum for the transaction of business. Their official actions and the responsibility they assume are therefore collective and not individual. They are not expected to devote their entire time and attention to the affairs of the bank, and their supervision is necessarily more or less intermittent. They appoint and fix the remuneration of the officers and for cause can discipline or discharge them. Thus they, and they alone, control the initiative of management and on them must rest the final responsibility for it. The officers appointed by them dispose of their time and their talents to the bank for the consideration of their salaries and assume the daily details of management.

Such being the established relations it becomes the primary duty of the directors to hold the officers to a strict accountability, not only for integrity and honesty in motive and action, but for efficient and successful service. It will go without saying that the power of the directors to discipline or discharge officers should be promptly exercised on the discovery of dishonesty, deception or bad faith, either in their personal or their official capacity, or for disolute or improper conduct in their private life. It is equally essential, however, that the same power should be exercised in cases of incompetency, bad judgment, recklessness, speculation or whatever there may be in the makeup of the officers that injuriously affects the management or deprives it of public confidence and success. In the exercise of this prerogative, probably more than in any other way, directors are prone to neglect their duty. It is not an agreeable one, and collectively they are disposed to evade it even when individually they realize the necessity for it. It is without doubt the primary responsibility placed upon them, and its evasion must be held responsible for much of the disaster resulting from bank failures due either to incompetent or to dishonest management.

The same ordinary prudence which men exercise in their own affairs is required of bank directors. The application of it differs with the varying circumstances of the banks. Just as men of small or moderate affairs can undertake the personal management in detail of their own businesses, while those of large affairs must of necessity employ others to manage for them and must relieve themselves of details, so bank directors under similar circumstances may assume the details of management or appoint others to do so. Their delegating authority to others does not,

however, relieve them of responsibility for the direction and supervision of the management or of keeping in touch with what is done. In banks of moderate size this can be accomplished by committees. In the largest banks, however, it becomes necessary for the directors to delegate even the details of their supervisory duties to experts and to rely on their investigations and reports for an intelligent knowledge of what is being done and of their bank's condition. Systematic organization is necessary, whether a bank is small or large, and directors must see to it that one of its results is that they are kept fully posted as to the bank's operations and condition. This can be accomplished quite as effectively in large as in small banks through the employment of competent auditors either permanently or when they are wanted. Such auditors in their investigations should represent the directors and should report direct to them, uninfluenced by any of the executive officers. But, however it may be accomplished, it is up to the directors to keep themselves posted as to their bank's operations to the extent of enabling them to form a correct opinion of actual conditions in them and to judge of the integrity and ability of the management, as it is conducted by the officers, to whom they have delegated managerial powers. Only thus can they intelligently exercise their control of the management, a responsibility from which there can be no escape.

The progressive success, or lack of success, in bank management can be fairly well discovered by the periodical classification of a bank's loans and investments. This classification should be conscientiously made outside of the executive officers. It may be done by a committee of directors or by a competent auditor, at whose disposal must be placed the statements of customers and all the information available in the credit department. The assets can be divided into five classes and the result will, I think, disclose to the directors the necessity for a contingent fund, such as I have advocated. The percentage of each class to the aggregate total should be shown and the periodical classifications compared with each other. This will disclose the progressive condition of the assets, whether they are growing better or worse, and from the

result the management may be judged. I suggest the following classification:

1. Good desirable business,
2. Fair business risks,
3. Business not desirable as a new proposition, but which policy makes it necessary to carry along for the purpose of gradual liquidation,
4. Loans which should be liquidated and on which more or less loss is probable,
5. Loans so bad that they should be charged off now.

The respective percentage of these five categories forms a very good criterion of the character of a bank's management. It must be the constant and unremitting aim of its officers to reduce class three to its smallest possible proportion and to eliminate entirely the fourth and fifth classes.

Co-operation among all supervisory powers is most desirable. National and State government examiners should consult and co-operate with each other and, where the opportunities exist, with the clearing house examiners. The Comptroller and the State banking commissioners might, with propriety and with much benefit to both systems, establish confidential relations with each other and with the different clearing house committees, and all should keep in close touch with the bank directors and take them into their confidence regarding everything open to criticism in their banks. They are all engaged in the work of raising banking standards and improving banking conditions, and they should avail themselves of every opportunity for co-operating towards these highly desirable ends.

External supervision alone, under whatever authority it may be exercised, it is needless to repeat, cannot establish safe and sound banking. Honorable and intelligent initiative management must be relied on for the ultimate success of individual banks. As now administered, however, governmental and clearing house supervision are doing a great deal (in my opinion as much as can reasonably be expected of them) along the line of purging and purifying our system, raising our standards of banking and giving to the business a character which conduces to that healthful tone so essential to the commercial, industrial and social life of the nation.

## *Our Industrialism and Americanism.*

BY PRESIDENT JOHN C. KILGO, of Trinity College, Durham, N. C.

Mr. President and Gentlemen:

I greatly appreciate both the courtesy and the honor you have bestowed upon me in the invitation to attend your annual meeting and to address you at this hour. For reasons which must be obvious to you all I accepted your invitation with no small degree of hesitancy. In a very modest way I have had dealings with individual bankers at various times, but to come before a multitude of them under present circumstances is a new relation for one of my vocation.

I confess that I have been much puzzled to know what would be a proper subject for me to discuss before you. It has fallen to my lot to speak to many kinds of audiences under a wide variety of circumstances, but this is the first time I have engaged to speak to an audience of this kind. For the best of reasons, I did not deem it wise to select a technical subject of banking, and I have, therefore, chosen as my theme "Our Industrialism and Americanism."

The people who first came to our shores and stocked this continent were a brave, vigorous and strong people. Inspired by religious faith and a love of freedom, they laid deep and broad the foundation of a new civilization. From the very start Americans have been a hard-working people, and among the best of them indolence has always been considered both a personal shame and a public peril. Referring to their characteristic energy, Doctor Charles Wagner

said: "America works, honors work, and knows how to organize work." This is a very high tribute from a very worthy source; and when read in the light of all the circumstances the story of our industrial evolution is without parallel in the world's history and is really no less romantic than the myths of ancient Greece. Our Ulysses has been a railroad builder, our Hector has been a miner, and our Helen has been a home-maker.

I do not, sir, agree with the pessimistic views sometimes expressed concerning our industrialism. I do not think I am ignorant of its tendencies, and I am sure I would not palliate any of its evils, nor would I unduly magnify any of its virtues. There is much in it that is entirely new. In many of its methods and its conceptions it has departed from the ways of former times, creating new problems which have engendered widespread suspicion and very great confusion. In the vastness of its conceptions and the daring of its undertakings it startles the imagination, and a host of evil prophets have pictured it as a huge beast devouring the life of our nation. But the captains of our American industries are not pirates invading our coasts to thieve and ruin. They are Americans, the descendants of patriotic citizens who fought in our battle lines and labored for the welfare of their nation. Bound by honorable family tradition and taught to believe in their country, I see no just reason why our industrial leaders should be

regarded as less patriotic than that class of American citizens into whose hands has fallen the guidance of our political affairs.

For the past twenty-five years industrialism has been clearly in the ascendancy among us. It has engaged our best energies, taken possession of our political thought, given direction to our educational policies, shaped our social influences, and strongly influenced our literature and our religion. Holding as it does such a large place in our American life, it is inevitably the chief agency through which the cardinal principles of our civilization and the ideals of our social life must find their largest and their most effective expression. Our faiths must be verified amid the strains and the conditions of our industrial activities. Our ideas of government, of society and of religion must become embodied in the laws, the relations and the ethics of industry. We cannot, for example, separate our religious duties and acts from the relations and the tasks of the shop, the bank and the factory; and if there be any need for a revival of our religious life, it will not be found in the demand for new creeds, but in making old creeds do less service about high altars and more service amid the dust and din of industrial tasks. I shall content myself with pointing out only two of our national virtues which it seems to me find peculiar expression in our industrial character.

In it one will find the truest and strongest spirit of our nationalism. There is nothing sectional, nothing provincial in our industrialism. The diameter of its vision is the diameter of the whole nation, and the circle of its activities takes in all sections and people of our great country. The industrial world cares little about the old-time debate between Webster and Calhoun, or the latter-day discussions between Mr. Tillman and Mr. Lodge. It is vastly more interested in the cotton crop of Texas and the wheat crop of Dakota than it is in any academic theories of government. In its geography there is no Mason and Dixon line, and the battle of Gettysburg is not on the front page of its history. It invests in railroads that run from the lakes to the gulf, and from sea to sea; it puts its capital in Alabama mines and Oregon banks, and sends its agents into every State of the Union. Its very soul throbs with nationalism, and nowhere on this continent, sir, will you hear a finer note of nationalism than you will hear in the humming wheels of a Carolina cotton mill.

If this American Union of States is to be real and not merely nominal, if it is to be vital and not incidental, it must find a deeper and a stronger bond than the articles of our national constitution, and it must be held together by a power greater than legislative enactments. People are bound together not by documents and enactments and bayonets, but by the ties of a common ancestry, by the traditions of their race, by the common experiences of their history, and by their associations with each other, and these find a very real form in our industrial activities, confidences and sympathies.

In its freedom from class distinction and the rule of caste our American industrialism is the finest triumph of democracy to be found in any part of the world. This freedom is strikingly illustrated in two forms. First, the distinction between capital and labor, which in aristocratic governments is a real class distinction, does not represent a real distinction in our industrialism. While economists for the sake of their science make such a classification, in reality the American capitalist is an American worker. The idle capitalist spending his time in lordly indolence is not a custom among Americans. The captains of American industries do not regard work with social disdain, as becoming only to the poor classes. In our industrialism it is an honor to work, a disgrace to idle. The marks of labor are badges of respect. And in the great army of American laborers there will be found none who work harder, none who more highly esteem labor, none who devote more wisdom to their tasks than the heads of our great industrial organizations. Who in America works harder than Mr. Morgan? Who gave a larger number of hours and more tireless efforts to his tasks than Mr.

Harriman? Every great industrial enterprise in America is a monument to the working spirit of our capitalists. There is, therefore, among Americans no just ground for warfare between capital and labor as though they were alien and dissimilar forces battling against each other for heartless conquest. The capitalist and the laborer share the scenes of toil and know their common interests and regard their common relations.

The second form in which American industrialism is the world's best example of freedom from the rule of class or caste is the ease with which man may pass from one line of work to another. In old countries the reign of industrial classes has predestined the field of each man's work. Ask an Englishman why he is a merchant and he will answer, "Because my father and because his father before him were merchants." Ask another why he is a tailor, and the same traditional reason will be given. They inherit an industrial destiny. But ask an American why he is a merchant, or a tailor, or a farmer, or a banker, and he will reply, if he replies at all, "Because I wish to be." His grandfather was a carpenter, his father a farmer, he began as a clerk, changed to a traveling agent, went West and became a banker. It is an abnormal record in which the man has not passed through many fields of industry before settling down to one field, while the typical genius of our race is a natural conceit which makes every true American believe that he can do anything. And it is rarer to find a successful business man who is not engaged in several lines of business than it is to find one who devotes all his energies to a single industry.

Dr. Eliot thinks that the ideal democracy is a social order in which each man will have a free chance to do the thing which he can do the best. Perhaps the same idea was more accurately expressed by Mazzini when he defined a democracy as a "chance for all through all under the leadership of the wisest and the best." Both agree that a sound democracy should furnish each member of society a ready chance to find the place in which he can render the most efficient and remunerative service. This ideal may not yet have been attained, but I believe that it has been more nearly realized in our industrialism than it has in any other department of our social order. The richest heritage of the American youth as he quits college is the full assurance that all the gateways to all the fields of human endeavor are wide open before him, and that he may select or change his calling as may seem best to himself. And it has been this soul of democracy in our American industrialism that has filled the American youth with a conquering vigor and kept alive in his mind the spirit of freedom.

It is popular to discuss the failures of democracy and it is common enough to find Americans who express doubts as to the final results of our effort to maintain a democratic government. And the effort is full of difficulties. It demands eternal vigilance. But if our efforts to establish democracy in the earth, to prove its cause for all mankind, fail, the blame cannot be justly charged to our industrialism. The tendencies which seem to threaten our democracy do not spring out of our industrial spirit, they do not belong to our industrial methods. They come out of the social realm, and should be credited to the weakness and the insincerity of our social sentiments, standards and customs. They are the creations of men and women who are the beneficiaries of the wealth produced by industry and who use it to set up false and undemocratic ideals of society and to parade the forms of aristocracy in a most harassing way. The chief danger, if there is a danger, is in the parlor, not in the shop. Americans are democratic enough in the scenes of work, they become suspicious when they lay off their working clothes and put on dress suits and pass into the social world. Then human sympathy seems to chill. Then the laborer comes in contact with the spirit which he resents. It is in the snobbishness of the parlor, the arrogance of the social spirit, that American democracy reaches its lowest point and seems to have its least chance. It is unfair, therefore, to charge to in-

dustrialism the crimes of social life, the shortcomings of the educational spirit, or the failure of politics. Judged by every fair test there are ample reasons to believe that the democracy of our industrialism is not a failure, but that it shows signs of health and of vigorous growth. I feel justified in believing that in it the spirit of democracy is developed to a larger degree and in a sounder form than in any other department of our national life. It is more democratic than our politics, than our society, than our education, and, I regret to say, than our church fellowships. If the soul of democracy is, as Archbishop Ireland says, "a supreme faith in manhood," then where will one find a higher, a sincerer, and a more persistent faith in true manhood than he will find in the history and the standards of American industrialism? In the fields of our industry each man is to a larger degree the master of his own destiny than he is in any other sphere of American life. There ancestral influences, social badges, and other incidental circumstances count for less and personal manhood counts for more than it does in other fields of activity. I never fill out a blank for some person who is applying to a bonding company that I am not deeply impressed with the high estimate the business world puts upon personal worth as the chief basis of business confidence and esteem. This is democracy in earnest. It is the one spirit that inspires hope in every heart and furnishes a high motive for sacrifice and labor. It invests manhood with a dignity and clothes it with rights that are acknowledged at the highest seats in every department of industry.

One of the most splendid achievements of our American history is the unlimited opportunity it has furnished men of all classes, conditions and races to improve their industrial and social conditions and to rise to the highest points of success. In the halls of fame are recorded the names of those who have done some immortal thing in letters or art or war or politics, but a roll that also reflects great honor upon our American government, the one that marks the high point of our social evolution, is that long roll of Americans who began at the lowest point and by fidelity and labor rose step by step till they reached the summit of industrial influence and power. That is the common story of American men of business success. The Americans to-day who commanded such large industrial power throughout the world, whose names give value to commercial paper in every market, bear witness to the genuineness of democracy in our industrialism. The little tot who is selling his papers along the street at a penny a copy is the citizen of the country and the heir of industrial traditions that make possible to him the day when he will own the paper and his voice become a national power. That is not the dream of democratic idealism, it is the wonderful record of our democratic industrialism.

True Americanism, sir, as I see it, is an infinite faith in the rights of unadorned manhood. And the supreme place which Americans who rightly understand the genius of civilization give to personality; the sincere enthusiasm with which they hold their faith in the divine rights of manhood; the hearty homage which they pay to the lordship of individual worth, and the enduring fame which they accord to the unselfish hero, have been abundantly proved in our history. But in the long list of examples there are two which seem, for every reason, to be the foremost illustrations of the real soul of our democracy.

The first is Abraham Lincoln. A child of our frontier life, born in a rough cabin, the son of poor, unlettered and common parents, he was the heir of dismal prospects. He inherited no ancestral traditions to stir his boyish heart with exalted ambitions; no community surroundings to refine his thought and polish his manners; no educational advantages to push back from his youthful vision the shadows of ignorance, and no wealth to take from his shoulders the crushing weight of daily toil. He was no debtor to favorable circumstances; he owed nothing to inspiring environments. But he had one supreme resource of success: he was an American. The star of eternal

hope shone in the heavens above his head, and the note of freedom sounded clear and strong in his ear. No feudal laws imposed a despotic embargo on his aspiration and no iron gates closed before him the path to service and to fame. He took counsel with the highest voices in his soul, and, like the Wise Men of olden times, followed the brightest star in the skies. The story of his life is common household knowledge among Americans. I need not repeat the details of how he mastered circumstances, overcame conditions and at length made the "Little Giant" of the Middle West stand in awe of his ascending leadership.

When the hour of direful peril came to this republic; when the clouds of war began to gather over it, and when the destiny of the nation hung in the balance, He who presides over the affairs of human history appointed this son of the cabin, this man of the forest, this new master of the West, to direct the ship of the nation through those furious years of war. No man ever carried to the seat of government loftier statesmanship; no man on a throne of power ever showed a more masterly genius, and no man ever gave to his race a finer example of patriotic wisdom and service. We cannot duly celebrate his virtues in words. Even the increasing number of splendid monuments we erect to his memory are but slight hints of American gratitude for his services and poor tributes which we try to pay to his fame. This American Union is his only adequate monument, and as long as it shall endure it will serve to celebrate his conquering genius. Every star on the American flag, it matters not where it is unfurled and what winds play along its colors, is a tribute to the patriotism of Abraham Lincoln. If eternal praises are due George Washington for putting them on our flag, eternal praises are equally due to Abraham Lincoln for keeping them there. If George Washington is the father of the Union, Abraham Lincoln is the father of the mightier re-Union.

But of more enduring worth to our national spirit is the illustration which such a career gives the whole world of the genuineness of our democracy and the superiority of our civilization to make mighty men. Abraham Lincoln is an American; he could not have been the creation of any other land, and his record will stand through the years as a divine rebuke to that type of tyranny which exalts form above fact and circumstances above character.

The other example, sir, that I have in my mind is in every point exactly opposite from the one that I have just cited, and serves to prove by new and opposing tests the sincerity of our faith in manhood. Robert E. Lee was the son of a noble parentage with a history reaching far back into high ranks of English life. A native of Virginia, he was from the start the beneficiary of cavalier customs and all the advantages of home culture and school training. In his public career he is the most tragic figure in our American history. The force of circumstances predestined him to be on the failing side of the course of events. Viewed in the light of consequences, he is America's immortal hero of defeats. Yet he holds a place in our national esteem which grows more and more as years go by. True Americans without regard to their political sentiments or the sections of country in which they live, hold in sacred regard the memory of this superb man. And Virginia has selected his statue along with Washington's to be put in the capitol at Washington as those of her two greatest citizens. She did not select Jefferson or Madison or Marshall, but she chose her son of defeat. In this Virginia was wise, and no true-souled American will reprove her judgment. For the career and the fame of Robert E. Lee when read in the light of all the facts, is without a parallel in human history.

How will we account for his fame? How can we explain the place he holds in the esteem of Americans? Why was it that Americans North, South, East and West celebrated his centennial birthday? Why did Mr. Roosevelt speak in such exalted terms of his genius?

We can readily tell why we honor Benjamin Franklin. At a critical period in our history he rendered as a minister at a foreign court a wise service, and in the moments of

strain his rare wisdom was a guide in national affairs. But Robert E. Lee was never a minister at a foreign court; he was never in the councils of State.

Thomas Jefferson as the author of the Declaration of Independence and the founder of a political party gained a place of lasting fame in our history. But Lee wrote no governmental documents and founded no political party.

Fulton and Morse by invention and discovery brought the nation under everlasting gratitude to them, and their names hold high place in our history. But Lee invented nothing, he discovered nothing.

Emerson, Lowell, Whittier and Longfellow gave American literature a larger place in the world, and for their work we do them increasing honor. But Lee wrote no poetry, history or philosophy.

Webster and Clay and Calhoun in the legislative halls of the nation contended for the rights of States and left us speeches that give us splendid examples of oratory. But Lee was never a legislator, and he made no speech that belongs to our literature.

George Washington for seven weary years followed the hopes of his people through the war and in the end gained their freedom and gave a new nation to the world. He returned from the field of battle to be greeted with the shouts of a conquering people, and to be crowned with the honors of an immortal hero. It is natural to admire victory and to exalt a victor. But Lee after four years of as heroic a struggle as ever engaged human courage, came at last to an overwhelming defeat. When he turned from Appomatox no shout of victory greeted him, no new government rose to crown him. Far and wide lay the waste of his proud section, and from every direction came the wails of desolate and broken people. He quietly went away from public gaze to rebuild a college in the mountains of Virginia.

Yet this man has honor; he has increasing admiration; he has immortal fame. Why? Does it not take victory to gain fame and honor and admiration? He has reversed the order of history and conquers without victory, and achieves without success. By what strange law does he do these things? There is but one satisfactory answer. He does them by the might and majesty of his incomparable personality. He is our one American who does not need triumph to make him great. Men honor him because he was brave, they praise him because he was clean, they pay him tribute because he was godlike, they build monuments to him because he was the embodiment of invincible manhood. So he will stand along with Lincoln to prove by undeniable fact that in America manhood is the one thing that counts, and that Americans believe in it whether it is in friend or foe.

Sir, as a college president, to some extent seriously de-

sirous of inculcating in Southern youth who come up under my direction the true idea of Americanism as I see it, I have often coveted the right and the ability to build on my college grounds an American monument. I should build a great, strong pedestal upon which with their sheathed swords at their feet, clasping each other's right hand, I should place the statues of Ulysses S. Grant and Robert E. Lee, the hero of victory and the hero of defeat. I should symbolize by their hand-grip the reunion of a land too strong to be hewn asunder by battle-axe. I should adopt as the sentiment to be inscribed upon it those famous words of Grant: "Let us have peace." On one side of the pedestal with bronze tablet I should celebrate the virtues of the Federal soldier, on another I should celebrate the virtues of the Confederate soldier. On another I should pay tribute to the unparalleled patriotism of American motherhood and sisterhood; and on the remaining I should pay due honor to the high example of loyalty so sublimely illustrated by the old negro daddy and mammy who worked in Southern corn fields and cared for Southern women and children during those years of furious strife. And, sir, out of the whole conception I would wish the student to read this glorious truth: Americans believe in the union of their country; they believe in and exalt human virtues wherever expressed, whether in friend or foe, whether in man or woman, whether in lord or slave, whether in white or black. Whether in the North or the South or the East or the West, always and everywhere Americans believe in manhood and manhood's virtues.

We have a great country, sir, and it behooves us all to labor for its largest prosperity. I come from that great section of it that lies on the other side of the Ohio River. Many of the most tragic chapters in the eventful history of our nation have been wrought out down there, and not a few of the men whose names give glory to our past have been sons of the South. Out of that I bring you greetings. We have come to know that our fields and forests, our mountains and our rivers, are filled to the brim with undeveloped resources of wealth, and we are busy trying to bring them forth. Week after week we are adding millions to the wealth of the nation. A new generation of Southerners have taken charge of our industries, and under their vigorous leadership the South is coming into a new era of prosperity. I tell you these things because I am sure that no other class of Americans is more deeply interested in the welfare of every section of our country than the American bankers are. What should chiefly concern the South and the North and the East and the West is how to wisely use our enormous resources of wealth for the permanent good of mankind, and to illustrate to the world the faith of James Madison when he said, "The United States is useful to prove things that have not yet been proven."

THE FOURTH NATIONAL  
BANK OF THE CITY OF  
NEW YORK OFFERS TO DE-  
POSITORS EVERY FACILITY  
WHICH THEIR BALANCES,  
BUSINESS AND RESPONSIB-  
ILITY WARRANT.

# Committee Reports—Banking Section.

Annual Report of the Secretary, Fred. E. Farnsworth.

New York, September 1, 1909.

## To the American Bankers' Association:

This report marks the close of my second year's administration of the affairs of the American Bankers' Association, and it is with much pride that I submit same covering in a general way the year's business. This report with all others which will be presented to this convention, will show the Association in a most prosperous condition, and the past year the most successful in its history in growth, activity and results, and in distinction and in the satisfaction of a large membership. It is not necessary at this time to enlarge on the work of the Sections and Committees, nor to occupy your time by going into details, for you will have full reports from these adjuncts of our Association.

### EXECUTIVE COUNCIL.

The report of Chairman Watts deals generally with what has been accomplished by the Council. As to the method of selecting its members, I believe this change was a wise one. While it was feared that the new Council might be too large in numbers to dispatch business expeditiously, the May meeting was a disclaimer of this belief. The business was so arranged and carried out that there never was a more successful meeting in any particular even when the Council was small in numbers. By allowing each State to select their own members on the Council, additional interest has been created in the Association and its work. Representative men of the various States are now chosen and harmony prevails.

### SECTIONS.

The Sections have been active along the various lines laid out by them and for which they were established. The Trust Company Section has compiled for its members some valuable publications. The Savings Bank Section, through a special committee, has shown great activity and done very efficient work in its crusade against Postal Savings Banks, and by a special effort materially increased our membership. The Clearing House Section has perhaps done the most effective work in its history and has in operation features which will rapidly develop to the advantage of the clearing houses of the country. The American Institute of Banking Section, which represents the Institute, has now 11,015 members and fifty-one chapters. The work which is being done by the Institute and its Chapters is of incalculable benefit to the bank clerks of the country, and incidentally will extend its influence and power and training to the banker of the future.

### CURRENCY COMMISSION.

The appointment of the Monetary Commission of Congress over a year ago caused the suspension of all banking and currency legislation, hence the operations of the Currency Commission for the time being have ceased. While not a member of the Currency Commission, yet representing it as secretary, it would seem wise to me that we should continue this Commission as a part of our machinery. When the Monetary Commission shall finally report out a bill, it may then become necessary for our Currency Commission to act. I have great faith, however, in the outcome of the work which is being done by this body and believe that there will come from their deliberations and investigations a new banking and currency bill which will be satisfactory to the financial and commercial interests of the nation.

### STANDING PROTECTIVE COMMITTEE.

The year just closed, as in the past, emphasizes the importance of the work of the Standing Protective Committee, and without question there is no other one feature of the American Bankers' Association which so strongly appeals to the banks of the country. It became apparent to your Secretary during the past winter, with the increased work in these offices, that the protective feature was not and could not receive the close attention which it should have. It was also obvious in so great a work as this and of such peculiar nature that it would be much more effective were we to have a department presided over by a manager experienced in this class of work. My suggestion to our Standing Protective Committee in this regard appealed to them, and it was recommended to the Executive Council at our spring meeting. That these matters might have the fullest investigation, and a move of this importance receive proper consideration, a special committee was appointed and authority given to the executive officers of the Association to establish a Protective Department. The Special Committee, after its deliberations, decided in favor of the proposition, and on August 2 the new department was created, and there was placed at the head of it Mr. L. W. Gammon, who held a most responsible position in the United States Secret Service, and who was very highly recom-

mended for the place. That this was a wise move is already apparent, and Mr. Gammon's sixteen years in the Secret Service will insure much more effective results in this department in the future, and without doubt, realize a saving to the Association, and give more prompt and satisfactory service. The Association has a most excellent Protective Committee who are earnest and painstaking in their duties, and have been willing to sacrifice their time when occasion required. The Association is to be congratulated in this respect.

### COMMITTEES.

The Association now has six active standing committees. At the Briarcliff meeting of the Executive Council, four of our committees were either discharged because their duties had been performed, or their work was merged with that of other standing committees. Time and space prevent my taking up the work which has been accomplished by these committees during the past year. The work has been extensive and great results have been achieved which are appreciated by the membership, and will be of great benefit to the Association in the future. The standing committees referred to are as follows:

Finance Committee,  
Committee on Bills of Lading,  
Standing Law Committee,  
Federal Legislative Committee,  
Committee on Express Companies and Money Orders,  
Institute of Banking Committee.

### STATE ASSOCIATIONS.

We now have in the union forty-six State Associations. During the past year there have been organized three Associations, namely, Nevada, Utah and Vermont. There are three States without Associations—New Hampshire, Rhode Island and Delaware. I have come to look upon these State bodies as the strong bulwark of the banking interests of the country. We are working together, and this has never been more evident than during the year just closed. As far as possible I have felt it my duty to attend the State Association conventions, and as a representative of the American Bankers' Association I have been very warmly received by the State bodies, and I am sure that these visits have been advantageous to this Association as well as the State Associations. Since our last annual convention I have attended the conventions of Illinois, Alabama, Minnesota and New Jersey; the Tri-state convention of Oregon, Washington and Idaho; the joint meeting at New Orleans of the States of Alabama, Texas, Mississippi and Louisiana; the organization of the Vermont State Association; the Annual Dinner of the Massachusetts State Association, and Groups No. 6 and No. 8 New York City, and Group No. 1 of Buffalo; the Annual Banquet of New York Chapter American Institute of Banking, and the Seventh Annual Convention of the American Institute of Banking at Seattle.

As Secretary of the Organization of Secretaries of State Bankers' Association, of which I was one of the founders, I have been brought very closely into contact with the Secretary of every State Association, and in them I have found the firmest friends of our own great organization.

### LEGAL DEPARTMENT.

Although the Legal Department may have been considered problematical by some, the wisdom of this action was never questioned by the Secretary, for many of the State Associations had such departments which were successful.

General Counsel Paton's long experience as editor of the "Banking Law Journal" and as a student of banking law, and as attorney for our various committees, had ably fitted him for the position. Mr. Paton has been strongly supported by the Legislative Committees of the various States and much has been accomplished in new laws drafted by him and passed by many of the States. Our membership has to quite an extent also taken advantage of the privilege of obtaining opinions on questions of banking law which have been given publicly through the "Journal."

### THE "JOURNAL."

The "Journal" completed its first year on July 1. The general office has every evidence from our large membership, by correspondence and otherwise, that the publication meets with great favor and that it is supplying a long-felt need. We are now able to communicate with our entire membership monthly and keep them closely in touch with what is transpiring in Association affairs.

### ASSOCIATION OFFICERS.

Since my last report of one year ago, all of the adjuncts of the Association have been brought together under one roof and occupy our general suite of offices. With the increase of departments and work, it became necessary to enlarge the office



room and additional space was secured to provide for the Savings Bank Section, the Protective Department and the "Journal." All are now comfortably located, convenient for doing business, thereby saving certain expenses that had to be met when the Sections were separately located in office buildings outside. There has been a marked increase in visitors to Association headquarters in New York City, and the wisdom of furnishing accommodations and conveniences for visiting bankers and for committee meetings is apparent, as well as much appreciated.

CORRECTION OF MEMBERSHIP RECORDS.

With so large a membership and constant changes in banking institutions from various causes, we would earnestly request our members to notify the General Offices of all changes that may occur by mergers, liquidations, failure, etc., or change in National or State banks, from one system to another.

ROUTINE WORK.

During the fiscal year just ended, 450,000 circular letters, special letters, and codes have been issued from the Secretary's Office.

MEMBERSHIP BY STATES.

[As of August 31, 1909.]

Alabama	133	New Hampshire	45
Alaska	14	New Jersey	244
Arizona	40	New Mexico	43
Arkansas	132	New York	865
California	406	North Carolina	127
Colorado	172	North Dakota	190
Connecticut	151	Ohio	451
Delaware	31	Oklahoma	234
District of Columbia	32	Oregon	121
Florida	107	Pennsylvania	796
Georgia	280	Rhode Island	51
Idaho	106	South Carolina	110
Illinois	738	South Dakota	166
Indiana	332	Tennessee	117
Iowa	385	Texas	279
Kansas	366	Utah	41
Kentucky	140	Vermont	59
Louisiana	143	Virginia	176
Maine	84	Washington	206
Maryland	151	West Virginia	133
Massachusetts	235	Wisconsin	306
Michigan	341	Wyoming	52
Minnesota	338	Canada	11
Mississippi	133	Cuba	6
Missouri	361	Hawaii	8
Montana	130	Isle of Pines	1
Nebraska	314	Porto Rico	1
Nevada	31	Mexico	17
Total		10,682	

MEMBERSHIP OF STATES AND TERRITORIES, HAVING LESS THAN 100 MEMBERS.

[As of August 31, 1909.]

Alaska	14	Utah	41
Arizona	40	Vermont	59
Delaware	31	Wyoming	52
District of Columbia	32	Canada	11
Maine	84	Cuba	6
Nevada	31	Hawaii	8
New Hampshire	45	Isle of Pines	1
New Mexico	43	Porto Rico	1
Rhode Island	51	Mexico	17
Total		567	

MEMBERSHIP.

Aug. 31, 1908	9,803
Erased from the rolls, through failure, liquidation, consolidation and withdrawal	760
Sept. 1, 1908, Membership	9,043
Aug. 31, 1909, Members joined during year including regained	1,639
Aug. 31, 1909, total membership	10,682
A net increase for the fiscal year of	879
The net loss for the year in failures, consolidations, etc.	192
The net loss for the year in delinquents	182
Making the actual gain in new banks	1,253

The delinquent loss is the smallest in the history of the Association in proportion to the membership—less than 2 per cent.

The aggregate capital, surplus and deposits of our membership amounts to almost \$14,000,000,000.

The membership and resources of the Association have increased as follows:

	Paid Membership.	Annual Dues.
September 1, 1875,	1,600	\$11,603.00
September 1, 1885,	1,395	10,940.00
September 1, 1895,	1,570	12,975.00
August 31, 1905,	7,677	127,750.00
August 31, 1906,	8,383	137,600.00
August 31, 1907,	9,251	150,795.00
August 31, 1908,	9,803	162,507.00
August 31, 1909,	10,682	Estimated 170,000.00
Interest on Bonds and Corporate Stock	4,650.00	
Interest on Bank Balance (estimated)	1,280.00	
		5,930.00

Making the Total Income.....\$175,930.00

MEMBERSHIP BY YEARS.

	Lost by Failures, Merger and Delinquent, etc	Gross Gain.	Net Gain.
1899	3,915	211	741
1900	4,500	234	819
1901	5,504	290	1,313
1902	6,354	186	1,159
1903	7,065	313	1,139
1904	7,563	500	1,120
1905	7,677	1,038	1,152
1906	8,383	337	1,043
1907	9,251	434	1,302
1908	9,803	691	1,243
1909	10,682	760	1,639

The loss shown in 1909 was reduced by regained members to 374.

DIVISION OF BANKS IN ASSOCIATION.

State or Territory,	Nat'l.	State.	Priv. Tr. Co's.	Sav. Bks.	Total.
Alabama	41	65	2	20	5 133
Alaska	2	9	2	1	0 14
Arizona	12	16	0	11	1 40
Arkansas	25	85	2	18	2 132
California	131	201	1	31	42 406
Colorado	92	52	9	11	8 172
Connecticut	70	9	6	23	43 151
Delaware	18	1	2	8	2 31
District of Columbia	11	2	6	5	8 32
Florida	43	53	3	6	2 107
Georgia	64	185	8	13	10 280
Idaho	41	55	1	8	1 106
Illinois	277	193	202	50	16 738
Indiana	147	114	41	29	1 332
Iowa	138	84	52	13	98 385
Kansas	137	222	1	3	3 366
Kentucky	64	55	1	18	2 140
Louisiana	31	93	1	16	2 143
Maine	45	1	1	22	15 84
Maryland	72	19	22	15	23 151
Massachusetts	124	4	13	34	60 235
Michigan	83	103	46	6	103 341
Minnesota	148	174	6	3	7 338
Mississippi	25	89	0	16	3 133
Missouri	78	218	18	22	25 361
Montana	43	62	16	7	2 130
Nebraska	123	183	3	4	1 314
Nevada	11	16	1	3	0 31
New Hampshire	34	1	0	3	7 45
New Jersey	145	19	1	63	16 244
New Mexico	26	10	1	3	3 43
New York	330	192	182	89	72 865
North Carolina	48	58	1	16	4 127
North Dakota	77	111	0	2	0 190
Ohio	197	81	60	40	73 451
Oklahoma	117	108	0	8	1 234
Oregon	50	46	11	11	3 121
Pennsylvania	483	64	64	150	35 796
Rhode Island	17	2	5	21	6 51
South Carolina	17	76	1	5	11 110
South Dakota	60	93	3	4	6 166
Tennessee	44	38	2	29	4 117
Texas	184	44	25	26	0 279
Utah	18	13	4	3	3 41
Vermont	33	1	0	14	11 59
Virginia	69	72	15	12	8 176
Washington	60	115	8	19	4 206
West Virginia	59	57	2	10	5 133
Wisconsin	110	174	1	10	11 306
Wyoming	27	20	1	4	0 52
Canada	0	11	0	0	0 11
Cuba	1	0	3	2	0 6
Hawaii	3	2	2	1	0 8
Isle of Pines (W. I.)	0	1	0	0	0 1
Porto Rico	0	0	1	0	0 1
Mexico	0	16	1	0	0 17
	4,305	3,788	860	961	768 10,682

## APPRECIATION.

It would not be possible to carry on so vast an organization as ours successfully and make the progress that has been made if your Secretary did not have the hearty support of the executive officers, committees and members, and I desire to express my sincere thanks for the uniform courtesy and able assistance I have received from President Reynolds, Vice-President Pierson and Chairman Watts. These gentlemen have been ever ready to respond to every call upon them which was in the interest of the Association, and Treasurer Kauffman has been a live, energetic and enthusiastic official, co-operating with the general officers at all times in furthering its welfare. I want to emphasize particularly the work of the Executive Council, the Vice-Presidents of the various States and the Secretaries of the State Associations. The magnificent showing which has been made in the increase in membership has been largely due to the efforts of these officials, and to them I express my sincere thanks. The additional work in the Association brought about by new features and departments made it necessary to enlarge to a certain extent the office force. To them and to Assistant Secretary Fitzwilson is due much credit for expeditious work and they have all willingly contributed to the success of the administration by faithful services.

## PROSPECTIVE.

It is an established fact that the Association today is more widely and better known than at any other time in its history; that through its various ramifications it is securing results. It is my firm belief that it will continue to grow in prosperity and achievements. It will be necessary, however, to be ever active and alert to devise new plans for increasing its usefulness from time to time, and to me one of the most important steps in the near future will be the publication of a bankers' directory to embody only members of the Association, eliminating all extraneous matter, having the publication in compact and convenient form; this I believe would be appreciated by our membership.

All of which is respectfully submitted.

FRED. E. FARNSWORTH,  
Secretary.

## Report of the Treasurer, P. C. Kauffman.

## Mr. President and Gentlemen:

You will find my report as Treasurer of the Association printed in full in the little pamphlet entitled "Reports," which has been distributed throughout the hall.

I will not read it in full, but simply call your attention to some of the principal facts contained therein. The cash balance on hand September 1, 1908, was \$1,923.20. The total receipts of the Association for the current year were \$174,475.73. Owing to the wonderful activity of the Association and expense of operation, the total expenses during the year were \$174,291.07, leaving a cash balance September 1, 1909, of \$2,107.86. On August 20, 1909, the Secretary forwarded to the Treasurer for collection 10,051 drafts on account of the current membership dues, amounting to \$164,035. These drafts were at once sent out for collection, but owing to the fact that the Convention this year is held so early a much smaller percentage than usual has been collected up to the present date. However, the Treasurer hopes by the end of the month or certainly by the middle of October, to have the collections completed.

For investment the Association holds the following stocks and bonds, which are deposited with the Bankers' Trust Company of New York, as per instruction of the Executive Council. Interest on these securities is regularly collected by the Trust Company and forwarded to the Treasurer, and by him credited to the Association account. The securities are as follows:

\$10,000 Government 4% Bonds of 1925.  
\$30,000 Atchison, Topeka & Santa Fe 4% Bonds of 1925.  
\$50,000 Chicago, Burlington & Quincy, Ill. Div., 4% Bonds.  
\$30,000 New York City Registered Corporate Stock, 3½%, due 1940.

The furniture and fixtures belonging to the Association in the main office of New York by inventory are worth about \$7,500, but they are not carried as an asset, as they were charged off at the time of the purchase.

It should be remembered that in addition to the balance shown on the Treasurer's report, the Secretary sent to the Treasurer for collection September 1, 1909, 10,051 drafts on account of membership dues, unpaid for the fiscal year ending August 31, 1910, amounting to \$164,035.

While I will not read the Treasurer's report in full I sincerely trust every member of this Association, certainly every one present at this convention, will analyze this report carefully, as it is only by a thorough perusal of the reports of the Secretary and Treasurer that you will be enabled to gain a clear insight into the active workings of this great organization.

I wish to take advantage of this occasion to express my personal appreciation of the splendid manner in which the accounts of the Treasurer are kept in the home office of the Association under the management of Secretary Farnsworth. Most of you are aware of the fact that all this labor has been taken off the shoulders of the Treasurer, who is simply the disbursing officer. After the appropriations have been made by the Executive Council, the accounts against each of the various organizations of the Association and the several committees to

which appropriations have been made are kept by the Secretary in the New York office, and the vouchers as drawn and countersigned come through to the Treasurer for payment in due course. The active work of the Association being conducted from the New York office, it is, of course, necessary that the accounts of the several organizations and committees be kept there. At the close of each month an account is stated by the Secretary as against the Treasurer, five copies of which are made and forwarded to the Treasurer for reconciliation, one copy of which, with the reconciliation sheet, is sent to the President of the Association, one to the Vice-President, one to the Chairman of the Executive Council, the fourth to the Secretary at the New York office, and the fifth retained by the Treasurer in his own office. In this way the accounts are so thoroughly systematized that it is possible for any one of the members of the Association to go into the Secretary's office and in a moment find the exact balance in the hands of the Treasurer, the amount expended by any committee, and the purpose for which the expenditure was made. At the close of each year the accounts of the Association are carefully examined and audited by the Audit Company of New York, all the vouchers in the Treasurer's hands being forwarded for examination. I cannot see how it is possible to in any way improve upon the method in which the accounts of the Association are kept.

Respectfully submitted,

P. C. KAUFFMAN,  
Treasurer.

TREASURER'S FINANCIAL REPORT  
FOR FISCAL YEAR ENDING AUGUST 31, 1909.  
RECEIPTS.

September 1, 1908:	
Cash balance .....	\$1,923.20
Interest on bank balances .....	1,281.29
Interest on stock and bonds .....	4,650.00
Account sundry small items .....	17.00
Extra guests, Denver convention .....	790.00
Dues 8 regained members of 1907-1908.....	95.00
Dues 1 old member of 1907-1908.....	20.00
Dues 378 regained members of 1908-1909.....	4,990.00
Dues 795 new members of 1908-1909.....	7,935.75
Dues 8,484 old members of 1908-1909.....	142,340.00
Dues 132 old members of 1909-1910.....	2,065.00
Dues 400 new members of 1909-1910.....	5,630.00
Dues 6 regained members of 1909-1910.....	70.00
Account Clearing House Section, postage.....	31.86
Account soliciting new members .....	12.35
Account Trust Company Section, sale of books and envelopes, etc. ....	594.55
Office fund .....	1,000.00
Journal, profit .....	2,920.78
Account Standing Protective Committee.....	49.55
	<hr/>
	\$176,414.33

## DISBURSEMENTS.

September 1, 1908:	
Petty cash .....	\$80.00
Salaries .....	22,871.19
Postage, stationery and printing .....	4,645.00
Rent, General Offices .....	\$4,300.00
Paid for Sections, Legal Department, Journal, and Protective Department .....	2,841.66
	<hr/>
	7,141.66
Publishing and distributing Annual Proceedings.....	10,938.08
American Institute of Banking Section .....	7,604.50
Trust Company Section .....	11,389.73
Savings Bank Section .....	9,438.47
Clearing House Section .....	1,408.52
Legal Department .....	6,037.49
Committee on Bills of Lading .....	1,402.82
Committee on Uniform Laws .....	79.45
Federal Legislative Committee .....	608.55
Currency Commission .....	1,604.06
Standing Protective Committee .....	44,336.07
Committee on Express Companies and Money Orders.....	4,565.68
Standing Law Committee .....	1,256.07
Voucher Check Committee .....	1,551.84
Committee on Revision of the Constitution.....	182.50
Special Committee on Travelers' Checks.....	103.48
Cipher Code, balance from 1907-1908.....	2,388.40
Journal .....	9,084.47
Office Fund, now balanced.....	1,000.00
Extra office help .....	409.60
Telephones and telegrams .....	419.91
Auditors, for 1907-1908 .....	150.00
Insurance .....	65.00
Balance Trans. Crane Account collecting dues 1907-1908..	152.16
Premium on Officers' Bonds.....	73.75
Furniture and fixtures, furnishing offices, including Sections and Legal Department .....	2,850.19
Convention expenses, Denver, including \$5,000 to entertaining city .....	8,481.19
F. G. Moffat, chairman, account extra guests, Denver convention .....	770.00

Travelling expenses .....	1,061.41
Executive Council, Vice-Presidents and State Secretaries securing new members .....	604.55
Refund account dues, 1907-1908, overpaid .....	5.00
Refund account dues, 1908-1909, overpaid .....	156.25
Refund account dues, 1909-1910, overpaid .....	10.00
Executive Council meeting, 1909 .....	7,508.29
Signs, membership .....	236.00
Gold badges for President and 40 members of Executive Council .....	261.17
Sundry items, office supplies, etc. ....	1,309.97
Balance August 31, 1909 .....	2,107.86
<hr/>	
	\$176,414.32

September 1, 1909:	
Cash balance .....	\$2,107.86

**Report of Standing Protective Committee.**

New York, September 1, 1909.

To the Executive Council of the American Bankers' Association:  
GENTLEMEN:—The detailed Financial Report of the Standing Protective Committee for fiscal year ending August 31, 1909, is as follows:

RECEIPTS.

Oct. 1, 1908, by Appropriation Executive Council .....	\$25,000.00
May 5, 1909, by Appropriation Executive Council .....	20,000.00
Received from Union State Bank, San Francisco, Cal. ....	37.50
Received from Salisbury Savings Bank, Salisbury, Mo. ....	12.05
<hr/>	
	\$45,049.55

DISBURSEMENTS.

Pinkerton National Detective Agency, service for contract for one-half fee due November 1, 1908, 8,998 Members at \$1.50 .....	\$13,497.00
Same due May 1, 1909, 10,010 Members at \$1.50 .....	15,015.00
Account of special cases .....	15,824.07
<hr/>	
	\$44,336.07

Credit Balance, August 31, 1909, charged off per resolution of Executive Council .....	\$713.48
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The following data will show you the result of the Committee's work during the year just ended:

The record of criminals arrested, convicted, sentenced, awaiting trial, bank burglaries, etc.

Arrested prior to September 1, 1908, 25; arrested since September, 1908, 129; convicted, 91; sentences, 277 years and 9 months; indeterminate terms, 21; suspended sentences, 9; escaped, 3; released, 18; died or killed, 1; awaiting trial, 42.

During the last year there were 89 attacks against non-members on account of successful and unsuccessful burglaries, as against 18 members. Loss to non-members was \$137,809.27, against \$21,578.01 by members, making a difference of \$116,231.26.

Hold-up robberies upon non-members were 8, with a loss of \$2,625, against an attack on 7 members, with a loss of \$15,042.15, making a difference of \$12,417.15.

The total of imprisonment for criminals that have been convicted for the fiscal year 1908-09, amount to 277 years and 9 months. This does not include 21 indeterminate terms.

During the year there was only one robbery on a member by a professional sneak thief, and his arrest was caused, and he is now held awaiting trial.

The Protective Committee has expended \$44,286.52 for the protection of 10,682 members, which amount is \$5,763.98 in excess of the expenditures by the Committee last year. Consideration should be taken in connection with this increase of expense of the fact that there has been an increase of \$79 in the membership, and therefore, allowance should be made for the increased expense on account of the additional disbursement covering the retaining fee of \$3.00 per member paid the Pinkertons; and further, the Protective Committee while endeavoring to confine its operations against professional criminals has, when in their judgment a case warranted it, endeavored to apprehend and cause the arrest of amateurs whose records classify them as dangerous criminals, and therefore, part of this increased expense for the carrying on of the work of the Protective Committee, is due in a large measure to this new feature. In addition, the Committee has had several important cases, which have necessitated a considerable expenditure of money, among them being an investigation covering a long period in connection with the note kiting fraud, which has been so much in evidence, and which was called to our attention by various members. Heretofore the work of previous Committees has been confined entirely to professional criminals.

Again we report that it sometimes happens that members are dissatisfied because the detective agents are not authorized to

do special work on cases which do not come within the rules of your Committee. The Committee regrets this very much, but believes that you will appreciate the fact that they are compelled to have rules to govern their work. They give careful consideration to every case submitted and decide each case on its merits.

The number of criminals arrested, convicted, etc., for operations on banks from December, 1894 (at the time of the first appointment of the Standing Protective Committee) to September, 1909, is as follows:

Arrested .....	951
Convicted .....	813
Escaped .....	17
Recaptured .....	5
<hr/>	
Released .....	12
Awaiting Trial .....	84
<hr/>	
	42

951

Your attention is also called to the burglaries and attempted burglaries on banks since the inauguration of the protective feature, viz:

Non-members .....	1,062	Lost	\$1,468,879.47
Members .....	194	"	147,065.23
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Difference .....	868	"	\$1,321,814.23

The expenses of the Committee and the practical results of their work since 1901 are as follows:

Fiscal Year ending	Members	Paid member	Cost per member	Total expenses	Special arrests	General arrests	Total convictions
1901	5,392	\$5.56	\$29,973.20	59	51	110	99
1902	6,204	5.28	32,781.11	78	60	138	125
1903	6,943	5.93	41,145.61	59	86	145	122
1904	7,563	4.53	34,282.44	78	48	126	82
1905	7,677	4.06	31,203.61	51	116	167	85
1906	8,383	3.71	31,057.76	70	109	179	115
1907	9,251	3.98	36,847.40	48	49	97	75
1908	9,803	3.93	38,522.54	57	77	134	74
1909	10,682	4.14	44,286.52	85	77	162	107

The rules under which the Protective Committee work are as follows:

1. "Upon receipt of notification by the Protective Committee, Hanover Bank Building, New York, N. Y., of an attempted or successful perpetration of fraud upon a member of the Association, either by forgery, check-raising, robbery, or safe-breaking, which appears to be the work of professional criminals, accompanied by a full account of the offense, and, if possible, a description of the operators, the Committee will, if the case come within the category of those of which the Association can take cognizance, at once undertake the apprehension of the criminals by means of detectives and such other means as they may consider warranted. A case once committed to the Association, which results in the apprehension of the criminals, cannot be taken out of its hands, nor the offense condoned or compromised."

2. "The Association cannot take cognizance of petty larcenies or thefts by employees.

"The Protective Committee can spend no money, undertake no detective work, employ no lawyers and pay no fees of any kind in cases of local swindles, or frauds or confidence tricks. The vigilance, alertness and energy of the officers of the banks must be relied upon in such cases."

3. "The Association cannot be held responsible for any expense incurred for protective work which has not been previously authorized by the Protective Committee."

4. "The Committee cannot undertake action on any case unless immediate notice of crime has been given to the Secretary or such notice sent to the nearest Pinkerton office."

5. "The Committee will not take cognizance of cases where other than members are defrauded. If customers of members cash checks for unidentified strangers, and same turn out to be forged or raised, they must pursue the criminal through the police, sheriff, or other county authorities or some detective agency at their own expense."

As a result of the work of the Protective Committee increasing to such an extent, and in view of the fact that it was impossible for the Secretary's Office to give the required attention to this work, the advisability of the employment of an experienced man in criminal work to give his undivided time to the work of your Committee, was considered (the authority to employ such a person having been granted) and resulted in the appointment, on August 2, 1909, of a representative of the Government Secret Service, who had been for years in its employment. The Committee believe this action will achieve beneficial results.

Your Committee have examined, reported and acted on over 20,000 letters and reports in connection with their work during the fiscal year 1908-09.

We are pleased to report that there have been fewer crimes in proportion perpetrated against members than for any previous year. We refer you to the report of the Pinkerton National Detective Agency for additional details.

Respectfully submitted,

STANDING PROTECTIVE COMMITTEE.

## Financial Statements of the Various Committees.

Credit Balances as reported September 1, 1909, charged off as per Resolution of the Executive Council.

## AMERICAN INSTITUTE OF BANKING.

New York, September 1, 1909.  
From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation.....	\$7,500.44	
May 5, 1909, " " .....	1,500.00	
		\$9,000.00

## DISBURSEMENTS.

Expense, Bulletin .....	\$6,430.25	
Executive Council travelling expenses to Seattle....	1,174.25	\$7,604.50
September 1, 1909, Credit Balance .....		\$1,395.59

## CURRENCY COMMISSION.

New York, September 1, 1909.  
From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation.....	\$7,500.00	
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## DISBURSEMENTS.

Special Committee, 1907-1908 .....	\$1,493.09	
Stenographic .....	6.00	
Travelling Expenses .....	104.98	1,604.06
Credit Balance September 1, 1909 .....		\$5,895.94

## TRUST COMPANY SECTION.

New York, September 1, 1909.  
From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation.....	\$7,500.00	
May 5, 1909, " " .....	4,000.00	
		\$11,500.00

4 Copies Trust Co. Proceedings.....	2.00	
24 " Proceedings 1896-1903 .....	72.00	
95 " Proceedings 1904-1908 (less exchange, 60c.).....	284.40	
57 " Trust Company Laws .....	198.50	
Stamped envelopes, returned .....	15.40	
Account Meeting of Executive Council, overpaid.....	7.25	
Sale of one bookcase .....	15.00	
		\$12,064.55

## DISBURSEMENTS.

Salaries .....	\$4,015.23	
Postage .....	238.64	
Postage Account Proceedings .....	84.00	
Printing and Stationery .....	201.10	
Petty Cash .....	105.00	
Sundry Expense .....	46.97	
15 Gold Badges .....	97.50	
Rent .....	110.00	
Expenses Denver Convention .....	477.15	
H. P. McIntosh, account Postage, Telegrams, Express Charges, Telephone, Herrick, and Salary and Expense of Stenographer .....	350.28	
Committee on Trust Company Forms.....	86.15	
Trust Company Forms .....	15.00	
Loving Cup to Col. J. R. Branch .....	90.00	
Express on Proceedings and Trust Company Laws.,	218.10	
Insurance .....	19.22	
Proceedings of 1908 .....	759.36	
2,000 Copies Trust Company Laws and Legal Service in Preparing Same .....	2,379.58	
1,000 Copies Proceedings 1904-1908.....	1,355.55	
Expense of Executive Committee Meeting at Briarcliff, N. Y. ....	740.90	\$11,389.73
September 1, 1909, Credit Balance .....		\$704.82

## SAVINGS BANK SECTION.

New York, September 1, 1909.  
From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation.....	\$4,500.00	
Jan. 26, 1909, " " .....	500.00	
May 5, 1909, " " .....	5,100.00	
		\$10,100.00

## DISBURSEMENTS.

Printing, Stationery and Supplies.....	\$277.45	
Postage .....	673.00	
Stenography and Typewriting .....	832.00	
Rent .....	337.50	
Convention Expenses .....	280.95	
Allowance of Secretary .....	1,575.00	
Book of Proceedings .....	950.30	

Sundries .....	\$75.70	
Expense, Executive Committee.....	602.06	
" Committee on Postal Savings Banks.....	3,253.73	
" " " Auditing .....	55.95	
" " " Savings Bank Laws .....	364.64	
" " " Membership .....	88.85	
" " " Vice-Presidents .....	40.74	9,438.47

Credit Balance, September 1, 1909.....		\$961.53
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## CLEARING HOUSE SECTION.

New York, September 1, 1909.  
From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation.....	\$2,500.00	
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## DISBURSEMENTS.

Special Work .....	\$75.00	
Buttons .....	10.00	
Stationery and Printing .....	274.87	
Stenographer .....	24.00	
Travelling Expenses .....	948.90	
Postage .....	51.56	
Sundries .....	23.89	1,408.52

Credit Balance, September 1, 1909.....		\$1,091.48
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## COMMITTEE ON BILLS OF LADING.

New York, September 1, 1909.  
From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation.....	\$1,250.00	
May 5, 1909, " " .....	500.00	
		\$1,750.00

## DISBURSEMENTS.

Stationery and Printing .....	\$217.90	
Telegrams and Express .....	18.50	
Travelling Expenses .....	321.00	
Professional Services .....	771.31	
Postage .....	17.66	
Typewriting and Stenographer .....	55.85	1,402.82

Credit Balance September 1, 1909 .....		\$347.18
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## COMMITTEE ON EXPRESS COMPANIES AND MONEY ORDERS.

New York, September 1, 1909.  
From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation .....	\$14,000.00	
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## DISBURSEMENTS.

Professional Services (Legal) .....	\$2,500.00	
Travelling Expenses .....	1,991.37	
Sundries .....	0.16	
Printing and Stationery .....	18.15	
Stenographer .....	50.00	4,565.68

Credit Balance September 1, 1909 .....		\$9,434.32
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Note.—Bills submitted not yet paid will close this credit balance.

## STANDING LAW COMMITTEE.

New York, September 1, 1909.  
From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation .....	\$750.00	
Oct. 1, 1908, " Special Appropriation .....	2,000.00	
		\$2,750.00

## DISBURSEMENTS.

Stationery and Printing .....	\$134.75	
Travelling Expense .....	116.45	
Special Professional Services (Legal).....	1,000.00	
Postage and Express .....	4.87	1,256.07

Credit Balance September 1, 1909.....		\$1,493.93
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## COMMITTEE ON UNIFORM LAWS.

New York, September 1, 1909.  
From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation.....	\$600.00	
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## DISBURSEMENTS.

Stenographic Work .....	\$20.00	
Postage .....	5.00	
Express Charges .....	.75	
Geo. F. Orde, Expenses at Meeting of Executive Council at Briarcliff .....	53.70	79.45

Credit Balance September 1, 1909.....		\$520.53
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## FEDERAL LEGISLATIVE COMMITTEE.

New York, September 1, 1909.

From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation ..... \$1,500.00

## DISBURSEMENTS.

Traveling Expense .....	\$580.55	
Stationery and Printing .....	28.00	608.55

Credit Balance September 1, 1909 ..... \$891.45

## COMMITTEE ON VOUCHER CHECKS.

New York, September 1, 1909.

From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation .....	\$1,000.00	
May 5, 1909, By Resolution of Executive Council..	551.84	

\$1,551.84

## DISBURSEMENTS.

Printing and Stationery .....	\$682.54	
Travelling Expenses .....	304.15	
Sundries .....	44.65	
Postage .....	520.50	

\$1,551.84

## COMMITTEE ON REVISION OF THE CONSTITUTION.

New York, September 1, 1909.

From September 1, 1908, to August 31, 1909.

## RECEIPTS.

May 5, 1909, By Resolution of Executive Council..... \$192.50

## DISBURSEMENTS.

Travelling Expenses..... \$192.50

## STANDING PROTECTIVE COMMITTEE.

From September 1, 1908, to August 31, 1909.

## RECEIPTS.

Oct. 1, 1908, By Appropriation .....	\$25,000.00	
May 5, 1909, " " .....	20,000.00	

Received from Union State Bank, San Francisco,

Cal. .... 37.50

Received from Salisbury Sav. Bank, Salisbury, Mo. .... 12.05

\$45,049.55

## DISBURSEMENTS.

Pinkerton National Detective Agency, service per Contract for one half fee due November 1, 1908, 8,998 members at \$1.50.....	\$13,497.00	
Same due May 1, 1909, 10,010 members at \$1.50..	15,015.00	
Account of special cases .....	15,824.07	44,336.07

Credit Balance, September 1, 1909 ..... \$713.48

## SPECIAL COMMITTEE ON TRAVELERS' CHECKS.

New York, September 1, 1909.

## DISBURSEMENTS.

Expenses Attending Meeting at Saratoga July 15 and 16, 1909.. \$163.43

## Report of Executive Council, by F. O. Watts, Chairman.

## To the American Bankers' Association:

Through the "Journal of the American Bankers' Association" the members have been so well informed from month to month of the work of the Executive Council and the Special Committee and officers under its control, that for the long established custom of having a written report for each Convention, and my constant purpose to fall in with all good customs and precedents, I would have no further report.

To say something of the Association and its work not already brought to your attention through the "Journal" is a difficult task. The Executive Council, as at present constituted, is the largest and most representative in the history of the Association. At your Convention in Denver last year you made radical changes in the method of selecting members of the Council, State vice-presidents and members of the Nominating Committee—putting such responsibility on the members of this Association when assembled at the Convention of the various States. This departure has worked so well that even those opposing it in the early stages of the movement would, not, I dare say, return to the old method.

It may be recalled that at and prior to the Convention at Atlantic City there were marked dissensions, and what might be called the rank and file of the membership became so restive under what they considered unequal representation, that a spirit of resentment was surely abroad. It is most pleasing to report that under the new plan of having every State select its own representatives, the feeling formerly existing has entirely subsided, and the year just ended has been marked as one in which harmony prevailed in every department of the Association. In addition to the satisfaction as to a proper representation—the new order of things re-

sulted in bringing this Association into closer touch with the various State Associations, increasing interest at the State Conventions, and in materially increasing the membership of this Association. This added impetus, taken with the untiring and effective work of the Secretary and his assistants, and the assistance of the Executive Council and the State vice-presidents, has resulted in an increase of this Association to 10,700 members.

Following custom, the Executive Council held two meetings since its last report to you—one just after the adjournment of the Denver Convention, and the second at Briarcliff, N. Y., during May. The details of these meetings were published in the May and October numbers of the "Journal" and will not be recounted in this report. Though doubled in size, there surely could never have been any meetings more business-like and harmonious, and the attendance at the May meeting was 66 out of a total membership of 71. This is quite remarkable considering that the members came from all parts of the country, from California to Connecticut and from the State of Washington to Florida.

While no new work was planned during the year, close attention and increased activity were given to the various special lines of work as well as to the regular and most valuable work, such as that especially looked after by the Protective Committee, the Trust Company Section, the Savings Bank Section, the Clearing House Section, the American Institute of Bank Clerks, the Secretary, the General Counsel and the Treasurer. The detailed reports of all such work will be very thoroughly presented to you during this Convention by those in whose immediate charge it was placed.

Practically all of the special work undertaken by the Committees of this Association in the past has been well done and of real value, and while the record stands so, it seems a most opportune time to call attention to the disposition of most of similar bodies to constantly increase the number of Special Committees—out of proportion to the importance of the work and without due consideration of the cost to be incurred. The record of your present Council is most excellent on this point, as only two special committees were created and the Council unanimously approved a ruling that the term of all committees created by it should end at the first meeting of the body thereafter, unless appointed for some other specific time or continued by affirmative action.

The Association and its sections have been especially active in opposing those after-panic proposals, "the Bank Guarantee of Deposits" and the "Postal Savings Bank." Equally wrong in principle, the latter seems more formidable because of the power and influence of its advocates and because the defects of the guarantee scheme are more glaring, and therefore more effectively played before the public. The Currency Commission has not been as active during the last year as during the previous one. This apparent inactivity should not be misunderstood. The interest of the Association as a whole and that of the Currency Commission has not been abated one whit, nor can it be denied that the best thought among bankers has been crystallizing more and more upon the true principles of currency reform as set out in the report of our commission. The principles they enunciated are not altered or affected by the growing sentiment among the best bankers favorable to a central bank. After the appointment of the Special Currency Commission by Congress, a committee of the highest type and apparently seeking after the plan most suitable to our conditions and necessities, the officers and committees of this Association considered their duty lay in rendering to the Congressional Commission every possible assistance, and in awaiting the result of the latter's most thorough and non-partisan investigation.

Before concluding, I take this opportunity to publicly express my appreciation of the official and personal association during the year with the President, First Vice-President, Secretary, Treasurer, General Counsel and the entire membership of the Executive Council. Surely no men ever worked more harmoniously to the common end of building up our profession in America.

## Report of General Counsel Thomas B. Paton.

During the year since the Denver Convention, the work of General Counsel has been devoted to the promotion of legislation having for its object the greater safety of banking transactions, as well as general uniformity of commercial law, and has also included active and continuous services rendered the various sections and committees and the members in general.

## LEGISLATIVE MEASURES.

I am pleased to report that the various legislative measures drafted and recommended on behalf of the Association in the banking interest have met with abundant success during the past year. No less than thirty-seven Association bills have been enacted in different States, and this does not include the Negotiable Instruments Law, which has been enacted in two additional States, and the Uniform Warehouse Receipts Act, which has been passed in eight States this year.

1. The bill to punish the making or use of false statements

to obtain credit, drafted by General Counsel, and made broad enough to punish the officer who obtains money or credit for his corporation by means of a false statement, has been passed by the legislatures of Michigan, Minnesota and Montana; also in Tennessee with certain modifications, and in Illinois the principle of the bill was incorporated in an amendment of the existing law. It also passed both houses of the New Jersey legislature, but was vetoed by the Governor without statement of reasons.

2. The bill drafted by General Counsel relating to bills of lading has also been passed in four States this year. I leave for the Chairman of the Committee on Bills of Lading a statement of the details concerning this measure.

3. The bill drafted to punish the circulation of derogatory statements affecting the financial standing of banks has been passed by the legislatures of Michigan and Pennsylvania.

4. The bill precluding a depositor from questioning the payment of a forged or raised check unless he notifies the bank within a specified period after the return to him of the forged or raised check as a voucher has been passed this year in Montana, with a time limit of one year; in Iowa and North Carolina, time limit six months; in Wyoming, time limit three months, and in North Dakota, time limit thirty days.

5. The bill defining and punishing the crime of burglary with explosives has been enacted this year in the three additional States of Idaho, Washington and Wyoming; and bills making it a crime to have burglars' tools in possession have been passed in North and South Dakota and in South Carolina.

6. The bill making it a crime to give, with intent to defraud, a check or draft on a bank without sufficient funds on deposit to meet it has been passed this year in Wyoming; and in South Carolina and Tennessee in modified form.

7. The bill amending the Negotiable Instrument Law, by clearing up all doubt when a time instrument made payable at a bank may be paid, specifying that payment must be made on the day of maturity only, has been passed in Missouri, Montana and New Jersey.

8. The bill authorizing payment of a deposit in trust to the beneficiary upon the death of the Trustee has been passed in Michigan and Montana, and in South Carolina in modified form.

9. The bill authorizing the payment of a deposit standing in two names, upon the death of one, to the survivor, has been enacted in Michigan, Montana, Nebraska and New Hampshire. It also passed both houses of the Wisconsin legislature, but was vetoed by the Governor on the ground that it might afford an opportunity for evasion of the Inheritance Tax Law.

10. The bill qualifying a notary, though a stockholder of a bank, to take acknowledgments and protest paper where the bank is a party, has been enacted in Michigan, Montana, New Jersey and Wyoming.

The promotion to enactment of such a large number of bills has entailed a large technical correspondence, together with the preparation and making of a number of legal arguments, and the result is most gratifying. But in this connection it must be understood that all these Association measures, so-called, while drafted or prepared by General Counsel and put forth with the approval and recommendation of the Standing Law Committee and other committees of the Association, have not been directly urged in the various States on behalf of the General Association, but have been sent to the State Bankers' Associations merely as suggested measures for use of the local committees, to be taken up and advocated if local needs and conditions required; and it has been chiefly through the efforts of these State Committees that such splendid results have been achieved.

These specific Association measures, it is seen, strike, on the one hand, through the criminal law at the bank burglar, the bank slanderer, the giver of the bad check and the swindling customer who obtains money on a false statement; and, on the other hand, through the civil law, protect the bank by surrounding the payment of deposits in specified instances with certain safeguards, and also by increasing the security and value of instruments of credit which the bank handles.

Aside from the enactment of the Association measures, considerable legislation has been passed during the year in a number of States relating to banks and the banking business. Among other legislation, four States have enacted Guarantee of Deposit laws this year, and Oklahoma has materially amended its original law of 1907, the constitutionality of which is pending before the Supreme Court of the United States. Nebraska has enacted a Guarantee law under which assessments apparently go on indefinitely, but the operation of this law has been enjoined by the Federal Courts pending decision as to its validity. Texas has passed a law providing for a depositors' guarantee fund or, in the alternative, a bond security system. Kansas and South Dakota have also passed laws for the establishment of a depositors' guarantee fund; but in these two States such laws are optional and not compulsory upon the bank. Deposit guarantee laws have been introduced in a large number of other States, but have been rejected by their legislatures. I append to this report a

summary of guarantee and other legislation relating to banks which has been enacted this year.

Contemporaneous with the growth of the guarantee of deposit theory, it is to be noticed that another principle is making headway in State legislation, namely, the segregation and safeguarding of savings deposits. Massachusetts last year enacted that savings deposits in trust companies must be separately kept and that such deposits and the securities in which invested be appropriated solely to their repayment. This year California enacted a general banking law under which one bank may have separate departments for savings, commercial and trust company business; the cash, securities and property of each department must be kept separate and not mingled with that of any other department, and all moneys and investments of each department are to be held solely for the repayment of the depositors of that department, any overplus to be applied to other liabilities. Texas also excludes savings deposits from the operation of its guarantee law, and provides that the business of savings departments of banks and trust companies be kept separate and distinct, and in case of insolvency savings depositors have an exclusive prior lien upon assets, including cash of the savings department. Also in the trust company law of Wisconsin enacted this year time deposits, not subject to check, must be held or invested separate from other funds or property and in case of insolvency are made primarily liable for the payment of such time deposits.

In this connection it may be mentioned that the whole subject of segregation and safeguarding of savings deposits, in all classes of banks, has been taken up and is being given exhaustive investigation and consideration as to its practicability by the Law Committee of the Savings Bank Section, and after the matter has been brought before the other law committees of the Association it is probable that certain conclusions will be reached and recommendations made.

#### CORPORATION TAX AMENDMENT.

On August 5 Congress enacted a Corporation Tax law as part of the Tariff bill. By this a special excise tax equivalent to one per cent. upon the entire net income of corporations over \$5,000 is imposed, and all incorporated banks, State and National, are subject to this tax. The law provides that the net income shall be ascertained by deducting certain specified expenses, losses and payments from gross income. When this law passed the Senate on July 3. It contained the following specification of interest payments which could be deducted from gross income:

"Third. Interest actually paid within the year on its bonded or other indebtedness to an amount of such bonded and other indebtedness not exceeding the paid-up capital stock of such corporation, joint stock company or association, or insurance company, outstanding at the close of the year."

As applied to a bank, the term "other indebtedness" would cover deposits and a reasonable construction of this provision, as passed by the Senate, would have prevented a bank from deducting from gross income all interest paid on an amount of deposits in excess of capital. This would have been a very serious hardship on a large number of banking corporations whose line of interest-bearing deposits are far in excess of their capital. Accordingly, General Counsel immediately prepared a brief showing this defect and this hardship in the law, which was forwarded to the President of the Association, approved by him and immediately sent on to the proper committee at Washington. As a result I am pleased to report that in the law as finally passed, this defect was corrected so that banks are allowed to deduct from gross income all interest paid on deposits during the year. This correction was made by an addition to the clause I have quoted of the following language:

"and in the case of a bank, banking association or trust company, all interest actually paid by it within the year on deposits."

#### WORK IN GENERAL.

In the progress of his work, General Counsel has accumulated the Banking Laws of all the States, together with the latest amendments; also the current decisions affecting banks and banking transactions, which have been arranged and classified, the whole constituting a bureau of legal information for ready reference.

During the year, 127 legal opinions have been prepared for various members of the Association on questions of banking law arising in their business, and in addition a large and constant correspondence has been conducted conveying information on various legal and banking subjects and in relation to the work of the committees and sections.

Considerable time has been given in the way of legal editorship of the "Journal" of the Association and of the "Bulletin" of the American Institute of Banking, and constant service has been rendered the Institute in the legal branch of their educational work, including the delivery of thirteen lectures on subjects of banking and commercial law.

In the matter of bank burglary insurance, six companies have been led to insert in their policies clauses which insure

the bank in event of "night hold-ups," a kind of loss which has not heretofore been covered. This is the result of agitating the subject in the "Journal."

A considerable number of legislative committee hearings upon measures of interest to the Association have been attended, as well as all the sessions of the conference of Commissioners on Uniform State Laws, at which have been perfected uniform laws on the subjects of Warehouse Receipts, Bills of Lading and Transfer of Title to Stock Certificates.

In connection with the work of the Committee on Bills of Lading, the Standing Law Committee, the Savings Bank Law Committee, the Committee on Trust Company Laws, the Voucher Check Committee and other committees of the Association, many meetings have been attended and legal briefs and other documents prepared, the details of which need not be given.

In conclusion, General Counsel desires to express his appreciation of the hearty co-operation which has been given him by the general officers and members of committees of the Association, as well as by the secretaries and legislative committeemen of the State Bankers' Associations.

#### SUMMARY OF STATE LEGISLATION DURING 1909 AFFECTING BANKS.

##### ALABAMA.

The Alabama legislature convened July 27, 1909. A number of bills were introduced in behalf of the Bankers' Association, one of which is for re-enactment of the negotiable instrument law which was defectively passed at the last session of the legislature.

Several other bills, purely of a local nature, were introduced, relating more particularly to the examination of banks and the preparation of statements. These measures were still pending at the date of preparation of this statement.

##### ARIZONA.

Section 138 of the Revised Statutes, relating to reserve, was amended by Chapter 90 of the laws of 1909, so that instead of the required reserve of at least fifteen per cent. of deposits being kept "on hand," it is provided that two-fifths must be cash on hand and three-fifths on deposits with other banks approved by the Comptroller.

##### ARKANSAS.

A general Banking Law, providing a State Banking Department, and containing provisions for the organization of banks and regulation of the banking business, was introduced in the legislature, but failed to pass.

No measures materially affecting the banking business were enacted this year.

##### CALIFORNIA.

A new Banking Law, which was prepared under the supervision of a committee appointed by the California Bankers' Association, and a commission appointed by the Governor, was enacted this year. Under it banks are divided into three classes, viz.:

- (a) Savings Banks,
- (b) Commercial Banks,
- (c) Trust Companies.

Corporations may be formed to conduct any one or all of such classes of business.

Separate provisions governing each class are made. Where the corporation conducts more than one kind of business it must keep the books, investments and transactions of each class separate, and in the event of insolvency the depositors of each class are preferred as to the cash investments belonging to that class.

Sections 26 and 27, which provide this separation and segregating, read as follows:

"Sec. 26. Every bank having different departments shall keep separate books of account for each department of its business, and shall be governed as to all deposits, reserves, investments and transactions relating to each department by the provisions in this act specifically provided for the respective kind of business.

"It shall keep all investments relating to the savings department entirely separate and apart from the investments of its other department or departments.

"Every bank shall conduct the business of all its departments in one building, or in adjoining building, and shall keep entirely separate and apart in each department the cash, securities and property belonging to such department, and shall not mingle the cash, securities and property of one department with that of another.

"Sec. 27. All money belonging to each department, whether cash on hand or with other banks, and the investments made, shall be held solely for the repayment of the depositors in said department, until all depositors in such department shall have been paid, and the surplus then remaining shall be applied to the other liabilities of such bank."

The Uniform Warehouse Receipts Act was passed this year.

##### COLORADO.

A Guarantee Deposit Law, along the lines of the Oklahoma law, was introduced but failed to pass.

The Trust Company Law was amended with reference to the amount of capital stock required in cities of first and second class.

##### CONNECTICUT.

The legislature of Connecticut passed certain laws affecting banks, of local interest only, relating to certain items of loans and investments by savings banks, fixing the minimum salaries of savings bank presidents, and increasing the salaries of the Bank Commissioners.

##### DELAWARE.

The Delaware legislature passed a law requiring all State banks and trust companies to keep a reserve fund, which, in the case of banks in the City of Wilmington, must be 15 per cent., and as to all banks outside of the city 10 per cent.

Five per cent. of this reserve fund must consist of cash in bank; the remainder of deposits in reserve banks.

##### FLORIDA.

The legislature of Florida passed an act authorizing the employment of an additional bank examiner, and also an act defining due diligence in the collection of checks, drafts, etc. The last stated act provides:

"That when a check, draft, note or other negotiable instrument is deposited in a bank for credit, or for collection, it shall be considered due diligence on the part of the bank in the collection of any check, draft, note or other negotiable instrument so deposited, to forward enroute the same without delay in the usual commercial way in use according to the regular course of business of banks, and that the maker, endorser, guarantor or surety or any check, draft, note or other negotiable instrument, so deposited, shall be liable to the bank until actual final payment is received by it, except in case of want of due diligence on its part, as aforesaid."

(Smaller due diligence laws now exist in Vermont, Kentucky and South Dakota.)

##### GEORGIA.

No legislation materially affecting banks was enacted at the present session. A bill for the guarantee of deposits was introduced but failed to pass.

##### IDAHO.

The legislature enacted the Association measure to define and punish the crime of burglary with explosives with a penalty from ten to twenty-five years.

A further law adds Decoration Day and Labor Day to the holidays now observed.

##### ILLINOIS.

By Act approved June 8, 1909, the legislature adopted the principle of the Association measure to punish the making of statements for credit, by amending Section 97 of the Criminal Code, so as to extend the crime and punishment of an officer who obtains credit for his corporation, or a member who obtains credit for his firm. Section 97, as amended, is given below; new matter in blackface type, words eliminated in brackets:

"Sec. 97. Whoever by any false representation in writing of [his own] the respectability, wealth [or] mercantile correspondence or connections, or assets or liabilities of himself, or of any firm of which he is a member, or whoever, being an officer of a corporation, by any false representation in writing, known by him to be false and signed by him, of the respectability, wealth, mercantile correspondence or connections, or the assets or liabilities, or any or all of them, of such corporation, obtains credit for himself, for such firm or for such corporation, and thereby defrauds any person of money, goods, chattels or any valuable thing, or whoever procures another to make a false report in writing, signed by the person making the same, of [his] the honesty, wealth, mercantile correspondence or connections, or assets or liabilities of himself, or of any firm of which he is a member, or whoever, being an officer of a corporation, procures another to make a false report in writing, known by him to be false, signed by the person making the same, of the honesty, wealth, mercantile correspondence or connections, or assets or liabilities of such corporation, and thus obtains credit for himself, such firm or for such corporation, and thereby defrauds any person of any money, goods, chattels or other valuable thing, shall be sentenced to return the money or property so fraudulently obtained, if it can be done, and shall be fined not exceeding \$2,000 and confined in the county jail not exceeding one year."

A law was passed making the 12th of October, or Columbus Day, a legal holiday in each year.

##### INDIANA.

The State Depository Law enacted two years ago makes it obligatory on all treasurers of public funds to keep them in designated depositories, who have qualified under the various Finance Boards.

The original law required that the bank should furnish either surety bonds, or personal, for the full amount for which they qualified. It was amended this year so as to allow the depository to furnish surety company bonds for 50 per cent. of the award, or if personal bond is given, 60 per cent.

The reason for this amendment is that it rarely happens that a depository secures an average deposit of more than 50 per cent. of the amount it qualifies for.

Another amendment to the Depository Law provides for the filing of municipal, street and sewer bonds as security for public deposits.

A bank guarantee bill and an inheritance tax bill were before the legislature, but did not pass.

## IOWA.

The Iowa legislature enacted the forged check measure recommended by the American Bankers' Association, through its Standing Law Committee, with a six months' limitation as follows:

"No bank shall be liable to a depositor for the payment by it of a forged or raised check unless within six months after the return to the depositor of the voucher of such payment, such depositor shall notify the bank that the check so paid is forged or raised."

Sec. 1837 of the Code, providing for dissolution of savings banks, was amended by including State banks.

Sec. 1875 of the Code, relating to the appointment of bank examiners and their fees, etc., was amended.

## KANSAS.

The legislature of Kansas enacted a Bank Depositors' Guarantee Law. This law is not a compulsory measure, but banks which are qualified (banks having surplus of 10 per cent. of capital and new banks with like surplus after doing business one year) are authorized and empowered to participate in the assessments and benefits and to be governed by the regulations of the Bank Depositors' Guarantee Fund.

Certificates are issued by the Bank Commissioner to the guaranteed banks.

There must be a bond deposit (or cash in lieu thereof) with the State Treasurer of \$500 for every \$100,000, or fraction, of average deposits eligible to guarantee before a bank can receive a certificate, and in addition, an annual assessment in January, beginning 1910, of one-twentieth of one per cent. of average daily deposits until the guarantee fund (exclusive of the cash in lieu of bond deposit) approximates \$500,000. In the event of depletion, additional assessments will be levied of not more than five assessments of one-twentieth of one per cent. in any one year.

After the first annual assessment of 1910, banks seeking to participate to be assessed an amount approximately equal to their proportionate share of money then in the Depositors' Guarantee Fund; this not required from banks consolidated or recognized from banks previously complying. Upon payment of such assessment, together with the deposit of bonds or money, as above provided, such banks entitled to certificate. The State Treasurer holds the fund in State depository banks (as provided by law governing other State banks) subject to the order of the Bank Commissioner. In case of failure, Commissioner takes charge of bank, issues to depositors, upon proof of claim, 6 per cent. certificates upon which dividends paid and interest (except in case of deposit at contract rate, certificate at that rate). After assets are realized upon, including double liability of stockholders, funds so collected are paid to depositors. Balances due on guaranteed deposits (if any) are certified to the Bank Commissioner, who checks on the State Treasurer payable out of the Depositors' Guarantee Fund. If the fund is insufficient, after five additional assessments in one year are made, the depositors are paid pro rata and the remainder when the next assessment is available. When dividends are paid to depositors out of the Depositors' Guarantee Fund, claims of depositors revert to the Depositors' Guarantee Fund until the fund is fully reimbursed with interest at 3 per cent.

If an assessment is unpaid thirty days after receipt of notice, a 5 per cent. penalty is added and sufficient of the defaulting bank's bonds are sold by the Bank Commissioner to pay the assessment. Any balance from the proceeds of sale remains to credit of bank in Depositors' Guarantee Fund. Such balance, with remainder of bonds (or cash deposited in lieu) is forfeited to fund if bank does not remit in sixty days after default full assessment and penalty and restore bonds, etc. If bank does not comply, it is examined; if insolvent, taken in charge; if solvent, certificate as guaranteed bank is cancelled.

Deposits which are guaranteed are deposits not bearing interest; time certificates payable not less than six months nor more than one year, with interest not more than 3 per cent., on which interest ceases at maturity; and savings accounts not subject to check, not exceeding \$100 to one person, bearing interest not over 3 per cent., upon which bank has reserved right to require notice of withdrawal. Deposits which are primarily rediscounts or money borrowed and all deposits otherwise secured are not guaranteed.

Deposits are limited to ten times paid capital and surplus.

The Banking Law of the State was also amended in several particulars. A bank director to be eligible must be the holder of at least \$500 of the stock; a uniform time, each January, April, July and October, is fixed for the holding of board meetings; the requirements as to cash reserve are modified, making it one-quarter instead of one-half of the legal reserve which must be held in cash.

The Uniform Warehouse Receipts Act was passed this year.

## MAINE.

The following bills were this year passed by the Maine legislature relating to banks:

House No. 71. Investment of deposits of savings banks.

House No. 81. Changing official designation of head of Banking Department and more clearly defining his powers in relation to expenses and to the employment of clerks.

House No. 100. Providing for joint examinations of State and National banking institutions occupying the same rooms at least

once a year, at times and under conditions to be agreed on by the two departments.

House No. 262. Giving savings banks power to loan, maintain and let safe-deposit boxes and vaults.

Senate No. 83. Relating to taxation of loan and building associations.

Senate No. 152. Exempting State and municipal bonds from taxation.

House No. 692. Amending the law relating to investments of savings banks.

## MASSACHUSETTS.

Bills have been enacted into law as follows:

Chapter 342, Acts of 1909, for taxing deposits in savings departments of trust companies. Last year trust companies were compelled to segregate savings deposits and to invest them under the savings bank law, but were given the privilege of doing it in instalments during the next five years. This new law provides for taxation of these deposits under the law applying to savings banks, and also that the tax shall be applied in instalments during the period allowed for changing investments.

Chapter 419, Acts of 1909, amends the savings bank law in a number of particulars, i. e., prevents the use of "bank," "banking" or "trust company" in connection with "company" in title of organizations not incorporated under the bank and trust company laws; provides fees for issuance of certificates of incorporation; regulates stolen pass-books and leaves the method of issuing duplicates optional with the banks; makes certain further restrictions with regard to bond investments; excludes from the limitation of one-third of the deposits and income, personal loans on collateral authorized for investment by savings banks; provides the routine for delivery of accountant's report of a borrowing corporation; enlarges the opportunities for investment in bonds or notes of railroad companies maturing within one year; provides that a loan secured by mortgages as collateral must not be more than 60 per cent. of the value of the property mortgaged, instead of requiring that each mortgage assigned as collateral shall not be more than 60 per cent. of such value; further defines jurisdiction of Board of Bank Incorporation and of Bank Commission; exempts deposits by Credit Unions from restriction of amount of the deposit in a savings bank.

## MICHIGAN.

The legislature of Michigan enacted the following measures recommended by the American Bankers' Association:

1. An Act to punish the making or use of false statements to obtain credit.

2. An Act to punish the making, circulating or transmitting of statements, rumors or suggestions derogatory to the financial condition or standing of a bank.

3. An Act in relation to the payment of deposits of money in banks and trust companies in the names of more than one person, and relating to the payment of trust deposits.

4. An Act concerning notaries public who are stockholders, directors or employees of banks or other corporations.

5. An Act defining bills of lading, prescribing as to the form, issue and surrender thereof, with penalties, etc.

Certain amendments to the banking laws were also enacted relating to meeting of directors, separation of commercial and savings banks, repayment of impaired capital, reorganization of banks, salaries of department officers, and appointment of receiver.

The Uniform Warehouse Receipts Act was passed this year.

## MINNESOTA.

The legislature of Minnesota enacted the following measures recommended by the American Bankers' Association:

Chapter 414. An Act relating to bills of lading.

Chapter 431. An Act to punish the use or making of false statements to obtain credit.

Other laws relating to banking were enacted as follows:

Chapter 403. Amending Section 1 of Chapter 111, Laws of 1907, defining "bank," "savings bank," and limiting the right to use the same as a business name.

Chapter 124. Amending the law relating to the bonds of county depositories.

Chapter 157. Amending the law making it a felony to make or have in possession burglars' tools.

Chapter 178. Prohibiting the use of the words "Savings," "Trust" or "Safe Deposit" except by authorized corporations; but allowing State banks to establish and maintain a savings department, to solicit and receive deposits in said savings department, and advertising same as such.

Chapter 179. An Act providing for and regulating proceedings against and liquidation of delinquent financial corporations and bankers.

Chapter 201. An Act to create and establish a Department of Banking, and to provide for a Superintendent of Banks and the appointment of examiners; defining the powers and duties of such Superintendent of Banks and examiners, and fixing the compensation; and to provide for a system of examination, audit and control of State banks, savings banks, building and loan associations, and other financial corporations.

Chapter 362. An Act relating to the securing of public moneys by State, county and city depositories.

Chapter 436. Fixing five months as a reasonable time within which to present for payment promissory notes payable on demand.



## MISSOURI.

The legislature of Missouri passed the following act recommended by the American Bankers' Association:

Amending Section 87 of the Negotiable Instruments Law by the addition of the words in blackface type:

Sec. 87. Where the instrument is made payable at a bank it is equivalent to an order to the bank to pay the same for the account of the principal debtor thereon. "But where the instrument is made payable at a fixed or determinable future time, the order to the bank to pay is limited to the day of maturity only."

An Act to regulate the payment by banks, banking institutions and trust companies of deposits made in trust upon the death of the trustees, and to make payment to a trustee upon his signature, conforming to the words of deposit.

Also the following measures:

Amending Sections 3, 9, 12, 18, 40, 60, 64, 76, 82, 84, 87, 99, 112, 124, 125, 130, 173 and 191 of the Negotiable Instruments Law.

This law is to correct various clerical and other errors in the Negotiable Instruments Act adopted in 1905, and it includes Section 87, which was amended as above.

An Act to repeal Sections 401 and 462 of Chapter 5 of the Revised Statutes of Missouri for the year 1899, relating to public holidays, and to enact in lieu thereof a new section designating certain days as public holidays.

## MONTANA.

The legislature of Montana passed the following acts recommended by the American Bankers' Association:

An Act to punish the making of false statements to obtain credit.

An Act to amend the Negotiable Instruments Law in relation to the time when an instrument may be paid by a bank.

An Act concerning notaries public who are stockholders, directors, officers or employees of banks or other corporations.

An Act relating to the payment of deposits in two names.

An Act concerning the payment of deposits in bank in trust.

An Act fixing the liability of a bank to a depositor for the payment of forged or raised checks. (One year limit.)

Lincoln's Birthday, February 12, and Columbus Day, October 12, are made legal holidays in every year.

A State Depository Law was enacted, and a further law, requiring banks in Montana, before declaring any dividend, to set aside 10 per cent. as a surplus fund, until such fund shall equal 20 per cent. of capital.

## NEBRASKA.

The legislature of Nebraska amended the Banking Law by providing a guarantee fund for protection of depositors in banks. The Act took effect July 2, 1909. The fund is to be accumulated by assessments on average daily deposits (averaged in six month periods), as follows:

- (1) One-quarter of one per cent. sixty days after taking effect of Act.
- (2) One-quarter of one per cent. January 1, 1910.
- (3) One-quarter of one per cent. July 1, 1910.
- (4) One-quarter of one per cent. January 1, 1911.
- (5) And every July 1 and January 1 thereafter one-twentieth of one per cent. of average daily deposits.

There seems to be no maximum limit to the fund, but assessments are provided to go on indefinitely. Special provisions are made in case of new banks. When assessments are levied the amount is set apart in each bank, payable to the State Banking Board on demand. Prior to July 1, 1910, if the fund is depleted or reduced to less than one-half of one per cent., or subsequent to July 1, 1910, to less than one per cent., the deficiency to be made good by the levy of special assessments, not exceeding one per cent. of average daily deposits in any one year.

In case of failure, preference in payment is given to (1) Federal, State, county and municipal taxes; (2) claims of depositors and holders of exchange. The above are a first lien on assets, including stockholders' liability, and are to be paid out of immediate available cash. If insufficient to pay depositors, the State Banking Board will draw against the Depositors' Guarantee Fund, prorated among the solvent banks according to the respective amounts held, and transmit to receiver to pay depositors. The State Banking Board for the use of the Depositors' Guarantee Fund is subrogated to the claims of creditors to the extent of the amount paid. The amount collected by the receiver is deposited by the State Banking Board in solvent banks, subject to the provisions of the Depositors' Guarantee Fund, the several deposits to be proportioned to the assessments levied against each of said banks. Private banking is prohibited. A graded capitalization of banks is provided, minimum \$10,000; \$15,000 from 100 to 500 population; \$20,000 from 500 to 1,000; \$25,000 from 1,000 to 2,000; \$35,000 from 2,000 to 5,000; \$50,000 from 5,000 to 25,000; \$100,000 from 25,000 to 100,000; \$200,000 for 100,000 or over. The amount of deposits is not limited, but interest on deposits is limited to 4 per cent. There is also a graded savings bank capital with a minimum of \$15,000; \$35,000 from 50,000 to 100,000; and \$75,000 for 100,000 or more.

The legislature also passed the law recommended by the Standing Law Committee of the American Bankers' Association, relating to the payment of deposits in the names of two or more persons.

Two new laws were passed affecting depository bonds in case of county or State deposits. Under these the bank may use certain securities in place of buying a surety bond.

The Uniform Warehouse Receipts Act was passed this year.

## NEVADA.

The legislature of Nevada, by Act approved March 24, 1909, passed:

"An Act to define and regulate the business of banking, creating a State Banking Board and defining its powers and duties, and providing for a bank examiner and the examination and supervision of banking corporations; and for the appointment of receivers in certain cases; fixing penalties for the violation thereof; and other matters relating thereto."

While the above measure was pending it contained provisions for a guarantee fund for the protection of depositors. This feature was voted down and the law as passed omitted the guarantee fund provisions. This was done near the end of the session, and the guarantee feature was eliminated by going through the bill and supposedly striking out every section relating to it. This enumeration, however, was not completely made, and Sections 46, 48, 52 and 57 of the law as passed contain provisions based on the existence of the Depositors' Guarantee Fund, while the law itself does not provide such a fund. As the law stands, references made to the Guarantee Fund in those sections are meaningless.

## NEW HAMPSHIRE.

By Act approved April 8, 1909, the legislature of New Hampshire enacted the Uniform Instruments Law, to take effect on the first of January, 1910.

Also the measure recommended by the Standing Law Committee of the American Bankers' Association, authorizing the payment by savings banks of deposits made in two names.

Certain amendments were made to the laws relating to investments of savings banks, and limiting the dividends to be paid by savings banks prior to the accumulation of a guarantee fund of 5 per cent. of deposits.

## NEW JERSEY.

The legislature of New Jersey passed the following laws recommended by the Standing Law Committee of the American Bankers' Association:

Amending Section 85 of Negotiable Instruments Act by inserting the words "or becoming payable" after "falling due."

Amending Section 87 of Negotiable Instruments Act by adding:

"But where the instrument is made payable at a fixed or determinable future time, the order to the bank to pay is limited to the day on which the instrument is payable."

An Act concerning the administering of oaths and protesting of negotiable instruments by notaries public who are stockholders, directors, officers or employees of banks or other corporations.

An Act amending the holiday law.

The bill to punish the making or use of false statements to obtain credit, passed both houses, but was vetoed by the Governor.

A bill seeking to impose a collateral inheritance tax on the estates of residents and non-residents, and making banks liable for the amount of tax, with interest, and a fine of \$1,000 in case such tax was not paid, was defeated.

## NEW MEXICO.

The legislature of New Mexico passed a law amending the former banking law as to making of semi-monthly statements and reports to the bank examiner, and providing for the appointment of a deputy bank examiner. The law also provides for the payment of the examiner in making examinations of banks; for the taking over of insolvent banks and closing them, and for the liquidation thereof by the examiner.

The Uniform Warehouse Receipts Act was passed this year.

## NEW YORK.

No measures materially affecting banks were enacted by the New York legislature this year.

The "Consolidated Laws of the State of New York," being the sixth compilation of the general statute law of the State, prepared under legislative authority, were enacted.

## NORTH CAROLINA.

The legislature of North Carolina passed the following laws recommended by the Standing Law Committee of the American Bankers' Association:

An Act authorizing payment of deposits in trust. The Act is limited to deposits in trust for any person who is a minor of the age of fifteen years and upward, and further limited to deposits not in excess of fifty dollars.

An Act fixing the liability of a bank to its depositors for payment of forged or raised checks. The time limit is fixed at six months.

A further law passed amends the Negotiable Instruments Law by striking out the Saturday half-holiday provision, so that there shall be no difference between Saturday and any other business day, as far as negotiable instruments are concerned.

A further law provides for the punishment of any person who utters or publishes any forged, false or counterfeit bill, money order or security, or who negotiates same.

A further law amends the Association measure, passed in 1907, to punish the giving of checks or drafts without funds, by adding:

"The giving of the aforesaid worthless check, draft or order shall be prima facie evidence of intent to cheat and defraud."

The object of the amendment is to protect any one that may undertake to prosecute a person who has given a worthless check and afterwards pleads ignorance.

## NORTH DAKOTA.

The legislature of North Dakota passed the Act recommended by the Standing Law Committee of the American Bankers' Association, concerning forged or raised checks, with a time limit of thirty days. It provides:

"That any bank shall be liable to a depositor for the payment by it of a forged or raised check, unless within thirty days after the return to the depositor of the voucher of such payment, such depositor shall notify the bank that the check so paid is forged or raised."

A further Act makes it a criminal offence to be found in possession of burglars' tools.

## OKLAHOMA.

The Negotiable Instruments Law was passed by the legislature of Oklahoma.

Important amendments were made to the Depositors' Guarantee Law. The Guarantee Law of 1907 provided for a fund to be maintained equal to 1 per cent. of average daily deposits, less deposits of State funds properly secured. The amended law provides a guarantee fund of 5 per cent. of average daily deposits of banks and trust companies during the banks' continuance in business, one-fifth to be assessed during the first year and one-twentieth each year thereafter until the 5 per cent. is made up; assessments heretofore paid to be credited as payments on the 5 per cent. Emergency assessments may be levied to restore impairment of fund; not to exceed 2 per cent. yearly. If the fund and emergency assessments are insufficient to pay depositors of all failed banks, the State Banking Board will issue 6 per cent. interest-bearing certificates of indebtedness, consecutively numbered, payable upon call of the State Banking Board, the same as State warrants.

Emergency assessments to be levied yearly until all certificates and interest paid. Assets of a failed bank are to be first applied to (1) expenses of liquidation; (2) repayment to guarantee fund of all money paid out to depositors of failed bank; (3) refunding of emergency assessments. The depositors of a failed bank are to be paid in full out of the cash of bank immediately available and from the guarantee fund and emergency assessments when required. Seventy-five per cent. of the guarantee fund is to be invested in State warrants, or in such other securities as State funds are invested. Banks and trust companies who have complied with the law are eligible to act as State depositories. In case of new banks, 3 per cent. of capital must be paid to guarantee fund when they open for business, to constitute a credit fund subject to adjustment on basis of deposits at end of year. This is not required of new banks formed by reorganization or consolidation. The State has a first lien on the assets and on all liabilities of stockholders, officers and other persons for the benefit of the guarantee fund. Certificates are issued to guaranteed banks and trust companies that the law has been complied with, and safety to depositors is guaranteed by the Depositors' Guarantee Fund. A bank may advertise that its deposits are guaranteed by the Depositors' Guarantee Fund, but it is a misdemeanor to advertise they are guaranteed by the State of Oklahoma.

The amended law took effect June 11, 1909, and new assessments begin one year thereafter. The deposits of a bank are limited to 10 per cent. of paid-up capital and surplus, deposits of other banks not included. A graded capitalization is provided, with a minimum of \$10,000, fully paid up, for places of 500 or less; \$15,000 from 500 to 1,500; \$25,000 from 1,500 to 6,000; \$50,000 from 6,000 to 20,000; and \$100,000 over 20,000. Banks may pay interest, but the State Banking Board has power to fix the maximum.

## OREGON.

A Depositors' Guarantee Bill was introduced in the Oregon legislature, but did not pass.

## PENNSYLVANIA.

The following legislation was enacted by the Pennsylvania legislature:

An act restricting the use of the word "Trust" as part of a corporate name; forbidding advertising or doing business as a trust company except by corporations under the supervision of the Banking Department, and providing the penalty, etc.

Approved April 22, 1909.

An Act to amend an Act entitled "An Act Relating to Negotiable Instruments."

This Act was passed to overcome a decision of the Pennsylvania Supreme Court and provides that "the mere retention of such bill (check or domestic bill) by the drawee, unless its return has been demanded, will not amount to an acceptance, and provided further, that the provisions of this Act shall not apply to checks."

This bill entirely eliminates checks from the operation of Section 137 of the Negotiable Instruments Law, passed May 16, 1901.

An Act further defining embezzlement by officers, employees or agents of banks. Approved April 23, 1909.

An Act recommended by the American Bankers' Association, making it a misdemeanor for any person to make, utter, circulate or transmit false or derogatory statements affecting the solvency or financial standing of any bank, banking house, banking company, trust company, surety company, guarantee company, title insurance company or other financial institution in this Commonwealth, and providing penalties for violation of this Act.

Approved April 23, 1909.

The Uniform Warehouse Receipts Act was passed this year.

## SOUTH CAROLINA.

The South Carolina legislature passed the following laws:

An Act declaring it a misdemeanor to utter a check, draft or money

order without sufficient funds to meet the same, and providing punishment therefor. The Act contains a proviso:

"That if such person shall deposit with the drawee of such paper within thirty days thereafter funds sufficient to meet the same, with all costs and interest which may have accrued, the prosecution under this Act shall be discontinued."

A further Act to provide punishment for a person who makes or has in his possession burglars' implements under circumstances evidencing an attempt to commit a crime.

## SOUTH DAKOTA.

The legislature of South Dakota passed an Act authorizing the formation of a State Association of Incorporated Banks, and to permit the voluntary creation and maintenance of a bank deposit insurance fund and the insurance of the deposits of such banks, and providing for the supervision and regulation of such insurance by the Board of Commissioners, the maintenance of such fund and the payment of losses therefrom. The State Association of Banks provided for is to be created whenever not less than one hundred existing State banks, with aggregate capital of not less than one million dollars, shall send specified statistics, together with membership fees and premiums for one year, to the State Treasurer. This bill is purely a voluntary measure and is not expected to become operative in the State.

A bill was passed relating to burglary implements and materials, and making it prima facie evidence if any burglary tools are found in the possession of anyone that their intent is to violate the law. The law fixes a penalty not exceeding five years or one thousand dollars fine.

A new General Banking Law was enacted (Chapter 222), entitled, "An Act to revise the laws authorizing the business of banking, providing for the organization and control of banks and to establish a banking department for the supervision of such business."

## TENNESSEE.

The legislature of Tennessee passed the Act to punish the making or use of false statements to obtain credit, with certain amendments.

A further Act was passed making it unlawful to utter a check where the drawer has not had an account or credit with the drawee for a period of sixty days from the date of drawing; also to make it unlawful for any person to utter a check knowing that there are not funds to meet the same and that the same will not be honored. Penalties are provided.

A further Act was passed to authorize the County Court in each county, when in quarterly session assembled, to adopt a resolution to contract with a bank or banks to pay interest on daily balances of the county funds; to create a County Finance Committee, and define its duties and powers; and to define the duties of the County Trustee.

A further Act provides for the organization of bank corporations, and that holders of stock in same shall be liable to its depositors, in addition to their stock, individually in an amount equal to the par value of their stock.

The Uniform Warehouse Receipts Act was passed this year.

## TEXAS.

The State of Texas enacted a law providing for a Depositors' Guarantee Fund; also providing a Depositors' Bond Security System. Under this law banks must protect their depositors by complying either with the provisions of the Depositors' Guarantee Fund or Depositors' Bond Security System before January 1, 1910, and the option must be exercised on or before October 1, 1909, by the holders of the majority stock. The limit of the Depositors' Guarantee Fund is fixed at \$2,000,000. It is accumulated by the payment on January 1, 1910, of 1 per cent. of the daily average deposits for the preceding year, ending November 1, 1909, not including public funds otherwise secured. The assessment must be paid to the State Banking Board; annually thereafter one-quarter of one per cent. of average daily deposits, for the year ending November 1, must be paid; payments stop when the fund reaches \$2,000,000; provision is made to restore the fund in case of depletion, but emergency assessments cannot exceed 2 per cent. in any one year; 25 per cent. of assessments must be paid and kept in cash, to be deposited by the State Banking Board with the State Treasurer as bailee, and 75 per cent. by credit of the amount to the State Banking Board as a demand deposit subject to check. Newly organized banks pay 3 per cent. of capital and surplus, subject to adjustment on basis of deposits at end of the first year; this not required of reorganizations or consolidations. Upon failure, claims of guaranteed depositors must be proved within forty-five days; otherwise only share to extent of assets in hands of Commissioner equitably applicable thereto. In declaring dividends, guarantee fund entitled to such portions of amounts due and payable to guaranteed depositors as have been paid out of fund with 6 per cent. interest; the Commissioners distribute the dividends among the State banks. Depositors are to be paid in full out of immediately available cash; remainder out of guarantee fund; but interest-bearing deposits and deposits otherwise secured are not insured under Act and only share pro rata. The State in behalf of the guarantee fund has a first lien on assets.

Banks electing the Depositors' Bond Security System must on January 1, 1910, and annually thereafter, file with the Commissioner of Insurance and Banking, for and on behalf of lawful depositors, an approved bond, policy of insurance or other guarantee of indemnity in an amount equal to the capital stock. Such bond, etc., secures depositors who are such at the time it is filed and approved, and for twelve months thereafter. Detailed requisites as to bond are provided. Whenever deposits exceed six times capital and surplus there must be additional bond security equaling amount of excess.

On and after January 1, 1910, all banks must hold a certificate of

authority stating either that "the non-interest bearing and unsecured deposits of this bank are protected by the State Bank Guaranty Fund" or that "All deposits of this bank are protected by security bond under the law of the State of Texas."

If the average daily deposits for the year ending November 1, 1909, or any subsequent year, of banks

With capital of \$10,000 are more than five times capital and surplus,

With capital of \$10,000 to \$20,000 are more than six times capital and surplus,

With capital of \$20,000 to \$40,000 are more than seven times capital and surplus,

With capital of \$40,000 to \$75,000 are more than eight times capital and surplus,

With capital of \$75,000 to \$100,000 are more than nine times capital and surplus,

With capital of \$100,000 or more are more than ten times capital and surplus,

the capital must be increased 25 per cent. in sixty days. Where one bank purchases the assets of another, it must before the purchase have capital enough to be in ratio to the increase.

The law contains, in addition to the above features, special provisions regulating the operation of savings deposit departments in banks or trust companies. The business must be kept separate and distinct savings deposits and funds and securities in which the same are invested must be segregated from and not mingled with other moneys and funds; not more than 85 per cent. is to be invested in specified securities and not otherwise; provision is made for sixty day's notice of withdrawal; in case of insolvency savings depositors shall have an exclusive prior lien upon assets, including cash, of savings department; after payment in full the remainder goes to the general creditors. The directors may provide a rate of interest for savings depositors, and if the earnings of the savings department are insufficient the deficiency is to be paid out of general funds. At dividend periods the bank may transfer to its general funds the accumulated earnings of the savings department after payment of expenses and interest due. In computing average annual deposits to determine whether increase of capital is necessary, or to determine the amount payable to the guarantee fund, savings deposits are not included.

#### WASHINGTON.

The legislature of Washington passed the following Association measures:

The Bill of Lading Law, omitting the provision for the taking of a bond by the carrier in the event of delivery of the property described in an order bill of lading without requiring surrender of the same.

The law making "burglary with explosives" a separate offense.

A further act was passed designed to protect banks and relieve them from annoyance in cases of garnishments before justices of the peace.

Three laws were passed which authorize the State Treasurer and county or municipal treasurers to accept as security for public deposits certain bonds, warrants and other securities, specifically enumerated, in lieu of a surety bond.

The General Banking Law was amended in certain particulars—authorizing the appointment of an additional deputy examiner; providing that the amount of capital of banks organized prior to the State Bank bill should be paid up in full in five monthly instalments; providing that no bank can open a branch in another place without first setting aside specially the amount of capital required for opening a new bank in that city.

A Guarantee of Deposits bill was introduced but did not pass.

#### WEST VIRGINIA.

The only measure affecting banks passed by the legislature of West Virginia was one which slightly corrects the taxation of banks in the State.

#### WISCONSIN.

The legislature of Wisconsin enacted a new trust company law, with certain notable features. Trust companies are prohibited from receiving deposits subject to check and dealing in bank exchange, but may receive time deposits and issue notes, certificates, etc., therefor, payable not earlier than thirty days from date of deposit. Provision is made that time deposits must be kept separate, and the funds and investments made therefrom primarily applied to payment of such deposits in the event of insolvency. On this point the law provides:

"All such deposits so received shall at all times be held or invested separate from other funds or property held by the corporation, and in case of insolvency or liquidation all such funds and investments made therefrom shall be primarily liable and used for the payment of such deposits."

Further, separate books must be kept for trust accounts and trust funds and property must be kept separate so as to be readily identifiable. On this point the law provides:

"Every such corporation shall keep its trust accounts in books separate from its own general books of accounts. All funds and property held by it in trust capacity shall, at all times, be kept separate from the funds and property of the corporation, and all deposits by it of such funds in any banking institution shall be deposited as trust funds to its credit as trustee, and not otherwise. Every security in which trust funds or property are invested shall, at once, upon the receipt thereof, be transferred to it as trustee, executor, administrator, guardian, receiver, assignee or other trustee as the case may be, for each particular trust or fund by name and immediately entered in the proper books as be-

longing to the particular trust whose funds have been invested therein. Any change in such investment shall be fully specified in and under the account of the particular trust to which it belongs, so that all trust funds and property shall be readily identified at any time by any person."

A further law was passed expressly forbidding banks to "establish and maintain branch offices or branch banks," but this provision does not apply to branch banks now in existence.

A bill relating to the payment of deposits in two names was passed by both houses, but was vetoed by the Governor, as in his opinion it would have left open an opportunity for the evasion of the inheritance tax law.

The Uniform Warehouse Receipts Act was passed this year.

#### WYOMING.

The legislature of Wyoming passed the following Association measures:

Chapter 114. An Act defining the crime of burglary with explosives and providing punishment, (Penalty not more than twenty years.)

Chapter 115. An Act fixing the liability of a bank to depositor for payment of forged or raised checks. (Three months limitation.)

Chapter 131. An Act relating to bills of lading.

Chapter 142. An Act concerning notaries public who are stockholders, directors, officers or employees of banks or other corporations.

Chapter 143. An Act to punish the giving of checks or drafts on any bank or depository by any person not entitled to give the same.

A further Act was passed (Chapter 162) prohibiting false or exaggerated statements or publications concerning corporations intended to give an apparent value to shares, bonds or property greater than they possess.

A further Act (Chapter 194) amended the law regulating the safe-keeping and deposit of public money.

#### Report of Committee on Bills of Lading.

Four important results are to be reported since our last report:

1st. The Commissioners on Uniform State Laws, after four years of careful consideration, have completed their draft of the Uniform Bill of Lading Act for State adoption, and have recommended same for enactment into law by the legislatures of the various States.

2nd. The Canadian railroads have all adopted the Uniform Bill of Lading recommended by our Interstate Commerce Commission, including form, colors and with but slight and unimportant changes in its provisions.

3rd. Four States have enacted into law the bill of lading measure drafted by General Counsel on behalf of our Committee, under instructions of the various Banking Association Bill of Lading Committees last September.

4th. The carriers in Official Classification Territory have authorized all agents who issue "order" bills of lading to place the official stamp of their agency on such bills; and further have issued a ruling that "all straight and order bills of lading should be made out in ink, indelible pencil or should be typewritten, and all 'order' bills of lading should have the number of packages shown in words as well as in numerals."

In addition, important progress has been made to secure Congressional legislation on bills of lading, which will cover interstate shipments.

Since our last convention, and in accordance with its instructions, specimens of the new Uniform Bill of Lading recommended by the Inter-State Commerce Commission, were distributed through the several Bill of Lading Committees of State Bankers' Associations to bankers throughout the country.

At this time we are glad to report that practically every railroad is using the new Uniform Bill of Lading, on the forms and in the colors recommended by the Inter-State Commerce Commission, the yellow form for order bills and the white form for straight bills of lading, and your committee recommends that bankers loaning on bills of lading make sure that the form they receive is the "order" or yellow form.

It is with some regret that we notice a few railroads are nullifying some of the provisions of the Uniform Bill of Lading agreed upon, by stamping new conditions on the face. Bankers should carefully scrutinize and reject any such bills. A few Southern railroads, also, have been led to issue a form similar in appearance, but with a number of vital provisions differing from those recommended by the Interstate Commerce Commission.

This is a situation foreseen and contended by our committee in the proceedings before the Commission—a contention combated but afterwards conceded to be correct—namely, that that body had no power to prescribe, but could only recommend provisions or conditions to be contained in a bill of lading; and this situation can only be fully remedied when uniform conditions and provisions have been enacted into law as forming part of the terms of every bill of lading, with the prohibition of the insertion in the bill of inconsistent or derogatory provisions. In the meantime the best corrective is the creation of a universal sentiment favoring the recommended uniform bill and the discountenancing of modifications or substitutes, through united action of the banking and shipping public in refusing to accept other than the recommended form.

Turning from the matter of form to the subject of State and National legislation covering bills of lading, we have now, for the first time, in the bill just perfected by the Commissioners on Uniform State Laws, a full and complete draft of law which provides full negotiability for order bills, regulates the manner of their transfer and negotiation, defines the obligation and rights of the carrier, including the essential feature of liability upon bills although issued without receipt of the goods, provides the printing of the words "order of" on order bills of lading, and, in brief, regulates fully all matters connected with the issue, transfer and redemption of these documents, containing all the points argued by our counsel, Mr. Thomas B. Paton, who has regularly attended the sessions, covering the security necessary to bankers and merchants, as far as the law can give such security. We append to our report the full text of this measure (Appendix "A"), and our Committee will use its best efforts to promote its enactment in the respective States.

In view of the postponement last year by the Commissioners on Uniform State Laws, of action on the pending draft of uniform law, and the urgent requests for immediate action from various sections of the country, and in pursuance of resolutions adopted at the conference of State Bill of Lading Committees at Denver last September, General Counsel of the Association, under the supervision of our committee, drafted a Bill of Lading Act for introduction in the legislatures of those States where the laws were grossly deficient, and where some legislatures convened in 1909 and not again until two or more years later. This draft provided all the requirements as to form recommended by the Inter-State Commerce Commission, which it is practicable to make permanent by legislation, and as its main feature covered the liability of carriers to bona fide holders upon bills issued without receiving the goods, upon unmarked duplicates, and for delivery of the goods without taking up the bill. Copies of this draft were promptly sent to the Bill of Lading and Legislative Committees of the State Associations, and introduced in the legislatures of ten States:

Illinois	Pennsylvania	Minnesota
Michigan	Iowa	Washington
South Carolina	North Carolina	Oklahoma
	Wyoming	

and we are glad to report that the Act was passed in four States:

Washington	Wyoming	Minnesota	Michigan
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and also passed one House in Iowa, North Carolina and Oklahoma.

We attach a copy of this law as part of our report (Appendix "B").

This result is due not only to the efforts of the Bill of Lading and Legislative Committees and bankers of those States, but to the strong support given the measure by the mercantile interests.

At a meeting of your committee held prior to the opening of the short session of Congress last December, the provisions of the Maynard bill, introduced into Congress at its previous session, were carefully considered, and a new measure drawn restricted in provision to the same vital points necessary to the security of bankers and merchants, which were covered by the draft of law designed for State enactment, it being the judgment of your committee that there was a fair chance of securing a favorable report and the enactment of Congress of the new measure. A copy of this draft is appended to our report (Appendix "C"). In advocacy of this measure your committee last winter appeared with counsel at four hearings before the Sub-Committee of the House Committee on Inter-State and Foreign Commerce, urging with many mercantile organization the adoption before that committee of the new measure.

These hearings were largely attended by the representatives of all interests, including the carriers; full discussions were had and the merits of the proposed measure urged and opposed from different viewpoints.

The sub-committee was composed of Congressmen Stevens of Minnesota, Lovering of Massachusetts and Russell of Texas, who gave the matter close attention, showing an intense interest and gratifying fairness in examining witnesses at their several hearings on the bill.

As a result of these hearings and those of a previous session, we believe the proposed Congressional legislation now successfully meets all fair objections, and when urged at the next session, your committee feels confident of final success.

At the suggestion of a number of important boards of trade, our approval was granted to the form of resolutions which have recently been passed by the various boards of trades and exchanges throughout the country, which provide that hereafter no drafts be paid by their members when the bill of lading attached shall have been issued by the carriers without the following safeguards:

1. Every bill of lading must, in addition to the signature, bear also the official stamp of the authorized issuing agent, such stamp giving date of his signature.

2. All the writing on said bill of lading must be in ink or indelible pencil, and the quantity receipted for must be written in full in addition to the numerals.

With the belief that the universal adoption by the carriers of these safeguards will reduce disputes, claims and fraud, your Executive Council at its spring meeting adopted resolutions endorsing this action of our mercantile friends, and recommended in the "Journal" that members of the Association only handle bill of lading drafts where the bill of lading attached conformed to these requirements. As already stated at the beginning of our report, the carriers in official classification territory have adopted these requirements, and it is expected that railroads in other sections of the country will do likewise.

At the request of Congressman Stevens, of Minnesota, Chairman of the Sub-Committee of the House Committee on Inter-State and Foreign Commerce, counsel prepared a digest of State laws on bills of lading, covering civil liability of carriers and criminal liability of their agents for issuing false bills and delivery of goods, without surrender of documents; also a digest of the bill of lading laws of foreign countries, including England, Belgium, Denmark and Russia, France, Germany, Holland, Italy, Mexico and Spain, all of which is made a part of this report (Appendices "D" and "E," respectively).

The vast and intricate nature of the subject and the fact that four separate interests are affected, has rendered progress necessarily slow, yet comparison of the situation to-day with what it was three years ago, when your committee was created, shows a most satisfying degree of progress.

Our goal is now in sight, and we feel that with active assistance of our fellow bankers and interested trade organizations, it will not be long before the National and State legislation, so carefully prepared, will be enacted into law.

Your committee is grateful for the valuable assistance of many bankers throughout the country, and has been glad to heartily co-operate with the hard working committee of merchants, appointed at the Atlantic City Bill of Lading Conference, two years ago, particularly Mr. George W. Neville, Mr. L. Mandelbaum of the New York Cotton Exchange, and Messrs. C. F. Droste and H. Dunkak, of the New York Mercantile Exchange; Mr. Theodore F. Whitmarsh, Vice-president, and Mr. William C. Breed, counsel of the National Wholesale Grocers' Association, and Mr. Albert M. Read, President of the National Board of Trade.

We also wish to express our appreciation of the valuable assistance rendered by the General Counsel of the Association, Mr. Thomas B. Paton, and of Professor Samuel Williston, of Harvard University, who have been acting as counsel to your committee.

LEWIS E. PIERSON, Chairman;  
FRANK O. WETMORE,  
WILLIAM LIVINGSTONE,  
WILLIAM INGLE,  
J. A. LEWIS.

Six appendices were attached to the report, as follows:

APPENDIX A. Fourth tentative draft of an Act to make uniform the law of Bills of Lading. Approved and recommended for enactment in the respective States by the Conference of Commissioners on Uniform State Laws, Detroit, Mich., August 23, 1909.

APPENDIX B. Draft of an act relating to Bills of Lading, prepared for State enactment in pursuance of resolution adopted at Denver, Colo., September 28, 1908, by joint conference of State Bill of Lading Committees and Committee on Bills of Lading of A. B. A., and enacted in year 1909 in Michigan, Minnesota, Washington and Wyoming.

APPENDIX C. A bill relating to Bills of Lading prepared for Congressional enactment and made the subject of four hearings before a sub-committee of the House Committee on Inter-State and Foreign Commerce during the winter of 1908-1909.

APPENDIX D. State statutes covering (1) False Bills of Lading; (2) Unmarked Duplicates; (3) delivery without surrender of bill; in force January 1, 1909.

APPENDIX E. Foreign laws governing the negotiability of Bills of Lading and especially the carriers' liability on a bill of lading when no goods were received and the carriers' liability on an order bill of lading not taken up by the carrier on delivery of the goods and, subsequently, endorsed to a bona fide holder for value.

#### Report of the Committee on Express Companies and Money Orders.

GENTLEMEN: Your committee has three important subjects upon which to report, and will take them up separately in the following order:

##### EXPRESS COMPANIES' MONEY ORDERS AND TRAVELERS' CHEQUES.

1st. The case of the American Bankers' Association vs. the Express Companies has had two hearings, the first before Commissioner Clark, in New York City, at which evidence was placed before the commissioner by witnesses from various States, showing the nature of the banking business done by the Express Companies and exposing the vast power these companies have over the Exchange Market, due to their branch banking system, as represented by their agencies and their ability to ship currency for themselves at practically no cost. It was shown that

they were able to ship currency in or out of towns and cities against the currents of Exchange, thus forcing bankers to make shipments of currency that would otherwise be unnecessary.

Admitting, for the sake of argument, that the Express Companies do not abuse the unusual powers that they have, due to the fact that they are bankers and common carriers, it was shown that they are a constant menace to legitimate bankers as long as they carry on the two lines of business, as they are in position to change the tides of currency shipments whenever they desire to do so. It was also shown that the ordinary demands of their business actually caused this discrimination against other bankers and in favor of themselves as bankers; yet their actual transactions of this kind are not a circumstance to what could happen should unscrupulous men obtain control of the companies, as their banking business is subject to no State or National supervision and they can run with unknown reserves.

The banking business of the Express Companies has grown under the protest of bankers during the whole course of its development, and while no criticism has been made of the honesty of purpose or ability of the officers or employees of the companies, yet exception is taken to the principle which allows branch banking to be done by institutions not properly organized as bankers, and particularly when such institutions are the recognized common carriers in our land, upon whom regularly organized bankers are obliged to depend for shipments of currency.

The second hearing was held before the Interstate Commerce Commission as a whole, November 11, 1908. No testimony was taken at this hearing, the attorneys for both sides taking up the time allowed in the presentation of arguments upon the two main points involved. The decision of the Commission on these two points was handed down January 5, 1909.

The first point (that of jurisdiction) was decided in favor of the American Bankers' Association, and the Commission stated in the opinion rendered by Commissioner Clark, that there could be no doubt as to the jurisdiction of the Interstate Commerce Commission in the case. To quote from our attorney on this point, "One vital thing that the opinion of Commissioner Clark decides is that the Interstate Commerce Commission has jurisdiction to entertain the complaint. This point was vigorously contested and has been put at rest in our favor."

The second point, which was a request for the production of the books of the Express Companies on the part of the Association, was denied. Further hearing of the case was set for April 26, but has been postponed until fall.

2nd. MONEY ORDERS. The Money Order system started by the Association some years since, which has been handled by the American Surety Company for the Association, was started successfully and developed quite rapidly, until some \$90 banks were using the Money Orders. It has been found necessary, however, to make certain changes in the system in order to have it perfect, as the element of exchange worked somewhat against the plan as it was originally drawn up.

The Committee and the Surety Company have been working to bring about the changes thought necessary, and while they have had considerable success in eliminating certain undesirable features, your Committee has not as yet been fully successful in securing the co-operation of certain clearing house cities which is necessary to the full and complete success of the plan. When this co-operation is secured, the Surety Company intends to push the matter with even greater vigor.

3rd. TRAVELERS' CHEQUES. The Travelers' Cheque plan of the Association is now thoroughly established, and as it is a new system and has been in operation only since the middle of last April, we will present it in some detail.

Travelers' Cheques, in order to give the service for which they are intended, must be distinctive pieces of paper that will impress themselves readily upon the minds of those who are apt to be called upon to cash them. They must also have proper credit and standing back of them, and must be available as exchange without cost in every part of the world.

The system of the Association has been planned to meet these requirements and the experience of the last few months, during which time thousands upon thousands of the cheques have been cashed by tourists, both in this country and abroad, has proved that the system as established meets the requirements fully.

First we will consider the cheque itself: The form was decided upon by the Committee, after consultation with European bankers, artists, experts of the American Bank Note Company, and attorneys. The design which was finally selected seemed to cover all the requirements of safety, individuality, availability and legality.

The cheques are engraved from steel plates, on paper specially manufactured for them, and have upon the back a multi-colored lathe work which it is practically impossible to counterfeit. While this makes a very expensive cheque, and consequently puts quite a tax upon the system, yet it has already proved its worth. It lends dignity to the undertaking of the American Bankers' Association and gives bankers issuing the cheques a piece of paper that they need not be ashamed to sell to their customers. Appearance carries weight with those called upon to cash cheques, and this one is acceptable to all concerned. The American Bank Note Company informs us that it is more difficult to counterfeit than a government bill, and as the cheques

are only issued in small denominations, any one having the ability to make even inferior counterfeits could better place his time and energy in some other direction, as it would be impossible to realize any large sum from counterfeit cheques without traveling about from place to place, obtaining small amounts, such as an ordinary tourist would require. This would take time, during which the first cheques cashed would make their appearance and the forger could be easily traced.

The relentless activity of the Protective Committee of the American Bankers' Association in its pursuit of criminals is a feature that serves to protect bankers and others who cash the cheques, as well as the public who carry them, and is a safety feature possessed by no other Travelers' Cheque issued.

Cheques are issued in denominations of \$10, \$20, \$50 and \$100, the different denominations tinted respectively blue, green, straw and orange. Upon the face of the cheques, in addition to the denomination in dollars, appears the foreign equivalents in the moneys of the principal European countries.

As there are over twenty thousand independent banks in the United States, it was necessary to have some central institution supply the checks to banks and arrange for their protection throughout the world.

The Travelers' Cheques are in the form of drafts drawn by issuing banks upon the Bankers' Trust Company, of New York, who have entered into a contract with the American Bankers' Association to handle the business. The acceptance of the Trust Company appears upon the face of the cheque, which makes it two-name bankers' paper, a form most acceptable to foreign bankers. The acceptance also serves as a means of placing one signature upon the cheque that can be made known throughout the world. This eliminates the necessity of bankers, hotel keepers and others who may be called upon to cash the cheques, being familiar with either the signature or standing of the issuing bank, which, on account of the large number of banking institutions in the United States, would not only be impracticable, but impossible.

The word "Cashier" has been engraved upon all of the cheques, again for the sake of uniformity. This official title was selected, as it is the one more generally used. Where other officers sign, it makes it possible to use the smallest abbreviation of their official title. The great majority of bankers prefer to sign the Association cheques themselves, although some institutions have filed signatures with the American Bank Note Company to have them placed upon the cheques at the same time they are printed, as is done in the case of National bank notes.

As the acceptance of the Trust Company appears upon all American Bankers' Association Travelers' Cheques, each bank desiring to issue them must make satisfactory arrangements with the Trust Company for its protection before it can obtain them.

A charge of \$10 a thousand is made for the cheques. This does not nearly cover the cost, and the charge is not made for that purpose. If the cheques could be obtained without cost, many banks having no demand for them might order their name printed upon large numbers of the cheques and thus put a heavy and useless tax upon the system. This would tend to delay shipments to banks requiring cheques and prevent their orders being filled promptly. All other supplies, such as lists of correspondents, covers for cheques, instructions to purchasers and advertising signs are furnished without cost.

While it has been the custom in the past for institutions issuing Travelers' Cheques to require a remittance of half the profit from bankers selling them when the cheques were sold for use in the United States, and while the contract with the Trust Company originally authorized them to require such a remittance, yet as banks throughout the United States generally agreed to cash the Travelers' Cheques of the American Bankers' Association at par, the Trust Company voluntarily waived its right to any of the commission. This additional profit in itself more than offsets the small charge made for the cheques, and while our opposition has also waived this commission, they did so because of this action by the Trust Company, and banks which sell Express Company Money Orders are obtaining the benefit of the work of the Association.

Banks generally order their name printed upon from 500 to 1,000 Travelers' Cheques, although some institutions, whose demand is small, have had as few as 250 cheques printed at a time.

The American Bank Note Company holds in its vaults at all times cheques ready for the names of issuing banks. As banks sell the cheques they hold in sufficient quantities to make it advisable, the Trust Company ships further cheques from the supply it holds. As its supply of printed cheques for any one bank runs low, it notifies the bank in order that it may have further cheques printed from the stock held by the Bank Note Company. This system is working very smoothly and serves many valuable purposes. In the first place, banks selling the cheques are not required to hold in their own vaults, at their own risk, any larger amount of cheques than they actually require. Second, the total amount that the Trust Company has outstanding is reduced to a minimum and the chances of delay while new cheques are being printed and a consequent loss of business in the meantime, are almost eliminated, as three different institutions are keeping track of the matter—the bank selling the cheques, the Trust company receiving the remit-

tances for the cheques, and the Bank Note Company printing the cheques.

The Trust Company has been making daily shipments from the cheques held by it to replace cheques sold by issuing banks. As the demand upon the part of each bank develops, the number of cheques it holds in its own vaults can be easily regulated to meet it. When placing orders for additional cheques printed, adjustments of the proportion of each denomination can be easily made to conform to the demand.

Banks do not remit for the face value of the cheques until they are actually sold, and in some cases where issuing banks have clients of high standing who make it a habit to carry larger amounts of cheques than they expect to have use for, in order to be prepared for emergencies, they are sold against guaranty.

The application blanks the customers fill out when purchasing cheques are printed in copying ink, in order that banks may keep a clear record of all transactions without unnecessary bookkeeping. Banks using the carbon system take two application blanks for each order. The system is, therefore, very simple for banks to handle and requires no expert knowledge of Foreign Exchange or complicated bookkeeping in order to supply their customers with the best possible service.

Although the system was only started the middle of last April, over thirteen hundred banks, including the majority of those in reserve cities, are to-day selling American Bankers' Association Travelers' Cheques. This is as large a number as could possibly have been supplied with the cheques since the time of their issue, as the American Bank Note Company has not been able to keep pace with the orders, and today, with the height of the traveling season past, they are about a week behind in deliveries.

The Trust Company originally made arrangements at some ten thousand points outside of the United States for the encashment of these cheques, and has since added to this number daily, and is continually obtaining the co-operation of new banks in all parts of the world.

In addition to such arrangements, circulars of instructions, together with a reduced fac-simile of the cheques, have been forwarded to hotels throughout the world. Realizing that some of the papers have been lost in the mails, or possibly destroyed without consideration, special letters have been written and duplicate papers forwarded to several thousands of the principal hotels.

A representative of the Trust Company is in Europe, making the rounds of all the principal hotels and shops for the purpose of explaining the system. In Paris he covered sixty-two hotels and over three hundred shops, and in London a much larger number. Holland and Belgium have just recently been covered, and with entire success. Wherever necessary, this means is being taken to see that the system is thoroughly understood.

In other parts of the world different methods have been pursued. For instance, in Switzerland the Schweizerische Kredit Anstalt, Zurich, sent their own representatives to all the hotels and cafés in the country, as well as to many of the principal shops. A report of the entire success of this work was sent recently to banks issuing the cheques.

The railroads of the United States are generally sending out notices to their agents to accept Association cheques in payment of tickets, etc.

Newspaper articles were published in the newspapers and in the languages of the principal countries of the world, explaining the system and advising hotel proprietors of the entire safety with which they could cash American Bankers' Association Travelers' Cheques.

Special arrangements have been made at many principal points where an unusually large number of tourists congregate. For instance, a special representative was sent to Seattle and arrangements were made with the Exposition authorities of the Alaska-Yukon-Pacific Exposition and the concessionaries, as well as within the banks and hotels in the city, to protect tourists carrying American Bankers' Association Travelers' Cheques. Similar efforts for the comfort of travelers carrying them were made in Salt Lake City before the meeting of the G. A. R., and have recently been made in New York City in preparation for the Hudson-Fulton Celebration. Very few banks in the past in New York City have ever cashed any travelers' paper, but we are assured, since our representative made the rounds of the New York banks, that travelers will meet with every courtesy in all of them.

All of the principal hotel companies in New York have been seen and have stated that they have been cashing Association cheques during the whole season and will continue to do so.

It might be well to mention here that savings banks and trust companies in many cities, particularly in the East, are not allowed to do an exchange business. A list of such States is being prepared by the counsel for the Association and they will be mentioned in the "Instructions to Purchasers" as soon as the list is ready.

Without going into further detail as to the various means of publicity that have been used in order to make the cheques current everywhere, we will say that nothing that could be done has been left undone, and that every new necessity that arises is and will be taken care of as fast as it develops.

In order to aid banks issuing the cheques, very extensive advertising has been undertaken by the Trust Company, and

judging from the net sales of the cheques to date, the advertising campaign has been carried on along right lines.

It is no more than fitting that we call attention to the recent action of the Bankers' Trust Company in increasing its capital and surplus to a total of nine million dollars (\$9,000,000), as this was done largely out of courtesy to the Association and to show that the company has undertaken this large proposition for the banks of the United States in good faith, and intends to carry it out in a broad way in the interest of the Association. It is important that our bankers understand that the money remitted to the Trust Company in payment of orders sold is held by the Trust Company as trust funds.

While Congress, the Currency Commission of the American Bankers' Association, and the Monetary Commission have been working to devise a plan by which our country may be served with a more adequate currency system, your committee on Money Orders and Express Companies believe that they have solved the problem for a large part of our population who travel, by providing them with a most safe, elastic and popular form of emergency currency.

That the public appreciates this service is shown by the fact that during the first four months the system has been in operation, over \$2,000,000 of these orders have been in actual circulation. At this rate it will mean that before it has been in operation one year, at least \$6,000,000 worth of these orders will have been put in circulation by the traveling public.

Individual banks in the United States to-day are in position to issue to their customers Travelers' Cheques, over their own names, good in any part of the world, that will give as good or better service than they would be able to if they were huge branch banks. The co-operation on the part of bankers throughout the United States is most gratifying, and the quick results obtained by the Association in this matter proves the value and power of concerted action on the part of our banking institutions, when exerted along right lines, and shows the possibilities of our development as individual institutions. By co-operation we can accomplish things which would otherwise be impossible without a branch banking system.

Respectfully submitted,

JOSEPH CHAPMAN, JR.,  
Chairman.

M. E. AILES,  
THORNTON COOKE,  
E. D. DURHAM,  
FRED I. KENT,  
Committee.

### Report of American Institute of Banking Committee.

#### *To the American Bankers' Association:*

Since becoming a section of the American Bankers' Association a year ago, the membership of the American Institute of Banking has increased from 8,833 to 11,015, included in 51 city chapters and the Correspondence Chapter. With the development of American banking greater efficiency is required in all bank employees from the president to the messenger. To make such officers and employees in the quantity demanded there is only one way, and that is to make them make themselves. This can only be done by utilizing the power of the united effort in some such manner as the Institute provides. The Institute is an organization of chapters under the general government of chapter representatives. This form of administration begets some politics and frivolous fellowship, but in the main develops initiative, self-reliance and serious and systematic study. The wisdom as well as the justice of placing responsibility for Institute government on Institute members seems to have been demonstrated.

The increasing interest in systematic study is the most gratifying development of the past year. At the Seattle convention the following declaration of Institute objects and methods was adopted:

**EDUCATIONAL STANDARD**—The paramount object of the Institute is to fix and maintain a recognized standard of education in "Banking and Finance," and "Commercial and Banking Law," by means of official examinations and the issuance of certificates. Such certificates are issued in the name of the "American Bankers' Association," "American Institute of Banking Section," and signed by officers of the American Bankers' Association and the American Institute of Banking, in accordance with arrangements made by the Executive Council of the Association at its spring meeting.

**EXAMINATIONS FOR CERTIFICATES**—Examinations for certificates are termed final examinations, and are conducted under such regulations as the Institute may determine. Credit is given severally for final examinations successfully undergone, but certificates are issued only to students who have passed final examinations in both "Banking and Finance" and "Commercial and Banking Laws." Graduation at approved schools of banking and finance will be accepted as equivalents of Institute final examinations in that subject. Graduation at approved schools of law or membership at the bar will be accepted as equivalents of the Institute final examinations in "Commercial and Banking Law."

**PREPARATORY WORK**—To be eligible for final examination in either of the subjects of "Banking and Finance" or "Commercial and Banking Law," any student must have done at least fifty hours of class or correspondence study in that subject under one or more approved instructors and have passed a satisfactory preliminary examination conducted either by the Institute or by some duly qualified examiner to whom authority has been officially delegated. Credit

will be given severally for preliminary examinations successfully undergone, but no certificates will be issued in connection with preliminary examinations.

Full returns have not yet been received of examinations conducted during the past year, but so far as reported 57 students have thus far completed the study courses and passed the required examinations in accordance with the system provided. The indications are that this number will be materially increased next year.

The educational work of the Institute in large city chapters and through correspondence instruction as conducted by the Correspondence Chapter, is satisfactory, but the problem of small city chapters has not yet been solved. To meet conditions in small cities where schools of finance and law are not available, the Institute has prepared courses of lectures in "Banking and Finance," and "Commercial and Banking Law." Such lectures are typewritten and are intended to be read in chapters by some chapter member appointed for that purpose. In connection with each lecture are quizzes to be conducted by the instructor in charge, who will have a key to the quizzes for his personal use. The lectures thus provided are not intended to supersede chapter work conducted by professional instructors, but may be used to supplement such work wherever desirable.

While knowledge obtained through books and lectures is of primary importance, and is the only kind of knowledge that can be inventoried, the development of personality through association in Institute chapters and conventions is equally important. In the making of progressive bankers a combination of knowledge and personality is commanded. That the Institute makes such bankers is evidenced by numerous appointments of Institute men to official positions in banks, and the banking departments of leading States and the National government. The substantial benefits of the Institute, however, are not so much in the official recognition of its members, gratifying as such recognition is, but in the general benefit of the rank and file of bank employees.

Following is a statement of Institute receipts and expenditures for the fiscal year ended August 31, 1909, in which statement are included expenditures in connection with both the Providence convention, held in 1908, and the Seattle convention held in 1909.

## RECEIPTS.

BALANCE Sept. 1, 1908, from former Institute organization .....	\$1,696.07
Balance Sept. 1, 1908, from associated chapters.....	388.22
Fellowship dues (\$100) incidentals (\$10).....	176.00
Bulletin subscriptions less exchange.....	10,438.19
American Bankers' Association.....	7,604.50
	<hr/>
	\$20,362.98

## EXPENDITURES.

Salaries of Educational Director and assistants.....	\$5,345.00
Bulletin and stationery.....	6,575.50
Postage (\$421.15) incidentals (\$237.53).....	658.58
Editorial contributions and press clippings.....	95.00
Travelling expenses of Educational Director.....	985.00
Addressograph Stencils.....	357.79
Bonds of Treasurer and Educational Director.....	60.00
Work on text-book.....	200.00
Commercial and Banking Law lectures.....	255.00
Prize essay contest.....	350.00
Stenographic report of Seattle Convention.....	98.15
Executive Council expenses for Providence and Seattle.....	1,652.40
Correspondence and traveling expenses of officers and committees .....	855.60
	<hr/>
	\$17,488.12
Balance on hand August 31, 1909.....	2,814.86
	<hr/>
	\$20,302.98

It will be seen from the foregoing statement that notwithstanding the fact that the expenses of two conventions are included in the fiscal year, the Institute under the policy of self-government has made a creditable financial showing. The educational work of the Institute is done at less than cost, and it is the option of your Committee that it is both just and expedient that the financial deficiency, if kept within proper bounds, should be met by the American Bankers' Association rather than by bank employees. The Association has provided the Institute with commodious office facilities, effecting a saving to the Institute in rent of some six hundred dollars a year. The economy and convenience of this arrangement are appreciated. A still deeper feeling of appreciation, however, is felt for the cordial co-operation of Secretary Fred E. Farnsworth and his assistants. The value of their work for the Institute cannot be expressed in dollars and cents nor fully expressed in words. In view of the fact that the Association now provides the Institute with a suitable office, an appropriation of only \$9,000 will be necessary for the coming year.

The broadening character of Institute educational work as exemplified in the study courses in "Banking and Finance" and "Commercial and Banking Law," implies expenditures substantially equivalent to the increase in Institute receipts, but your Committee believes that such expenditures are a profitable investment not only for the Institute but for the American Bankers' Association.

Respectfully submitted,

J. H. PUELICHER, Chairman;  
E. D. HULBERT,  
JOHN F. THOMPSON.

## Report of Standing Law Committee.

## To the American Bankers' Association:

On the occasion of the annual convention at Denver last year a Joint Conference of Legislative Committees of State Bankers' Associations was held, under the auspices of the Standing Law Committee. Conditions in the various States were presented, legislative needs discussed and valuable suggestions made for proposed legislation during the coming year.

On November 12, 1908, the committee held a session at the Bellevue-Stratford, Philadelphia, at which the subject of proposed legislation was discussed. General Counsel was requested to prepare a pamphlet containing drafts of a number of laws to be submitted, as suggested measures, for the use of Legislative Committees of State Bankers' Associations, before the legislatures which met during 1909. Such pamphlet was prepared, submitted to and approved by the members of our Committee, and issued to the Legislative Committees of the State Associations. Copy of this pamphlet is attached to this report. It contained drafts of the following proposed laws:

1. An act to punish the making or use of false statements to obtain credit.
2. An act to punish derogatory statements affecting banks.
3. An act fixing the liability of a bank to its depositor for payment of forged or raised checks.
4. An act to punish the giving of checks or drafts on any bank or other depository wherein the person so giving such check or draft shall not have sufficient funds or a credit for the payment of the same.
5. An act defining the crime of burglary with explosives and providing the punishment therefor.
6. An act relative to the payment of deposits in two names.
7. An act relative to the payment of deposits in trust.
8. An act to establish a law uniform with laws of other States, relative to the transfer of stock to corporations.
9. An act concerning notaries public who are stockholders, directors, officers or employees of banks or other corporations.
10. An act to amend the maturity section of the Negotiable Instruments Law by the insertion of the words "or becoming payable" after "falling due" therein.
11. An act to amend the Negotiable Instruments Law by limiting the payment of a time instrument made payable at a bank to the day of maturity only.

The enactment of the uniform Negotiable Instruments Law was also recommended in those States wherein that law had not yet been passed, a list being published of the States and jurisdictions wherein the law was, and was not, in force.

The Uniform Warehouse Receipts Act was also recommended for State enactment.

We are pleased to report that a large number of the measures approved and recommended by our Committee have been enacted this year in a number of States. This legislation is fully set forth in a report of General Counsel to the Association.

Our Committee held a meeting at Briarcliff Lodge, Briarcliff Manor, N. Y., on the occasion of the spring meeting of the Executive Council, May 3, at which all the members of the committee were present. At this meeting various subjects in connection with proposed legislation were discussed, and arrangements were made for a Joint Conference of State Legislative Committees at Chicago, on the occasion of the present annual convention.

Respectfully submitted.

## STANDING LAW COMMITTEE.

Wm. J. Field, Chairman, Secy. and  
Treas. Commercial Trust Co. of New  
Jersey, Jersey City.  
Henry Dimse, Vice-Pres. Century Bank,  
New York City.  
P. C. Kauffman, Second Vice-Pres. Fi-  
delity Trust Co. of Tacoma, Wash.  
John K. Ottley, Vice-Pres. Fourth Nat.  
Bank, Atlanta, Ga.  
Henry B. Wilcox, President First Na-  
tional Bank, Baltimore, Md.  
Thomas B. Paton, Counsel and Secretary,  
11 Pine St., New York City.

September 16, 1909.

## Report of the Federal Legislative Committee.

To the Members of the American Bankers' Association:

Your Federal Legislative Committee begs leave to report:

That during the past year numerous inquiries on legislative questions have been received from the membership, and so far as it has been possible we have supplied each with the desired information or have referred them to sources where we thought it could be obtained. While your committee keeps at hand books and records for reference on subjects likely to come up, yet we do not have many books or papers for distribution and the time involved in answering questions is at times considerable.

Your committee begs to acknowledge receipts of many suggestions and recommendations from different members, and in all cases they have been given due and careful consideration, and at times we have found it desirable to refer some of these to the Executive Council and to other committees of the Association.

Your committee has, when called upon, and when deemed for the best interest of the membership, rendered such aid as it could to your other committees.

Your committee has kept up its auxiliary organization in the different Congressional districts of the United States, and we are very much indebted to these gentlemen, and are grateful for the valuable assistance they have rendered us in times of emergency, thereby benefiting the banking and business interests of the country.

Your committee has been in close touch with several committees of Congress, with the committee representing the State Bankers' Associations, and with the leading commercial organizations of the country, and have rendered each such assistance as was in our power.

We have, whenever measures have been presented, which seemed to be detrimental to the Association, taken immediate steps to put the proper information before legislators so that no unwise laws might be passed.

#### CURRENCY LEGISLATION.

The question of currency legislation, which is unquestionably the most important to be considered by the American people, has not been lost sight of by your committee, and while there has not been that publicity given the subject as heretofore, yet there has been devoted to it more careful thought and study than in any previous year.

There has been no attempt made to secure banking or currency legislation during the last regular session of Congress. Your committee, as well as the Currency Commission, recognize the fact that the Monetary Commission appointed by Congress are exerting every effort to secure unbiased opinions and accurate information of the various banking institutions of foreign countries, and have thought best to await their report. This Monetary Commission has representatives in every country getting together information, which, when published, will be the most accurate and complete history of the various forms of banking ever published.

What the report of the Commission will be is, at this time, unknown, and probably unformulated. However, when all of the information obtained by them is put in shape, a bill embodying their views will be presented to Congress for enactment.

The question of some form of a Central bank with exclusive note-issuing powers may come up; also the possibility of authority being given to create branches in various cities to afford redemption facilities, etc., and the membership of this Association should be alert to this situation. With you rests the solution of this problem.

Your committee has been opposed to any form of a Central bank yet suggested by legislators and particularly to branch banks.

#### BANK INDIVIDUALITY SHOULD BE PRESERVED.

We believe the individuality of our banks should be preserved and that it is essential and fundamental that any plan for the issuance of currency to prevent and dispel trouble should be such as would enable individual banks to meet such conditions largely within themselves, at least with a minimum of inconvenience which would afford a maximum of security.

We are assured that the bankers of the country will be given an opportunity through the committees of the Association to voice their views.

Your committee accepted an invitation and was present at a meeting of the Federal Monetary Commission, held in Washington the early part of last December, with the Secretary of the Treasury and the Comptroller of the Currency, which had for consideration the administrative features of the National Bank Act, and we wish here to express our appreciation of the cordiality and universal courtesy extended by the Monetary Commission to each of us. We believe this meeting will ripen into still closer relations.

#### THE GUARANTY OF BANK DEPOSITS.

Your committee wishes to call attention to the fact that the legislatures of several States have passed laws looking toward the guarantee of banking deposits, and notwithstanding that advocates of such laws are actively engaged in pushing this movement, yet after careful consideration of the principles involved, your committee is unqualifiedly opposed to such legislation, and wishes to reiterate the principles adopted at the last annual convention at Denver:

"Your committee is opposed to the guaranteeing of deposits by either State or Federal governments, or the assuming of a trusteeship by either of a guaranty fund, believing that it would be a function wholly outside of any purpose for which State or Federal Governments were organized, and for the further fact that the assuming of a trusteeship would be misleading to the general public, as it is not a guaranty by either State or Federal Government; and that such a law would work to the detriment, not only of the banks, but of the depositing public as well.

"A mutual guaranty does not make all banks individually strong. The most and the best that can be claimed for it is that it will bring the weak ones up, so far as safety to depositors is concerned, while at the same time bringing the strong ones down. Average mediocrity would be the result; but would the impairment of our system stop with mediocrity? It taxes conservatism in the interest of profligacy; it compels legitimate business to bear the risks of speculation; it takes away the high ideal involved in establishing character and building up good-will; it compels the conservative banker to place his character, standing in the community and financial strength at the command of incompetent, venturesome, or dishonest rivals, and thus enables them to buy away his deposits and his business. It is a premium upon bad banking and unsafe business, and portends disaster to all commercial interests and threatens the welfare of the entire nation.

"In view of the conditions that confront us at the present time, we deem it important that the American Bankers' Association place itself on record again. We, therefore, recommend and move the adoption of the following resolutions:

"Resolved, That the American Bankers' Association is unalterably

opposed to any arbitrary plan looking to the mutual guaranty of deposits either by a State or the Nation for the following reasons:

- '1. It is a function outside of State or National Government.
- '2. It is unsound in principle.
- '3. It is impractical and misleading.
- '4. It is revolutionary in character.
- '5. It is subversive to sound economics.
- '6. It will lower the standard of our present banking system.
- '7. It is productive of and encourages bad banking.
- '8. It is a delusion that a tax upon the strong will prevent failure of the weak.
- '9. It discredits honesty, ability and conservatism.
- '10. A loss suffered by one bank jeopardizes all banks.
- '11. The public must eventually pay the tax.
- '12. It will cause and not avert panics.

"Resolved, That the American Bankers' Association is unalterably opposed to any arbitrary plan looking to the mutual guaranty of deposits either by a State or the Nation, believing it to be impractical, unsound and misleading, revolutionary in character, and subversive to sound economics, placing a tool in the hands of the unscrupulous and inexperienced for reckless banking, and knowing further that such a law would weaken our banking system and jeopardize the interest of the people."

We would urge upon the members of the Association who are in harmony with our view on this subject that they personally use their influence to prevent the passage of unwholesome measures in their respective States. Unless this is done, the committee from either the National or the States Associations will be unable to overcome the growing sentiment in favor of such legislation.

#### POSTAL SAVINGS BANKS.

The live question this year before Congress was that of the proposed postal savings bank legislation. This had back of it the pledges of all the political parties during the last Presidential campaign save one, and this was the cause of it being extremely difficult to get a proper consideration of such legislation. There were several bills introduced in Congress for the establishment of postal savings banks. We secured copies of these bills, and after carefully considering each of them had them briefed, and a complete list of the objectionable features of each measure carefully noted, so as to be prepared to assist in the defeat of any bill that might be presented.

Your committee called upon the individual banks for expression upon the question of postal savings banks, and more than 88 per cent. of the bankers of the country are opposed to the passage of such laws.

Your committee's greatest work during the past year was that of preparing plans and assisting the Committee of the Savings Bank Section in defeating the numerous measures for the establishment of a postal savings bank system for the United States.

We will not at this time discuss the various bills, as they are all dead (peace to their memory), but will say that no bill was presented which could have been put in practical operation.

Your committee wishes to call your special attention to the fact that the advocates of the postal savings banking measures, published and used as statistics, figures, absolutely inaccurate, and misleading to the public, and in no instance were correct figures given as to the amount of savings deposits, the number of banks receiving savings deposits, the number of such depositors in the United States, the average amount per capita of such deposits, nor the average rates of interest paid on such deposits.

If the statistics of foreign postal and savings banks are correct as published, then the United States has more than double the savings of England, Wales, Austria, Belgium, Canada, France, Hungary, India, Ireland, Italy, Netherlands, New South Wales, New England, Queensland, Russia, Scotland, Australia, Sweden and Japan combined.

The advocates of this measure have claimed that the establishment of a postal savings banking department would be of advantage to the Government, whereas, the facts are, that such departments have caused a deficit in many foreign countries, and are there, as they would be here, under any measure so far advocated, a burden and not self-sustaining.

One of the arguments advanced is that we should encourage foreigners of a certain class to deposit their savings in United States postal savings banks. The intelligent foreigners do deposit their savings with the banks of this country, and we do not understand why there should be such solicitude for that superstitious and anarchistic class of foreigners, who scarcely have intelligence enough to buy a foreign draft or postal order. What is needed is better immigration laws rather than upset the banking system of this country, which has proven so successful, by creating postal savings banks.

To establish postal savings banks would be contrary to the general plan of our government, wherein the originators of the Constitution sought to leave the largest measure of liberty and freedom to the people to transact their own affairs.

Establishment of postal savings banks would be a movement on the part of the Government to take from intelligent and progressive citizens the savings bank business of the country and place its control in the hands of any office-holding class. The danger of the political use of such a power should cause all patriotic men to hesitate before adopting such a radical measure.

Your committee does not believe that it is wise statesmanship to urge upon the American people the passage of certain laws, solely for the reason that there was a clause in a party platform inserted without due consideration or opportunity being given to those conversant with the subject to show the fallacy of such legislation, and only for the purpose of furthering political interest.



## A MENACE TO OUR NATIONAL CREDIT.

The credit of our Nation has been a source of great pride to us all. America has stood at the forefront. Her bonds have borne the lowest rate of interest and her securities have had the widest market. Do we want a blot on this magnificent record? Do we want the credit of our country restricted? Do we want in times of emergency the question to be raised as to the amount of demand deposit liabilities the Federal Government has outstanding? Do we want an incubus placed upon our credit in the shape of the money borrowed from the people by the Government? If so, give us the postal savings bank. Do you know that England had at the time of the Boer War one billion six hundred million dollars of postal savings accounts? What was the result? The Government was engaged in a long drawn out conflict. The people became frightened and the country was confronted with the double necessity of financing the war and paying off frightened depositors.

Your committee is opposed, should a postal savings bill pass, to the investing of such funds in either United States, State or Municipal bonds, and we are opposed to the investment of \$600,000,000 or \$700,000,000 in United States bonds as has recently been advocated by our Chief Executive, knowing full well that such an action would be a serious mistake and a menace to our Nation's credit, as it is to that of other countries where such investments are made.

It is the belief of your committee that the agitation in favor of the guaranty of bank deposits and the establishment of the postal savings banks has created sentiment with a certain class of our people that some form of protection can be secured without cost to them. While we believe that both of the plans suggested are in principle fundamentally wrong, yet it is apparent that the question must be met and some solution proposed which will afford ample protection to good business principles.

We believe the demand for a postal savings bank arises largely from the inability of certain classes to discriminate between banks and also from the facts that various Postmasters-Generals for years have been recommending the establishment of such a bank, and have endeavored to arouse public sentiment to that end.

We believe this end can be accomplished through another channel, to wit: That of State and Federal supervision, which is a function entirely proper to exercise.

## SAVINGS DEPARTMENTS IN NATIONAL BANKS.

Your committee last December presented to the Monetary Commission of Congress a method or plan to accomplish the desired result without introducing new or radical features or questionable efficiency.

The suggestion was made that National banks under supervision of the General Government be authorized to establish savings departments, segregating the assets and designating the class of investments to be held against the liabilities so incurred, such assets to be

held for the protection of these deposits, at the same time reducing the reserve requirements of the savings department to correspond with the reserve of State institutions.

This we believe should afford the same security now accorded by mutual savings banks in New York and other Eastern States. These banks have been a bulwark for the workingman and a boon to the country.

If savings deposits were protected in this manner, and it must be admitted that the savings of the laborer are very largely placed in savings accounts, we believe that very little would be heard of the postal savings bank from this class of depositors, and this plan of handling savings accounts affords to us a solution of this vexing question, along lines fundamentally correct.

While it would be our purpose for all banks to co-operate in the matter of protecting savings accounts, in the manner suggested, and it is not our intention in any way interfere with the business done by any of our banking institutions, yet we sincerely believe that if such a law as has been suggested herein were passed by Congress, it would prove extremely attractive to State banks, and many of them would undoubtedly convert into National banks, and it would in the end do more to unify the banking business than all the laws passed for many years.

We would recommend the adoption of the following resolutions:

Resolved, That it is the sense of this Association that we should condemn in unqualified terms the proposition for the establishment of postal savings banks or any other system by which the Government enters directly into banking relations with the people.

Resolved, That the American Bankers' Association is opposed to any financial legislation based upon the argument that it was a party pledge and should be redeemed.

Resolved, That we believe the proposed plan to invest postal savings banks deposits to the extent of six or seven hundred million dollars in United States bonds simply to maintain such bonds at par is unsafe and unwise legislation, and if enacted would ultimately lead to lack of confidence in our National credit.

Resolved, That the committee representing us before Congress be urged to use all honorable means to defeat the proposed legislation, and that we recommend as a substitute therefor the maintenance of separate savings bank departments in the National Banking Associations now operating under the law, the assets to be segregated and accounts separately maintained for the protection of all deposits entrusted to such departments under proper regulations to be prescribed in the act.

We want to thank all those who have assisted us in our efforts to defeat such legislation, and we want to commend the splendid work done by the Legislative Committee of the Savings Bank Section in their campaign of education and for their co-operation with this committee in our work.

Respectfully submitted,

ARTHUR REYNOLDS,  
E. F. SWINNEY,  
JOSEPH A. McCORD,  
W. V. COX,  
JOHN L. HAMILTON.

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# Detailed Report of Proceedings.

THIRTY-FIFTH ANNUAL CONVENTION HELD AT CHICAGO, SEPT. 14, 15, 16 and 17, 1909.

## FIRST DAY'S PROCEEDINGS.

Tuesday, September 14th, 1909.

The convention was called to order by the President of the Association, George M. Reynolds, president of the Continental National Bank, of Chicago, Illinois.

The invocation was offered by Rev. Joseph A. Milburn, D.D., pastor of Plymouth Congregational Church of Chicago.

The President: I take great pleasure in presenting Honorable Charles S. Deneen, Governor of Illinois, who will extend to the Association the welcome of the State.

### Address of Welcome by Gov. Chas. S. Deneen.

I am pleased to welcome to Illinois this gathering of representatives of the banking interests of the country. The custom which has been rapidly growing among business men of late years, of gathering to discuss subjects which are of special interest to them in the conduct of their business, is of the greatest benefit both to the businesses concerned and to the community at large. In these discussions of business affairs in their larger aspects, the truth is sure to come to the surface that the greatest requisite of business prosperity in any special line is the general welfare of the community.

Especially is this the case in business of such magnitude, and one which bears such intimate relation to all other lines of business, as that of banking. It has become a maxim that the best register of business conditions in a community is the volume of business transacted by its banks. It is an equally well recognized business truth that there is no class of men upon whose unflinching attention to their business, and to the maintenance of its credit and stability, the general industrial welfare so much depends.

The important relation which banking bears to other lines of industry has also been recognized in the law which has, to a large extent, clothed that business with a public interest and regulated and safeguarded its administration in ways which are designed at once to protect the public and the well conducted banks of the country against the unscrupulous practices of those who seek to take advantage of the general confidence in banking institutions to carry on unsound or nefarious practices at the public expense.

No business requires more skill or experience in its conduct than that of banking; and there is none in which the successful exercise of skill and sound judgment over a period of years creates such a valuable asset in the confidence of the business community. This is, in fact, the great asset of the banker. Hence the almost mercurial change which the slightest breath of suspicion as to the stability of a banking institution creates in the community.

This increased sensitiveness is characteristic of modern business conditions. Its most obvious features, as contrasted with old fashioned methods of business is the greater interdependence of industries in the modern system. Everywhere the tendency is to industries in the modern system. Everywhere the tendency is to establish closer relations between different branches of business, so that prosperity or adversity of one branch becomes the concern of all.

As I have said this is especially true of your business, which is more sensitive perhaps than any other to the falling or prosperous conditions which obtain in other industries. The old transition from barter to purchase by money, is now being replaced by the still more refined transition from cash to credit transactions; and in the transition, the gain in economy is accompanied by this increased sensitiveness which makes more than ever important the widest knowledge of business conditions and the most scrupulous honesty of administration. These alone can beget and maintain the necessary condition of business upon a credit basis—implicit confidence.

To secure this, it is necessary that you not only join to prevent, as far as possible, the recurrence of those disastrous failures which it is impossible always to avoid in the administration of any single institution, by forming associations for the mutual protection of their members; but it is also necessary that the best means should be adopted to weed out from so honorable a calling as that of banking, all who have entered it for nefarious purposes.

The latter object can only be attained through the perfecting of the laws in relation to banking, and it is gratifying to note that in the effort of the State and National governments to throw around banking an unusual share of legal protection, both for their own and the public safety, the bankers themselves have taken the initiative and lent their aid.

Doubtless among the purposes for which your convention has assembled will be the consideration of methods and means for still further adding to security in the administration of the banking business; and whatever you accomplish in this direction will be of the highest benefit to the business community.

As representatives of the great moneyed interests of the country your deliberations will be of special interest to the business men of the metropolis, one of the financial and commercial centers of the country and of the world. This great city, through the wide range of its business transactions, is affected by financial and business conditions in all parts of the world. Our citizens will, therefore, follow with eagerness the accounts of your proceedings as reported in the daily press reports, and will await with the keenest interest whatever conclusions you may reach as to the future of the banking business.

But I shall not detain you any longer with my remarks. I welcome you to this city and to our State. You have already contributed much to the welfare of both, and we look forward with confidence to the results of your present deliberations. I trust that your stay with us will prove agreeable and that we shall have the pleasure of greeting you again on some future occasion.

The President: We will next be favored with an address of welcome by Joseph T. Talbert, President of the Chicago Clearing House Association, and also President of the Commercial National Bank of Chicago.

### Address of Welcome by Mr. Joseph T. Talbert, President of the Chicago Clearing House Association.

It is a pleasure and a privilege to be called upon to extend in behalf of the banks and bankers of Chicago an official welcome to the members of the American Bankers' Association on the occasion of this, their third convention in our city. Occupying as you do a position unique in American finance and representing as you do not only the small and remote banks, but also the great and strong among our financial institutions, this privilege becomes an honor.

It is easy to say that you are welcome and that we are glad to have you with us; but we intend to try not only to make you feel at home but to give evidence of the fact that you are genuinely welcome. In carrying out this purpose we have not sought to make a display of entertainment, nor to prepare a tedious program, consuming every moment of time, through which each visitor must be forced, whether or no; but there has been left opportunity for all to visit their friends and correspondents, or to go sightseeing and to the places of amusement for which cards are supplied, or to do anything else which individual fancy prompts. We have thought that true hospitality lies in making a guest feel first of all that he is welcome, and then, after providing the things necessary for his comfort and physical well being, to place him at ease by allowing reasonable freedom to indulge personal inclinations. It is hoped that this will sufficiently account for all gaps or omissions there may appear to be in the official program. If there be any among you who has not found suitable and comfortable quarters, every effort will be made to procure them and to make them satisfactory on application to any person you see wearing a Reception Committee badge, or at the Information Bureau at headquarters. It is our earnest wish that every guest be made to enjoy the visit here and no effort on our part shall be spared to accomplish that end.

We are particularly glad to entertain our visitors from the East, for we want them to know more about this young Queen of Western Cities. We wish to show them the things which have made her a Queen, and which in time shall enthrone her as the "Empress of Them All." We are delighted to have with us our guests from the South and Southwest, for we wish to become acquainted with them, to have them know that we are neighborly and friendly disposed, and that we are not half so bad as we have been painted. We intend to show them that here is the near and natural market for their raw products, and here the place for the purchase of merchandise and for the establishment of new banking connections. It is unnecessary to say that we welcome our friends and neighbors from the West and Northwest and all the way from the Pacific Coast, for they know us—indeed they are a part of us. They know that Chicago is great, industrially and financially, and they also know that it is due

to the fact that they themselves are great, and growing in greatness, and that the strength and prosperity of this city is but a reflection of their own happy condition. Therefore, I am upon safe ground when I extend to visitors from every section a thrice cordial welcome.

I might make a lengthy speech reviewing the growth in importance and power of your Association, numerically and financially since first you met in Chicago, twenty-four years ago, and again 1893; and in contrasting the modest beginnings of those days with your present membership of over ten thousand, including banks whose aggregate resources are over fourteen billion dollars. I might call attention to the growth in population, wealth and banking power of Chicago, which has been no less remarkable. Within fifteen years the deposits of the associated banks of the city have increased nearly five fold, growing from \$172,000,000 to about \$750,000,000. This is an impressive, almost a startling fact. Much that is interesting and significant might be said about it, but I fear it would be an encroachment upon your time and upon that of the distinguished speakers who are to follow. Chicago will continue to grow, not only in mere numbers of individuals who dwell here, but in business importance and in financial power. This is inevitable because of its geographical position in the heart of this great empire; because of the unequalled network of railways, the veins and arteries of trade, which flow inward and outward; and more than all, because its famous hinterland is rich and productive and populous. In this respect no city in the world has ever been more advantageously situated. These things make Chicago the City of Destiny, the splendor and glory of whose future it is vain to prophesy.

I might also with pardonable pride call attention to the excellent example which Chicago in recent years has been giving to other cities and to the world in improved methods for the examination and regulation of her associated banks—an example which I am glad to say has been followed by a number of progressive cities. It is sufficient to say that this great industrial and distributing center is justly proud of its excellent banks, and feels fortunate as well as safe in the possession of a number of them which rank among the strongest and best managed in this country.

There is just one central thought which I wish to impress upon you, and it is neither about Chicago nor her banks. It is this: The most important work to which this Association can presently devote itself lies in influencing and in shaping State and National legislation along the lines of sound economic laws; I mean those which embody correct principles and which will promote sound banking. We have been sailing for a long time through financial fog, and while in some quarters the sky seems to be clearing, the harbor of popular soundness on financial subjects unhappily is not in sight; nor can we yet discern the shore line of terra firma in our monetary system.

Away back in 1885, when this Association first met in Chicago, the chief subject of discussion was the then overshadowing cloud—the Silver Question. Such men as Lyman Gage, W. L. Trenholm, George Hague of Montreal, Edward S. Lacey, then Comptroller of the Currency, and others, argued for the immediate repeal of the Bland Act of 1878, and against the enforced coinage of standard silver dollars. They pointed out the inevitable truth that failure on the part of Congress to repeal the Act would end in a panic. The wisdom and sound judgment of these men, all of whom were experienced in finance and whose opinions were entitled to respectful consideration, went for naught; but eight years later the panic came, during which we passed through one of the most disastrous periods in our financial history. In a few months, more than 150 National banks and no less than 500 State, savings and private banks closed their doors. The loss to the business interests of the country was incalculable for the depression following the panic was great and prolonged. Then came the repeal of that obnoxious statute and three years later when the question of the free and unlimited coinage of silver was submitted to the people as the leading political issue, that delusion was definitely and finally settled. It required twenty years to educate the people to a proper understanding of it, while the patriots who fought the silver heresy and sought to place our monetary system soundly upon a gold basis were branded as criminals and conspirators.

It would be difficult to find now an intelligent banker or business man who would contend that the question was not wisely and properly determined. Although the revival of business and the years of great prosperity which followed the repeal of the Bland Act killed, embalmed and buried the free silver question forever as a political issue, we should not lose sight of the fact that it stood for months, if not for years, a hideous nightmare, the very sight and fear of which paralyzed business industry and almost destroyed the confidence of the world in us. We should remember, too, that although the issue finally was settled rightly, it was done by a margin perilously narrow, and entirely too small upon which to stake again any great issue involving national finance and with it national honor. It is, indeed, doubtful whether our national honor would have been saved had we not been blessed

at that critical moment with a President possessed of that splendid courage and strength of character which rises equal to such occasions and which is as rare as it is admirable.

Just so it will be necessary to educate the people and probably as much time will be required in which to do it, concerning other menaces and weaknesses in our financial system. But when this has been done and the people fully apprehend the dangers to which they are needlessly exposed and when they realize that the remedy is in their own hands there can be no question but that their verdict will be equally conclusive. I refer, of course, to our defective currency system; and, I may fairly say, to the alarming tendency towards unsound and dangerous State banking laws. We have reason to hope for good results in the way of popular education from the work of the Monetary Commission of the House and Senate. There is also reason to believe that the Currency Commission have undertaken their work seriously and in good faith, and that they are doing it thoroughly. When their report is made it is expected to embrace broad and comprehensive measures to reform. However, it is not out of place to point out to you and to emphasize the fact that sound and correct, instead of artificial and political legislation in our finances is imperative, and infinitely more important than the tariff or any other issue that has been before us in recent years. It is discreditable, not to say disgraceful, that we have not a currency system that will meet every legitimate need of business. There are no valid reasons why we have not such a system. After recent experience failure to perfect the currency and place it upon a basis as sound as that of any other country in the world would be a national shame. The Currency Commission no doubt will report a wise and safe solution of our problems, but when it comes to framing and enacting laws based upon their recommendation they will need the support, not only of bankers, but of the business interests of the whole country and most of all the influence of the press to stimulate Congress to action.

To those of you who were in the banking business during the panic of 1907 no arguments in favor of reformation are necessary. But there was a feeling among bankers outside the larger cities that the disturbance might have remained local, or at least that its effects would have been nearly imperceptible in the West, had not the Chicago banks, following the example of New York, without warning suspended currency payments and resorted to Clearing House certificates. Perhaps there are yet a few who think it was unnecessary for us to have done so, but to all who have any such lingering beliefs, I wish to say that there are within my hearing bankers from New York, Chicago, and perhaps from other cities, who know it is a fact, and who will confirm the statement that London (which is the market of last resort to which we can turn in such crises for the purchase of gold) as definitely and finally refused to sell and ship gold to the United States before we ceased currency payments, as New York and Chicago banks were obliged to do afterwards.

Instead of censure, therefore, it is but scant justice to say that the great banks of New York, and in a less degree perhaps our own banks, deserve the highest praise for their prompt action and the greatest measure of admiration for the courage they displayed in thus calmly facing a crisis calculated to test their strength and prove their soundness.

We have learned by experience how to deal with panics and by the use of credit how to mitigate some of the evils which they entail; but we shall not be able to prevent panics until the Government, which itself harmfully meddles in the business of banking, shall permit its chartered banks, always, of course, within proper limitations and under safe regulations, the use of the civilized weapons of financial warfare, and the employment of defenses for protection of individual credit. Without such weapons and defenses we are, and shall remain almost helpless.

The matter of State legislation with respect to banks and the business of banking is of nearly equal importance and should not escape attention. It would seem that much good might be accomplished by systematic co-operation with State Bankers' Associations. It is a singular fact that the delusions which have found expression in the passage of State laws compelling all good, sound and carefully conducted banks to guarantee the mistakes or frauds of bad and recklessly managed ones, do not seem to take root nor to flourish in industrial and financial centers so much as in those sections where less relative use is made of banks; and curiously enough these delusions seem to possess classes who never have been richer or more prosperous than they are now. If this suggests anything it is the fact that these are the sections where the greatest amount of educational work must be done. Such laws are the natural outgrowth of the unsound doctrines taught in those sections in the past. It may require ten, twenty or thirty years to undo this harm, but it is not to be doubted in the long run that we shall have a national system which will protect us against disastrous panics and currency famines, nor that we shall have sound and wholesome State banking laws providing abundant regulation (which after all is the best safeguard), and that under

these laws there shall flourish a system of banks as safe and as efficiently managed as any in the world. But we cannot hope for so precious a possession without labor, co-operation and patient effort on our part.

Again you are assured that it is a pleasure to extend each of you a cordial welcome to Chicago, and you are invited to visit our banking institutions, and to become acquainted with our bankers.

The President: We will have the pleasure of listening to a response to the addresses of welcome by our friend and comrade, Col. Robert J. Lowry, of Atlanta, Ga.

#### Response to Addresses of Welcome by Colonel Robert J. Lowry, of Atlanta.

Your Excellency, the Governor of the Great Commonwealth of Illinois, to you, Mr. Talbert, the distinguished President of your Association of Clearing House Banks, to His Honor, the President of the American Bankers' Association, Ladies and Gentlemen:

Upon being requested to respond on behalf of the members of the American Bankers' Association to the words of cordial welcome which have been spoken to us this morning from this platform, I was at first somewhat puzzled in an effort to decide why I was named to perform this pleasant duty. After considerable thought, I decided that your committee, with an eye single to the fitness of things, thought that it would be appropriate to have this beautiful welcome on the part of the Chicago of the West accepted on behalf of the Association by a member who hails from the city known as the "Chicago of the South."

I shall be brief, for I am sure that you have a most attractive programme before you this morning. I am frank to say, however, that I greatly appreciate the honor of being selected to acknowledge your beautiful courtesies, and to thank you for the royal welcome you have given us. I am sure that I voice the sentiment of this entire body when I say that we appreciate your hearty welcome, your open-handed hospitality, and your unstinted generosity. In expressing our thanks, however, for the kind and encouraging words that have been spoken to us by these honorable gentlemen this morning, we hasten to say that this was no less than we did or could expect from Chicago. This is a city renowned for the prodigality of its welcome and entertainment, a city that does nothing by halves, a city that extends the right hand of fellowship and the optimistic word of good cheer and godspeed to all American citizens, no matter what State in the galaxy of this Union they may call home.

Some of us have had the pleasure of enjoying the hospitality of Chicago before, and we are prepared to say, for we know by past experience, that the best is none too good for the guests of this great city. On behalf of those of us who have enjoyed your splendid entertainment in the past, I say that we are glad to be with you again, and on behalf of those who have not had this pleasure in the past, I know I can safely say they will be glad to come again.

We are not disposed to take unto ourselves any great amount of chesty pride, however, upon receiving your warm welcome, for we know it is for the cause that we represent that we are the recipients of your courtesy. This is a great Association, numbering some 11,000 banks among its membership, and representing assets of many billions of dollars. It has been my privilege and pleasure to watch its phenomenal growth from the small nucleus of a few prominent banks of this country associated together to the mammoth organization that exists to-day with this enormous membership. It has been an inspiration to me to see it branch out into educational lines, protective lines, and other lines of endeavor for the material uplifting and development of the banking profession throughout the length and breadth of this land. Every bank and banker in this Association feels naturally and justly proud of membership in this organization, not only on account of the high prestige of the Association as such, but on account of the great influences it wields for the benefit of the masses of the people and the whole country. This Association has grown alike in power and beneficence. It has helped to shape wise and beneficent legislation; it has raised its voice against fanaticism and misguided popular clamor, and in time of financial disturbance, has brought order out of chaos and restored confidence.

Like a great throbbing heart-center, it has sent out through the length and breadth of this broad land a healthful and inspiring influence, which has left its impress not only upon the banking fraternity, but has permeated the channels of business and commercial and professional life, and has injected into the arteries of our daily commerce, safe, sound, and sane principles of commercial honor and honesty. The beneficent influence of this great organization is felt from Maine to California, from the Lakes to the Gulf, and where is the man, the banker, who would not feel a just pride in his membership in an organization which is such a power for good in this great country?

So I say it is for the cause that we represent that Chicago extends her hearty hand of welcome. It is her recognition of this great power for good amongst us; it is her spirit of

co-operation with all that makes for the uplifting of the people of our country, that she has such a royal welcome extended by these, our distinguished and honored friends.

As individuals, making up this great whole, the most indifferent of our number could hardly fail to be sensible to the gracious hospitality extended, and the pleasant stay we shall have among this cultured and hospitable people. Were it not for the fact that the feeling, which I know exists in the heart of every member of this Association, must be expressed by some one, or else be voiced by all, I would stand mute, and simply look my thanks to the distinguished gentlemen.

We are glad to be here; we are glad to have this meeting of our Association in this great city of the West, full of enthusiasm, wide-awake on all occasions, thoroughly progressive, modern, American! We appreciate the freedom and hospitality of this great city, which has been so freely tendered us, and, on behalf of the grateful membership of this Association, let me thank you most heartily, and say that we know that our visit will be both pleasant and profitable.

#### Annual Address of President George M. Reynolds.

Members of the American Bankers' Association and Guests:

Assembled, as we are, at a time when prosperity again smiles on our country and our people are at peace with the world and among themselves, I congratulate you upon the favorable auspices under which the Thirty-fifth Annual Convention of this Association begins its deliberations.

The large attendance at the convention this year, exceeding by far that in any previous year and reflecting, as it does, an increased interest by our members, is both gratifying and encouraging.

While the past year has not brought as great activity in business, nor as satisfactory returns on capital invested nor for labor performed as we could have hoped, still, blessings have been showered upon us in increasing measure as time has passed; and where a short time ago there was hesitation in business and doubt, we now find activity and confidence. The financial sky which, during the closing days of 1907, became so filled with clouds of doubt and distrust as to affect our confidence and chill our hopes and which brought such complete paralysis to our business, thus causing a long period of depression and entailing incalculable loss to our people, is rapidly clearing. Hope deferred has given place to hope realized and the fulfillment of our wishes. Activity and progress, guided by courage and conservatism, are again the watchwords of our people.

Nature, directed by a Divine Providence, has showered upon us her products in such generous measure that our storehouses are filled to overflowing, and we still have much to spare to Europe and other countries, the disposition of which will create for the United States a large international credit.

With the tariff question settled, thus removing the chief handicap to a greater revival in business during the past year, and with the latent energies of our people now fully awakened to activity, we will, if our efforts are directed by intelligence and accompanied by frugality on the part of our people, soon come into a full fruition of our hopes, through a speedy return to normal conditions in business.

During the year that has passed since our last convention, this Association has prospered; its business affairs are in excellent condition; there has been a satisfactory growth in its membership; our treasury reflects a strong condition, and the various reports show that the officers, the members of the Executive Council, the different Sections and the various committees have been active and alive to the interests of the Association.

The offices of the Association, in New York, under the control and management of your efficient Secretary, Mr. Fred E. Farnsworth, are a veritable beehive of industry, in which the affairs of the Association are conducted along modern business lines; order and method prevail, and efficiency of service, together with courtesy and affability on the part of all, in their contact with the public, makes a visit to that office a pleasure.

The past year has been our first experience under the increased membership of the Executive Council and the manner of its election, and I am happy to be able to say to you that I believe the change has proven to be a wise one, and great credit is due to those who were instrumental in bringing it about.

The fact that the members of the Council are now elected by the delegates from the various States, at the time and place the conventions of the State Associations are held, has brought about a much closer relationship between this Association and the various State Associations, and in addition has eliminated from these meetings much of political activity.

During the year the officers and employees and various sections and departments of the Association have been brought together in one building, and all have worked in complete harmony for the common good of the Association.

The main work of the Trust Company and Savings Bank sections has been along lines of interest to State institutions doing a trust and savings bank business, but bankers, generally, are greatly indebted to the Savings Bank Section for the valiant work it has done in opposition to the establishment in our country of a system of postal savings banks.

The Institute of Banking has made splendid progress during the year, and is doing much to equip your men for future responsibilities in banking.

Inasmuch as under our constitution the actual business of the Association is transacted and much of its real work is done by the Executive Council and through various committees, the reports which will follow will give you detailed information concerning all matters taken up by the Association; and I urge upon you a careful study of these reports, in order that you may have a full realization of the character and magnitude of the work that has been done.

The growth and usefulness of organizations of this character depend very largely upon the individual members. Measured by this standard, the magnificent audience at this convention is both a realization of our hopes of the past and an inspiration for the future. No word in the vocabulary means so much as "co-operation" when it is applied in a practical way to every-day business life, and if this Association stands for anything it stands for co-operation among the bankers of the United States.

No matter what the object may be in the formation of an organization of this kind, if it is to survive and be successful its sustenance must come as a result of the benefits that accrue to the individual members through their co-operation—the pooling of interests which makes the cause of the weak and the cause of the strong the common cause of all.

The fact that this Association has continued to show a steady growth, until it now numbers among its members nearly eleven thousand of the principal bankers of the United States, surely justified the belief that some good is coming to the bankers of this country through these annual meetings. There are still a few bankers who, regret to say, shrug their shoulders when the name of this Association is mentioned, and who say that it does not accomplish anything of real value, and that its meetings are nothing more nor less than excuses for junkets.

Can any intelligent man who possesses a knowledge of the science of human nature stand before this splendid audience and look into its faces and then have the temerity to say that the coming together of you, gentlemen, from every section of the country, in social intercourse, for the exchange of ideas and experiences and for the consideration by you, as an organized body, of questions of vital interest to the banking fraternity is only an excuse for a junket?

That these assertions are made is due to the fact that those uttering them do not know of the great work this Association has done to promote a higher standard of banking and a better conception by the individual banker of his responsibilities and duties. They have not experienced the thrill of the pleasure given by the handshakes of the friends meeting annually at these conventions; they are entirely unconscious of the fact that wide-awake bankers of the country wonder at their failure to accept the opportunities this Association has taken to their very doors.

For twenty years I have been a regular attendant at these annual conventions, and I have seen hundreds of men, young and old, who began their experience in banking in small cities and country hamlets, grow in experience, capacity and personality as a result of the associations their attendance at these meetings has afforded them, until I see them located in all sections of the country, occupying many of the most responsible positions in banking the country affords.

The first convention of this Association I ever attended had a registration of only about three hundred, and I have seen a steady increase in the number, year by year, until to-day the delegates are counted by the thousands instead of by hundreds, and these meetings have grown in interest as the membership of the Association has increased.

The panic of 1907 was probably the most severe one ever experienced in this country, and since we were forced into a period of financial confusion and disaster to business at a time when the physical conditions of our country were apparently in such a healthy condition, it is plain that there existed some great cause for such a sudden upheaval; and since the cause has not as yet been removed, our felicitations upon the return to better conditions should be tempered with conservatism and caution until this has been accomplished.

That we are so rapidly approaching a more satisfactory condition is due not so much to any change in our economic conditions as to the wonderful recuperative powers given us by the richness and fertility of the soil of our country.

I believe you will agree with me that much of the cause for our last panic is properly chargeable to our currency system, since under it the banks of the country were unable to expand their notes rapidly enough or to the extent necessary to meet the requirements of the situation.

The fact that we had to go into the world's marts and buy gold in such large quantities for immediate delivery, in order to secure the means by which we could restore confidence and assist our industries, depleted the reserves of the banks of the principal countries of Europe to such an extent that confidence was shaken abroad and their business was seriously affected.

The business of the United States has become so interna-

tional in its character that anything which affects us either favorably or otherwise has a like effect abroad. This interdependence between the principal countries of the world has, in a measure, retarded our return to more active conditions in business, for we cannot hope for normal conditions here until a larger measure of business prosperity is enjoyed by Europe.

The United States being the greatest producing country in the world, we are ambitious to extend as far as possible the sale of our products to other countries, thus securing a large share of the world's trade and increasing our international business. But how can we hope to do this so long as we do not have a system of currency which will command international respect and international confidence?

I do not claim there is nothing of good in our present financial system, for until our volume of business increased to a point where it was so entirely out of proportion to the increase in our circulating medium it served its purpose fairly well, and, considering its good features and with a view of disturbing existing conditions as little as possible, it should, for the present at least, be continued, with such additions as would be calculated to meet our needs.

While there has been much agitation of the currency question for many years, it is only within the past eighteen months that the Government has taken any action in the premises.

The result of the initial effort by Congress to provide us with laws under which we would have the means, through our currency system, to protect the business interests of the country was the passage of what is known as the "Emergency Circulation" or the "Aldrich-Vreeland Bill." This was not intended to be more than a makeshift, which it was hoped would meet our needs in an emergency, pending consideration by Congress of the whole subject, and is not, therefore, given serious consideration in any discussion of the subject at this time.

The appointment by Congress of the National Monetary Commission was the first step taken by the Government with a view to enacting such legislation as would provide for us an adequate system of currency.

The National Monetary Commission comprises eighteen members, nine of whom were selected from the Senate and nine from the House; it includes some of the ablest and most experienced members of both houses and of the two great political parties, thus forming a body of very capable and strong men. They are charged with the duty of studying the whole question and the formulating of a plan to be embodied in a bill to be presented to Congress for its consideration and possible enactment into a law.

The commission, as a body and individually, are making a most exhaustive study of the whole subject and are accumulating for their use information and statistics of every character which can seem to have any bearing on the subject. The Executive Committee of this commission, consisting of nine of its members, went abroad during the summer of 1908 for the purpose of making a careful study of the systems of currency in operation in England, France and Germany. In addition to securing such information as could be obtained through personal interviews with the managers of the principal banks of Europe, the commission arranged to have written, by the foremost students of political economy in the various countries, a history of the finances of those countries for one hundred years. They also arranged to have prepared for their use, by experts in that line, statistics on all subjects which could have any bearing on the currency question in those countries.

The report which the commission will make to Congress will be a complete financial history of the principal countries of the world, for the past one hundred years. It will form a text-book upon currency and will be given general distribution among our people.

In view of the magnitude of the work the commission is doing, its report when rendered will certainly be worthy of our most careful consideration; and, knowing, as I do, the earnest desire of the members of the commission to frame a bill which will, if enacted into a law, meet our real needs for a currency system, I hope you will all receive the report with open minds and give it the most careful consideration. In the meantime, we should be in a receptive mood, and by open-minded discussion acquire a better understanding of the subject.

As the result of a study of the financial systems of the various countries of the world and the knowledge gained from actual experience in business of some of the changes necessary in order that we may secure a system of currency that will meet all the requirements of our rapidly growing business and which will at the same time command the confidence and respect of the entire business world, I am convinced that we should have established in this country a central bank, with power of note issue, to be operated under governmental supervision of control.

In the brief time I have at my disposal I can only touch upon some of the salient points of such an institution, but since this is a live subject at this time, I am going to presume on your good nature and your interest in the subject to at least suggest some of the principles which should have careful consideration in connection with forthcoming financial legislation.

The people of the United States, while keenly alive to every

question involving a national problem, are slow to cast aside well-known practices to adopt entirely new theories which contemplate radical or revolutionary methods. Therefore, I would recommend for your serious consideration only that which would, for the present at least, insure the continuation of our present National banking system, with slight modifications, to which I will refer later, and with such additions to it as will be necessary to correct the evils in the system or cover the omissions from it.

In considering this question it is necessary for us to first ascertain wherein our present system fails to furnish us what we need, and to suggest a remedy for such imperfections.

Under existing conditions the requirements on National banks for reserves are such that in times of need the banks are forced to contract their credits, instead of expanding to meet the requirements of business, thus reducing, rather than increasing their credit-giving power. Again, under our present system there is not sufficient flexibility in our bank notes to enable banks to meet the reasonable demands of business on them during times of emergency.

With about \$650,000,000 of our circulating medium consisting of National bank notes secured by United States 2% bonds, carried by the banks at a highly inflated value, the only flexibility shown has been a material expansion of our bank notes during the past few months, when we have had a plethora of money and interest rates have been abnormally low; and since our banks could not have followed any other course without suffering great loss through the sale of their United States bonds, it proves that our system is wholly unscientific and in times of stress impractical.

The rapid decline in the market value of United States 2% bonds owned by National banks and pledged to secure their circulating notes is a subject that is engaging the attention of the bankers of the country, now that the Secretary of the Treasury has been empowered to sell a large issue of 3% bonds. If the new threes were to be issued at this time and could be used as security for circulation of National banks without an increase in the tax on notes secured by them, 2% bonds would undoubtedly sell below par; in which event the banks of the country would suffer still further financial loss and our bank notes be discredited.

I think bankers need not be fearful of this result, for our worthy Secretary of the Treasury is keenly alive to the necessity of maintaining a parity for the 2% bonds, and since he has the right under the law to issue one-year 3% certificates to the extent of \$200,000,000, I am sure we can depend upon him not to put out any of the 3% bonds, the issue of which has just been authorized, until after the next meeting of Congress, when, I feel confident, the tax on circulating notes secured by 3% bonds will be increased sufficiently to insure a parity for the 2% bonds that are pledged by our banks as security for their circulating notes.

Thus the process of having the banks support United States bonds at a price much above their intrinsic value is to be reversed and the fictitious value of the large amount of outstanding twos is to be maintained by a discrimination against bonds bearing a higher rate, which I think you will agree is far from scientific or satisfactory.

To my mind our foremost requirements are to have established an institution which could in time of need furnish credit in proportion to the reasonable needs of business and which would by law be given the power, under proper restriction, to issue its notes to be used as a circulating medium.

A central bank, organized under a charter which would give it these powers and operated under an intelligent management, would go a long way toward solving our financial problems.

First, it must be a central bank in fact as well as in name, and its powers and functions should be restricted to the needs of business; its plan of organization and operation should be such that it would automatically support the needs of and be the servant, and not the master, of business. Its capital should be large enough to command respect and confidence—say, not less than ONE HUNDRED MILLION dollars. Whether the capital stock should be subscribed for by the National banks of the country or sold to the public under a guarantee of a small dividend by the Government, with the right of the Government to share in the profits above the amount of that dividend, is only a matter of detail. Personally, I believe the latter plan would be the better, as it would do away very largely with the feeling that such an institution would be run for the especial benefit and profit of the banks of the country. This plan would make it a people's rather than a bankers' bank, and would popularize it and greatly assist in solving the political problem, which seems to be quite as difficult or even more difficult of solution than is the economic problem.

While such bank should be the fiscal agent of the Government and have all Government funds deposited with it, the bank should not be given the power to support the public credit, as that should be done by the Government itself and by the people in an individual capacity. It would not be wise to give the Government supervision or control over a central bank and at the same time allow the bank to be used by those who direct its policy, in maintaining the public credit.

The bank, in addition to Government funds, should receive as deposits the funds of National banks in the three central

reserve cities, acting as reserve depository for banks in those cities, just as they act as reserve depositories for the banks in regular reserve cities. This would not affect the relations now existing between the banks in the country, either as to reserves or deposits.

A central bank, in its operation, should not, at the beginning at least, interfere with the functions of the National banks of the country, and the only effect of the adoption of the plan I suggest would be to take away from the National banks all of the funds of the Government now deposited with them.

The charter under which the bank would be organized should provide that the bank would have branches in each of the cities where there is now a sub-treasury and in such other cities as would be necessary to give an adequate service to the whole country; and since the bank would be the fiscal agent of the Government this would do away with all sub-treasuries.

Up to this point the whole plan seems to be very simple, but we are now brought to a consideration of the most important principles involved in the whole question, viz.: From whom shall the bank accept discounts; what shall be the character of the paper eligible for discount; and how shall it account to the public for the proceeds of discounts when the requirement for credit by the business interests of the country is exceptionally large and its coin reserves are not sufficient to cover same? These are subjects upon which many of our leading financial authorities, as well as many of our statesmen, differ in opinion, for upon the settlement of these questions depends the success or failure of the whole enterprise, as it embodies the determining of what is the best kind of a credit, as well as what is the most available security for the note issue of the bank.

I feel sure we all agree that a short-time credit created in the actual conduct of business which represents a real transaction between two or more solvent concerns and which bears a solvent endorsement in addition to the credit which is most desirable, as it is the credit which will be first redeemed, since a completion of the transaction through which it was created automatically retires the obligation.

I would then restrict the discounts of the central bank to short-time credits of this character; those which would run, say, not to exceed ninety days; I would make the bank a bank of discount for the National banks of the country; and if it would be necessary to do so to enable it to employ its funds, I would allow the bank to accept discounts from the public, but it should not receive deposits from the public. Whether or not the right of discount should be extended to State banks also is only a matter of detail and is not important from the standpoint of a discussion of the plan of a central bank.

If the bank has a large credit-creating power and is able to discount for the public and the banks of the country large amounts of paper during crop-moving seasons and in times of emergencies—and it must have this power and be able to do this if it meets our requirements—the proceeds of these loans would be required in some form of money which could be used as a circulating medium. The only possible way to provide for this would be to give the bank the right to issue its own notes. "Very well," you say, "but how shall these notes be secured?" This is the rock upon which the craft of many a financial student has been wrecked, and it has provoked the most heated discussions among political economists and practical business men.

The security for a bank note, first of all, should possess the qualities of safety and availability. The safest form of security would be gold coin, but since it would not be available in quantities sufficient to enable the bank to carry a coin reserve equal to its outstanding notes, we must find some other way by which we can require that these notes will be secured and at the same time give us a safe and elastic form of currency which will expand or contract automatically as the requirement for discounts increases or decreases.

Permit me to say in this connection I believe the notes of the bank should be secured in part by a coin or metal reserve, but if we secure the relief we need, a considerable percentage of the notes thus issued must be secured in some other way. What shall we require this security to be? It should be a security which, in the natural course of business, will first be redeemed and through its redemption or payment bring into the treasury of the bank actual money.

What character of securities have we in this country that is most available for this purpose? Is it bonds which do not mature for years to come and which, in the nature of things, even then will be renewed? Is it mortgages on real estate running for a shorter period, but still having a maturity some years in the future? No, it is neither bonds nor real estate mortgages.

If it is wise to restrict the character of the paper which will be eligible for discount at the bank to that which will be first paid—to a commercial credit or to paper representing an actual transaction in business between solvent concerns—why should we not make paper of that character, with a certain required percentage of coin reserve, the basis of security for its bank notes? Its use for this purpose would insure an elasticity in the note as a circulating medium, and the notes which would be issued by the bank in times of stress would automatically contract and be retired from circulation when the transaction creating the credit had been completed and the credit paid.

This is the method employed by the Imperial Bank of Germany and the Bank of France. In the case of the former, a metallic reserve of 33 1-3% is required. Under this its average reserve in metal to its outstanding notes is around 75%, and during the panic of 1907 its reserve of metal against its notes did not go below 41%.

The Bank of France, while not required to carry any definite percentage of coin reserve against its outstanding notes, is given the right to issue its notes to the extent allowed in its charter, so long as it maintains a coin payment of its notes as they are presented. In practice, the Bank of France, like the Imperial Bank of Germany, carries a very large metal reserve.

I would provide for the supervision of this bank along lines somewhat similar to those governing the Imperial Bank of Germany, or the Reichsbank, by the appointment of a general governmental supervising or overseeing board, the members of which should be appointed jointly by the President of the United States, the Secretary of the Treasury and the Comptroller of the Currency. I would require that the appointment so made be approved or confirmed by the Senate, and I would so arrange their term of office that the majority of this board should not go out of office during any period of eight consecutive years—thus providing against a change in the policy in the management of such a bank, even though we should have a "freak" administration for two consecutive terms.

I would have another board selected by the stockholders, the members of which would confer with the officers and this supervising board, but in order that the management of the bank might be entirely removed from politics, and to prevent the possibility of any syndicate gaining control of the bank, I would have the supervising board, after they had conferred with the board representing the stockholders, vested with full power to appoint the directors and president of the bank to their respective positions for long periods of time, or for life, subject, of course, to removal for incapability or malfeasance in office.

Many believe that a provision in its charter which would provide that the Secretary of the Treasury and the Comptroller of the Currency be members of its board of directors would give the Government sufficient supervision over a central bank.

This is only a matter of detail—important it is true, but still a matter of detail, since its charter could be such as to keep the bank free from political influence or intrigue.

The restriction regarding paper eligible for discount should be so severe that no paper representing a speculative transaction would be admissible.

When the United States bond-secured, National-bank-note circulation is retired, the central bank should have the exclusive right of note issue, but that would come about largely through a process of evolution which would not disturb business conditions.

The establishment of a bank along these lines, with the details properly worked out and fully described in its charter would, with some slight modifications in our present National bank law, give us the desired relief.

In 1907 we had in the United States one billion seven hundred and eighty million dollars of gold coin, of which amount one billion one hundred million dollars was held in the Treasury, yet we turned to Europe for assistance, with the result that the Bank of England alone furnished us directly and indirectly about one hundred million dollars of gold.

When you consider that the average amount of gold carried by the Bank of England during 1907 was only about two hundred million dollars, or one-ninth of the amount in this country, or one-fifth of the amount carried in the vaults of our Treasury, it will furnish food for reflection. At that time our Treasury held over one hundred million dollars more gold than was held by the Bank of England, the Bank of France and the Reichsbank of Germany combined, and we had in this country just about double the amount of gold carried by all of these banks; still, we were forced to turn to them for help, simply because we were not able, under our existing currency laws, to use the facilities that we possessed.

There should be a change in our present laws governing National banks, giving them greater powers to compete with State banks and thus encourage a growth in the number of banks in the National system under Federal control.

National banks should be allowed to act as trustees and they should be given the right under a specific declaration of law to accept savings deposits, but the savings deposits thus received should be segregated from their general deposits. Furthermore than this, the law should define definitely the character of investments the banks should carry against savings deposits, which investments should be segregated from the general assets of the bank, and in case of a failure of the bank the savings depositors should have a first lien upon the specific securities held in the savings department and in addition be general creditors. The published statements should show just the amount of savings deposited and securities held against same, and the savings deposits held by National banks should carry the same requirements as to reserve and be subject to the same notice of withdrawal that is now required under the various State and savings-bank laws. If this were done and the laws in the various States were so changed as to require a State bank or trust company to segregate their savings deposits and securities in the same manner, with the same restrictions, it would go

far toward answering any arguments advanced in favor of the establishment in this country of a system of postal savings banks.

Whether or not we get proper financial legislation depends very largely upon you, gentlemen, and those like you who are members of other organizations throughout the country which represent the various lines of business.

All great National problems are settled by the people, and the enactment of laws at Washington, by Congress, is only a reflection of public sentiment. In matters of legislation we usually get what the people want, for our representatives in Congress desire to follow the wishes of their constituents when they can ascertain what they are; and if you want to exert that influence on legislation which it is your duty to your citizenship to exert, let your activities at home be such that your influence will be felt, and see to it that your representatives in Congress know the sentiments of yourself and your friends on all matters of impending legislation. Public sentiment is a force as resistless as the tides, and no man or set of men nor any political party can withstand its force when it is directed against them.

If you oppose the establishment by this Government of postal savings banks, a parcels post and such other fallacies—and I take it that you do oppose all these schemes which tend so much toward paternalism—and if you would discharge your duty to yourself, to your community and to your country, you will do what you can to exercise in your respective communities an influence on public sentiment on the currency question which will be reflected in the votes of your representatives in Congress when laws are enacted giving to us a system of currency which will make the United States dominant in the business affairs of the world as she is now the leader in all that goes to promote human comfort and human happiness.

The President: The next order of business will be the report of the Secretary.

#### Annual Report of the Secretary.

[The report of Secretary Farnsworth will be found on page 140.]

The President: We have with us to-day a man who perhaps more than any other man in this country has directed the legislation that has been enacted at Washington. He is a man who, regardless of the changing tides of public opinion, has gone forward discharging his duties as he has been given the light to see it, apparently indifferent to criticism, and certainly impervious to public opinion and personal persuasion. It is a great pleasure to me to be able to introduce to you to-day for an informal address, Hon. Joseph G. Cannon, Speaker of the House of Representatives. (Applause.)

#### Address of Hon. Joseph G. Cannon, Speaker of the House of Representatives.

Mr. President and Gentlemen of the American Bankers' Association: I really was not aware that I was to attempt to make any remarks here until yesterday. The Association was kind enough to invite me, but as the weather was warm and as I had been occupied for some months, it seemed to me that I could not and I did not take the time to put in black and white, as I should have done if I should hope to be upon a par with your honored President and with others who will address you. But I see your committee have put on the programme that there are to be impromptu remarks from me, and that is just what you will find it to be. So, as I take your time, if I entertain you I shall be fully satisfied; I am quite sure that I will not instruct you.

This is a bankers' convention, and a wonderfully important one to all the people, as well as to your organization. You are just one spoke in the immense wheel that we have, in this country, all the spokes, making the country from the material standpoint.

We have a banking system. It is a little bit like Topsy—it grew (laughter), and I recollect when it began to grow. It grew in the commencement, because it was necessary that it should grow. I am a little older than most of you gentlemen that compose this convention. I recollect the days of the Red Dog and the Blue Puppy Bank Bill. If you got one of them you would take the fastest horse to go and unload it on a creditor before it became worthless. (Laughter.) It was in this condition that after Lincoln was inaugurated the great civil strife came, and before the great war the National Bank Act passed under the leadership of that eminent Indiana banker, who many years ago crossed over—McCullough. It was pretty well—and I am not going to discuss its provisions; I think the Comptroller of the Currency, if he be here, will bear out the remark that in all these years, numbering almost one-half of a century, everywhere within the boundary of the United States, and after the close of the civil war and resumption everywhere around this globe, the National Bank Currency was and is as good as gold, and there never has been one poor mill lost for want of redemption. Aye, more. I think without having verified the results, I will venture, and I know the Comptroller of the Currency will contradict me if I am wrong, the statement that in all that almost fifty years, with the immense deposits all over the country in those banks, the loss to the depositors has not been one-hundredth part of one poor mill to the dollar. (Applause.)

This system grew. The people are familiar with it. It is

not perfect, but in my judgment it can be perfected. There is something of legislation required for its administration, but with our almost one hundred millions of people—a sovereign people, each man walking under his own hat rim—and if he does not, he ought to—(laughter and applause), it is difficult to enact proper legislation. A government of the people, like all other forms of government, at times moves slowly; at times it makes mistakes. The people whom you select from time to time to represent you in the National Congress, and one-third of the Senate to be chosen every two years, six years being the tenure, and the whole 392 representatives, a majority of whom are chosen every two years—of course, it is halting; but there are some good points about this, for hasty legislation, ill-advised legislation, is harmful. It is a maxim among lawyers that no legislation is good legislation. In many respects that is true. Coming up from 90,000,000 of people are all kinds of demands for legislation. If a man has lost all other power to affect public opinion and cannot call attention otherwise to himself, he comes around with a currency scheme and cries aloud and spares not, and sends to the members of Congress this scheme and that scheme and the other scheme, and each one, in his opinion, is absolutely perfect. (Laughter and applause.) Benny Bernstein, of New York City, if you never heard of him—I get, I think, on an average six or seven letters a week from Benny with all kinds of schemes for the benefit of the currency and the uplift of the race. Benny is only an example. You can see at once that legislation touching great vital questions moves slowly to enactment, because it comes from selfish standpoint, each Representative and Senator saying to himself, "I wonder what my district is going to think about it, and I have got to go and face them in a short time." (Laughter.) You find there are men and men in Congress just as well, Senator Teller (turning to Senator Teller, who sat behind him on the platform), as there are men and men who are bankers and merchants and farmers. Once in a while you will find a man who has the courage of his convictions; yes, twice in a while you will find a man. I want to be fair to the body of which I am a member. In both the House and the Senate I think the majority have the courage of their convictions; but once in a while—hardly twice in a while—somebody breaks in. (Laughter.) I know there is nothing so good on this earth as a sound spinal column, and most of the citizenship in the United States has the courage when a duty is to be performed of being willing to perform it and walk in the light of their best judgment and taking the consequences—taking their stand, and if it comes their way according to their judgment and their light, they have done well. Such men have spinal columns. But I have thought once in a while that there is a constituent here and there in our various States who, once in a great while, gets into Congress, that God, when He created man, ran short of material for spinal columns and put in an angle-worm in its place. (Laughter and applause.) However, I won't abuse them; they are not to blame for it. As I said a moment ago, when a man cries aloud and spares not, having solved the whole question of money and currency, and knows it all—ugh! you might just as well quote that famous couplet as to such people: "Abandon hope all ye who enter here."

Now, so much of system as we have got. It came to my mind as vividly in 1907 as it ever came before. After all, do you know there is a great deal in kindergarten instruction? A child never knows that a stove is hot until it puts its finger on it. You may preach to it and talk to it, but they don't know the stove is hot until their finger touches it. Then the lesson remains with them throughout life. That is what I call kindergarten instruction. So we have run up against legislation, you know, and get hurt by it. See wherein the fault is. That is just what they are doing all over this country to-day, and you have a most useful purpose to accomplish, and if you can assist in forming public sentiment and bettering the status, you will have done a great work. It is a disease, not that the currency was not good, not that the banks were not solvent. They were never more solvent in this or in any other country. It was not that the country was poor. Why, bless my soul, we have more of capital in the United States than any other nation on earth. It leaped from sixteen thousand millions of dollars in 1860, to one hundred and twenty thousand millions of dollars to-day—substantially one-third of the capital of the whole civilized world. No, that was not the trouble. The trouble was in the extraordinary good times and with the extraordinary growth in the development of the resources and population of the country, that the money piled up from ten, fifteen or twenty thousand little banks scattered all over the country, making an enormous aggregate in the great commercial banking centers. Well, there was something about this man going wrong, and something about some other man going wrong, and then the bulls and the bears are ever present, and the bears proceeded to get their lining and so forth. Oh, you recollect all about it. The result was that there was no one that called upon his depository for money because he thought he was going to lose it, but he was afraid that the disease would spread and that shortly his depositors would come in and

say "Pay" through fear of a panic. Therefore, with one accord, you said, "We will get our money out of the great commercial banks and the great centers"; and, as you all jumped at once, no bank on earth that ever existed or ever will exist could pay every depositor that it had. That was the trouble.

Now, then, has anything been done? Can anything be done that will prevent a second edition of that panic? That is the question. And if it has not been done, what is the best thing to do? And if we can find it out, let us enact it, and then, in my judgment, without quarreling with anybody, with such proper administrative legislation—a savings department for National banks, if you choose—in my judgment, the best banking system in the world for us will be evolved. (Applause.)

It does not necessarily follow that the English banking system or the German banking system is better than ours. They have evolved. It is better for them, because they keep it. But did you ever think that if you could get one of these great big magnificent megaphones, figuratively speaking, and get in the very center of England or in the very center of Germany or of France and speak in an ordinary tone into the mouthpiece, and have the megaphone half a mile in diameter, you could make yourself heard from the center to the circumference of these magnificent countries? (Laughter and applause.) Here we stretch three thousand—aye, three thousand five hundred—miles from the Atlantic to the Golden Gate, and from the 49th parallel down to the southern boundary, and we just begin to develop. The next century, the swing of the 20th century, will see the ninety millions of people of 1900 grow to two hundred millions, or two hundred and fifty millions in 2010, and we will double the population again when we are fully developed. So it does not follow that a system that is suited to us would be the exact system that they have.

Now, what did we do? In Congress, all the currency experts—I didn't say cranks (laughter)—all the currency experts rushed in to Congress and it was about as doxy which was orthodoxy or else he would not play (laughter). And what did we do? We enacted a law, the chief weakness of which, Senator Teller, in my opinion, is that it only lasts six years; but then, that could be cured by just taking the limitation off. I hope and I pray that we will never have any kindergarten instruction under it, if it ceases to operate six years from its enactment, and I believe we will never have that experience, which would justify that currency amendment that we passed; because as I see it and see the people move around—when I see the merchant filling up his shelves, when I see the restored confidence now that the revenue bill has passed—not perfect, but a substantial revenue producer along the protective lines that you, Senator Teller, in your younger days and in your mature manhood, voted for, and which was one of the strongest pillars that helped to develop legislation (applause), I say, when I pass along the railroads and can hardly sleep, if I am trying to sleep on a railway car, as I hear the corn pop as it grows, a great crop; when I see the great labor centers, we have been fairly busy in agriculture in our country, and the people busily employed, and that there is inquiry everywhere for more men; that the great railway systems need strengthening with new iron and new ties, and men are being called for; the railway shops are being filled—as I see all this, I realize that after five weary months of consultation and compromise, it is worth while. Somebody said, "Why, we ought never to compromise." Great Heavens! If it takes under our form of government a majority of 392 men to legislate at all, coming as we do from all districts, and it being a representative government, will you inform me how that legislation is ever going to be enacted unless conflicting opinions and interests are compromised? The compromise was made, and it was made substantially—not principally—along the lines of the policy of protection that has dominated this country substantially from its enactment, under the leadership of Merrill at the breaking out of the war, to the present time. And everybody is glad, except the klicker (laughter). And we will not tinker it, in my judgment, for the next decade. Do you know it costs at least five hundred million dollars in cessation of production, waiting for fear that they won't get the cost of production, and the consumer, who is a producer as well, waiting to see what Congress is going to do. It is not perfect. It never will be.

Now, I say—and I forget just where I was. That is one of the privileges of age and one of the weaknesses. You get a thing in your mind and the first thing you know something pops in and you get off on a byway and you have got to go back. I was at the point of revenue legislation. What did we enact? We enacted that that class of securities which would take money from the United States Treasury and deposit it in the banks, other than Government bonds—that class of securities, without taking the time to describe them—when deposited with the Secretary of the Treasury, he and the Comptroller agree that the currency should be issued just like every other bank note; not marked "Emergency currency," but just the same as every other bank note that is to be issued in the future. And we provided that it should be printed by the hundreds of millions and deposited in the vaults, ready to be issued, if the time ever came that it was necessary to issue it. And it has been printed



and it is there in the vaults. How are you going to get it? you may ask. You are going to get it. If you need it, by depositing that class of securities, and if your debtor in the great commercial center is called upon to pay, he will furnish the securities. There is not a banker here, you know, but what has had some experience of that, when there was necessarily a default in the payment of the currency. Why, out of one hundred thousand dollars, and that multiplied by a million, it was worked out rapidly, even if we had to creep along, Mr. Reynolds, as we did. Do you know what I hope? I hope that if 1907 is ever duplicated, the knowledge that twenty or twenty-five thousand bankers have, who fear a run by their depositors, that the great central or commercial bank can get the currency and assist them in getting the currency with these securities, and that they will not be scared. You were not scared because you thought any of these banks were insolvent; you just wanted to protect yourselves as if you had a run upon your bank—you fifteen or twenty thousand bankers. My belief is that if that law had been upon the statute books, there never would have been in 1907 suspensions temporarily by resorting to Clearing House Certificates (applause). There is the law. You want to think about it and you want to keep on thinking about other remedies. Discuss it. Do you know one part of that law provided that a currency commission should be appointed consisting of members of the House and of the Senate? I had the honor to appoint that currency commission, and it was done without fear or favor, and I do not believe that any man exercising power in the appointment of a commission could have chosen better than I chose, because I tried to get really courageous men who possessed patience and industry. The Senate Commission was equally good, and those men are at work now. You ought to co-operate with them. A man said to me, "My God, this bank. Will that Commission report by the first of November so its report can be printed before Congress meets, and then before the first of January we can get the legislation enacted?" I said, "I don't know. I cannot see into the future, but I know one thing—that if it does, it will prove its unworthiness, because, touching this great subject, it takes time and investigation and inquiry. It not only requires consultation among bankers, but it requires consultation with journalists, and with people in every walk of industry. It takes time to do it. If it was to report on the first of November, without further discussion, the people not having had an opportunity to fully consider it, nothing except the power of God could make this session of Congress that is to assemble on the first day of November next pass it." It takes time, gentlemen, you see, to do those things. It was good faith upon our part; it was good faith upon your part, and you are acting accordingly.

Now that is all I want to say about that. Oh, if this was a political meeting (laughter) I could talk about it longer, but I will not. My time is pretty nearly up, and I will keep my watch before me and not detain you longer than the hour for luncheon.

There is much of misinformation in this world, and we all get it (laughter), and it is our fault. Do you know what the Yankee made his razors for? He made them to sell; that is what everybody labors for. Self-interest is at the foundation of all civilization; each unit hustling, and the aggregation of units make the civilization. Now, I said it—we all get much of misinformation. The seventh great manufacturing establishment in the United States is the publishers' establishment. The output is tremendous. Why, they have an army of bright, smart men to write the articles; two or three armies who help to make the material out of which comes the paper every morning and evening. Well, they cannot print it for nothing, and they furnish it to you for less than the cost of the blank paper. How? They get a great circulation. They magnify the circulation a little bit, and that perhaps is all right. Perhaps if they magnify it, the advertising customer will believe it, and the advertiser comes in and they pay expenses and make great profits. The good will of a successful greater paper or publishing house cannot be built most short, as a general rule, of a generation. Now, they have experts, the correspondent, the man that sends the despatch, the Associated Press, and the United Press, and they get it on the hop, skip and jump, all the world, and in it comes and it must be utilized at once; and then they have one or more "Headliners," it seems to me that is the most important individual in a great newspaper establishment, because one half of the people read the headlines and there stop, and, as I said once before, and I want to repeat now, one half of the headlines. If you will read the despatch that is headlined, tell a different story from what the despatch does, but it catches the eye (laughter). Well, now, it is all proper. You cannot abolish them, and there is no use to swear at them. I know. I take it good naturedly. It wouldn't do any good, because I might talk for a million of years and I could not in all that time get as many hearers as two or three of these great journals get once or twice a day; so I have just got to go along, as we all have, and if they are wrong in their views the people gradually find it out. If the newspapers of this country and the magazines of this country, the good, the bad, the indifferent, the red flag newspapers, the uplift magazines, and so on—that is, "uplift," because they confess it that they are uplift (laughter), they do not have to prove it, they just confess it, you know (laughter)—for six months with one accord, would write down any public policy, any piece of legislation, any individual in

public life, even if he spread over a State, Governor Densen, or over the whole country, Senator Teller, they could temporarily damn him by a complete loss of confidence upon the part of the great citizens of this country. What is the remedy? Grin and bear it; and if you be all ready to do things, and if you have put legislation upon the statute books that was the best you could get, when you get to the kindergarten, when you come to try it and under it your prosper, and you realize that they have been mistaken—some of them—and that others have lied (laughter), then the public servant goes along harmless. But you cannot change it. I do not know but what, upon the whole, we better take it just as it is, because, with responsibility, don't you see, for our actions we must have freedom of the press, and we must have freedom of action for each citizen, and the press, and the citizen has complete liberty up to the point of interfering with some other individual's liberty, because no man's liberty ends where another man's liberty begins, and all under law. (Applause.) There has been a good deal of talk—I don't think it has fooled you bankers—and there is yet a good deal of talk about Czarism. (Applause.) What is it? Reed founded the alleged Czarism. What was his Czarism? In substance, just that much (snapping fingers) in print. In substance, that no member of the House of Representatives could be present from mischief and at the same time absent for business. And he counted them up—a quorum—and he was denounced in every platform of the opposition party with great fierceness. They carried the country; they carried it upon that cry, and they yelled that it was a billion-dollar Congress. We have a two billion dollar Congress now since 1890. "A billion dollar Congress." We, just about the first of November, passed the McKinley law. Business had not had time to adjust itself to it, and with all these things we lost out. Lo and behold, Reed Czarism! and within less than eight months after our efforts the enemy came into power, and they met and elected Mr. Crisp, of Georgia, Speaker, and adopted identically the same rules; and they have been adopted from that time to this time substantially the same as they have been since 1890—"Czarism." Oh, upon what meat does the Czar feed that he hath grown so great. (Laughter and applause.) What is it? I spoke of some men that had angle-worms for backbones. I didn't speak of others that hunt for "Good enough Morgan" for that race. There are some of those in the country and in politics—good enough Morgans for that race. You older men will understand the meaning of the term "Good enough Morgan."

Let me tell you something. Ever since Thomas Reed, under his leadership, the majority followed made that reform in the rules—and it took a majority—why, Reed would have been as powerless as a bird without wings if he had not had a majority right back of him. They would appeal from him, and we would come up and sustain him by our votes. That is the way it was done. The popular idea is that Reed was a great big powerful fellow, and that when he spoke everybody trembled and submitted. It was not quite that way. He was powerful when he had a majority with him. From that day to this there has never been a legislative day but what inside of three hours a majority—if there was a majority for it—Senator Teller could have taken up any bill upon the calendar. Well, now, why didn't they? Because a majority either did not want to, or wanted to do something else more; and you know, when this man and that man and the other man got jacked up by his constituents, he said it was that damned Czar Speaker would not let him do it. (Laughter and applause.)

I will not be Speaker a great while, but I am not going to resign, and as long as a majority wants to make me Speaker, if I am a member of the House, I will be Speaker. (Applause and laughter.) But in the course of events somebody else will soon be that, and whatever party may be in power, they will retain the so-called Reed rules, and still the sun will come up and the sun will go down, and the uplift magazine that is either ignorant or false, and the cowardly member in whatever State he may be that misrepresents his vocation will disappear, because "you cannot fool all of the people all of the time," said Lincoln; and he was right. (Applause.)

I promise to quit time enough for your luncheon. There comes trooping in our great increase in population money and expense. Shall we run this country in debt, three, four, five thousand millions of dollars to do things that somebody here and somebody there wants done? Why, they get together a great convention, and they have commissions appointed for this, that and the other—all worthy objects—and they get together, and one set of people, nearly all of them employed or seeking employment, want from the United States Treasury money to make good roads everywhere in this great republic. Now, it costs, as they would like to have them made, about \$10,000 a mile to make them. We have only got 60,000 miles of roads in Illinois. I don't know how many we have in Iowa and so on, but that runs, and the proposition is to issue thousands of millions of bonds. Is your credit and mine to make roads all over the great republic, instead of leaving it to the people in the respective States to make them as they need them, and administer it all from Washington? Not that alone, but swamp lands to drain under private ownership, and there is another five hundred million? Great conventions these. We

drained our swamp lands in Illinois, outlets and all, at an expense of about \$15 an acre, and on an average every acre is worth \$150 to \$200. It has doubled its capacity. As the population increases, if the land is worth draining, the localities will find a way to drain it and administer it right in that township and that county, don't you see? Then again, waterways. We have got the great coast; we have got the great oceans. We did go in debt, or had the power to go in debt. We have not gone in debt much yet for the Panama Canal, but we have the power to issue bonds for that—a great, worthy enterprise. They come and say: "Well, we want to spend a thousand millions of dollars in improving the internal waterways." Well, within a hundred years—within fifty, we may. When we get two hundred or three hundred or five hundred million people, we will, but we will improve these waterways in a sensible way. That which needs doing, do first, and I want to notify you now that I do not believe the Congress of the United States will ever bond futurity to the extent of two thousand, three thousand or five thousand million dollars at the behest of these agitators for such purposes. I know I will never vote for it. (Applause.) Well, I am not abusing anybody. We have got to increase expenditures. Why, it costs us more to live and to educate the fourteen millions of children in the common schools than it costs the balance of the civilized world. We pay for education in the United States of the incoming sovereigns, and they feed in as the old fellows feed out and cross over. We pay one-half of all that is paid in the civilized world for education. That is absolutely necessary, because unless the sovereign who is ruler is intelligent as well as patriotic, the government will be wrecked. (Applause.) Expenses will increase. Yes. Why, we could not stand it at all to live as we lived on the Wabash and on the Ohio a generation ago. By invention, by investigation, by the use of capital, by the skilling of labor, not measured by dollars, but measured by muscle effort cross on intelligence, to-day, by that measure, the necessities and luxuries of life are one-half cheaper than they were sixty years ago, when quinine was worth \$4 an ounce, and they gave it in 20 grain doses, and when you could catch malaria in a night.

I trust that the luncheon will be good, the appetite keen, and that the stomach will get away with all you eat, because, after all, I am inclined to think, Mr. President, it is a mistake about this (indicating the head) being the seat of understanding. I am inclined to think it is in the stomach.

Mr. John J. Sullivan, of Cleveland, Ohio: I move that the thanks of this convention be tendered to Speaker Cannon for the able and truly eloquent address just delivered.

(The motion was seconded from various parts of the auditorium.)

The President: All in favor of the motion—although it occurs to the Chair it is quite unnecessary to put the question—will signify by rising.

Unanimously carried.

Mr. Cannon: Gentlemen, I thank you.

The President: I want to call the attention of the convention, before it adjourns, to the addresses scheduled for the afternoon, and to say that those addresses will be delivered promptly at the times specified on the programme.

We will now stand adjourned until 2 o'clock.

Recess until 2 P. M.

#### AFTERNOON'S SESSION.

The President: The next order of business is the annual report of the Treasurer.

#### Report of Treasurer.

Mr. P. C. Kauffman, of Tacoma, Wash.:

[The report of Treasurer Kauffman will be found on page 142 of this publication.]

On motion the report was accepted and ordered published in the Proceedings.

The President: The next order of business is the report of the Auditing Committee.

#### Report of Auditing Committee.

Mr. E. J. Buck: Mr. President and members of the American Bankers' Association: On behalf of the Auditing Committee appointed by the Finance Committee of the Executive Council, I beg to report that the committee has been furnished with a certified report of the examination of the books and accounts of the Association made by the Audit Company of New York. We find that the condition as reported is, briefly, as follows:

#### ASSETS.

Investment securities (book value).....	\$117,093.75
Cash in bank.....	2,107.86
Total assets.....	\$119,201.61

#### LIABILITIES AND SURPLUS.

Membership dues, 1909-1910 prepaid.....	\$7,775.00
Surplus.....	111,426.61
Total liabilities and surplus.....	\$119,201.61

The Audit Company append to the above the following certificate:

"We certify that the foregoing balance sheet correctly sets forth the financial position of the Association as of August 31, 1909, and that the income from membership dues, interest and all other sources, together with the disbursement of such income, has been accounted for by us."

This is signed by the Audit Company of New York under date of September 8, 1909.

We were also furnished with a certificate from the Bankers' Trust Company of New York, stating that they held for account of the American Bankers' Association \$50,000 Chicago, Burlington & Quincy, Illinois Division 4s of 1949.

\$10,000 U. S. Government Registered 4s of 1925.

\$30,000 Atchison, Topeka & Santa Fé General Mortgage 4s of 1905.

\$30,000 New York City 3½ per cent. Corporate Stock of 1940.

\$20,000 National Surety Company Bond in behalf of P. C. Kauffman.  
\$2,500 Etna Indemnity Company Bond in behalf of William G. Fitzwilson.

\$10,000 National Surety Company Bond in behalf of Fred E. Farnsworth.

We are also furnished with a valuation of the securities held by the Bankers' Trust Company at the present time on the Stock Exchange. The total of the present valuation is \$119,725, which is carried on the books as \$117,193.75, which means that the assets in bonds of the Association are really worth \$2,631.25 more than they are carried on the books of the Association.

We respectfully submit this as our report.

The President: Gentlemen, you have heard the report of the Auditing Committee. What is the pleasure of the convention in regard to it?

On motion the report was accepted and placed on file.

The President: The next order of business will be the Annual Report of the Executive Council, by Mr. F. O. Watts, its Chairman.

#### Report of Executive Council.

Mr. F. O. Watts, of Nashville, Tenn.:

Mr. President and Gentlemen of the American Bankers' Association. Through the "Journal" of the Association the members have been so well informed from month to month of the work of the Executive Council and the work of the special committee and officers under its control that it is not necessary for me to read this report to you in full. It is in print, and I will summarize it as briefly as I can.

[The report of the Executive Council will be found on page 145 of this publication.]

On motion the report was accepted and ordered published in the Proceedings.

The President: Next in order is the report of the Committee on Express Companies and Money Orders.

#### Report of Committee on Express Companies and Money Orders.

Mr. Joseph Chapman, Jr.: Mr. President and Gentlemen, the report is as follows:

[The report of the Committee on Express Companies will be found on page 152 of this publication.]

Mr. Crabtree, of Illinois: I move that the report be received and the committee continued.

Mr. E. D. Durham, of Illinois:

The Committee on Express Companies and Money Orders would prefer to have the word "Adopted" used instead of "Received."

Mr. Crabtree: I accept the amendment.

(The motion was seconded.)

The President: All in favor of the motion that the report be adopted and the committee continue will signify it by saying aye; opposed no.

Adopted.

The President: Next in order is the report of the Committee on Bills of Lading.

#### Report of Committee on Bills of Lading.

Mr. Lewis E. Pierson, of New York: Mr. President and Gentlemen of the convention.

[The report of the Bills of Lading Committee will be found on page 151.]

Mr. P. C. Kauffman, of Tacoma, Wash.: I think every member of the Association will recognize the fact that when this Bills of Lading Committee was appointed four years ago they found the law, the practice and the custom relative to bills of lading in a state that might almost be termed chaotic. Such a thing as a uniform bill of lading seemed very elusive. The work of the committee has been wonderful and deserves all praise. I therefore offer the following resolution:

Resolved, That the American Bankers' Association expresses its hearty appreciation of the splendid work of the Bills of Lading Committee; heartily congratulating the members thereof upon the signal success that has thus far crowned their labors;

Resolved, Further, that the report of the committee be accepted and its recommendations adopted by this convention and the committee continued to further prosecute its splendid work.

The resolution was seconded.

The President: Unless there is opposition, the minutes will

show that the resolution is unanimously adopted. The Chair hearing no objection, it is so ordered.

The next order of business will be the report of the Currency Commission, which will be presented by its Vice-Chairman, Mr. James B. Forgan, of Chicago.

#### Report of Currency Commission.

Mr. James B. Forgan, of Chicago, Ill.:

Mr. President and Members of the American Bankers' Association:

The Currency Commission has had only a little work to do during the past year, but we think the Association should continue the Commission for the purpose of representing it in watching developments and in conferring with and affording such assistance to the National Monetary Commission as may be within its power.

The Commission is very hopeful that the National Monetary Commission may suggest a plan that it may be able to endorse. The attitude of the Currency Commission is one of hope, to see something done that will be effective in correcting what is wrong in our present system; and it will be its sincere endeavor to assist in promoting any sound plan that may be proposed.

The Currency Commission, therefore, desires to report progress and to ask that it be continued and that an appropriation be made to enable it to carry on the work.

The President: You have heard the report of the Currency Commission. What is your pleasure?

Mr. F. O. Watts, of Nashville, Tenn.: I move that the report be received, spread upon the Minutes and its recommendations adopted.

The motion was seconded.

The President: All in favor of the motion will signify it by saying aye; opposed, no.

Carried.

The President: We are honored to-day by the presence of a gentleman who occupies one of the most important business positions in this country, for he carries in his hands the destinies of nearly 7,000 National banks, representing nearly \$10,000,000,000 of assets. He has kindly consented to come here and address us. I take great pleasure in introducing to you Hon. Lawrence O. Murray, Comptroller of the Currency. (Applause.)

#### Some Problems of the Comptroller's Office.

[Comptroller Murray's address in full will be found on pages 123 to 126 of this publication.]

The President: Recently in company with several gentlemen prominent in business life the subject of individuals and their achievements came up, whereupon one gentleman stated that he thought one of the foremost men, if not the foremost man, in that respect in this country is the gentleman whom it is now my pleasure to present to you. This gentleman has a constructive mind, and, through his knowledge of the resources of this country and his belief in the possibilities that would come through utilizing them, has done a wonderful work in the upbuilding of the great Northwest. I refer to Hon. James J. Hill, Chairman of the Board of Great Northern Railroad. Mr. Hill has devoted the major portion of his life to the development of the resources of the Northwest. He built a railroad from St. Paul through to the Pacific Coast over a stretch of desert and barren country. Many people doubted the wisdom of his course, but the result has justified his keen foresight. We are indeed favored in having Mr. Hill as our guest on this occasion. He will address us upon the subject of "National Wealth and the Farm." (Applause.)

#### National Wealth and the Farm.

[Mr. Hill's paper appears in full on pages 126 to 130 of this publication.]

Mr. A. J. Frame: I think it would be unjust if we passed this occasion without presenting our compliments to these two gentlemen who have so ably given us these two addresses—one by Mr. Murray, to which all honest men can say amen, and of which only the evil doer need be in terror, also the eloquent address of our nation builder, and I move you that it be expressed as the sense of this meeting that thanks be extended to both of these gentlemen.

The President: You have heard the motion, and you will signify your co-operation in it by the usual signal.

Unanimously carried.

The President: I wish to refer now to page 27 of the programmes which you have in your hand. You will note that the bankers of Chicago have provided for your entertainment several functions which will take place before the time we meet again in this house on Friday.

The bankers of this city have purchased the entire seating capacity of four of the theatres for this evening, and in the little book which was given to you at the time you registered you will find tickets for these entertainments. You must bear in mind that these tickets must be exchanged at the information bureau for tickets of admission to the theatre. If you have not already done so, I would suggest that you go to the information bureau on the second floor of the Auditorium Hotel and make such exchange.

On Wednesday afternoon at 2 o'clock two steamers, the City of Benton Harbor and the City of South Haven, will leave the Graham & Morton docks, at the foot of Wabash avenue, for an excursion to Lake Michigan, the objective point of which will be Gary, Ind. At this point the boats will stop for an hour or an hour and a half to give those who may wish to do so an opportunity to get at least a look in at Gary and the great steel plant of the United States Steel Corporation which is located in that city.

In this connection, I desire to say that since the Trust Company Section of this Association will hold its meeting to-morrow, and with a view of preventing any interruption to that meeting through having the delegates to the Trust Company Section on our boat ride, we have provided for their exclusive use on Thursday—which is not shown in this programme—a special train which will leave the Lake Shore Station at 2 o'clock, and which will convey any of the gentlemen of the Trust Company Section, who may want to go to Gary, to that city, and they will be returned to Chicago in the evening in ample time for the ball. The Council Club dinner, which will be held in the gold room of the Congress Hotel on Wednesday evening at 8:30 o'clock, is not a function provided by the bankers of the city of Chicago, but it is a function provided by the club itself, which is composed of the ex-members of the Executive Council of this Association, and those who are expected to attend that dinner will have received invitations from the officers of that club.

On Thursday afternoon special trains over the South Side Elevated Railway will leave the old Congress street station at 1:30 o'clock for the Stockyards, returning at 4:30 P. M. The plants of the packers and other places of interest in that section of the city will be visited on this trip. You will find in your books tickets which can be exchanged at the information bureau for tickets for this excursion.

On Thursday evening there will be given by the bankers of Chicago in this theatre a reception and ball to the visiting delegates and their guests, the reception of which will begin at 8:30 and the dancing at 9 o'clock. In the little books which have been given you you will find tickets for this ball. I wish to call your attention to the fact that those tickets admit a single person; therefore, the ladies who are with gentlemen will want to bring the ticket from their books in order to gain admission to the building on that evening.

I take great pleasure in announcing at this time that we have been fortunate in being able to secure President Taft's attendance at that ball for a short time, some time after 11 o'clock.

I hope you gentlemen and ladies and all of the delegates and guests present will utilize the tickets which we provided for your entertainment, and I hope that you will all avail yourselves of all these functions, and we trust that you will find them enjoyable. (Applause.)

The Secretary: I have some important announcements to make which will take only a moment.

The Vice-President of the States and Territories of Alaska, Arizona, Delaware, District of Columbia, Maine, Nevada, New Hampshire, New Mexico, Rhode Island, Utah, Vermont, Wyoming, Canada, Cuba, Hawaii, Mexico, Porto Rico, and the Isle of Pines will meet at the club room 2, Auditorium Hotel, on adjournment of the convention to-day, to nominate one member of the Council.

Mr. Sherman was announced to make an address tomorrow afternoon. We received word that he would not be here. However, we have since received a letter that he would be here to fill his place on the programme to-morrow afternoon at 2 o'clock.

To those of the Council Club, which is composed of the gray heads and bald heads—ex-members of the Executive Council—I am requested to announce that those who have not made arrangements to attend the Council dinner to-morrow night, must do so by 9 o'clock to-morrow morning at the latest.

The Committee on Transportation, in order to facilitate transportation to and from the Stock Yards, wish to urge upon you that promptness is very desirable, and that you be at the old Congress street station of the South Side Elevated Railroad at 1:30 o'clock P. M. sharp. Those that wish to go must be there at 1:30 P. M. sharp.

The President: The next regular order of business is the report of the General Counsel of the Association, Mr. Thomas B. Paton, of New York.

Mr. Paton: Mr. President and members, at this late hour and with such a vanishing audience, I will not attempt to read my report. It is printed and anybody who is interested in the subject of what the General Counsel has done during the year can obtain a copy thereof.

In brief, I might say that the report contains a detailed account of the legislation in which the Association has been interested, which has been enacted in the different States this year. We have been very successful, as no less than twenty-seven different measures have been enacted in different States, covering bills of lading, false statements, for credit forged checks, and the payment of moneys in two names and so on.

I will simply ask leave to hand that report in without reading it, and thank you for your attention. (Applause.)

**Report of the General Counsel.**

[The report of General Counsel Paton is printed on pages 145 to 151.]

The President: The next order of business is the report of the American Institute of Banking Committee. Mr. J. H. Puelicher, of Milwaukee, is the Chairman. I understand that Mr. Puelicher was called away on account of the death, I think, of his grandmother, and if he has not left his report with some one to be read—

The Secretary: He has.

The President: Will you read it?

The Secretary: I think, Mr. President, perhaps if I just make a short announcement and briefly refer to some of the headlines, and then have the report published, it will be better. The American Institute of Banking is a very important adjunct to the American Bankers' Association. Those of us who are working with it know how much good it is doing.

The Secretary then read some of the headings of said report.

**Report of the American Institute of Banking.**

[This report is printed on page 154.]

The President: You have heard the report as read, gentlemen. What will you do with it?

A Member: I move that it be received, approved, adopted and filed.

Motion seconded, put and carried.

The President: Next is the report of the Standing Protective Committee. Mr. Farnsworth, the Secretary, will read the report.

The Secretary: If it is agreeable, I shall only refer briefly also to this report. As a matter of record it should be presented. It has been presented to the Executive Council of the American Bankers' Association, by them approved, and is now referred to the convention.

**Report of Standing Protective Committee.**

[The report of the Standing Protective Committee may be found on page 143.]

The President: You have heard the report, gentlemen. What will be its disposition?

A Member: I move that the report be received, adopted and filed.

Motion seconded and carried.

The President: That concludes our programme for the day, with the exception of the practical banking questions, discussions on which are limited to thirty minutes for each topic, open to delegates under the five-minute rule. On account of the lateness of the hour, and on account of the scantiness of the attendance at this moment, unless there is some objection, we will omit this for to-day, since we have the same thing appearing again on Friday. If there is no objection, we will omit this discussion and stand adjourned until Friday morning at 10 o'clock, to meet in this same place. I hope we will assemble promptly.

Adjourned to Friday, September 17, at 10 A. M.

**SECOND DAY'S PROCEEDINGS.**

Friday, September 17, 1909.

The President: The meeting will please come to order. We will now join in prayer led by Rev. William P. Merrill, D.D., Sixth Presbyterian Church, Chicago.

**PRAYER.**

Oh God, our Eternal Father, as we begin the tasks and the opportunities of this day, we would bow before Thee asking that we may be conscious in every moment of Thy presence with us. It is hard for us, children of this busy age with its exacting demands, with the many conflicting interests that claim every moment and every thought—it is hard for us to make Thy presence real as men did in days passed. We pray Thee that thou wilt help us to realize the great truth that we need the presence of God and the reality of Thy presence in our thoughts as no man ever needed it in the past, for that clearness of judgment, for that strength of purpose, for that indomitable moral courage, for that subordination of small things to large, for that clearness of vision without which we cannot have true success in any line in this modern life. We need Thee, oh God, for those things come best to those who down at heart are men of God. We pray Thee, therefore, that we may realize Thy presence with us to-day and all the days.

We ask Thy blessing upon our country, upon its President, and all associated with him in the government of this land, that they may guide the people in ways that make for righteousness and peace and joy. We ask Thy blessing upon all who are in positions of any responsibility in our educational life. Grant that we may feel that the truest and greatest wealth we have is the wealth of manhood and womanhood. We ask Thy blessing upon our leaders in industrial and business life—men of large responsibilities—the men who are here to-day. Oh God, we pray Thee that the institutions from which they come and in which they have power and influence may be not only institutions which succeed in the preservation of our wealth, and in the fostering of material comfort for the people of this land. May they be institutions which will teach and guide the young men and women in them in the ways of strength and honor, and in the subor-

dination of outside things to the inner things of character, and grant that through the blessing of Thy spirit that the time will soon come when every man and every woman shall feel that his or her task is the more pleasant when walking in the ways of God, and will know that the only thing on earth worth doing is the will of God.

And so may Thy kingdom come and Thy will be done on earth, as it is in Heaven, we ask in the name of the true workmen and the heroes of the past, and in the name of Him who taught us to pray for Thy kingdom and Thy will. Amen.

The President: Mr. Thomas, of the Information Bureau, would like to make some announcements.

Mr. Thomas: The Bureau of Information wishes to announce this morning that we have in our possession a number of letters and a few telegrams from the delegates. I will read the list, so that if any of those names are here they will please call at our headquarters and get these communications.

Reading list.

In addition to that we wish to call attention to the fact that this is the last day for validation at the headquarters of the transportation of the Western Passenger Association, and also that we have a great many tickets which have been validated which we would like to have the delegates call for at their earliest convenience.

The President: We will now proceed with the Reports of Committees. The first report is that of the Sections. Do the officials of the Trust Company Section wish to make any report? If not, does the Savings Bank Section have a report that it wishes to submit? Or the Clearing House Section? Or the Institute of Banking?

No response.

The President: Next is the Report of the Standing Law Committee, Mr. William J. Field, Chairman.

**Report of Standing Law Committee.**

[The full text of the report of the Standing Law Committee will be found on page 155 of this publication.]

The President: Gentlemen, you have heard the report of your Standing Law Committee. What is the pleasure of the convention respecting it?

Mr. James H. Tripp, of Marathon, N. Y.: I move that it be accepted and its recommendations adopted.

Mr. H. R. Smith, of Rockville Centre, N. Y.: I second the motion.

The President: Those in favor of the motion will manifest it in the usual manner by saying aye; opposed, no.

Carried.

The President: The next report will be that of the Federal Legislative Committee, which will be read by its Chairman, Mr. Arthur Reynolds, of Des Moines, Iowa.

**Report of Federal Legislative Committee.**

[The report of the Federal Legislative Committee will be found printed on page 155.]

**POSTAL SAVINGS BANKS CONDEMNED.**

Mr. Arthur Reynolds: I would like particularly to have the resolutions incorporated in this report adopted if it meets with the sense of the convention. Therefore, I move the adoption of the resolution.

Resolved, That it is the sense of this Association that we should condemn in unqualified terms the proposition for the establishment of Postal Savings Banks or any other system by which the Government enters directly into banking relations with the people.

A Member from Illinois: I second the motion for the adoption of that resolution.

The President: Is there any discussion? If not, all in favor of the resolution will signify by saying aye; contrary, no.

Adopted.

Mr. Arthur Reynolds: I now move the adoption of the resolution (reading as follows):

Resolved, That the American Bankers' Association is opposed to any legislation based upon the argument that it was a party pledge and should be redeemed.

The motion was seconded.

The President: Is there any discussion? If not, all in favor of the resolution will signify by saying aye; contrary, no.

Adopted.

Mr. Arthur Reynolds: I move the adoption of this resolution:

Resolved, That we believe the proposed plan to invest Postal Savings Banks' deposits to the extent of six or seven hundred million dollars in United States bonds simply to maintain such bonds at par, is unsafe and unwise legislation, and, if enacted, would ultimately lead to lack of confidence in our national credit.

The motion was seconded.

The President: Is there any discussion? If not, all in favor of the resolution will signify by saying aye; contrary, no.

Adopted.

**RESOLUTION IN FAVOR OF SAVINGS DEPARTMENTS OF NATIONAL BANKS REFERRED TO CURRENCY COMMISSION.**

Mr. Arthur Reynolds: I move the adoption of the following:

Resolved, That the committee representing us before Congress be urged to use all honorable means to defeat the proposed legislation.

and that we recommend, as a substitute therefor, the maintenance of separate savings bank departments in the National Banking Associations now operating under the law, the assets to be segregated and accounts separately maintained for the protection of all deposits entrusted to this department, under proper regulations to be prescribed in the act.

In other words, we have not undertaken to outline this in detail, but we simply offer it to be worked out hereafter.

I move the adoption of this resolution.

Mr. Myron Campbell, of South Bend, Ind.: I doubt the propriety or expediency of this Association undertaking to recommend any affirmative legislation. There is no objection, I think, to our ratifying the negatives that have been brought forth in this report of the committee; but it seems to me that it would be better to refer this particular clause to the Banking and Currency Commission with power. I would also suggest that we add the work "Banking" to that "Currency Commission."

Mr. Arthur Reynolds: In reply to Mr. Campbell, I have this suggestion to make. While bankers, under their breath and to each other, are expressing a fear that this Postal proposition is going to prevail, I think it might be important that this Association should take some steps to provide protective measures for the deposits which it is expected to protect.

Mr. Robert E. James, of Easton, Pa.: It appears to me that this committee has gone out of its province in order to avoid what they conceive to be a disease—that they are endeavoring to employ a new method of treatment; they are endeavoring to put on a liniment or salve to the other side of the body to ease up the pain. In doing so, it appears to me, sir, that they are doing just what the conventions of the political parties did two years ago. When it comes to the matter of segregation of deposits, look at it for a second in a practical way and see whether it will accomplish what you desire. Are you gentlemen of National banks going to divide your deposits into two classes, and secure the one with the best assets you have got? If you do, what becomes of your depositors on the other side? Are they going to remain with you when you have taken the core of your assets and turned them over to your time depositors? I am in favor of securing all deposits. They have been secured from time immemorial by the laws of the country. Why, it was no longer ago than yesterday that the Superintendent of Banking of the Empire State told the Trust Company Section of this Association that under the present laws of New York not one dollar had been lost to depositors of any class in the crisis of 1907-8.

I believe in guaranteeing the deposits by the assets of the institution which are in its vaults, but I do not believe in any guarantee of deposits by fictitious outside securities.

Mr. Allen W. Johnston, of Schenectady, N. Y.: The gentleman who has just spoken, in giving us his idea of segregation, misrepresents the matter; he is entirely misleading in what he says. Do you know why there has been no money lost in New York? One reason is because, with the mutual consent of the bankers of the State, nearly two billions of dollars of the savings of widows and orphans and incompetent persons are segregated. That is the condition in the State of New York.

Mr. James: That is the condition in every State, so far as that goes.

Mr. Johnston: The gentleman from Pennsylvania misrepresents the situation in stating that the segregation of the deposits takes off from the proper investments and robs the commercial banks of the opportunity to make proper investments. Commercial banks take paper, notes and so on. Now, in the State of New York savings banks are not allowed to take commercial paper.

Mr. James: If the gentleman sees fit to reiterate that I have misrepresented in what I have stated, I shall be under the painful necessity of stigmatizing him as a member of the Ananias Club.

Mr. Johnston: I do not cast any aspersion upon the gentleman personally. I wish to be understood as not inferring that he has willfully misrepresented anything—simply that the effect of his remarks, and the way he said it was that it left a wrong impression. He made a one-sided statement, and a one-sided statement of anything is always a misrepresentation.

Mr. Campbell, of Indiana: I move that the resolution before us be referred to the Committee on Banking and Currency with power.

The President: We have no such committee as that at the moment, Mr. Campbell.

Mr. Campbell: Well, then, I move that it be referred to the Currency Commission, which consists of the Federal Legislative Committee, I believe, and ten others. By doing that we will get a committee of fifteen as representative men as there are in the Association, and I think we can rely with confidence upon their threshing out the whole matter and making good recommendations.

Mr. Arthur Reynolds: Mr. Chairman, it is not the intention of this committee to have any proposition acted on immediately if it is not desirable to do so. It is not the intention to railroad anything through the convention on the spur of the moment. We have been engaged in this legislative work for several years, and we have tried at all times to co-operate with the interests of the majority of the bankers of the

country, and we want to do that now, and we are perfectly willing to have this matter referred to the Currency Commission, or to any other body of financiers, to pass upon the subject properly. We have simply thrown it out here with the view of getting such discussion as we could upon the subject and finding out what the ideas of the various members are. We have taken it up with the bankers of the country, and we know what is the opinion of the bankers, as a body, throughout the country. They are almost unanimously in favor of this proposition, but we do not want to insist as a committee upon something to be brought immediately and spontaneously before a convention, because we know that it might be very difficult to act upon it, and we accept the motion of Mr. Campbell, and will be very glad to have it referred to the Currency Commission.

A Member: I second the motion.

Mr. Johnston: Do I understand that by referring this question to the Currency Commission that it is placed there by the American Bankers' Association, and is taken out of the hands of the Savings Bank Section?

Mr. Arthur Reynolds: That would only be true relative to the question of National banks. The Savings Bank Section would continue its work exactly as it has been, and would act independently and also in co-operation with the Currency Commission.

Mr. Johnston: Yes; but does not the gentleman, in referring to the segregation of deposits, refer to the savings banks also?

Mr. Arthur Reynolds: Well, he refers, as I understand it—my resolution here only referred to the segregation of deposits in National banks, and his resolution, as I understand it, refers to my resolution.

Mr. Campbell: That can only refer to Federal legislation.

Mr. Durham: I ask for the re-reading of the resolution before we vote on it.

The President: Will you please read the resolution again, Mr. Reynolds?

Mr. Arthur Reynolds: (Reading.)

Mr. Rother: There are two subject matters in that one resolution, and they should be separated. I think that this body is prepared to vote for the first section, but not for the second, in favor.

The President: The motion at present before the house is on the reference of this entire resolution to the Currency Commission.

Mr. Rother: I only wanted to call your attention to the fact that there are two propositions in the resolution.

Mr. Campbell: My motion said that the affirmative part of the resolution—there are two parts, one negative and one affirmative—that the part that recommends legislation be referred to the commission.

The President: You have heard the question. All in favor of Mr. Campbell's motion will please signify it by saying aye; contrary, no.

Motion carried.

#### GUARANTY OF DEPOSITS CONDEMNED.

Mr. Arthur Reynolds: I want to offer one resolution that I read, and which I will now re-read.

Resolved, That the American Bankers' Association is unalterably opposed to any plan looking to the mutual guarantee of deposits either by the State or nation, for the following reasons:

1. It is a function outside of State or National Government.
2. It is unsound in principle.
3. It is impractical and misleading.
4. It is revolutionary in character.
5. It is subversive to sound economics.
6. It will lower the standard of our present banking system.
7. It is productive of and encourages bad banking.
8. It is a delusion that a tax upon the strong will prevent failure of the weak.
9. It discredits honesty, ability and conservatism.
10. A loss suffered by one bank jeopardizes all banks.
11. The public must eventually pay the tax.
12. It will cause and not avert panics.

I now offer that resolution.

Resolution seconded and adopted unanimously.

Mr. Arthur Reynolds: Now, the second resolution:

Resolved, That the American Bankers' Association is unalterably opposed to any arbitrary plan looking to the mutual guaranty of deposits either by a State or the Nation, believing it to be impractical, unsound and misleading, revolutionary in character, and subversive to sound economics, placing a tool in the hands of the unscrupulous and inexperienced for reckless banking, and knowing further that such a law would weaken our banking system and jeopardize the interest of the people.

A Member: I move the adoption of that resolution.

The President: Gentlemen, you have heard the resolution. Those in favor will kindly signify it by saying aye; contrary, no.

Unanimously adopted.

Mr. Durham: Mr. President, I move that the report of this committee be received, with the thanks of the convention for the consideration they have given the matter entrusted to them, and that the committee be continued.

A Member: I second the motion.

The President: You have heard the motion which has been seconded. All in favor signify it by saying aye; contrary, no. Motion unanimously carried.

The President: I find that a representative of the Trust Company Section is in the building at this time prepared to report. We will now have the report of the Trust Company Section.

Mr. McIntosh: Mr. President and Gentlemen of the Convention. I will make a brief report by reading extracts from the report of the Executive Committee, which was adopted by the Trust Company Section. The part of the report that I do not read will be found in the printed proceedings.

The President: You have heard the report of the Trust Company Section. What will you do with it?

A Member: I move that it be received and adopted. Motion seconded.

The President: It has been moved and seconded that the report of the Trust Company Section be received and adopted. Those in favor of it signify it by saying aye; contrary, no. Motion carried.

The President: In following out the programme earlier in the session we called for the report of the Savings Bank Section. Is there any one in the house prepared to report for the Savings Bank Section? If not, we will pass that.

No response.

The President: The next is the reports of the special committees. Are there any special committees present or represented by any one who desires to report?

No response.

#### INVITATIONS FOR CONVENTION.

The President: If not, we will pass that. The next order of the programme is the reading of the invitations extended to the Association for the convention next year. Mr. Farnsworth, the Secretary, I think, has some letters on this subject which he will now read.

The Secretary then read invitations from the following cities: Richmond, Va., for 1911; Saratoga Springs, N. Y.; Put-in-Bay Island, Cedar Point, Ohio, and Rochester, N. Y., for 1910; New Orleans, La.; San Antonio, Tex.

Mr. N. S. Graham, of San Antonio, Tex., stated that on behalf of his city, which had extended an invitation for the Association to hold its convention there, that he wished to defer to Los Angeles, while extending a like invitation on the part of San Antonio, Tex., for the year 1911.

Governor Bailey, of Kansas, stated that on behalf of the large number of delegates from the Missouri Valley section, he was instructed by them to second the motion that Los Angeles be designated by the convention as the place of next meeting.

#### LOS ANGELES TO HAVE 1910 CONVENTION.

A Member: In order to bring this matter properly before this convention, I move you that the request of Los Angeles, that we hold our convention there in 1910, be accepted, and that the Executive Council be urged as a Council to accept that invitation, and that the convention may be held there next year.

Motion seconded.

The President: The motion before the house is on the acceptance of the invitation from Los Angeles to hold our next convention in that city. All in favor will signify by saying aye; contrary, no.

Motion carried unanimously.

(Applause.)

Mr. Joseph D. Radford: On behalf of the committee, Mr. J. M. Elliott and myself, appointed by the Clearing House, I want to thank you. On behalf of the State of California I want to thank you, and more and more on behalf of the city of Los Angeles I want to thank you. It is up to us now to demonstrate whether your confidence has been misplaced or not. We invite you all to come and inspect us closely in 1910. (Applause.)

The President: Gentlemen, before proceeding with the regular programme, I wish to state to you that we are fortunate in having with us today, Dr. Kilgo, President of the Trinity University, Durham, N. C. I regret exceedingly the fact that Dr. Kilgo's name does not appear upon our programme. In explanation of this I desire to say that a few days ago, or just as the programme was ready for the press, we were advised by Dr. Kilgo that his health was in such condition it would be impossible for him to keep his engagement with us. With a view of having the programme represent only that which we hoped to be able to have in the way of entertainment for you, and in the way of a programme, Dr. Kilgo's name was left off. Dr. Kilgo's physician at that time forbade his coming. Having given his acceptance, however, and in his desire to keep his promise, he has violated the wish of his physician and is with us to-day, and I want to say, inasmuch as his name does not appear upon the programme and the members of this convention have not been advised as to the hour at which he will speak, that he will immediately follow the address of Mr. Forgan.

Ladies and gentlemen, I am a firm believer in the law of compensation in this world, in whatever line of work one may

be engaged. I believe that a man reaps in proportion as he sows, and I believe his harvest is as the seed that he sows. We have with us to-day a gentleman whom I think is a splendid illustration of this theory. We have with us a gentleman who will address us, who, I think, represents what it is possible for a man to reap if he is wise in what he sows.

A few years ago a poor boy from Scotland emigrated to America—a boy without influence or friends in this country. By sheer force of ability he has gradually worked his way from that of an inconspicuous clerk in the Bank of British North America until he is to-day, and has for some years past been, one of the most conspicuous figures in banking in this country. This gentleman is a big man; he is large of stature, big in intellect, great in character and strong and forceful in all that he does. He came to Chicago and took charge—active charge of one of our banks some years ago—perhaps fifteen—when it had only twenty million dollars of deposits. To-day it is the largest bank—considerably the largest bank in the city of Chicago. And when you measure the character of the business done by that bank and the character of business done in New York and the size of the accounts, I venture the assertion that, as measured by that standard, it is the largest bank in the country. (Applause.) This gentleman has for some years been the leader in banking circles in this city. He has been Chairman of our Clearing House Committee, and as such has done wonderfully good work in the up-building for the standards of banking in Chicago. I regard it as a great honor to have this gentleman as our guest to-day, and I am sure that you will appreciate an address from him. I refer to Mr. James B. Forgan, as you all must know. It gives me great pleasure, ladies and gentlemen, to now introduce to you Mr. Forgan, who will address you upon "The Efficacy and the Limitations of Bank Supervision by Examination and the Responsible Source of Bank Management." (Applause.)

#### Efficacy and Limitations of Bank Supervision.

[We print Mr. Forgan's paper in full on pages 130 to 136.]

A rising vote of thanks was tendered to Mr. Forgan for his interesting and instructive address.

Recess was taken until 2:30 o'clock P. M.

#### AFTERNOON SESSION.

The President: The next on the programme is the roll call of the various States for the purpose of hearing from the Vice-Presidents.

M. E. D. Durham, of Onarga, Ill.: In view of the fact of the great patience shown by the delegates in their attendance, the lateness of the hour, and the fact that the Executive Council has changed the time of its meeting from 8 o'clock this evening to immediately after the adjournment of the convention, as many of its members wanted to take evening trains for their homes, I move that the reports of the Vice-Presidents from the various States be printed in the minutes of the convention, if they so desire, and that we now proceed to other business.

(The motion was seconded and carried.)

The President: The next order on the programme is the discussion of "Practical Questions." Is any one prepared with any question to be discussed? If not, we will proceed. Is there anything under the head of unfinished business, Mr. Secretary?

Secretary Farnsworth: I do not know of anything, sir.

The President: The next is "Resolutions."

#### AMENDMENTS TO CONSTITUTION.

Mr. F. O. Watts (Chairman of the Executive Council): Mr. President, and gentlemen of the convention. As Chairman of the Executive Council, I am instructed to report to you such amendments to the constitution as have been proposed, and such resolutions as have been presented in a constitutional manner.

First is an amendment to the constitution proposed by Mr. John H. Johnson, of Detroit, Mich., as follows:

Amend the Constitution, as printed in the annual proceedings of 1908, by inserting the word "general" before the word "secretary" in each of the following places:

- In line 15 of sub-division A of Section 3 of Article 3.
- In line 18 of sub-division A of Section 3 of Article 3.
- In the last line of sub-division B of Section 3 of Article 3.
- In line 4 of Section 4 of Article 3.
- In line 3 of Section 4 of Article 3.
- In line 14 of Section 4 of Article 3.
- In line 4 of Section 7 of Article 3.
- In line 6 of Section 7 of Article 3.
- In line 2 of Section 9 of Article 3.
- In line 1 of Section 11 of Article 3.
- In line 3 of Section 12 of Article 3.
- In line 1 of Section 14 of Article 3, after the word "the."
- In line 2 of Section 2 of Article 4.
- In line 2 of Section 4 of Article 4.
- In line 4 of Section 4 of Article 4.
- In line 10 of Section 1 of Article 5.
- In line 3 of Section 1 of Article 7.

In line 3 of Section 1 of Article 8.

In line 3 of Section 1 of Article 10.

In line 4 of Section 1 of Article 10.

These amendments are suggested with a view to drawing a distinction between the Secretary of the Association and the Secretaries of the Sections, in preference to the plan proposed of the title of Assistant Secretaries for the Sections. If the title of "General Secretary" for the Association is adopted, the Secretaries of the Sections would then retain their present titles.

I move that the changes in the constitution, as proposed by Mr. Johnson, be adopted.

(The motion was seconded.)

The President: Are there any remarks? If not, all in favor of the motion signify it by saying aye; opposed no.

(Motion carried.)

#### RESOLUTION TO ENCOURAGE ORGANIZATION OF COMPANIES FOR INSURING DEPOSITS REFERRED.

Mr. Watts: A resolution offered by Mr. John Schutte, President of the savings bank at Manitowoc, Wisconsin, reading as follows:

Whereas, Bank failures are the only causes of bank runs and financial panics, resulting in immense losses to all interests, besides nerve racking the entire population; and,

Whereas, The government has recognized this evil and proposes to remedy it, by the establishment of over forty thousand postal savings banks that will guarantee deposits, and if established will draw more deposits from banks than any other measure could possibly do, even if limited as now proposed, but which, we may confidently expect, it will from time to time be extended; and,

Whereas, 90 per cent. of bank failures originate from losses sustained on unfortunate loans, which would not occur if such loans could be insured; and,

Whereas, It is most important to safeguard all banks, thereby minimizing bank failures, especially if the government should establish guaranteed banks, or deposits or guaranteed by legislative enactment or by insurance companies, under all of these conditions the insuring of bank assets will be an unquestionable safeguard; therefore,

Resolved, That the Committee on Credits, or a special committee to be appointed by the president, are hereby requested to do all in their power to encourage the organization of insurance companies for the insuring of commercial notes or to induce or encourage existing casualty insurance companies to add this as a special line of insurance, and they are hereby authorized to expend any reasonable amount out of the treasury of the American Bankers' Association for this purpose.

I move that this resolution be referred to the Savings Bank Section.

(The motion was seconded and carried.)

#### RESOLUTION FROM COMMITTEE ON INTEREST RATES LAID ON TABLE.

Mr. Watts: The next resolution is one offered by Mr. Henry C. Swords, President of the Fulton Trust Company, of New York, reading as follows:

Resolved, That a committee be appointed to study the rates of interest paid on deposits in the various parts of the United States, said committee to report at the next annual meeting of the American Bankers' Association.

There was some question in the minds of the Executive Council as to the advisability or non-advisability of appointing such a committee—as to whether there was any necessity for it at this time—and not desiring to take the resolution out of consideration, the Council decided to present it to you without any recommendation.

Mr. Slack, of Ft. Worth, Tex.: Mr. President, I move that it be tabled.

(The motion was seconded.)

The President: Are there any remarks?

Mr. E. D. Durham: I am glad this resolution is going on the table, and I would suggest in case it ever be taken from the table, that the same committee be instructed to consider par point. (Laughter.)

The President: All in favor of the motion to lay it on the table will signify it by saying aye; opposed no.

(Motion carried.)

#### RESOLUTION IN FAVOR OF NEGOTIATIONS WITH SURETY COMPANIES ADOPTED.

Mr. Watts: The next is a resolution offered by Mr. William Ingle, Vice-president of the Merchants' National Bank, Baltimore, Md., which reads as follows:

Whereas, A number of corporations doing business as surety companies have, as the result possibly of an agreement among themselves advised their banking clients that the charge heretofore made by such surety companies in underwriting depository bonds, is to be increased 100 per cent.; and,

Whereas, Such additional charge is onerous, especially when uniformly made in situations of widely differing character; therefore be it

Resolved, That the Executive Committee of the Association name a committee from the membership of the Association to consider the subject matter of this resolution, and by negotiation with the surety companies, or otherwise, endeavor to secure such reasonable abatement

of the present charge made when underwriting depository bonds as shall relieve solvent banks from an undue burden and at the same time permit such reasonable profit to the surety companies as the value of their service rendered should suggest.

The Executive Council present this resolution, giving it their unanimous approval. Therefore, carrying out the instructions of the Executive Council, I move its adoption.

(The motion was seconded and carried.)

Mr. Geo. L. Ramsey, Helena, Mont.: Mr. President and gentlemen of this convention, while the text of this resolution is such that I feel certain it would receive the ready assent and unanimous approval, perhaps, by the body of this Association, nevertheless, I feel that its serious nature to the financial interests of the banks is such that we ought to give it a moment's consideration, and that we ought to let the surety companies of the United States know that we have in mind that they are charging us unfair rates for what are known as depository bonds. The surety companies of the United States were aided by the bankers of the country in getting through the legislatures of the various States laws to the effect—in some States—that such bonds could be furnished only by surety companies, and that none other would be accepted, and in other States that a surety company or an individual bond might be accepted; and now, that most of the States have adopted such legislation, they are taking advantage of the situation, and have, in my judgment, actually increased the rates. At the Bankers' Convention in San Francisco I took the stand against the proposition of this Association considering at all the matter of going into the business of writing Fidelity bonds or burglary insurance. At that time, I did so hesitatingly, because the Association in the convention in New Orleans appointed a committee, of which Mr. John L. Hamilton was the head, and that committee met for the purpose of settling that question, and they offered a resolution that this Association should consider the writing of such bonds. Along with Col. Sullivan, of Cleveland, Ohio, I opposed the resolution. The convention at San Francisco was a draw, but at the offering of the resolution in New York City, it was carried—the surety people won out. That is a number of years ago. I wish to say that I have occasion at this time to have changed my opinion somewhat, and to have reached the conclusion after all that Mr. John L. Hamilton maybe was pretty nearly right, because the surety companies have apparently taken advantage of the sentiment of this Association as expressed in New York City. They have quadrupled their rates on depository bonds as against what they were in the days of the San Francisco and New York conventions. I want to submit this opinion particularly as to the writing of surety company bonds.

Now, gentlemen, I simply wish to say that I am hoping this matter may come into the hands of the John L. Hamilton Committee, which was discharged some seven years ago, and be given further consideration.

The President: Is there any further comment on the subject? If not—

Mr. John L. Hamilton: Before the adoption of that resolution or voting upon it, it seems to me, if it is advisable to take up this question at this time, that it should be broadened, and I would suggest that we recommend to the Executive Council the consideration of burglary insurance, as well as Fidelity insurance, as they are closely allied and might just as well be both considered as one.

Mr. Watts: Mr. President and Gentlemen: If Mr. Ingle, the author of the resolution is in the house—and I believe he is—his acceptance of such an amendment as proposed by Mr. Hamilton would probably be in order, and if he accepts the amendment, I will include it in my motion upon the adoption of the resolution. What is your pleasure, Mr. Ingle?

Mr. Ingle: I have not the slightest objection to amending it in accordance with the wishes of Mr. Hamilton. I can only add this. I have personally been in correspondence with some of these companies, and I believe they are already in a mind in which they will recognize the fairness of the proposition as submitted in the resolution which I prepared. I believe that they will accept the suggestion and that the moral pressure brought to bear by the adoption of such a resolution as has been read will be helpful. Whether or not it will help that particular situation by confounding with it a larger question, is altogether another matter. If, in the wisdom of the convention, it is thought best to make the resolution embrace a wider subject, I am in entire accord with it, but I think as it stands it will come very close to accomplishing its purpose in connection with the underwriting of depository bonds.

The President: Unless Mr. Ingle is willing to have his resolution amended as suggested, it will not be possible to have it put in.

Mr. Ingle: I entirely accord with the amendment.

The President: Does the seconder accept this amendment?

Mr. —: I do.

The President: Mr. Watts, please read the resolution again. (Resolution read.)

The President: Are there any further remarks on the ques-

tion? If not, all who are in favor of the adoption of the resolution kindly say aye; contrary, by the same sign.

(Resolution adopted.)

The President: Mr. Thomas, of the Information Bureau, has some letters and telegrams for members, a list of which I will be glad to have him read.

(Mr. Thomas read the list, and also stated that to-day was the last day for validating railroad transportation.)

The President: I want to announce that the new Council will meet immediately after the adjournment of this convention this afternoon in the banquet hall on the sixth floor of the Auditorium Hotel—not the Congress Hotel, but the old Auditorium, in the banquet hall on the sixth floor.

I want also to take this opportunity to again assure you gentlemen and ladies who have attended this convention that Chicago feels highly honored by the magnificent attendance which we have had. I want to say too that the entertainment which has been accorded you during your stay among us has not been provided by the Chicago Clearing House Association alone. It has included all the banks in the Clearing House Association, but it has also included the non-Clearing House banks—in fact, all the banks; and I think it is only fair that you should know that the smallest banker in Chicago, as well as the largest, has helped to contribute to the best of their ability to your entertainment. (Applause.)

Gentlemen, those of us who are charged with the management of financial responsibilities, believe that we carry large responsibilities with us. The management of a financial institution of any character does create a responsibility—a very great responsibility, but I want to tell you, my friends, that peace of mind and contentment and happiness cannot come alone through the accumulation of large wealth or volumes of business, for those qualities only come as the result of qualities of heart and mind, which, when applied to our business, teach us that we should do our duty each to the other and each to the community in which we live, to the commonwealth and to the nation.

We have with us to-day, gentlemen, a gentleman who, in my opinion, occupies a position quite as, if not more, responsible than the position held by the manager of a financial institution, for he is charged with the responsibility of moulding the character of the young people whom he has under his charge, and to whom he is teaching and preaching. We have with us today Dr. John G. Kilgo, President of Trinity College of Durham, N. C., and it gives me great pleasure to introduce to you Dr. Kilgo, who will talk to you upon the subject of "Our Industrialism and Americanism."

#### Industrialism and Americanism.

[We print Dr. Kilgo's address on pages 136 to 139.]

The President: The next order of business is the report of the Committee on Nominations. Is the committee ready to report.

#### NOMINATIONS AND ELECTIONS.

Mr. A. G. Lupton (Chairman Committee on Nominations): Yes, sir. We beg leave to submit the following:

#### REPORT OF NOMINATING COMMITTEE.

For President: Lewis E. Pierson, president, Irving National Exchange Bank, New York City, N. Y.

For First Vice-President: F. O. Watts, president, First National Bank, Nashville, Tenn.

For members of Executive Council, as nominated at conventions of State Associations and certified to this Association by the secretaries of the respective State Associations:

Georgia: Jos. W. Hefferman, cashier, Hibernia Bank of Savannah.

Idaho: B. F. O'Neil, president, State Bank of Commerce, Wallace.

Illinois: Frank P. Judson, secretary, Commercial National Bank, Chicago, and William George, president, Old Second National, Aurora.

Indiana: Joice Moynhan, president, Citizens' State Bank, Orleans.

Kansas: W. J. Balley, vice-president, Exchange National Bank, Atchison.

Massachusetts: Henry M. Batchelder, president, Merchants' National Bank, Salem.

Michigan: L. G. Kaufman, president, First National Bank, Marquette.

Minnesota: O. H. Havill, president, Merchants' National Bank, St. Cloud.

Missouri: J. Fletcher Farrell, assistant cashier, Third National Bank, St. Louis, for two years; W. C. Harris, president, Callaway Bank, Fulton, for three years.

Nebraska: E. R. Gurney, vice-president, First National Bank, Fremont, Neb.

New York: E. F. Tefft, cashier, First National Bank, Syracuse.

Pennsylvania: D. McK. Lloyd, president, People's Savings Bank, Pittsburgh.

Tennessee: T. R. Preston, president, Hamilton National Bank, Chattanooga.

Texas: A. V. Lane, vice-president, American Exchange National Bank, Dallas.

Wisconsin: A. J. Frame, president, Waukesha National Bank, Waukesha, and John J. Sherman, cashier, Citizens' National Bank, Appleton.

Wyoming: Arthur M. Marble, vice-president, Stock Growers' National Bank, Cheyenne.

FOR MEMBERS EXECUTIVE COUNCIL FROM STATES AND TERRITORIES WHERE THE MEMBERSHIP IN THE AMERICAN ASSOCIATION IS LESS THAN 100, THE TOTAL MEMBERSHIP AGGREGATING 567 MEMBERS.

Arthur H. Marble, vice-president, Stock Growers' National Bank, Cheyenne, Wyo.

FOR MEMBER OF THE EXECUTIVE COUNCIL REPRESENTING THE TRUST COMPANY SECTION.

Lawrence L. Gillespie, Chairman of Executive Committee, vice-president, Equitable Trust Company, New York City, N. Y.

FOR MEMBER OF THE EXECUTIVE COUNCIL REPRESENTING THE SAVINGS BANK SECTION.

Alfred L. Aiken, Chairman of Executive Committee, president, Worcester County Institution for Savings, Worcester, Mass.

FOR MEMBER OF THE EXECUTIVE COUNCIL REPRESENTING THE CLEARING HOUSE SECTION.

George Guckenberger, Chairman Executive Committee, president, Atlas National Bank, Cincinnati, O.

FOR MEMBER OF THE EXECUTIVE COUNCIL REPRESENTING THE AMERICAN INSTITUTE OF BANKING SECTION.

Ralph C. Wilson, Commercial National Bank, Chicago.

FOR VICE-PRESIDENT OF THE DIFFERENT STATES AND TERRITORIES.

Alabama: W. G. P. Harding, president, First National Bank, Birmingham.

Arkansas: Henry Thane, president, First National Bank, Arkansas City.

California: Jas. K. Lynch, vice-president, National Bank, San Francisco.

Colorado: H. M. Rubey, Woods-Rubey National Bank, Golden.

Connecticut: C. C. Bariow, cashier, Yale National Bank, New Haven.

District of Columbia: W. D. Hoover, president, National Savings & Trust Co., Washington, D. C.

Florida: Dr. H. Robinson, president, Commercial Bank, Jacksonville.

Georgia: E. W. Stetson, cashier, Citizens' National Bank, Macon.

Idaho: F. F. Johnson, president, First National Bank, Wallace.

Illinois: Walter S. Rearick, of Skiles, Rearick & Co., Ashland.

Indiana: J. L. McCulloch, president, Marlon National Bank, Marlon.

Iowa: E. L. Johnson, vice-president, Leavitt & Johnson Trust Co., Waterloo.

Kansas: J. R. Burrow, president, Central National Bank, Topeka.

Maine: Sumner C. Parker, president, Saco & Biddeford Savings Institution, Saco.

Maryland: John M. Little, president, National Marine Bank, Baltimore.

Massachusetts: Alfred L. Aiken, president, Worcester Co. Institution for Savings, Worcester, Mass.

Michigan: Henry Idema, president, Kent State Bank, Grand Rapids.

Minnesota: J. S. Pomeroy, cashier, Security National Bank, Minneapolis.

Mississippi: F. W. Foote, vice-president, First National Bank of Commerce, Hattiesburg.

Missouri: Graham G. Lacey, vice-president, Tootle-Lemon National Bank, St. Joseph, Mo.

Nebraska: S. K. Warrick, cashier, First National Bank, Alliance.

New Hampshire: Arthur M. Heard, president, Amoskeag National Bank, Manchester.

New Jersey: W. H. Taylor, cashier, First National Bank, Somerville.

New York: Hiram R. Smith, president, Bank of Rockville Centre, L. I.

North Carolina: H. W. Jackson, cashier, Commercial National Bank, Raleigh.

North Dakota: J. H. Terrett, cashier, Michigan City Bank, Michigan City.

Ohio: W. W. Brown, vice-president, Merchants' National Bank, Cincinnati.

Oklahoma: W. A. Brooks, secretary-treasurer, Columbia Bank & Trust Co., Oklahoma City.

Oregon: R. L. Durham, vice-president, Merchants' National Bank, Portland.

Pennsylvania: James A. Brady.

Rhode Island: George B. Waterhouse, president, Centreville National Bank of Centreville.

South Carolina: John W. Simpson, vice-president, Central National Bank, Spartanburg.

South Dakota: John R. Hughes, Delmont.

Tennessee: Walter Howell, cashier, First National Bank, Union City.

Texas: L. L. Jester, president, Jester National Bank, Tyler.

Utah: J. E. McGurrin, president, Salt Lake Security & Trust Co., Salt Lake City.

Vermont: H. O. Carpenter, president, Rutland Savings Bank, Rutland.

Virginia: Allen Cuenllu, cashier, Lynchburg National Bank, Lynchburg.

Washington: W. D. Vincent, cashier, Old National Bank, Spokane.

Wisconsin: E. M. Wieg, cashier, Batavian National Bank, La Crosse.

Wyoming: B. F. Perkins, president, Bank of Commerce, Sheridan.

Canada: Alexander Laird, general manager, Canadian Bank of Commerce, Toronto.



Isle of Pines; William Mason, vice-president, Isle of Pines Bank, Nueva Gerona, W. I.

Mexico: John Clausen, manager, Foreign Department, Mexico City Banking Co., Mexico City, Mex.

New Mexico: Alfred F. Kerr, cashier, American National Bank, Silver City, N. M.

Mr. G. L. Ramsey, of Helena, Mont.: In the report of the Nominating Committee I did not observe that Montana was called; and, on behalf of the Montana delegation, I move that Mr. G. H. B. Lyman's name be inserted as Vice-President for that State.

Mr. James Dinkins, of Louisiana: I see Louisiana is left blank in that report, and I wish to nominate Mr. N. E. North, cashier of the First National Bank of Lake Charles, as Vice-President for Louisiana.

Mr. E. M. Gilkeson, of Parkersburg, W. Va.: The name of a Vice-President from West Virginia is left blank in the Nominating Committee, and I nominate Mr. W. W. Woods, cashier of the Peoples' Bank of Keyser, as Vice-President for West Virginia.

The President: The chair would state to the delegates that any vacancies that are to be filled will be attended to if members from those States where no nominations have been made will forward their nominations to the Secretary's office. The mere sending in of the name to the Secretary's office will be sufficient and considered as completing the record.

All in favor of adopting the report of the Nominating Committee will now manifest it by saying aye; those opposed, no. (Carried.)

Gentlemen, I declare the nominees regularly and duly elected. (Applause.)

(Turning to Mr. Pierson) Mr. Pierson, I salute you. Gentlemen of the American Bankers' Association. If you were seeking for a man to become the president of your bank, I am sure you would want to know that the man you had in mind should have had experience in some financial institution; you would want to know that he had had experience as a messenger, as a bookkeeper or as a teller; and I am sure that you would want to know that he had shown executive ability, that he had been close to those who had in charge large and important financial undertakings. I present to you as your newly elected President a man who has had all this experience. For several years last past Mr. Pierson has been an active worker in the ranks of the American Bankers' Association. He began in the humblest way, and, as time passed, his fidelity to the cause and his willingness to lend his assistance to anything that was to the benefit of the organization, has caused him to be promoted along the various lines, until in recent years he has occupied some of the most prominent places in Association work. He has been Chairman of the Bill of Lading Committee, and has exerted great influence in directing legislation along other lines. It affords me great pleasure to introduce to you Lewis E. Pierson, and I am sure that you may look forward to his administration in the assurance that the work of the Association will go forward with greater and greater impetus.

And now, Brother Pierson, it affords me extreme pleasure to put this button, insignia of office, upon you, and I think the greatest wish that I can express is that you will have as large a measure of joy in your connection with the members of this Association as I have had during the time I have worn it, and I relinquish to your hand this office feeling that you will administer it more efficiently than I have, and I bespeak for you with confidence the earnest support and good will of every member of the Association. (Applause.)

President-elect Pierson: Mr. Reynolds, Ladies and Members of the American Bankers' Association. In spite of this very flattering introduction I assure you that I feel hardly worthy of the high honor conferred upon me. However, it will be my earnest endeavor to further the best interests of the American Bankers' Association. Before I take up this gavel I wish to express to Mr. Reynolds the real pleasure that it has been to me to have been associated with him in the work of this organization. I have always had the greatest admiration for the efficient manner in which he has conducted the duties of the office he now relinquishes. The American Bankers' Association has grown in membership and influence tremendously since Mr. Reynolds first came into the direction of its affairs as Chairman of the Executive Council; and, gentlemen, it is no small task to take up the work where he now leaves it as President and continue the progress he has made. In order to properly attempt it the assistance of all the officers, and particularly of every member of the Association, is necessary; and members should take an interest to see that at their stated meetings when delegates are elected they select the best men for membership on the Executive Council, for it has been the endeavor of the officers of the Association in the last few years to attract to membership in the Executive Council the best banking talent in each State, particularly men who would attend the meetings regularly and take an active interest in the work.

I thank you and assure you that I deeply appreciate the honor you have paid me. (Applause.)

I now introduce to you the gentleman whom you have elected

Vice-President. He has not only been honored by the Executive Council by their electing him Chairman, but in his own State he has held the highest office possible to be given to a banker, and he enjoys the confidence and respect of every man who knows him.

I take great pleasure in presenting Mr. Frank O. Watts, President of the First National Bank of Nashville, Tenn., whom you have just elected Vice-President of this Association. (Applause.)

Vice-President-elect Watts: There are times in one's life when the heart throbs so strong as to leave upon the memory marks never to be forgotten. If I could present to you on canvas a chart of my heart throbs, beginning with the time when you first showed your confidence in me, and passing on to the time when my associates placed within my keeping the affairs of the bank with which I am connected, and the time when my State association placed me upon its governing board, and then to the time when I was elected Chairman of your Executive Council and down to this occasion when I am elected your Vice-President, the chart of my heart throbs would show a constantly higher and higher point. Indeed, the high point shown to-day has been exceeded only twice in my life—first, when a loving mother implanted upon my lips her kiss as she bid me go forth into the industrial world, of which Dr. Kilgo has so eloquently spoken, to make my way, and, second, when the little woman who is now my wife left her father's house and the home of her childhood to share with me the joys and sorrows of a lifetime. (Applause.)

I promise you that nothing of my own doing shall for one moment cause a failure on my part to appreciate the high honor you have now paid me. (Applause.)

#### SILVER SERVICE PRESENTED TO RETIRING PRESIDENT REYNOLDS.

It is always a pleasure to be the bearer of good tidings, but it is a special pleasure to me on this occasion that I have been accorded the privilege of presenting a substantial evidence of the friendship and good will of the members of the American Bankers' Association to our retiring President, Mr. Reynolds, I am charged with a message to you, sir, and, while I deliver it, I would ask that you stand out here where the eye of every person in the house can be upon you. (Applause.)

Just one year ago, sir, you were called to take your place in this illustrious line of imperial leaders as President of the American Bankers' Association. The lofty character of the men who had attained that distinction and the high standard which they set demanded the utmost wisdom in choosing their successor. The unqualified success of your administration as President has proved that no mistake was made in your choice as President. (Applause.) At no time has this honor been more worthily bestowed or this mantle more gracefully worn. Your friends come now to express to you their appreciation and esteem. They bid me to tell you how much they admire you personally, and how appreciative they are of the success that has attended your administration; and, more than that, they have procured for you, and wish you to accept this beautiful silver service as a memento of your incumbency of this high office.

(At this point a set of silver in a large mahogany case suitably engraved was brought in and laid upon the platform.)

We do not present this to you because of its intrinsic value nor because we are fearful that you may forget us; we know that you cannot forget us, as we cannot forget you. We present it to you that you may have ever before you a constant reminder of our love and friendship. (Applause.)

And now one word more. In laying down the gavel after your most successful administration, it gives me pleasure to say that you have qualified yourself for membership as a loyal and worthy member of the Down and Out Club. (Laughter and applause.)

Mr. George M. Reynolds, of Chicago, Ill.: Mr. Brown, and Members. When I observe the character of this memento I am impressed at once with the fact that the committee who selected it must have been of a practical turn of mind because it seems to me they observed my rotundity of figure and endeavored to supply me with that of which I most stand in need, and it is particularly unfortunate, with all of these implements for use along that line, that I should feel too full for utterance. (Laughter and applause.)

Gentlemen, it was not necessary for you to present me with a memento to cause me to remember the many friends whom I have made in this organization nor the many honors that have been showered upon me. I need no reminder of that sort. However, as I use this beautiful silver service and take up a spoon or a knife or a fork I shall imagine that I am grasping the hand of some loved friend among you, and shall in fancy see a picture of you there. (Applause.) And if the portion with which I partake through the use of these articles shall cause me to reminisce, I am sure that in fancy I shall come back to you often. It has been said that in every heart there is a secret chamber filled with pleasant memories and lavender leaves, and if I have a chamber in my heart large enough to contain the memories that have been so

pleasant to me as I have been working in association with you it would require a heart larger than this building in which to put them. I appreciate more than I can tell you the many acts of kindness you have shown me and the many times that you have expressed your confidence in me, but I care ten times more for your friendship and your expression of confidence than I do for all the souvenirs in the world, highly as I shall always prize this memento.

I cannot refrain from taking this opportunity to say that unconsciously you have all been very helpful to me in achieving the little of success I may have had, for had it not been for this Association and the friendship engendered by it, I perhaps would still be running a little country bank in Iowa. I hope you will not think I am sentimental in referring to this, for I am sincere when I say to you that unconsciously through your friendship, support and confidence you gave me strength and courage to achieve, and you more than I are responsible for the positions of trust that have come to me in later years.

Again and again, I thank you. (Applause.)

Mr. J. M. Elliott, of Los Angeles, Cal.: Mr. Reynolds, you will have to stand up once more. On behalf of the Association and by the hand that merely represents your thousand and one friends from one end to the other of this country, I decorate you with the President's badge. Last year the Association honored you with the Presidency, and you have honored the Association by your incumbency of the office. May this badge ever be a reminder of that fact to you and to your descendants afterwards. (Applause.)

Mr. Reynolds: Thank you. I can only say that if I had a vocabulary that would respond equal to the promptings of my heart I might be able to properly express my thanks. (Applause.)

#### THANKS TO CHICAGO.

President Pierson: Is there any further business to come before the convention?

Mr. P. C. Kauffman, of Tacoma, Wash.: As a slight expression of appreciation on the part of the delegates to this convention for the many courtesies that have been extended to us while in Chicago, I beg leave to introduce the following resolution and move its adoption by a rising vote:

Resolved, That the members of the American Bankers' Association hereby express their hearty thanks to the associated banks, bankers, and business men generally of Chicago for the very efficient entertainments that have been given them and all the courtesies so hospitably extended; to the press for the splendid report of the proceedings of this convention; to the telegraph and telephone companies for courtesies received; and to all who in any way have contributed in making this, the thirty-fifth annual convention of the American Bankers' Association, the most successful in the history of the Association.

The motion to adopt the resolution was seconded from all parts of the hall.

President Pierson: The Chair takes great pleasure in putting the question on this resolution, and will request that it be adopted by a rising vote.

Adopted.

Mr. August Blum: If there is no other business to come before the convention, I move that we adjourn.

Secretary Farnsworth: Before adjournment is taken, Mr. President, I wish to announce that the meeting of the new Executive Council will be held in the banquet hall, on the sixth floor of the Auditorium Hotel, immediately after this convention adjourns.

#### ASSOCIATION OF CREDIT MEN PRESENTS COMPLIMENTS.

I would also read the following telegram, addressed to the Secretary, under date of September 14, from the National Association of Credit Men:

The National Association of Credit Men presents its compliments to the American Bankers' Association and extends its best wishes for a successful convention. The following resolution was unanimously adopted:

Whereas, The American Bankers' Association and the National Association of Credit Men have many interests in common, which can be and are best advanced through co-operation;

Be it resolved, That we, the members of the National Association of Credit Men in convention assembled, do express our sincere gratification at the cordial relations existing between the two organizations, and take this occasion to declare that it is our earnest desire to cooperate with the American Bankers' Association in any movement looking to the improvement of credit conditions which its members may become interested in furthering.

President Pierson: Gentlemen, you have heard the communication from the National Association of Credit Men. What is your pleasure in respect to it? It would seem to the Chair that it would be in order for the Secretary's office to make a suitable response to it.

Mr. H. S. Hall, of Waterville, Me.: I move that the Secretary be instructed to extend a suitable response to the communication.

The motion was seconded.

President Pierson: All in favor of the motion instructing the Secretary's office to suitably acknowledge the greetings of the National Association of Credit Men will say aye; opposed, no.

Carried.

Secretary Farnsworth: I would announce that we had prepared for the Vice-Presidents of the various States a permanent badge for them to wear during this week and to take away with them and retain to wear at future conventions. Quite a number of those badges have not been called for, although we sent out notices to the Vice-Presidents and asked them to inquire for their badges when they registered. If there are any of the Vice-Presidents here who have not called for their badges I would request that they do so this evening at the registration headquarters, otherwise we will mail the badges to them.

President Pierson: Are there any other announcements to be made?

Secretary Farnsworth: That is all, sir.

President Pierson: Then the motion to adjourn will be put. All in favor of adjourning will say aye; opposed, no.

Carried.

Adjourned *sine die*.

# TRUST COMPANY SECTION

## AMERICAN BANKERS' ASSOCIATION

Fourteenth Annual Meeting, Held at Chicago, Ill., September Fifteenth, 1909

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### *Post-Mortem Administration of Wealth.*

BY DANIEL S. REMSEN, of the New York Bar. Author of "Remsen on the Preparation and Contest of Wills."

Death is the great conveyancer. To-day we own our property, to-morrow death works a transmission to others. It fulfills the conditions upon which settlements and trust deeds depend. It sets in operation the law of intestate succession and gives effect to wills. Thus in our country property to the value of billions of dollars passes each year under some form of *post-mortem* administration. In all such administration trust companies have a peculiar interest, but for the sake of simplicity let us confine our attention to testamentary administration and consider our subject from the viewpoint of a person about to make a will.

#### REQUISITES OF TESTAMENTARY ADMINISTRATION.

The first requisite of a proper testamentary administration is a properly planned will. The second requisite is a carefully prepared will. The third requisite is the selection of proper executors and trustees.

#### PLANNING A WILL.

The first thoughts of a person about to make a will relate to its plan: (1) what property he may give, (2) to whom he will give it, and (3) whether his gifts shall be absolute, conditional or in trust. With these points in mind the wise testator seeks sound legal advice. He remembers that many things, expected and unexpected, may or may not happen before or after his death. The amount or character of his property may materially change. His real estate may be converted into personal property or *vice-versa*. His securities may be paid off or otherwise changed in form. The value of his property may increase or decrease. Innumerable changes may occur through marriage, birth or death among the objects of his bounty. His own condition may change so that he may no longer have capacity to amend his will to meet new conditions as they arise. In short not only probabilities but possibilities must be considered and the will planned accordingly.

#### WRITING A WILL.

In the preparation of no legal document is the inaccurate use or location of a word or phrase more serious than in a will. Under the most favorable conditions every person experiences difficulty in writing the English language so as to convey his exact meaning beyond the possibility of a misunderstanding or a double reading. In testamentary writing this difficulty is increased tenfold, for the writer must look into the future and prepare an instrument which is to deal with such conditions as time may bring to the testator, his family and estate.

#### INSURANCE OF WILLS.

A will cannot be insured against a contest as can a house against fire. The only known method of insuring a will

is to employ the most skillful of professional experts to draw the will in the first instance or to vouch for its accuracy before death renders amendment impossible. No one can prevent a judicial inquiry into testamentary capacity, but much may be done to prevent disputes concerning the meaning and legal effect of the instrument and to render litigation improbable. The will of Samuel J. Tilden is a far-famed but unfortunate example in testamentary writing of what "might have been." It is not generally known that in scrutinizing that will the late James C. Carter pointed out the very defect that proved fatal and that the Governor's failure to make the correction was due to his procrastination in directing Mr. Carter to prepare an amendment. As Hon. John Bigelow puts it: Governor Tilden was "surprised by death before he had executed his intention to profit by the counsel" of Mr. Carter. Thus it appears that a letter or telegram from Greystone doubtless would have saved the Tilden will.

Trust companies, as prospective executors and trustees, have a special interest in proper testamentary writing that they may accept such trust business as comes to them without being subjected to unknown liabilities in the performance of duty. Consequently they have done much for the betterment of testamentary writing, but still the safe and sound will is the exception rather than the rule in America. Where testators subject their wills to a rigid critical interpretation before death fully three out of five discover satisfactory reasons for making amendments. Most testators seem to proceed on the theory that it is better to let their estates take the chance of defending a cheap or home-made will at any cost rather than themselves to take the necessary steps to insure a proper document. Thus it is that an undue number of estates pass under defective or ambiguous wills, creating family feuds and paying what may be termed salvage to the legal profession.

Americans do not appreciate the value of constructive law. American lawyers and law schools need more to stimulate English patience and perseverance in the preparation of legal documents. Their attention is riveted upon the remedial at the expense of the constructive. While in case of disaster the proper handling of a wreck is as necessary in law as at sea, constructive law is of equal if not greater public utility, for it insures peace and prosperity and, in the case of wills, prevents disruption of families and a ruinous waste of assets. Constructive law should receive more attention than it has in the past and law schools should aim to turn out architects-at-law as well as masters of the remedial arts.

When laymen and their legal advisers are more fully

alive to the importance of better testamentary writing litigation concerning wills will be materially less; testators will act with more confidence; families will be more harmonious; beneficiaries will fare better and executors and trustees will be more free from personal liability.

#### HUMAN AGENCY IN ADMINISTRATION.

Let us now consider from the testator's view the human agency upon which he must rely to carry the plan of his will into effect. We must accept the testator's point of view, for he is entitled to make his own selection. When a person makes a will and selects his executors and trustees he has several courses open: (1) he may select one or more individuals with or without bond; (2) he may select a trust company to act alone, or (3) he may select a trust company jointly with one or more individuals. Each one of these agencies has some advantages and some disadvantages over the other two. We cannot say that one of these agencies is always better than another, for the personal equation varies with each selection. We are told that nature has not produced a perfect blade of grass, a perfect flower or a perfect fruit and we might add that human nature has never produced a perfect trustee, but as one blade of grass, one flower, one fruit is more perfect than another, so among trustees the testator has room for choice.

The duties of executors and trustees are two-fold: they are not only business and financial but also human and personal. A testamentary trust is more than a business; it carries with it a confidence. Under some wills the business and financial sides predominate, but there is always present a feature incident to the lives, character and welfare of the beneficiaries. This element of *post-mortem* administration demands a most delicate touch of human kindness sometimes even paternal in its nature, often sought and too seldom found. The executor and trustee, whether individual or corporate, should command the respect and confidence not only of the testator but also of the beneficiary. Whether an individual or a corporate official, he should be one to whom the beneficiary not only may but will be likely to go for counsel and advice. In short he should be one who will take a personal interest in the welfare of the beneficiary and conscientiously, with gentleness and firmness, carry out the wishes of the testator as the first law of his being.

#### SAFETY OF THE ESTATE.

The prime factor in *post-mortem* administration is the safety of the estate. It often determines the selection of executors and trustees. The old method before the days of trust companies and surety companies was to rely upon the character and financial standing of the individuals appointed, supplemented in some jurisdictions by individual bonds. Such appointments have been the occasion of much unsatisfactory administration. They have resulted in loss both from embezzlement and dereliction of duty. To secure safety from these hazards trust companies and surety companies have each offered a solution which has proved satisfactory to many testators.

The plan advocated by surety companies is the appointment of individuals of known character and business ability under a legal or testamentary requirement that suitable bonds be furnished, preferably by a surety company at the expense of the estate. Such testamentary provisions are sometimes inserted at the request of prospective executors and trustees on the ground that the joint control of assets and the accompanying supervision of surety companies is an aid to proper administration, a protection against mistakes and a safeguard against the negligent or wrongful acts of employees or of a co-executor or co-trustee. The bonds thus advocated guarantee the estate against loss arising from dereliction of duty as well as from misappropriation of funds.

The plan advocated by trust companies is their own appointment with or without the addition of one or more individuals as co-executors and co-trustees. If a trust company is appointed its capital and surplus stand as a

guaranty for the performance of its duty, but not as a guaranty for the performance of duty by a co-executor or co-trustee. Where the possibility of loss through a co-executor or co-trustee is not cut off by a surety company bond it is generally well hedged about by a trust company for its own convenience and protection. The practice of trust companies acting as co-executors or co-trustees in assuming the custody of securities is in itself an important element of safety. Some testators insert provisions in their wills looking to this end, often to the relief of their individual executors and trustees.

Both plans of safety involve a corporate custody of securities, in one case joint and in the other absolute. They differ in that the liability of the surety company is limited to the amount of its bonds while the liability of the trust company is co-extensive with the estate. The difference also extends to compensation. The former receives an annual premium as for insurance while the latter receives no compensation except for the performance of its duty as executor or trustee.

In England a new feature has been injected into trusteeship. Corporations with powers somewhat corresponding to our trust companies are sometimes appointed custodian trustees for the purpose of holding securities subject to the trust, while the other duties of the trust are performed by individuals, known as managing trustees.

Experience has shown that both surety companies and trust companies under proper capitalization and management offer excellent plans for reducing to a minimum the possibility of loss attending *post-mortem* administration. Thus the testator has at hand ample means for the protection of his estate from dangers to which it would otherwise be subjected.

#### WISE MANAGEMENT.

To insure an estate against loss from embezzlement and dereliction of duty is of course a wise precaution but it is wholly negative in character. The testator seeks affirmative qualities. He demands sound judgment, wise and efficient management during the whole term of the administration, but above all at its inception when an unwise exercise of discretion has often resulted as disastrously as embezzlement or dereliction of duty.

The first duties under a will are performed by the executor. After a thorough study and understanding of the will he realizes on the testator's assets, pays his debts and distributes the surplus or turns it over to trustees for investment according to the terms of the will. Where the duties of executors end the duties of trustees begin. The executor turns over the trust estate to the trustees in such form as the will directs. The trustees must thereupon review the state of the investments and square them with the law and the terms of the will. If under the will the executors have already performed that duty the task of the trustee is much reduced. Thenceforth the duties of the trustee are those of investment and re-investment and the collection and application or payment of income. Thus it is that the duties of executors are less routine in their character, more difficult to perform and more temporary in their nature than the duties of trustees. Consequently testators are disposed to look more for mature experience and discretion in the selection of executors and less to longevity. In the selection of trustees testators, in a large measure, seek the same qualities with an added care for a continuity of the trusteeship during the trust term. The element of personal interest in the beneficiaries is usually more or less present in the mind of the testator in the selection of both executors and trustees and is frequently a determining consideration, sometimes even at the expense of good business administration.

#### INDIVIDUALS AS EXECUTORS AND TRUSTEES.

While in the selection of individuals as executors and trustees the testator has a wide range of choice there are certain qualities which he cannot overlook. He must have integrity and ability and should have good business habits. In selecting such persons the testator usually relies on

personal acquaintance, observation and reputation. He looks with confidence upon persons of good personal habits and associations, upon males rather than females, upon married rather than unmarried men, upon the man who has no adverse interest, who is morally sound, whose family is not extravagant, who has a means of livelihood, who does not live beyond his means, who has good and regular business habits, who is moderately successful, whose business is not speculative, who does not buy and sell on margin, who has a mind of his own but is not self-opinionated and who is free from prejudice, capable of discrimination, sound in judgment and considerate of the rights of others.

This may be a high standard to set for *post-mortem* administrators of wealth, but to me it seems to be the true one. It certainly is one testators are continually applying and therefore should receive serious consideration in the selection of directors, officers and employees of a trust company if it is to attain any degree of success in this important branch of its business.

#### KINDRED AS EXECUTORS AND TRUSTEES.

In selecting executors and trustees the mind of the testator usually turns first to his family, then to his friends, business associates, legal advisers and trust companies. In his family he is most likely to find an element of personal interest which strangers do not possess. Yet so frequently are other qualities absent that no general rule can be stated as to the wisdom of placing *post-mortem* administration in the hands of kindred. So much depends upon the individual, the estate and the will that each case must be a law unto itself.

Fortunately the testator is usually the best fitted to judge of the situation. For example, if the testator's estate is small and is given absolutely to his wife, she practically becomes the owner of the surplus and under ordinary circumstances she may well be entrusted with power over her own. If, on the other hand, the estate is large or somewhat involved or trusts are present in the will, the necessity for outside assistance becomes more apparent.

Where the will contains no trust, and the corpus is to be divided on the settlement of the estate, usually there can be no objection to the selection of executors because of interest or kinship. Where business qualifications, honesty and ability are sufficient and family jealousies not likely to be aroused, such appointments are eminently proper. If, however, the will contains a trust very different considerations necessarily enter into the selection of a trustee. Thus a beneficiary, whether a life-tenant or remainderman, is an unfit person in law and in fact by reason of interest. Near relatives are objectionable for the same reason and because they are "less able to withstand the importunities of beneficiaries." In the same way, where a husband, wife, parent or other near relative is appointed trustee such relationship "is too often made an excuse for lax management, and the knowledge that a breach of trust is likely to be condoned not infrequently leads to a disregard of strictly legal management which is the only safeguard of trust estates."

#### LAWYERS AS EXECUTORS AND TRUSTEES.

In many respects the legal adviser is the logical executor and trustee of his client's estate. It is a recognized part of his business. He is acquainted with its duties and obligations. He is the testator's confidential adviser in all domestic, personal and financial affairs. He is acquainted with the wishes, purposes and estate of the testator more intimately than any other person. He is accustomed to weigh reasons and to advise in difficult situations. His mind is usually more free from prejudice, more amenable to reason and less subject to undue influence of a beneficiary than a person otherwise situated. If wise in counsel and clothed with power and discretion he is often an important peacemaker between adverse interests.

Nevertheless, the lawyer has the frailties of human nature and trust funds are not always safe in his custody unless he gives ample bonds for the performance of his duty. Where, however, lawyers are competent and honest the English practice of making the testator's solicitor one

of his executors and trustees has probably given more general satisfaction than the selection of any other class of individuals outside of his immediate family.

#### CORPORATIONS AS EXECUTORS AND TRUSTEES.

Trust companies have earned an excellent reputation as executors and trustees and offer valuable qualities to the testator. They offer security of assets, continuity of existence, experience, business management, readiness of access, opportunity of favorable investment and due consideration for beneficiaries. In these respects the record of trust companies as a whole is most satisfactory and honorable. Where, however, trust company management is open to criticism its defects relate to individual companies rather than to trust companies as a class and arise from undue routine in business, undue pressure of business on individual officials, disinclination to assume liability, a lack of proper self inspection and the unfortunate selection of directors, officers, counsel and employees. Vigilance in these matters is soon discovered by testators and is the price of corporate success in testamentary administration.

While the character and general reputation of a trust company is often responsible for its appointment, yet in very many cases the personnel of its management is decisive. Of the importance of the personal element in a trust company there can be no doubt; it is much more the subject of discussion among testators and their counsel and more often the determining factor than is generally supposed.

Hon. Lyman J. Gage has well described the situation. He says: "Character and capital are the best assets of a trust company. Its officers and directors, therefore, should be men of wide experience, men who have been tried and who devote themselves with honorable zeal to the high duties of their positions."

#### COMBINATION OF COUNSEL AND TRUST COMPANY.

Generally speaking and without specifying particular situations or testamentary conditions, the best results seem to have been attained in *post-mortem* administration of substantial estates by combining as executors and trustees a trust company and the testator's counsel, sometimes alone and sometimes joined with one or more of the testator's family or friends. Thus are secured the advantages of corporate management as well as personal responsibility and individual discretion.

This is not merely a personal view. It is the opinion of many persons, including some of the greatest financiers in this country. To quote again from Mr. Gage: "Where the family counsellor acts with the trust company as co-trustee advantages are obtained which explain in a large measure the success of the trust company." I might add that it is often an inducement for counsel to act if they know that they are to have the co-operation of a first-class trust company with its experience and facilities for receiving and paying out money, making investments, safeguarding securities, keeping accounts and otherwise handling a multitude of details more or less burdensome to an individual.

#### CONCLUSION.

Whatever we may think or say concerning executors and trustees the fact remains that administration of property after death depends primarily upon the testator. He may direct it into any channel, giving or withholding such directions, powers and discretions as seem to him best. As he has the power he must accept the responsibility. If he plans his will wisely, makes sure that it will stand the strictest scrutiny after death and selects his executors and trustees carefully, requiring bonds where desirable, he may reasonably expect satisfactory results but not otherwise.

The trust company, after adopting proper business methods and squaring the human agency behind the corporate name with the qualities which carry confidence and make individuals desirable for positions of trust, can render no greater service to itself and to the interests it is to serve than by educating the public as to the importance of a sound will and the advantages of corporate administration after death.

## *Trust Company Resources and Revenues: A Five-Year Summary.*

BY EDWARD T. PERINE, President of The Audit Company of New York.

### BASIS OF THE SUMMARIZED FIGURES.

The Executive Committee of the Trust Company Section have once more honored me with an invitation to prepare and present to the Section a statistical statement of the affairs of all the trust companies. In seeking to fulfill this request, and in the no small task of compiling the essential figures, as of a period of five years past, a basis of research has been available at the present time which did not exist at the beginning of that period. I should, therefore, at the outset, make my acknowledgments to the valued collections of statements and other data which have been issued annually since 1903 by the United States Mortgage and Trust Company, of New York City, under the title "Trust Companies of the United States."

These statements and other data show, even on the most casual inspection, that the trust companies are growing, alike in numbers, in resources, and in earning power, and an interesting question presents itself, therefore, as to what the precise measure of this growth has been. Phases of this question affect many trust company accounts. With expanding aggregates of capitalization, have surplus funds and undivided profits also expanded, and in what amounts? With increasing deposits, general and in trust, have relative cash holdings been equally maintained, if not established on a higher ratio? Have the failures, and other disappearances from the lists of companies reporting in former years been frequent or important, as bearing upon the aggregate position of all the companies? Has the volume of dividend disbursements been well sustained? Moreover, what have the effects of the recent business depression been upon the trust companies as a whole, and how completely have they rallied from that depression?

These queries are now to be answered, in so far as aggregates and averages of dollars and cents will show, and answered in a manner which cannot fail to be gratifying to those in interest in the administration of trust company affairs.

Tabulations have been prepared by the speaker, using the figures contained in the 1904 to 1908 editions of the reference book before alluded to, together with the figures shown on advance sheets for 1909, the latter having been courteously loaned for this purpose by the publishers. The resources, and corresponding liabilities, are as of the date June 30 in each year; while the dividend summaries are on a basis of the annual rates reported down to December 31 in each previous year.

The tabulations show many interesting results, and your attention is invited to certain of the totals, such as these.

### GROWTH IN NUMBERS AND IN CASH HOLDINGS.

There has been a marked growth in the number of companies reporting. The totals are:

994 Companies in 1904	1,480 Companies in 1907
1,115 " " 1905	1,470 " " 1908
1,304 " " 1906	1,496 " " 1909

an increase for the five years of 502 companies, which number represents an increase of over 50 per cent. since 1904.

The combined cash on hand and in bank held by the trust companies on June 30 five years ago, amounted to the sum of 622 millions of dollars. In the succeeding years, down to 1908, the respective totals were 633 millions, 588 millions, 637 millions, and 804 millions. On the same date this year the remarkable total was reached of 999 millions of dollars, which sum carried with it a sufficient number of odd thousands of dollars to make the cash holdings of this year's 1,496 trust companies only a shade less than a

round aggregate of one billion dollars. The increase in the cash and bank accounts in 1909 over 1908 has been found to be 195 millions of dollars, an increase of 24 per cent., while the increase for the five years is 377 millions of dollars, or nearly 61 per cent.

### DEPOSITS BEFORE AND AFTER THE PANIC.

In 1904 the trust companies were liable to their depositors, general and in trust (including other trust companies and banks), in the sum of 2 billions 361 millions of dollars. A year later this liability aggregated 2 billions 955 millions. In 1906 and 1907 the respective amounts were 3 billions 18 millions, and 3 billions 222 millions. Then, in 1908 there occurred, for the first time in trust company history, a heavy shrinkage in their deposit liabilities. From June, 1907, to June, 1908, there was a contraction from 3 billions 222 millions to 2 billions 913 millions, the decrease being 309 millions of dollars, almost 10 per cent., and leaving a smaller aggregate than in any year since 1904. The total for June of this year is, therefore, a sum worthy of especial scrutiny. In it is to be read the story of a hoped for recovery. In all the figures which have been summarized there is none more satisfying, none more convincing of the fact that panic conditions have been superseded by an era of real prosperity, than to know that with only a slight increase in the number of trust companies—the number reporting this year being 26 more than last year—the total deposits for 1909 have reached the important total of 3 billions 567 millions of dollars, an increase of 654 millions for the year, or 22 per cent., and an increase of 1 billion 206 millions for the five years, which is an increase of 51 per cent.

In considering the various totals of deposits it is to be observed that the percentages borne thereto by the totals of cash on hand and in bank, taken together as total reserve, have at no time during the five years averaged less than 19.5 per cent., the average percentages on June 30 in each of the years having been:

1904.....	26.3 per cent.	1907.....	19.8 per cent.
1905.....	21.5 "	1908.....	27.6 "
1906.....	19.5 "	1909.....	28.0 "

an increase for the year of .4 per cent., and for the five years of 1.7 per cent.

### THE TOTAL OF RESOURCES AND LIABILITIES IN 1909.

The summarizing of the total liabilities of the trust companies, and of their corresponding resources, naturally leads into aggregates of imposing size. It is found that the statements of all the trust companies reporting in 1904 showed an accumulation of 3 billions 138 millions of dollars. The succeeding years of 1905, 1906 and 1907 show 3 billions 802 millions, 3 billions 944 millions, and 4 billions 221 millions respectively. In 1908 there was a contraction to 3 billions 917 millions, but the recovery of 1909 marks a great growth, the total being the vast sum of 4 billions 609 millions of dollars. These four and three-fifths billions of total resources and liabilities show an increase since a year ago of 692 millions of dollars, or over 17 per cent., while the increase for the five years is 1 billion 471 millions of dollars, a 47 per cent. increase.

### TOTAL CAPITAL AND SURPLUS SUMMARIZED.

Considering next the figures tabulated to show total capitalization, it appears that the share capital of the present 1,496 companies is 415 millions of dollars, being an increase of 85 millions over the 330 millions of capital outstanding on the part of the 994 companies of five years ago. The

average capital per company at that time is thus found to have been 332 thousands of dollars, yet even in the face of the great growth which has occurred in numbers during the five years, the average trust company of to-day is now an institution with no less than 277 thousands of dollars of capital.

The totals under surplus and undivided profits show growth in a marked degree. The figure for five years ago was 379 millions; to-day it is 502 millions, an increase of 123 millions.

When these totals of capital and of surplus and undivided profits are united in a lump sum of liability to stockholders, it is found that the aggregate of such liability is now 917 millions of dollars, as against 709 millions five years ago. The same figures afford a basis of determining the average percentage of book value applicable to all of the capital stock of the companies, and it is found that the average book value is at present \$221.06 for each \$100 of par, as compared with an average of \$214.88 in the year 1904.

#### FIFTY MILLIONS OF EARNINGS PER ANNUM.

Interesting results appear in the tabulations as regards dividend payments throughout the five year period. On December 31, 1903, there were 560 companies on a dividend paying basis. The number has grown in succeeding years to 661, 777, 900, 954 and 984, respectively. The average rate paid upon the shares of those companies which have been dividend paying has increased from 10.3 per cent. to 11.9 per cent., while the average percentage of all the companies, dividend paying and non-dividend paying, has increased from 7.7 per cent. to 9.4 per cent. The total amounts disbursed each year have been computed, with the result of finding that there has been a constantly increasing volume of dividends in each of the past five years. The totals so disbursed have been:

1904.....	\$28,000,000	1908.....	\$39,000,000
1905.....	32,000,000		
1906.....	38,000,000	A total of..	\$176,000,000
1907.....	39,000,000		

which if it be taken together with the augmentation of surplus and undivided profits, as already referred to, would show that the revenues of American trust companies, during five years past have been approximately 300 millions of dollars. It should be stated that in this sum is included some element of paid in surplus, chiefly in respect of newly formed companies, but if this be deemed to be equal to 50 millions of dollars (a sum which represents more than half of the amount of capital stock of all the new companies), there would still remain an aggregate of trust company revenue since the close of the year 1903 amounting to at least the sum of 250 millions of dollars.

Referring again, and briefly now, to the discussion of aggregate condition. In all the statistics heretofore compiled on behalf of the trust companies, the conclusions of the compilers have been affected by two elements of growth, one the increasing numbers of the companies, the other their increasing size. It is a pertinent inquiry, therefore, as to how many concerns which were in business five years ago are no longer in operation, what the status was at that time of the concerns which are still in business, and what it now is, as apart from the concerns which have been formed in the meantime. The facts have been ascertained to be these.

#### WHAT IS SHOWN BY 807 "VETERAN" COMPANIES.

Of the 994 companies reporting in 1904, there have been 52 failures, without subsequent resumption of business. These failures occurred in 26 different States, but no considerable number took place in any one section of the country. It is true, however, that 37 of the failed companies were located east of the Mississippi River, and only 15 beyond. The total resources of these 52 companies are found to have been 64 millions of dollars, or only about 2 per cent. of the aggregate of all the companies for 1904. There were, in addition, 91 companies which are now re-

ported as being no longer in trust company business (having in most instances become National or State banks), together with 23 companies whose statements have not been obtainable this year. These disappeared and non-reporting companies represent only 50 millions of total resources. The remaining companies, inclusive of 21 mergers, number 807. These are the survivors, the veterans, so to speak, of the trust company army. A summary of their aggregate position, contrasted with the corresponding aggregate for 1909, reveals striking conditions of past growth and present strength.

These 807 "veteran" companies had, on June 30, 1909, stock and bond investments of 978 millions of dollars, an increase over 1904 of 264 millions. Their loans, including mortgages, and their bills receivable amounted to 2 billions 38 millions, an increase of 468 millions. Their cash on hand and in bank amounted to 897 millions, averaging over a million dollars per company, and showing an increase in total holdings, as against five years ago, of 293 millions. Their real estate, banking houses, safe deposit plants, and furniture and fixtures accounts, totaled 117 millions, an increase of 37 millions. Similarly their capital stock showed an increase of 19 millions, being now 320 millions. Their surplus and undivided profits showed an increase of 99 millions, being now 468 millions. Their deposits increased during the five years 883 millions, an average of over a million dollars per company, the present total being 3 billions 174 millions. In aggregate resources and liabilities these 807 companies now hold 4 billions 72 millions, an increase of 1 billion 48 millions for the five years. This aggregate of 4 billions 72 millions represents 88 per cent. of the 4 billions 609 millions of aggregate trust company wealth of the country, the remaining 12 per cent. being held by 689 companies organized within the five years, or not reporting in 1904, and now showing as their share of the total wealth 536 millions, or somewhat less than one-eighth of the whole.

Add to this the fact that the companies which are five or more years old disbursed in dividends during the calendar year 1908 upwards of 35½ millions of dollars, or over 90 per cent. of the aggregate dividends of all the companies, and it is a fair claim to make on behalf of these 807 companies of five years ago, and of the present, that they have recently established a record for growth and for earning capacity as well, unequaled by the accomplishments of any similar number of financial institutions anywhere during an equivalent period of time.

#### A CONTRAST WITH NATIONAL BANK FIGURES.

The growth of the trust companies since 1904, enormous as regards the older institutions and substantial in the case of the newer ones, is clearly proven by the summaries made of each year's figures. With a volume of wealth nearly approaching 5 billions of dollars, the entire number of trust companies are approximately equal in size to the National banks of ten years ago, the fact being that 3,583 National banks reported on June 30, 1899, to the Comptroller of the Currency that their total resources and liabilities were 4 billions 708 millions, or only 99 millions of dollars more than the total wealth of the trust companies of to-day. During five years past the percentage of increase in the total resources of the National banks has been 42 per cent., that of the trust companies 47 per cent. To-day the deposits of the trust companies, exclusive of amounts due other banks, are a sum approximating 70 per cent. of the same liability on the part of the National banks; while the total resources of the country's 1,496 trust companies are nearly 47 per cent. of those of the country's 6,926 National banks.

The entire record is a gratifying one. The figures, and in particular those of the present season, are a demonstration of the strength and stability of the corporations here represented at this convention time. In this fact there is reason for much congratulation, there is cause for every encouragement. May the growth and abounding success of the trust companies continue in other years—and always!

# Detailed Report of Proceedings,

Fourteenth Annual Meeting TRUST COMPANY SECTION, Held at Chicago, Ill., September 15, 1909

## MORNING SESSION.

WEDNESDAY, SEPTEMBER 15, 1909.

CHICAGO, ILL., September 15, 1909.

The Fourteenth Annual Meeting of the Trust Company Section was called to order by the President, Mr. A. A. Jackson, Vice-President of the Girard Trust Company of Philadelphia, Pa.

The President: It gives me very great pleasure, gentlemen, to call to order the Fourteenth Annual Meeting of the Trust Company Section of the American Bankers' Association.

The Rev. Herman Page, rector of St. Paul's Church of Chicago, will ask the Divine blessing upon our gathering.

### PRAYER.

By Rev. Herman Page.

Our Heavenly Father in whom we move and live and have our being!

We beseech Thee to give us a realizing sense of our sonship to Thee and our fellowship to one another.

We thank Thee for the many blessings that have been vouchsafed to us, and especially for the privilege of living and working in this great and beautiful land in this wonderful age.

We beseech Thee to increase in us a deep sense of our responsibility to Thee and to our fellows, and may we find in the work which Thou hast given us to do our chief opportunity for service.

Grant that we may more and more appreciate the virtue of honesty, and especially the relation of brotherhood that still will lead us to the service of our fellowmen and give us joy in our work.

Be with the members of this organization in the meeting to-day, and grant that its deliberations may redound to their good and to Thy honor, and that all who are present may receive inspiration and strength from their attendance hereat.

We ask it all in Jesus' name, Amen.

The President: It seems like going back to the halcyon days to find on this platform a man who has presided over the destinies of this Section from 1904-5, and who has always been active in the Executive Committee. So it is needless for me to introduce him to you, but I know we are all extremely glad to have Mr. E. A. Potter, President of the American Trust & Savings Bank of Chicago, welcome us to his city. (Applause.)

### Address of Welcome, by E. A. Potter, of Chicago, Ill.

Mr. President and Gentlemen: It is my agreeable duty to welcome you to this city on behalf of the trust companies of Chicago, and I do so most heartily, expressing the hope that your sojourn will prove one of great pleasure and much profit. It is needless to say that I refer to mental profit.

You have gathered from all quarters of the United States for an interchange of ideas, for the unselfish and patriotic consideration of policies and methods for the best administration of trust companies on lines which shall still further safeguard and protect, and by which we may wisely manage the interests in our charge.

I believe that the value of these conventions is appreciated by the bankers of the country, but I feel that they are and can be made of particular value to trust companies. While our National banks owe their existence to and are controlled by the laws of the various States, these laws, while all enacted with the same general purpose, namely, to make our banking system safe, are greatly at variance; and I think we should take advantage of opportunities such as this convention offers, to study each other's methods and be prepared to exert our influence in procuring regulations as nearly uniform in all the States as is possible. This impresses me as especially desirable in view of the growing tendency on the part of the public to make use of the facilities which trust companies have to offer.

We meet on the common ground of good for our clients and ourselves, free from selfish or sectional jealousies, with open minds to consider, digest and advance those methods and ideas which seem best for all of us, knowing that what is best for us in one section of the country is best for all in all sections, striving to one end, namely, to serve the public and ourselves for the good of both.

Chicago seems to me a most appropriate place for your deliberations, located as it is near the center of the country, with unequalled transportation facilities radiating in every direc-

tion. Chicago is a great metropolitan and cosmopolitan city, of which I am sure all citizens of the United States are justly proud. A book lately compiled by our city administration shows a population of two and a half millions, in an area of 190 square miles, which population comprises thirty-six different nationalities. It is the largest market for grain, live stock, lumber and iron and steel in the world, also the most important railway center. Its growth as a financial center is best illustrated by a comparison of its bank capital, deposits and clearings with those of ten years ago. Its bank clearings in 1908-9 were \$11,853,814,000, as against \$5,517,335,000 in 1898. The combined capital and surplus of its banks at the present time is \$99,070,787, as against \$47,619,365 in 1898. The total deposits of its National and State banks is \$779,579,336, as against \$302,089,547 in 1898—in each case an increase over 100% in the ten years.

In an able article written by our fellow trust company President, ex-Comptroller of the Currency Charles G. Dawes and published in a recent number of "The World To-Day," he shows that the gain in what he terms the banking power of the whole country during the past eight years was 65%, whereas, in the sixteen States of the Middle West tributary to Chicago the gain was 118%.

But it is not my purpose to weary you with statistics nor to enumerate our varied industries and resources, our many elements of financial strength and material beauty—of which you are no doubt as familiar as am I—besides, thirty-seven years' residence in Chicago has developed in me the characteristic modesty of most Chicagoans which makes us all reluctant to boast.

The citizens of Chicago, realizing the great material growth of the city and the enormous traffic congesting its streets daily, realizing, too, the natural advantages the city has for development along more attractive lines, but keeping in mind the practical, are interesting themselves in what is known as a "Plan of Chicago," looking to wider and better streets, more conveniently constructed and connected for handling traffic; a more imposing water front, statelier public buildings—all making our city more beautiful and more worthy of the grand proportions to which it has grown.

But without waiting for the consummation of this plan of "Chicago Beautiful," I believe as it is you will find the city attractive and our parks and boulevards delightful for motoring. The streets and parks are yours at not to exceed fifteen miles per hour. You will be cordially received at our various places of business, our clubs and our homes, in short, as the Spaniards say, but which we mean, for this week at least "our house is yours"; come and occupy it.

With every good wish for your health, comfort and pleasure, I again bid you a hearty welcome. (Applause.)

The President: Mr. Potter has told us that the city is ours. When I arrived here and registered I thought the local committee was to be criticized because they gave us so few souvenirs to carry away (laughter), and when I found in the box containing a picture of the water front of Chicago a little packet I thought perhaps it would contain a key to the city. But it did not, and now I realize why. No key is needed; everything is wide open—even on Sunday. (Laughter and applause.)

### Reply to Addresses of Welcome and Annual Address of President A. A. Jackson.

It has been the custom, I believe, in former meetings of this Section, for the Chairman, in his reply to the address of welcome, to dwell upon the hospitality extended to our members and upon the charms of the city in which it is the good fortune of the Association to assemble.

I think that you are with me in the belief that in this instance the necessity for such voicing at length does not exist. The open-handedness of our Chicago friends is too well known, and the varied and compelling interests of this city are so far felt as to make any fulsome mention here superfluous. Rather let me state in simple words our appreciation of the many courtesies that we find extended to us, our sensibility of the care with which have been performed the labors of the Committee of Entertainment looking to our comfort and our pleasure, and the satisfaction that we feel in meeting at the financial and commercial centre of the country west of the Alleghenies, and let me add to this our delight at being welcomed by you, sir, an ex-President of this Section who have devoted yourself for years to its welfare.



Perhaps it will be fitting for me to dwell for a few moments upon the progress that has been made by this branch of the American Bankers' Association. The affairs of the parent body are properly the theme for consideration at the meetings of the general Association, but to us belong particularly the happenings in this Trust Company Section, which forms no mean part of the whole.

We are not old. Only thirteen years ago a small number of men met at the call of one of us who is here to-day to consider the incorporating as an individual segregation the trust companies of this country, which until that time had been meeting unidentified, and merged with the general banking interests of the United States. Through the efforts of these men certain trust companies signified to the American Bankers' Association their desire to form themselves into a section of trust companies for the purpose of considering affairs relating to their own particular business. Immediate and favorable action was taken by the Executive Council. An amendment to the by-laws was passed establishing the Section, and the trust companies thereupon took the important place to which they were entitled in the life of the Association; not as a separate body, but one with the whole and yet representing the important collateral relationship which the millions of their resources bear in the financial life of the nation.

Since then the wisdom of this action has been amply demonstrated. By a progression, at some times more rapid than at others, from this small beginning the Trust Company Section has grown to its present membership of nearly one thousand companies, with aggregate resources in the neighborhood of four billions of dollars.

It may be argued that such a growth is only natural by reason of the steady increase in the number of companies in the country during the years of the existence of the Section, but had not the advantages of membership been proved there would have been no such regular progression in the ranks of this body. And we must remember, also, that every company hearing the word "trust" in its name is not admitted to membership; a scrutiny as careful as may be had in such a large organization is devoted to the standing of the applicant, and while an earnest effort is made to bring to us legitimate institutions, no welcome is extended to those transacting a business foreign to our field, and always the efforts of a committee are devoted to the protection of the use of the word "trust" in corporate titles.

As each year brings a new meeting of this Section, it seems to me that there becomes more patent to those who attend them the benefits of coming together for deliberation upon general topics of interest to the trust company world. But this to my mind is perhaps the smaller part of the advantages to be derived from this membership. Not only do we meet at these conventions men whom we have known perhaps only in correspondence, and thereby bring ourselves together for the promotion of future business of mutual interest, but the fame of these gatherings induces the enlargement of the Association, and so by natural increase the beneficial work of the Section is augmented. And the benefits of these meetings are not the only ones enjoyed. As the Trust Company Section is a part of the whole Association, so does membership in it carry the advantages of membership in the general body. Not only have we now the office of a Secretary of our own equipped as it has never been before, and at its head an official who devotes his time to the work of this Section, undivided with that of any other interest, but in common with all other members of the American Bankers' Association we have the services of its General Secretary's office and the various committees that devote themselves throughout the year to the interests of the banking fraternity of the country.

And as to our own committees chosen from the members of our Executive Committee, as to that Executive Committee and as to the officers of the Section (always speaking impersonally) let me congratulate you. They are men chosen wisely from throughout this great Union of States, who have been diligent in the discharge of their duties to this body, who during their terms of office attend the various meetings, and are at the call of their Chairman for assistance and counsel in person or by correspondence, and in their elevation to their several offices are free from the imputation of politics that is so often rife in large organizations of this nature. To all these men I hope you will let me extend not only my own thanks for their efficient services rendered, but the thanks of this meeting. And not to them only, but to the officers of the general Association with whom there exists the harmony that promotes our welfare and whose courtesy and readiness to be of assistance to this Section has been demonstrated many times during the past year.

And what of all of the great make-up—the membership—of this branch of the American Bankers' Association? Perhaps it has been said that conventions in general are for the most part somewhat for the purpose of providing a holiday for the members who attend them, and that there is lost sight of the true interests which a charter may set forth as the objects of the body. I believe that such criticism may not justly be made as to this Section. Certainly of late years the attendance at the meetings of the Trust Company Section has proved that in the face of attractive entertainments provided

by their hosts they have sat throughout sessions lengthening year by year in their duration, and have made by their enthusiasms in speech and discussion those successful gatherings that are to be desired.

It is unnecessary for me to tell you what has been done during the past twelve months, by those whom you have entrusted with the management of our affairs. This will be submitted to you in the reports of your several committees, and that of your Executive Committees, as phrased by its able Chairman, nor need I indicate what shall be done for our welfare during the coming period, for such recommendations will come from you in our discussions of to-day.

It remains then for me, who in an hour or so am to relinquish this desirable office in which I have had so much pleasure and so much help, to urge that in the year to come that bears such promise of prosperity, we join in making this Trust Company Section of the American Bankers' Association bigger, more powerful and better than it has ever been.

The President: The next business is the report of the Secretary of the Section, Mr. Philip S. Babeock.

Report of Secretary.

New York, September 1, 1909.

To the Members of the Trust Company Section American Bankers' Association.

Gentlemen—The financial statement for the past year is as follows:

RECEIPTS.

October 1, 1908, by appropriation.....	\$7,500.00
May 5, 1909, by appropriation.....	4,000.00
4 copies Trust Co. Proceedings.....	2.00
24 copies Proceedings, 1896-1903.....	72.00
Book case .....	15.00
95 copies Proceedings, 1904-1908.....	284.40
57 copies Trust Co. laws.....	198.50
Stamped envelopes, returned .....	15.40
Expense Executive Committee overpaid.....	7.25
	<hr/>
	\$12,094.55
Credit balance September 1, 1909.....	\$794.82

DISBURSEMENTS.

Salaries .....	\$4,015.23
Postage .....	238.64
Postage, account Proceedings.....	84.00
Printing and stationery .....	201.10
Petty cash .....	165.00
Sundry expense .....	46.97
15 gold badges .....	97.50
Rent .....	110.00
Expense Denver convention .....	477.15
H. P. McIntosh, account postage, telegrams, express, telephone, Herrick, salary and expense, and stenographer....	350.28
Committee Trust Co. forms.....	86.15
Trust Co. forms.....	15.00
Loving cup for Col. J. R. Branch.....	90.00
Express on Proceedings and Trust Co. laws.....	218.10
Insurance .....	19.22
Proceedings, 1908 .....	759.36
2,000 Trust Co. laws and preparing same.....	2,379.58
1,000 Proceedings, 1904-1908.....	1,355.55
Executive Committee at Briarcliff.....	740.80
Balance August 31, 1909.....	794.82
	<hr/>
	\$12,094.55

Cash in bank, advance subscriptions to book of "Trust Company Forms" .....	\$915.00
Membership September 1, 1908.....	931
Loss by non-payment of dues, consolidations, liquidations and other causes .....	77
	<hr/>
	854
New members to August 31, 1909.....	127
Membership September 1, 1909.....	981

MEMBERSHIP TRUST COMPANY SECTION BY STATES.

	August 31,				August 31,				
	1906	1907	1908	1909	1906	1907	1908	1909	
Alabama .....	13	13	20	20	Kansas .....	1	1	2	3
Arizona .....	9	9	10	12	Kentucky .....	16	18	18	18
Arkansas .....	16	18	20	18	Louisiana .....	11	15	17	17
California .....	25	29	29	31	Maine .....	12	16	20	22
Colorado .....	9	9	11	11	Maryland .....	15	14	16	16
Connecticut .....	16	21	24	25	Massachusetts .....	29	29	32	34
Delaware .....	5	5	6	8	Michigan .....	4	6	6	6
D. of Columbia .....	5	5	5	5	Minnesota .....	4	4	3	3
Florida .....	5	5	7	6	Mississippi .....	9	12	15	17
Georgia .....	8	9	12	13	Missouri .....	17	20	24	22
Idaho .....	5	8	9	9	Montana .....	5	7	8	8
Illinois .....	32	41	50	56	Nebraska .....	3	3	4	5
Indiana .....	19	21	24	30	Nevada .....	4	10	10	3
Iowa .....	8	10	14	14	New Hampshire .....	4	3	3	

August 31.					August 31.				
1906	1907	1908	1909	1900	1906	1907	1908	1909	1900
New Jersey...	49	56	59	64	Texas .....	9	18	21	26
New Mexico...	2	2	2	3	Utah .....	2	3	3	3
New York....	78	89	91	89	Vermont .....	10	13	13	14
N. Carolina ..	15	16	16	17	Virginia .....	12	12	12	12
N. Dakota ...	1	1	1	2	Washington ..	7	12	14	18
Ohio .....	34	41	45	40	W. Virginia ..	11	10	9	10
Oklahoma ....	1	4	9		Wisconsin ....	5	5	5	10
Oregon .....	7	12	11	11	Wyoming ....	1	2	2	4
Pennsylvania ..	132	145	151	151	Alaska .....		1	1	
Rhode Island..	19	11	11	21	Cuba .....		2	2	2
S. Carolina....	4	3	4	5	Hawaii .....	2	2	1	1
S. Dakota ....	3	5	4	4					
Tennessee ....	17	27	26	29	Total .....	718	846	931	981

Membership by years, since formation of the Section in 1896 with 17 members: 1897-114; 1898-150; 1899-190; 1900-253; 1901-348; 1902-414; 1903-501; 1904, 566; 1905-638; 1906-718; 1907-846; 1908-931; 1909-981.

States having a membership of five are entitled to a vice-president of the Section.

Respectfully submitted,  
P. S. BABCOCK, Secretary.

The President: What is your pleasure respecting the Secretary's report?

Mr. E. J. Buck, of Mobile, Ala.: I move that it be approved and printed in the Proceedings.

The motion was seconded.

The President: All in favor of the motion that the Section approve of the Secretary's report and that the same be printed in the proceedings of the Section will manifest the same by saying aye; opposed, no.

Carried.

The President: The next item on the programme is the report of the Executive Committee, which will be presented by Mr. Fuller.

#### REPORT OF EXECUTIVE COMMITTEE.

Mr. Oliver C. Fuller, of Milwaukee, Wis.:

Mr. President and Gentlemen: I have the honor to read the report of the Executive Committee as follows:

#### Report of the Executive Committee, by Oliver C. Fuller, Chairman.

To the Members of the Trust Company Section of the American Bankers' Association:

In pursuing the course so well laid out by the Executive Committee last year, and in endeavoring to carry out as nearly as possible the many excellent recommendations contained in its annual report at Denver, your committee has been quite busy throughout most of the past year.

Besides the regular spring meeting of the committee, held at Briarcliff, which was attended by all the officers of the Section and every member but one of the committee, as well as by several of the State vice-presidents and members of special committees, numerous meetings have been held during the year between officers of the Section and the Chairman and other members of the committee in regard to the several branches of work being carried on, and in arranging the programme for to-day's meeting. Also several meetings have been held during the year with the officers of the American Bankers' Association in regard to finances and other matters relating to this Section.

Among the recommendations made by your committee a year ago was the publication of a new book of Trust Company Forms. Pursuant to a resolution passed at the spring meeting of your committee, the Secretary addressed a circular letter to members soliciting advance subscriptions for the book. Responses to this letter were deemed sufficient to warrant the publication, and the sub-committee appointed to take charge of this work was instructed to proceed, and the book will shortly be ready for distribution. Copies of the circular letter of the Secretary setting forth the scope of the work, together with subscription blanks, may be had at the registration office here, and, as this will be a very complete and valuable work, it is hoped that members who have not already subscribed will take advantage of this opportunity to enter their subscriptions.

During the year your committee has had published in one volume the proceedings of the annual conventions of the Section for years 1904 to 1908 inclusive, being a supplemental volume to one containing the proceedings from 1896 to 1903. These volumes contain a great many important reports and interesting addresses and your committee feels that every trust company in the United States should have one or more of these volumes in its library for the benefit of its officers and employees. The Secretary reports that something over one hundred copies of this work have been purchased by the members, and your committee is confident that the demand for them will be more than sufficient to cover the cost of the number published.

Another recommendation made by your committee last year was: "To gather and keep up to date, as nearly as possible, statistics regarding trust companies. . . . To collect and have published matters of interest to trust companies."

In line with that suggestion your committee requested Mr. Edward T. Perine, president of the Audit Company of New York, to prepare a paper to be read to you at the meeting to-day, and we feel sure that you will be much interested in Mr. Perine's address on the subject of "Trust Company Resources and Revenues."

Also in accordance with the same suggestion, after several confer-

ences with the officers and general counsel of the American Bankers' Association regarding the expediency and expense of the work, a compilation of laws relating to trust companies of the United States was published and distributed without charge to the members of the Section. About one hundred extra copies have been sold, and plans are under way through which it is hoped that a sufficient number of these volumes may be sold to cover the major portion of the cost of those distributed free to members. But, even if the hopes of the committee in this respect are not fully realized, the voluntary expression of appreciation by so many of the members upon receipt of the book has made your committee feel that the thought, time and labor, as well as the expense, involved in this publication were more than justified. By direction of your committee this work was compiled by a member of the New York bar under the supervision of the general counsel of the Association and is original in the field it covers, no such compilation having been heretofore published, and besides its great value to our members it has done much to advertise and make our Section better known through the complimentary and, in many cases, extended notices of it in the financial magazines. In the opinion of your committee it will add greatly to the value of this work if hereafter a record be kept of all new laws and changes in laws affecting trust companies and from time to time, say every two years, a pamphlet containing such changes be published and sent to the members, and your committee recommends that this be done.

The financial and membership statements of the Section for the past year have been set forth in the Secretary's report, which you have just heard read. Although the expenses of the Section during the year have been larger than those of any preceding year, your committee feels that in view of the steadily increasing membership and the importance of the work being done, the increased appropriation granted to this Section during the year by the parent body have not been excessive and that the money has been wisely expended.

The standing Committee on Protective Laws was enlarged to five members during the year and, under the direction of its experienced Chairman, Mr. Lynn H. Dinkins, has made much progress in this excellent work, as you will learn from the report of the committee to be read at this meeting. Your committee believes that the work of the Protective Committee is one of the most important that is being carried on by the Section, and recommends that the committee be continued as a standing committee of the Section.

The wisdom of the amendment to the by-laws passed at the last convention increasing the number of State vice-presidents has been fully demonstrated, and the Executive Committee takes this opportunity to express its thanks for the assistance it has received from many of these officers during the year, especially in the work of increasing the membership of the Association.

Although the increase in membership, as shown by the report of the secretary, is gratifying, your committee desires to impress upon members the importance of their assistance in our efforts in that direction. Your committee believes that the benefits of membership in the American Bankers' Association and in this Section are so great that no institution will refuse to join if its officers fully understand the scope and purposes of the Association.

Your committee feels that it cannot too strongly emphasize the advantages gained by the Section through having employed a year ago an experienced and capable secretary to take charge of the office of the Section in New York and devote his attention exclusively to the work of the Section. The Secretary has had active charge of practically all of the work mentioned in this report as having been accomplished during the year, and besides attending to the numerous details in connection therewith, has carried on a large part of the routine correspondence that has heretofore devolved upon the Chairman of the Executive Committee. As stated by our President, Mr. Jackson, in his report to the Executive Council at Briarcliff, "the office of the Secretary of the Section is now a well-equipped bureau working in harmony and in connection with the office of the general Secretary of the Association," and the wisdom of gathering together in one group all of the sections of the American Bankers' Association, so that they may be in touch with each other and close at hand, as they now are, to the Association headquarters, is apparent to all.

In this connection your Committee desires to express its appreciation and thanks for the uniform courtesy and consideration shown it by the executive officers of the American Bankers' Association. On every occasion when questions have arisen affecting the interests of this Section the officers of the Association have evinced a lively interest in the welfare of the Section and the enjoyment of the close and friendly relations growing out of our mutual interests and frequent intercourse has made service on your committee an agreeable duty.

Respectfully submitted,  
EXECUTIVE COMMITTEE,  
By Oliver C. Fuller, Chairman.

The President: What is the pleasure of the Section with reference to the report?

Mr. A. M. Barrett, of New York: I move that the report be received, approved and placed on file.

The motion was seconded.

The President: All in favor of the motion will signify their intention by saying aye; opposed, no.

Carried.

The President: I am very glad to see that the President of the American Bankers' Association is in the room, and that we are honored by his presence. I know he is a very busy man and is loath to make a speech, but I will ask him to

step forward and tell us at least if he is as glad to be here as we are to have him. (Applause.)

Mr. George M. Reynolds, of Chicago, Ill.:

Gentlemen, I am very glad to see so many trust company representatives this morning, and I congratulate the officers of the Section upon this evidence of the interest taken in this work. I know the officers of the Section, as well as the officers of the parent organization, have labored earnestly to bring up the membership, and it is very gratifying indeed to observe such a substantial result as is shown in the attendance at this meeting.

As a Chicago banker I am heartily glad to see you, and as President of the American Bankers' Association I am particularly glad that you are here in such numbers.

I am sorry that the arrangement provided for the entertainment of the other 3,500 or 4,000 delegates this afternoon is such that you will not be able to finish your programme in time to take part in it, but a special train has been arranged for to-morrow afternoon to take you to Gary, leaving at 2 o'clock and returning in ample time to prepare for the banquet in the evening. (Applause.)

I am very glad to have had this opportunity to look you in the face, and I hope you will have a very successful meeting and a pleasant stay in our city. (Applause.)

The President: In connection with what Mr. Reynolds has said as to a special train to visit Gary, our Executive Committee came here with the idea of making this meeting of our Section a success, and when it was found that our programme was of such length that it could not be disposed of in time for our members to take the boat trip to Gary this afternoon, Mr. McIntosh and Mr. Gillespie called on Mr. Reynolds and, with his help, arranged for a special train to make the trip to Gary to-morrow. Therefore, I trust that everybody interested in the work of the Section will remain here to-day and finish our work and then we can the more thoroughly enjoy ourselves to-morrow.

Mr. H. P. McIntosh, of Cleveland, O.: I might state that Mr. Holliday was also a member of our committee, and on our way to see Mr. Reynolds we met Mr. Fuller and took him along with us. I mention this merely that Mr. Gillespie and myself should not be given all the credit for securing Mr. Reynolds' assistance in procuring this special train.

Mr. F. H. Fries, of Winston-Salem, N. C.: It has been the custom for the Section at this time to have a committee appointed to receive nominations for members of the Executive Committee. Therefore, in line with that custom, I offer this resolution:

"Resolved, That a Nominating Committee of five be appointed by the Chairman, which Committee shall receive names in writing from delegates present, from which the nominating committee shall select five members of the Executive Committee for the term ending in 1912 and which shall be reported back to the convention for its action."

The resolution was seconded.

The President: Gentlemen, you have heard the resolution offered by Mr. Fries, and seconded by several members. All in favor of its adoption will manifest it by saying aye; opposed, no.

Adopted.

The President: I will name the members of that committee later.

The next order of business scheduled on the programme is Report of Committee on Protective Laws, which was referred to in the report of the Executive Committee. The report will be read by the Chairman, Mr. Dinkins.

#### REPORT OF COMMITTEE ON PROTECTIVE LAWS.

Mr. Lynn H. Dinkins, of Mobile, Ala.:

Mr. President and Members of the Trust Company Section. The report of the Committee on Protective Laws is as follows:

#### Report of the Committee on Protective Laws.

To the Chairman and members of the Trust Company Section.

We beg to report that we have continued since your last meeting the effort to promote interest among the bankers of the several States in special legislation for the protection of the use of the word "trust," for the establishment of suitable public provisions for State supervision, and for the denunciation as a crime of the circulation of false reports concerning the condition of banks and trust companies. Legislative sessions in forty separate States have made this year particularly important to our undertaking.

Seventeen States—Colorado, Connecticut, Indiana, Iowa, Kansas, Maine, Massachusetts, Minnesota, Montana, New York, New Jersey, Oregon, Rhode Island, Texas, Washington, West Virginia and Wyoming—had already enacted suitable legislation. Florida also protects, more or less adequately, the use of the word "bank."

Four other States—California, Nevada, Pennsylvania and Wisconsin—enacted laws this year which are based upon the bill recommended by this Section of the American Bankers' Association. The laws so passed in Wisconsin are particularly gratifying for the reason that their requirements concerning the incorporation and regulation of trust companies are very definite and very rigid. They provide that the word "trust" shall form part of the name of every such corporation hereafter organized there and that the word "bank" shall not be used as a part of such name.

Banks with whom we corresponded in three other States—Arkansas, North Carolina and North Dakota—advised us that it was unwise, at that time, to attempt special legislation.

Seven bills on banking were already pending before the General Assembly of North Carolina, and it was feared that the introduction of another might defeat all. A Senate bill to provide State supervision was under debate in the Arkansas Assembly, and it was thought that any attempt to protect the word "trust" might jeopardize that. North Dakota had only two trust companies; as her statutes contain all the protective provisions desired, except one for the word "trust," it was urged that an attempt to amend the law in this particular might suggest to the Legislators, at the same time, other amendments not desirable.

Missouri has no special law which protects the word "trust," but it is the general opinion of her bankers that the present law is adequate, and that additional protection is not needed.

The Committee tried, through Mr. Latham, of Springfield, to have the statute authorized by this Section enacted in Illinois, but we were informed that the State Chairman of the Committee on Legislation did not deem it advisable to present a new bill on this subject during the life of the present Legislature.

The General Assembly of Tennessee convened on January 4, and our legislation was taken up with the Secretary of the State Bankers' Association too late to procure the passage of an Act.

Idaho, Nebraska, New Hampshire and Utah have not reported at all.

Three States—Delaware, Oklahoma and South Carolina—reported conditions such as to make immediate action unwise. South Carolina, in particular, reported that a preliminary campaign of education is necessary.

The Trust Company interests in Georgia, Michigan, New Mexico and South Dakota assure the Committee that action will be taken on our measures at the next session of their legislatures. The bills to be proposed in two of these—Georgia and Michigan—will correspond to the laws of Pennsylvania, both already having State bank examiners or commissioners.

We cannot emphasize too strongly on our members in these States, and in all others in which satisfactory legislative protection has not already been provided, that they be especially prompt in presenting their drafts of desired legislation to their respective legislatures immediately upon the opening of an assembly. Your committee has learned from experience that delays are dangerous. The whole movement in South Dakota failed this year, not because of any radical and sustained opposition to our proposals, nor because it could not muster all the support required for its passage—but because the bill itself was not formally offered until the time limit upon the introduction of new bills had expired.

One State alone, in all the list, rejected the bill prepared by the Committee—Arizona. The Senate of Arizona passed the measure, but the House postponed it indefinitely.

Twenty-three, then, of these forty States, the General Assemblies of which were in session in 1909, provide protection of some degree or other; four more are about to enact protective legislation of a satisfactory sort; and thirteen are left for the incoming committee.

Of the other six States, Alabama, Mississippi and Ohio have passed satisfactory statutes. Kentucky, Louisiana and Virginia are still practically without safeguards.

It seems to us an important question whether or not we should continue to extend our agitation in these States which have given only partial protection—whether or not it would be more advisable to go forward toward larger results, or to rest content with those already won, to seek entirely satisfactory statutes, or to satisfy ourselves with those we have.

The Savings Bank Section charged a Committee during the year with the duty of securing the passage of uniform laws for the segregation of savings deposits, and to provide proper safeguards in the investment of such funds. It asks, on the advice of Mr. Paton, for the co-operation of our own committee, Mr. Paton believing that several Legislative Committees acting independently might create needless confusion.

Respectfully submitted,

ARTHUR ADAMS,  
F. H. FRIES,  
P. C. KAUFFMAN,  
LYNN H. DINKINS,  
Committee.

The President: What is the pleasure of the meeting with reference to the report just read?

Mr. Edwin Chamberlain, of San Antonio, Tex.: I move that it be received, approved and placed on file for publication in the Proceedings.

The motion was seconded.

The President: All in favor of the motion will manifest it by saying aye; opposed, no.

Carried.

The President: It is a source of great regret to me that the Vice-President of the United States, Mr. Sherman, is not here. By an arrangement made with Mr. Bell, of Washington, the Chairman of the Executive Committee and myself called upon Mr. Sherman in Washington and he gave us his assurance that he would endeavor to attend our meeting at this time and address us. Congress sat so late, however, that he wrote me he feared it would be impossible for him to keep his engagement, as he had pressing business matters to attend

to as soon as Congress should adjourn. However, I took the liberty of going to see him again. He was extremely courteous, and said that he had to go to Kansas City about this time, but would try and stop at Chicago and address us on his way home. Unfortunately, he went through Chicago yesterday instead of to-day; and, while he stopped in at the general Convention for a few moments yesterday, although he did not make a speech, he could not stay over for our meeting. I know you all join in my expression of regret that he is not to be with us.

We are fortunate in having present a gentleman well known as a writer, as well as a man who is active in trust company matters. I take great pleasure in presenting to you Mr. Daniel S. Remsen, of New York City. (Applause.)

Mr. Daniel S. Remsen, of New York: Mr. President and Members of the Trust Company Section of the American Bankers' Association.

#### Post-Mortem Administration of Wealth.

[Mr. Remsen's address on the above topic is printed on pages 175 to 177 of this publication.]

The President: I feel, as I am sure every one present does, that we have been greatly interested and instructed by this address. We do not get it entirely from a member of the legal fraternity, for Mr. Remsen is one of us; he is a trust company man as well as a lawyer.

Mr. E. J. Parker, of Quincy, Ill.: I have a suggestion which I think would be proper to make at this time, in view of the very great value to trust companies of this address. Now, my suggestion is that as the Secretary prepares and has printed the proceedings of this Section he also have printed at the same time a few extra copies of Mr. Remsen's address and send them out to our members, so that the members in time can have a sufficient number of copies reprinted to send out to their customers. I think this address is the best statement we could possibly have in our possession showing the advantages of trust companies.

The President: Mr. Parker, do you make that as a motion?

Mr. E. J. Parker: Yes, I will make it as a motion. I move that the Secretary furnish to the members of the Section extra leaflets of the address delivered by Mr. Remsen at this meeting.

The motion was seconded.

Mr. J. Jaster, of Cleveland, O.: I would amend the motion by providing that the Secretary have such leaflets published at once and distributed to the members.

Mr. H. L. Remmel, of Little Rock, Ark.: In view of the general expression of sentiment among the members here that Mr. Remsen's address is what we all want for distribution, I would like to add to the motion that has been made the suggestion to the Chair that when the question is put it be emphasized by a rising vote, thus thanking Mr. Remsen for his able address.

Mr. Edwin Chamberlain, of San Antonio, Texas: I think the idea of Mr. Parker is simply to have a few extra copies sent out by the Secretary so that each trust company if it desires to do so may have printed any number of copies for its own use.

Mr. E. J. Parker: That is my idea precisely.

Mr. Taylor, of \_\_\_\_\_: It seems to me that we have overlooked for the moment, in our expression of appreciation for Mr. Remsen's paper, the fact that out of courtesy to the author we should ask his permission to do what is proposed.

Mr. Daniel S. Remsen: I am quite willing that the Section do what it likes with the paper, as I consider it as belonging now to the Section.

The President: It has been moved, amended and the amendment accepted, and the suggestion variously seconded, that the address delivered by Mr. Remsen shall be published as soon as possible and that at least one extra copy shall be mailed by the Secretary to each member of the Section. In putting the question upon this motion the chair requests that the members will express their appreciation of Mr. Remsen's courtesy in delivering the address by rising. Therefore, all in favor of the motion as stated will manifest it by rising. (Adopted.)

The President: The motion is unanimously carried. Mr. Remsen, we all thank you very much indeed. (Applause.)

Pursuant to the action of the Section in adopting the motion made by Mr. Fries, that a Nominating Committee be appointed by the chair, I name as such committee:

#### NOMINATING COMMITTEE.

F. H. Fries, of North Carolina (Chairman); S. W. Raven, of Arkansas; Dewitt Van Buskirk, of New Jersey; Joseph E. Otis, of Illinois; Herbert H. Rhoades, of Massachusetts.

I would suggest that the members of this committee meet during recess.

We will now have the pleasure of listening to an address by Mr. Perine, President of the Audit Company of New York, who has been good enough to prepare some statistics for us that I know will prove most interesting. I take great pleasure in presenting Mr. Edward T. Perine. (Applause.)

#### Trust Company Resources and Revenues.

[The full text of Mr. Perine's address will be found on pages 178 to 179 of this issue.]

Mr. H. P. McIntosh, of Cleveland, Ohio: I move that the thanks of the Section be and the same are hereby tendered to Mr. Perine for his address, this being another instance in which he and his company have placed this Section under obligations.

(The motion was seconded.)

The President: All in favor of the motion will manifest it by saying aye; opposed, no.

(Carried.)

The President: This address and others to be published in the proceedings seem to me to form a most valuable addition to the library of statistics of trust companies.

Gentlemen, the time has now come for open discussion of various topics named on the programme or any other topics that may suggest themselves to the minds of members. The chair would ask whether it is the sense of the meeting to have such discussion now, or to take a recess until two o'clock?

Mr. F. H. Fries: I move that we take a recess until two o'clock.

Mr. Edwin Chamberlain: Before we adjourn, I would state that it has occurred to me that the various financial journals will doubtless contain a full report of Mr. Remsen's address to-morrow morning, and that will save the necessity of the Secretary having it printed at once, as all the members here can get copies of the papers in the morning. I notice in "The Economist," published in Chicago, a daily edition of which is being gotten out during this convention, that they have published this morning a full report of all the addresses delivered yesterday, and doubtless they will do the same every day while the convention is in session.

The President: That is very good indeed, and possibly will meet the point aimed at in Mr. Parker's motion.

Mr. F. H. Fries: I would request that the members of the Nominating Committee meet immediately after adjournment in this room.

The President: Gentlemen, without formally putting the motion, the Section will stand adjourned until two o'clock.

Recess until 2 P. M.

#### AFTERNOON SESSION.

The President: Gentlemen, we will proceed with our further business. The Committee on Nominations is not yet ready to report; I understand they are still deliberating. We have before us certain topics for discussion that you see listed on the programme. The programme was made up after a lengthy correspondence among members of the Section, and these topics were selected from the very large number that were suggested as being ones that were more or less in the majority.

The first is "Limitations of the Functions of a Trust Company," and the prime mover in suggesting that question was Mr. G. C. Morrison, Vice-President of the Baltimore Trust and Guaranty Company, who wrote to the Secretary suggesting the subject. He has been unable to come here, but has sent a letter, which I will ask the Secretary to read.

#### LIMITATIONS OF THE FUNCTIONS OF A TRUST COMPANY.

The Secretary: Mr. Morrison, in sending this communication, states that he has no objection to having it read, but desires it to be understood that he is presenting a query and not a thesis. He says:

I think that the subject should be discussed from two aspects. The first, which, of course, suggests itself is the limitations necessary for the protection of the public. But this is not the only side. There is a grave question as to how far it may be profitable, in the long run, for the trust company to become the department store of financial institutions. Mistakes in trust company matters are very costly, and therefore each extension requires a properly trained executive head for that department. This makes the operation of the various departments very expensive in executive salaries; and unless the department can become sufficiently large to be practically in itself a little trust company, there is great question whether the risk of loss is not greater than is imagined in its operation.

Savings banks are limited in their business, and National banks should be even more so, possibly, than they are now in order to protect them from the temptation to speculate in securities rather than to provide funds for the necessary commercial activities of the country. Trust companies are very little limited. They conduct a general banking business, and in many cases discount paper; they finance large undertakings; they operate savings departments; they manage estates; they become storage places for valuables; and they become fiscal agents of corporations and act for them in other capacities; and are even now operating as bond houses for the sale of securities. This makes them really the department store of finance. It does not necessarily make them unsafe, but it does raise the question as to what the future of financial institutions will be under such conditions. I think that the subject is a broad one and worthy of a considerable study, which I have not been able to give it. I think it worthy of study

on the side of the stockholders of the trust companies as to what is the most profitable business for them, considering the expense of conducting the business in proportion to the return of the risk.

The President: Now, gentlemen, we are ready for discussion.

Mr. Fuller: It seems to me from the reading of the letter of Mr. Morrison, that his company is probably one that does more of a banking business than a trust business. He seems to have some doubts as to the profitableness of it, as compared with what he thinks is the risk of a trust company business. I should say from his letter that he has an undue apprehension as to the risks involved in the acceptance of trusts. In Wisconsin, we are confined almost exclusively to a trust business pure and simple, and I think the risks in the business are almost nil in a properly managed company. There are grave responsibilities, but very little risk. I notice the President of Mr. Morrison's bank is in the room, and perhaps he would like to speak to us upon this subject.

The President: Mr. Bowles, we would appreciate it very much if you would take part in the discussion.

Mr. Thomas H. Bowles, of Baltimore, Maryland: As that letter was written by our Vice-President in the absence of the President on his vacation this summer, you will have to relieve me of any responsibility that may be attached to it. Mr. Morrison told me about the matter, but this is the first time I have heard the letter read. I am very glad that it has been read, because, in a way, it furnishes an opportunity for me to differ from the deductions made by Mr. Fuller as to the apparent fear that trust companies are not able to carry out all of their undertakings. I would rather go to the other extreme, having graduated only within a year from the distinguished school of my friend, Mr. Clark Williams, of New York; I had come to believe that there were no limits to the operations of trust companies, either in the handling of trust assets or in banking departments, or in savings departments, or in the handling of bonds. In fact, with that view of the case and the knowledge that the world needs trust companies—that was one of the inducements for me to become President of the company that I have the honor to represent. I think, perhaps, Mr. Fuller has not made just the deduction that Mr. Morrison, from my acquaintance with his views as he has expressed them to me, intended to convey by his letter. Mr. Morrison is a man of rather an inquiring turn of mind, and I believe he thinks that a trust company can do all sorts of things; but he would like perhaps to have the experience of more experienced men along that line. I don't know that I am prepared to discuss technically the question of the service of a trust company in this country, but it does seem to me that its field of operation is almost unlimited. It is one of those many institutions which has been the development of the great industrial and commercial growth of America which has taken place in the last quarter of a century; and it seems to me that instead of considering limitations as the country grows, as there is a constant demand for great financial institutions to carry on the business of the country, that we would be called upon to do more and more things than we are doing to-day. This is the view, of course, of a man who has only had sufficient time and experience to take, as it were, a bird's eye view of the present and future operations of trust companies. It seems to me, if I needed any argument to support that position, it was furnished this morning in the statistics read by the gentleman from New York (Mr. Perine) showing what a tremendous business is now carried on in the trust companies, which as I understand it, is a comparatively new business as compared with the business of National and State banking institutions. If I remember correctly he stated that the deposits for example, of the trust companies were about 70% of the deposits of the National banks. That impressed me as establishing in a most eloquent way the faith of American business and professional men, and the faith of the man of small means, as well, who establishes a savings account. It showed that at least a large percentage of the people of this country, one way and another, are calling upon the trust companies, not only to take care of their deposits and conserve a large part of their wealth in that way, but in handling assets and being trustees and doing a thousand and one things which banks, owing to their peculiar conditions and laws, are not able to handle so well. I think it would be more or less an easy task to let one's imagination play a little upon the unlimited possibilities of good work by trust companies, and if this subject is up for general discussion I would like to have some light thrown upon the unlimited possibilities of its activities.

Mr. Benjamin I. Cohen, of Portland, Oregon: I might, perhaps, throw a little light upon the gentleman's own trust company—I have never seen Mr. Bowles before, although I know him very well by reputation, but I am acquainted with Mr. Morrison. Mr. Bowles, with that modesty that always characterizes a successful life insurance man, has failed to bring out certain points connected with the Baltimore Guarantee and Trust Company. It is an old institution, started a great many years ago in a small way on Calvert street, in Baltimore, and it was built up to a very good size by a gentleman who afterwards left the country, and it had a few

years ago, a Board of Directors who were ultra-conservative—so much so, that they practically objected to everything that the younger members, including Mr. Morrison, proposed. At that time, my friend, Mr. Decker, was President of the Trust Company. The company had a very good capital and they had such an enormous surplus that every time Mr. Decker proposed something in the way of up-to-date modern trust company work, the Board would say, "Oh, we are making money enough; let us go along and get our three per cent." Well, after a while, that thing, of course, came to a natural end, and Mr. Bowles came into the Presidential chair; and, as I said, I never saw Mr. Bowles before, but I expect to be in Baltimore in a week or so, and then I shall take pleasure in calling upon him. Two years ago the way that company was run was admirable, from the standpoint of safety, but was deplorable from the viewpoint of one who wanted to develop a concern into a modern trust company. Now, I am sure, with new blood in the presidential chair that the old company is going to grow and prosper. Mr. Morrison is a man comparatively young, and he is, as Mr. Bowles has said, a gentleman of rather an inquiring turn of mind. He is a lawyer by profession, and he has some very original ideas. I was pleased and amazed the last time I had a conversation with him when he told me that the directors ought to give him a free rein, and I think Mr. Bowles is the kind of a man who will do it. That company can be developed if they push their business; they have got the best blood in Baltimore behind them.

Now, to come to the general subject under discussion, my opinion is that the limitations of a trust company business practically have no existence. I think that what will really limit the activities of any one trust company is the maxim that all forces move upon lines of least resistance. I am the President of a comparatively small institution, but I have noticed this: In the early years of our history we paid a great deal of attention to our trust business. In Oregon there is no law authorizing trust companies to act as administrator or executor. Consequently, all our trusts are trusts by private agreement. We have found that branch of business, however, pleasant and profitable. We got in the habit of loaning a great deal of money on mortgage, and I devised a system of mortgages by which all loans are evidenced by promissory notes or other form of paper, and are secured by mortgages running to the Portland Trust Company of Oregon, as trustee. So, if we wish to sell a note we do not have to assign the mortgage; we are trustees for whoever holds the note, and we may combine one, two, three or four notes under the same mortgage. The result of that system of doing business and serving the public is that we acquired a fire insurance department, and we have found that our fire insurance department is fairly profitable, so that I would not be without it under any consideration. Then we found that it was necessary to do a little bit of commercial business, and as I like to have everything insured, when a man came in for a loan, if I thought the moral hazard was all right, I would say, "I am willing to lend you this money, but suppose you die. Now, you insure your life in our favor, and we will make you the loan." That led to a combination of life insurance business, so that we did more or less of that business. Then various agency matters came up so that we had to establish sort of a tax department. Then we found, by consulting statistics, that there were just as many women in the world as there were men. The result was that after some time we were fortunate enough to secure the services of a very fine business woman, and we established a woman's department. That woman's department is to-day one of the best things we ever did. This lady waits upon the female customers and makes business easy for them. Lately we have found it almost absolutely necessary to extend our commercial business. We are feeling our way very cautiously in that respect, however. We have no expectation of competing with the National banks, but I find that certain lines of business rather drift our way. For example, take the building trades. A builder will come in and say: "I would like to have a loan of five or ten thousand dollars for ninety days; I am putting up a building." Of course, when the building was completed we would like to make a mortgage loan on it, because the chances are we would be very glad to get the mortgage; so, in order to keep that business, we make him the loan on his note of hand, assuming, of course, that he is good. So we are doing a little commercial business—not confining ourselves to the building trade, but that branch is receiving our attention; and there are certain other trades that seem to be drifting our way, too.

So it is my belief that there is no end to the functions that a trust company can assume, but extreme caution must be observed to limit the functions to the conduct of those classes of business that the investors and the assets of your particular business require at your hands.

Mr. Witt, of Kentucky: It seems to me that the question under discussion has been amended, or should be amended now, so as to read: "There are no limitations to the functions of a trust company." (Laughter.)

The President: We might consider that the question, as printed, is a typographical error, I suppose.

Mr. Witt: I feel like having a free rein in almost every-

thing I do, but it seems to me that this is opening the question rather too wide. We come in contact, in our business, with every other form of business, and we touch every point of business if we extend this principle as suggested by the gentleman who last spoke.

The commercial business seems to be the point of contact between trust companies where most of the difficulty arises, and we are getting into it all over the country. We are assuming the functions of banks engaged in commercial business, and it seems to me that it would be long before we meet with active opposition. We not only reach out at the banking business, but we put ourselves in opposition and in competition with it, and with the life insurance companies, and with the fire insurance companies, and with the guaranty companies; and the first thing we know we will have everybody down on top of us.

It seems to me, gentlemen, that it would be a wise thing to confine ourselves to our legitimate line of business, touching these other things only where it is proper that we should come in contact with them, and not undertaking to take up the activities of the business world generally. It seems to me that would be broadening the functions of a trust company rather too much. (Applause.)

The President: Now that we have heard from the East and the West and the centre of the country, we should be glad to hear from all parts generally on this subject.

Mr. H. L. Rimmel, of Little Rock, Ark.: I am in accord with the gentleman from Oregon. I am connected with a small institution in a thriving city of 65,000 inhabitants, and we are doing a business something like his. We are not running a life insurance business, but we happen to have friends that are in the life insurance business, and if we need a little security of that character we can readily get it. We are running a fire insurance business, in a way, but we are not in opposition to the fire insurance companies, because they are very glad to have good active agents in a trust company. We have a real estate department. The combination is very similar to that spoken of by the gentleman from Oregon, as existing in his company. We do not do a commercial business. We have enough business in the lines that we are conducting to make our business very profitable, and I would recommend, especially in the country districts, that they do business along the lines laid down by the gentleman from Oregon.

Mr. H. P. McIntosh, of Cleveland, O.: I have written something on this subject, which I will read:

Reading:

What are the ordinary functions of a trust company?

1. To act in well defined trust capacities, such as agent, administrator, executor, registrar, trustee, et cetera.
2. To conduct a savings bank business.
3. To conduct a commercial bank business.
4. To conduct a safe deposit business.
5. To conduct a real estate business.
6. To conduct title insurance business.
7. To conduct an insurance or annuity business.

Some or all of the above functions are now being performed by trust companies in various sections of the United States.

It would therefore seem that a proper limitation for trust companies in one section of the country might not be applicable in other sections.

There can be no question or argument that numbers 1, 2, 3, 4 and 5 are proper functions for trust companies in all parts of the United States. We think its authority to act as administrator, executor, agent or trustee should be as unlimited as those of a person acting in one of these capacities.

Under proper regulation a trust company can be as well qualified to conduct a commercial bank business as a National bank, and in the event that it does a commercial banking business, it should be governed by about the same regulations as those governing National banks in respect to loans, deposit reserves, et cetera, and none of its savings deposits should be employed in this department.

In view of the recommendation of President Reynolds of the American Bankers' Association that National banks be authorized to accept trusts, and savings deposits, is it not advisable for trust companies to enlarge their functions by adding to them a commercial banking business? I know of a National bank which recently erected a handsome building for its use, which seems to have foreseen the movements suggested by President Reynolds, because it has provided a space in this building to accomplish a trust company business.

All of the first five functions named seem proper and legitimate ones for trust companies to engage in. The limits within which they shall perform these functions should be well defined. For instance, the character of the trusts that may be assumed should be definitely set forth—anything of a trust nature which might mislead or tend to defraud the public should be barred. The investment of trust funds should be limited to only the safest and best securities.

Safe deposit business should be limited to the rental of safes to customers and storage of valuables.

Real estate operations should be restricted to acting as agent or trustee for others, and to the management and con-

trol of properties held in trust, and companies should not be allowed to buy and sell for their own account.

Numbers 6 and 7 do not seem to be proper functions for trust companies to assume, because of the liabilities created in performing the functions created thereby.

Trust companies should not be permitted to incorporate and assume trust functions unless sufficient capital be paid in to assure the performance of their undertaking.

In general it seems that the functions of a trust company should be broad enough to enable it to do any trust work that an individual is allowed by law to do, and its functions should be limited so as to restrain it from doing such business as would tend towards speculative ventures.

To sum up the whole proposition, I think the test of the limit to trust company functions is determined by the answer to the question as to whether the particular function sought to be exercised is one of trust or one in which the company acts as principal. If the latter, the function should be forbidden. For this reason I think the trust companies should be barred from the work of abstracting, writing title insurance or bonds or assuming the role of underwriting principal in the organization of corporate interests.

The use of the word "Trust" should be prohibited when used for or by any others than companies incorporated to do a trust company business, as provided in Nos. 1 to 5 above.

The trust company is bound to grow in importance and in usefulness as the years go on. In order that it may keep the confidence of the people and conduct its affairs on broad lines of usefulness, its operations should be confined to those of a trust nature only; otherwise, opportunities for speculation and desire for large profits may cause it to become too aggressive in a speculative way, which, if followed generally, might work its own undoing, and cause the enactment of laws destroying those functions to which it is rightfully entitled.

Mr. J. T. Jaster, of Cleveland, O.: I am very glad that a fellow-citizen of mine has seen fit to speak upon this subject, for it is a subject that has been in my mind for a number of years. The bank that I am connected with is a State bank, organized under the General Laws of Ohio and doing a general banking and trust business. We pay more attention to the business of general banking than we do to trust business, but we have a savings department and we loan on mortgages and also upon business paper. We are doing some trust business, however. We believe that a bank should do all the business that is connected with the banking business. For myself, I cannot see how a bank can be a complete institution that does not do so. If a customer has money on deposit there, they should accommodate him when he comes in to get paper discounted. Now, a National bank, of course, cannot do a trust business; they cannot loan on mortgages. I have observed by the address of Speaker Cannon yesterday that he thinks it ought to be so arranged that National banks could take savings deposits. Mr. Reynolds, the President of our Association, also spoke upon that subject, as did Mr. Murray, the Comptroller of the Currency. Now, my idea is that if the National banks could adopt savings bank rules and handle savings, it would not be long before they would be loaning on real estate. I am very glad this subject has been brought up.

Mr. J. H. Holliday, of Indianapolis, Ind.: I am by nature a strict constructionist, and I sympathize entirely with the views of my friend Mr. Witt on this subject. We have in this country different methods of banking. The State has conferred upon trust companies the right to do certain things in corporate ways that have heretofore been done by individuals. Owing to the complexity of our civilization that was a necessary step to take. The State, however, has heretofore created methods for banking. A trust company is not necessarily a bank. Incidentally it becomes a bank, because it has to have a large capital, or should have—at any rate, it has a capital—on which it must earn an income. It also has funds belonging to trust estates which it must handle, and permission has been given to it by law to receive deposits. Now, naturally, if you are permitted to receive deposits, you have to make use of that money. It is perfectly proper for a business to develop along the lines, as Mr. Cohen suggested, of real estate and insurance; but when it comes to the banking side of the proposition I take issue with him. I think, too, that Mr. McIntosh has not been consistent in his conclusion that a trust company should confine its business to trust matters or to matters involving trusteeship. Commercial banking does not do that. We have two systems of commercial banking in this country, as a rule. The first is that which has grown up from the beginning, superseded or extended by the National system. Those banks are supposed to be, as far as the National system is concerned, and they are, absolutely commercial banks. The business of the trust companies along their banking line, to my mind, should be absolutely distinct and should not partake in the least of the features of a commercial bank. I know it is done in many States. In my own State I am thankful to say it is permitted by law, although for a reason not necessary to mention, on account of the law forbidding reduced capitalization, a good many institutions have sprung up in the smaller cities that do a commercial business to a certain extent. I maintain that a trust company should do no commercial business whatever. It has

sufficient business in its own line if it will stick to that line.

Now, the point I want to make particularly is this: That if we antagonize all these other institutions it will be the worse for us one of these days. Mr. Jaster speaks about the addresses yesterday in the convention advocating permitting National banks to open savings departments and taking trusts. I want to say to you, gentlemen, that it is my firm conviction that if ever such a law is passed it will be good-bye to the prosperity of trust companies, and it will be like the darkey who said: "You may lose yo' hoss, and you kin git another one; yo' kin lose your wife, and you kin get another one; but if you lose yo' soul, boss, it is good-bye, John." (Laughter and applause.)

The President: There is a gentleman present who knows so much about what a trust company should be and what it should not be—a man whom all of us who know him love, and whom those present who do not know him would love if they knew him; a man who was active in the affairs of this Section from its beginning and as finally President of it, and who is now Superintendent of Banking of the State of New York, and yesterday was elected President of the Association of Supervisors of State Banks. I assume the liberty of taking a very unfair advantage of him in asking that he say a few words to us. I present Mr. Clark Williams of New York. (Applause.)

Mr. Clark Williams, of New York: Mr. President and gentlemen: I am exceedingly grateful to Mr. Jackson for this expression of his personal opinion as to myself. It is always a great pleasure to meet with trust company men, and particularly with members of the Trust Company Section of the American Bankers' Association in convention assembled, which pleasure I have had for the last eight or ten years, with only one exception, occurring in the fall of 1907, when in the city of New York and in that State we were exceedingly busy. I doubt if my opinion on the question under discussion would be of particular interest, and I should dislike to commit myself specifically upon it except in the broadest way, because if one commits oneself without a clear definition of the terms, his opinion may be misleading, and it is necessary to define commercial banking before we know how we should vote on the proposition. But I say emphatically that I am inclined to the position taken by Mr. Witt and by Mr. Holliday, as along the conservative line. That is the line which has given the trust company movement its success, and it is worth while to adhere to it. You have been given interesting and instructing figures this morning. It may be that one figure has not been given you, however, and it is this. I should like to call your attention to the effect and the recovery from the panic of 1907 upon trust companies in the State of New York. I mention these two figures because I feel I owe that to the institutions under our supervision. The loss in deposits in the trust companies in the State of New York between August, 1907, and December, 1907, were \$368,000,000. The recovery from December, 1907, to the present time in deposits amounts to \$561,000,000. (Applause.) Although at that time there were \$117,000,000 of assets of delinquent corporations, I am pleased to quote to you that there is not a prospective loss of one dollar to a depositor. (Applause.)

Your President has alluded to the honor which was done me yesterday in my election to the presidency of an organization of which I think probably you know very little—The National Association of Supervisors of State Banks. I make bold, because of my friendship for you and my loyalty to this organization to make a suggestion as to your future work. I know something of the work which your Legislative Committee has given to the particular points which seemed at one time to be worthy of their consideration. We have now in a great many of the States a proper protection to the term "Trust"; but, gentlemen, while doing that work, could they not broaden their efforts so that each State might be aided by the efforts which are now making for more adequate supervision of the institutions taking charters from the States? And would it not be possible for you to endeavor to secure such laws as the Liquidation Law, for example, that we have in New York? A broader sphere for usefulness seems to me to be open to your legislative committee in its approach to this question of securing sound banking and efficient supervision; and I ask the co-operation of this body in the efforts which you will notice on the part of the different supervisors in the respective States. And, gentlemen, if they are not accorded the funds which will respectively enable the Banking Commissioner or the Superintendent of banks to do his duty by the depositors, will you see to it that your Legislature gives it to him.

I thank you, gentlemen, for this opportunity of addressing you and I shall hope always to meet with you in your conventions. (Applause.)

Mr. J. T. Jaster, of Cleveland, O.: I would like to ask Mr. Williams if the law to which he referred as the "Liquidation Law of New York," is a State law?

Mr. Clark Williams: Yes, sir, it is.

Mr. Jaster: I think that ought to be brought before the

Executive Committee for discussion, so that, if possible, we can recommend that a similar law be enacted in every State in the Union.

Mr. Clark Williams: May I be indulged to give you in two lines the result of the operation of this law? I read from a copy of a placard which is now on exhibition at our State fair at Syracuse:

Liquidation under the New Law. Banking department took possession of Binghamton Trust Company April 6, 1909. First dividend to creditors, 50 per cent., paid September 1, 1909. Amount collected, \$1,560,000. Cost of collection, two-thirds of one per cent. Under old receivership system cost has frequently been from 20 to 30 per cent. In the case of thirty-four insolvent National banks in New York State, the average cost was eight and seven-tenths per cent. (Applause.)

Mr. Witt: I would suggest that it might be dangerous so far as trust companies are concerned. It would be entrenching upon the functions of a trust company, and I do not think it would do to cut us out of receiverships. (Laughter.)

Mr. McNair: I wish Mr. Williams would state to us the cost in dollars and cents of the liquidation of three or four of the New York State institutions before the first bank was liquidated by the banking department of that State.

Mr. Clark Williams: There were 13 failures of State institutions. Several of them went into the hands of receivers appointed by the court and are now in liquidation. Many of them have resumed business, but receivers were appointed prior to their resumption. In the case of the Hamilton Bank, which resumed, a receiver was appointed and the receivership lasted three months. The cost for receivers' fees and legal fees, no other expenses involved, amounted to between thirty-five and forty thousand dollars. In the case of the Brooklyn bank the cost was sixty thousand dollars, I think. In the case of the Knickerbocker Trust Company—I believe that has been settled now—it was twenty thousand dollars to each receiver, and seventy thousand dollars to the counsel employed. Immediately after the passage of this law the department took possession of the Home Bank of Brooklyn. That was our first trust. We performed a partial liquidation, returning the bank to its shareholders, at a cost of \$660, after forty-two days; or a total cost, including other expenses which brought the amount up to \$1,200. We performed this liquidation in the case of the Binghamton bank, at a cost, including counsel fees and receiver's fees of my deputy, of \$3,500. (Applause.)

Mr. Stone, of Detroit, Mich.: I want to cite an illustration. I happen to know of a trust company—modesty forbids my mentioning its name—that administered the affairs of an insolvent bank where the expenses were a trifle under 2% of the total resources of the bank. (Applause.)

The President: Is there any further discussion of this subject? I assure Mr. Williams that the recommendations he has made will be brought before the Executive Committee.

Mr. Dinkins: At the Briarcliff meeting last spring it was the sense of the members of the Executive Council that it would be inadvisable for the Legislative Committee to initiate legislation in any State, because we could not ascertain the atmosphere locally, so to speak. We find in a number of States that there is an indisposition on the part of trust company officials to suggest new legislation; they are afraid that the members of the Legislature will take the bit in their teeth and go too far. I think the bringing about of better conditions which Mr. Williams has mentioned is certainly desirable all over the country; but I think it will necessarily be very slow, and I think the Supervisors of State Banks are really in a better position to further such legislation than any committee which this body might appoint could be, because, as a rule, they are more closely in touch with political conditions.

The President: We have present a Chicagoian—a banker, known by bankers here; a business man, and, more than that, a gentleman who is known far and wide as an authority on the topics of the far East, the Hon. Charles R. Crane, who is about to leave this country for his post as Minister to China. I see him sitting here and I have been wondering whether he would not say a word to us—of course, not about the banking business in China, but about anything that comes to his mind. (Applause.)

#### PRESIDENT TAFT'S POLICY REGARDING THE FAR EAST.

Mr. Charles R. Crane, of Chicago, Ill.: Mr. President and Gentlemen, I am afraid that I do not know very much about the banks in the far East, but I am very glad to say a word or two to you as I know President Taft is very anxious that every one in this country should become interested in our far Eastern affairs, because he feels that there has been a great shifting in political interests in the powers. As you know, the century opened with two great wars, between China and Japan, and between Japan and Russia, and those two wars have shown that the opportunities in the Pacific are and what our responsibilities are; and we are very fortunate in having a President who understands the Pacific so well at this particular time. I might say that it was President Taft's speech at Shanghai just two years ago next month that made

me vote the Republican ticket for the first time. That speech, I think, some day, will be regarded as a very famous one, and I advise you if you can get hold of a copy of it to read it, as you will find it very valuable in throwing light upon the problems that face us out there. President Taft is also very much pleased that my friends have shown so much appreciation of my appointment, because it is his theory that the American Minister in the far East should be appointed from the West, and everything that can be done to give that section the appearance of solidarity will help our affairs, and especially help us in taking care of the problem of the open door. President Taft's policy is a very simple one, perfectly easy to understand, and one not at all needing any justification. It is a problem that menaces no government in the world, and is merely the policy of giving China a sufficient amount of support and protection to enable her to solve the very difficult problems before her—problems of administrative reform, problems of education, problems of currency reform, and the problem of the opium traffic—and the President feels that if she is let alone and allowed to take care of herself she can handle them in her own way, and, as she develops, our interest in her will develop. The general theory is that whatever is for the benefit of China will benefit not only our own country, but every other country in the world; that we have no interest in keeping China down or in menacing her in any way, but our whole policy is one of friendship and support, and President Taft thinks that ought to be the policy of every other country in the world; but that is our policy, and that is what I go out there to help to maintain. (Applause.)

#### DUTIES AND RESPONSIBILITIES OF TRUSTEES UNDER CORPORATE MORTGAGES.

The President: The next business is the second subject on our programme for discussion—"Duties and Responsibilities of Trustees Under Corporate Mortgages."

Mr. Willard V. King, of New York: Mr. President and Gentlemen. In opening this discussion let me touch upon one phase of the subject without attempting to cover even in a superficial way the entire ground.

Even the casual observer must be conscious that a general elevation of thought, particularly in the field of business, is marking this decade—a searching of methods with an eye to their morality, where previously we had studied them only in respect of their economy. The movement is generally called a "reform wave," and dismissed as an ephemeral matter like woman's fashions—to be endured patiently and with the philosophic consolation that it will pass in a season. I believe that the movement is more like a geologic disturbance, evidencing the progress of readjustment of the world, and resulting in the rupture of the strata under strain and the establishment of new elevations. These changes are permanent—at least they endure until another convulsion pushes the work farther along. The industrial world has moved at an unprecedented pace this last fifty years, and it was necessary that there should be a readjustment of relations between men. Public opinion, which ordinarily walks a few paces before enacted law, has run ahead, leaving a wide gap, so that people have discovered with surprise that, for instance, there are no statutes under which certain prominent pirates can be sent to jail. Other statutes, enacted in advance of their need, and therefore unsupported hitherto by public opinion and ignored, are now enforced by that opinion and consequently by the courts. (I may cite the recent decision against the trustees of the Trust Company of the Republic in New York.)

I mention this matter not as an invocation to the higher life, but as pertinent to the duties of a trustee of corporate mortgages; because I believe we will be held to a stricter accounting as time goes on of our actions and omissions. We must give thought to the bondholder—constantly more thought, and not lean contentedly on the clauses exempting the trustee from any duty except to collect its fee. Of course I do not mean that we are now ignoring the bondholder altogether, but we are discussing the matter here *en famille*, and in family talks only the faults are mentioned and enlarged.

I do not mean that the trustee's certificate on a bond should be a guaranty of the title to the mortgaged property, or of the validity of the issue, or of the sufficiency of the security; it should always be made plain that the certificate means nothing of that sort, for reasons that become obvious as soon as the subject is studied, but I believe we should use our endeavors first to prevent the issue of worthless bonds, and secondly to prevent impairing the security of outstanding bonds.

Too many trusteeships are accepted without proper scrutiny of the mortgaging company. We should insist on responsible introductions, written statements of the affairs of the company, and covenants that it is possessed of property and authorized to pledge it. We should reject doubtful enterprises and avoid like the plague promoters with shady reputations. The commission appointed by the Governor of New York to investigate the field of speculation and investment, of which I was a member, found many deplorable cases of successful plundering of the public—wonderfully successful. We must be

scrupulous to prevent the use of our names, either as trustees or as registrars, by those robbers of the poor, because whatever our legal liability, the moral responsibility is undoubted, and I feel that in the march of events a legal liability may some day be imputed.

One fruitful source of wrong is the common clause directing the trustee to certify and deliver the bonds upon the mere order of the company's officers. It is no doubt proper that the trustees should be relieved of the responsibility of seeing to the application of the proceeds of a bond issue; but could we not require an engineer's certificate, or an affidavit of some officer, stating that the proceeds had been spent for the security of the bondholders, or that the property described in the mortgage had been acquired or constructed for their benefit?

As to the second point—we are confronted with the dilemma that we owe our appointment as trustee generally to the favor of the mortgaging company, but our allegiance to the adverse interest—the bondholders. Our compensation, our hope of more business, lie on the one hand; on the other, our simple, tedious duty to an indefinite number of unknown persons who will give us nothing—except it be a lawsuit for things done or left undone and not to their taste. In a spirit of accommodation to our patrons, we are tempted to deliver bonds, it may be, or to release some property, without full compliance with the letter of the trust deed, under circumstances possibly that would justify the act if performed by any one but a trustee. Now while a trustee should not be over-technical, and should in times of need measure the risk and even assume it, if good judgment requires, we should consider every case that arises in the course of a trusteeship, from the point of view of the bondholders, and bear in mind that we favor our patrons at our peril. I need hardly say that it is bad advertising as well as expensive to defend a suit for a violation of trust.

The President: Is there anything further to be said on this subject?

Mr. McNair: I regard the acceptance of a trusteeship under a corporate mortgage as the most important act that trust officers are called upon to perform. It is beset with many dangers that we do not realize, as was brought home to me quite vividly several weeks ago. We often act as trustee in such cases, and sometimes the papers are prepared by our own attorneys, but more frequently by other attorneys. Those men have a personal feeling of pride in their own work, you know, and they oftentimes object to making changes that we suggest for our own protection. Several weeks ago a gentleman brought in a mortgage under which he asked us to become trustee. We suggested certain changes. He objected to several of them, and I finally told him that as I understood it we were only certifying that there were so and so many bonds issued, that we did not go into the question of title at all, and we did not guarantee the bonds. He took the position that we certainly did so because our certificate read "Bonds mentioned and described therein," referring to the mortgage. Within the week or so we were asked to act as substituted trustee in the case of an issue of bonds. We looked over the mortgage, which had evidently been drawn by some one not familiar with drawing corporate mortgages, and in it we found a description of "First mortgage bonds." The certificate of our predecessor as trustee was that it was "one of a series of bonds described therein." In investigating the facts we found that it was a second mortgage, and that there was a first mortgage issue outstanding held as collateral by a bank. Before we would accept the trust we obtained a consent signed by all of the bond holders, and we also got an agreement from the company that they would issue no more bonds under that mortgage.

Mr. Edwin Chamberlain: I believe we are here for instructions and to learn something in our business, and for that reason I wish to speak on this subject. I certainly appreciate this afternoon's discussion a great deal more than I would have appreciated the excursion. We have had several cases in my section, and we have adopted the general policy where we are called upon to act as trustee of going into a valuation of the property. A special committee is appointed. Our object is first for our own information. Then we have an abstract presented to us, and our own attorney passes on it. The abstract is prepared and paid for by the corporation that is seeking the mortgage. A minute is made of all these things on our books, and everything has got to be satisfactory before we will accept the trusteeship. We simply certify then what has been done, without assuming any responsibility whatever.

Mr. McNair: What is the charge for such service as you perform preliminarily to accepting the trust?

Mr. Chamberlain: We have no fixed charge. We make our charge according to the work that we have to do.

Mr. McNair: Do you examine all the titles?

Mr. Chamberlain: Yes, and the abstract, and the corporations applying to us have to pay our attorneys for doing that work.

Mr. McNair: Does not the fact that you undertake to assume and pass upon the title bind you and make you responsible to a certain extent?



Mr. Chamberlain: We do not think so. Our institution will not act as trustee until we are satisfied that the mortgage is all right, and then we certify that we are not responsible for anything beyond our own act.

Mr. Sontag, of Indiana: There is one feature of trusteeship that we have run on to lately that seems to me very serious. That is the matter of insurance on a piece of property. The control of a manufacturing property passed into the hands of a trustee and he neglected to keep up the insurance. He was written to several times to look after it, but he ignored the letters. In case of the destruction of the buildings by fire the bondholders would only get half of the security that they expected when they made the loan. Now, it seems to me that trust companies ought to be careful about assuming such liability. In the case I speak of the insurance was about 50 per cent. of the bond issue.

Mr. King: Ordinarily a trust deed provides that in case of default in keeping up proper insurance the trustee is authorized to step in and do it. The premiums are not large and usually the trustee would rather pay them than have any trouble about the matter.

As to the other matters that have been discussed here, I would say that where a trustee goes on record before the public as assuming any responsibility in regard to the title to property or the value of it, I think he would stand in an undoubtedly bad way in a lawsuit if he were to certify any bonds without successful as well as careful scrutiny. No two men in a hundred might agree as to the value, for it might be a prospect, an unbuild railroad, and who could say what it was worth? Suppose we were offered the trusteeship of a new issue of bonds of the Rock Island Railroad or of the Pennsylvania Railroad, how could we tell how good the title would ever be? It might take years to determine that. Even the Board of Directors of the Railroad are bound in case they have overbonded. I believe if ever the trust companies put themselves in the attitude of passing on those things as far as the public is concerned with any idea that the bonds will become more saleable the trust companies will be open to attack if they carelessly exceed the deed of trust.

What I tried to bring out was that we should not take these absolutely worthless trusts that are offered. We ought to be sure that the parties offering them are reputable people and are really mortgaging a going business for the benefit of the bondholders. To ascertain that you would not have to go into the value of the property. You would get a fair statement by somebody of reasonable responsibility that there was property there, that the mortgage offered was a first mortgage, that the property belonged to the company and that the company had a right to mortgage it and did mortgage it. Covenants such as those occur in some mortgages, but not in every mortgage. I have had some unpleasant experiences where companies intended to construct a trolley line, and they brought the bonds out and got them certified, and they were sold to school teachers, stenographers and all sorts of people who could not afford to lose their money, and people who did not have access to Moody's Manual, and then the trust company was besieged for years and years by these people who wanted to know why their bonds were not paid.

We ought all to be a little more careful, and we ought not to accept anything that puts us on notice either as to the title of property or the validity of the bonds or the value of the mortgaged property without very careful investigation.

Mr. Benjamin I. Cohen, of Portland, Ore.: I would like to ask Mr. King what his opinion is about the phrase "bonds mentioned and described in the within referred to mortgage," as to the responsibility assumed in such a case?

Mr. King: I think that is one of the questions that is going to be threshed out in the court and where very likely we will suffer more than we have. There have been cases where a mortgage was called a "first mortgage" and there were prior liens on the property, and where the trustee was not held accountable for it. Only a few years ago the Clover Leaf Railroad was reorganized, and they calmly put out a first mortgage 4% bond and at the same time put out a prior lien 3½% lien ahead of it, while anybody picking up a first mortgage bond might be unaware of the existence of the prior lien. I think the Baltimore & Ohio Railroad called their bonds "first" mortgage bonds, and yet they had a prior lien ahead of them. So I think there is enough, so far as the decisions of the courts are concerned, to justify a trust company in certifying a bond as a first mortgage bond even though there may be some prior lien ahead of it, but I do not know of anything in good conscience that will justify it. I think it is very bad practice. You can always persuade your client if you try to make it "First Consolidated" or "First General Mortgage," or some other way that will call the attention of a purchaser if he knows anything at all to the fact that the bond is issued under some condition requiring that he should look into it. I think we ought to be scrupulous not to call those bonds "First Mortgage Bonds." As I have watched the decisions of the courts in these matters and in holding trustees and trusteeships to strict accountings, I think we are gradually drifting into a little higher moral plane, as the older countries of the world have in these matters; and, if we do not

pay more strict attention to these matters some of us will be brought up with a very sharp turn some day.

Mr. Cohen: Do you think that the mere statement that this is a bond, without saying whether it is a first mortgage bond or a second mortgage bond, would be binding upon you?

Mr. King: That depends upon what you mean by "bond." To-day, according to the decisions of the courts, it does not legally bind you; but I think in all good morals it ought to bind you.

Mr. Cohen: If the mortgage says that it is a first mortgage bond, and it is in point of fact a first mortgage bond, and hereafter you refer to it as one of the bonds "described in the mortgage herein," do you think that either legally or morally the trust company has been guilty of negligence?

Mr. King: Oh, no. The property might be sold for taxes and then, of course, the taxes would become a first lien ahead of the mortgage.

Mr. Ralph Stone, of Detroit, Mich.: Do you recommend the taking of a certificate of an engineer, the constructing engineer of the mortgagor company, for instance?

Mr. King: That is usually done. If you do anything else you are going to duplicate work extensively. I think we should require something such as is done in England. I think the point is covered in an Act known as the Directors' Liability Act in England, wherein it is provided that any promoter who brings out by circular or prospectus any securities, or lends his name to be used on any such prospectus or circular as a director, becomes liable to anybody that buys the security and incurs a loss, unless he can show affirmatively that the facts stated in the prospectus or circular are true. If the facts are quoted from the reports of an expert, an engineer, he must show affirmatively that the expert or engineer was qualified as an expert or engineer to make the statements. In other words, the promoter cannot take Bill Jones and say, "Why, some one came in and said Jones was an expert and I took his word for it." The English Act does not permit anything of that sort. The English people have been civilized beyond that.

Now, I think that possibly when it comes to an engineer's certificate in a matter of that sort it would be an act of good conscience for us to require a statement from somebody of some responsibility that the engineer was an engineer of repute and character, and not the mere tool of a group of promoters.

Mr. Ralph Stone: I know of a case where the engineer was the engineer of a railroad company and he made a false certificate; and when the matter was brought up in court the trust company was criticised very severely; and I think if there is any likelihood of any such thing as that occurring it would be a good provision to insert in a mortgage that the trustee might employ its own engineer to report on the facts, at the expense of the mortgagor; not only an engineer in cases of construction, but to take up any previous requirement as to the issuance of bonds, and not take the mere statement or resolution of a board of directors as being conclusive on the facts.

The President: We will proceed to the next subject—"The Value and Responsibility of a Safe Deposit Department."

We had hoped to have Mr. Bell, of Washington, here to talk on this subject, but he was not able to come.

The Secretary: Mr. R. L. Rutter, secretary of the Spokane & Eastern Trust Company, of Spokane, Wash., has sent a communication bearing on the subject "Mortgages as Investments for Savings Funds of a Trust Company."

The President: Then, if there is no discussion of the subject upon which Mr. Bell was to speak, we will take up the subject that Mr. Rutter has written about. I will ask the Secretary to read Mr. Rutter's communication.

#### MORTGAGES AS AN INVESTMENT FOR TRUST FUNDS.

The Secretary (Reading):

Beyond a question, the world's greatest investors of trust funds are the American life insurance companies, and it is a matter of keen importance that they are steadily increasing their relative holdings of mortgages and are cutting down their proportion of bonds.

This is partly due to the operation of the recent insurance legislation in New York, but in even greater degree it has been brought about by the experience of the great companies in handling mortgage investments. They have found that real estate loans, carefully selected, combine in the highest degree the three elements of investment for trust funds—absolute safety, prompt payment and the highest obtainable interest rate.

Take, for instance, the Penn Mutual Life Insurance Company, which, together with the Northwestern of Milwaukee, ranks among the leaders in handling mortgage loans. The Penn Mutual closed the year 1908 with practically \$40,000,000 in mortgages on which there was not a single dollar of delinquent interest. In many years the company has not foreclosed a mortgage, and President Johnson advises that on the foreclosures that were formerly made, the company sold out at a price to break even.

Since the life insurance companies are the greatest investors of trust funds that we have, their experience in handling mortgages should be satisfactory evidence for consideration by the trust companies. The Spokane & Eastern Trust Com-

pany, of which the writer is Secretary, makes it a rule to keep 50% of its savings deposits invested in mortgages. In the largest degree possible we keep the trust funds in the trust department, also invested in mortgages. In order to do this, we maintain a mortgage department with a staff of four people who give their entire time and attention to this branch of the business. In the past year and a half this department has handled mortgages aggregating more than a million dollars, and has been able to work up the average rate of mortgage investments in the savings department to 7%.

On a nominal 4% interest basis, we actually pay out about 3 4/10% interest to savings depositors, so that with half the deposits invested in 7% mortgages, the income from that source alone pays interest on the entire line of savings and still leaves a half of the savings held either in reserve or invested in bonds or warrants. Under this system it is easy to see that the savings bank department can be made a profitable business.

As to safety, in thirteen years the bank has never made a single mortgage foreclosure nor come into the possession of a piece of real estate on which it held a mortgage. As for delinquency of interest, overdue interest is reduced to such a small fraction as to be negligible.

All our loans are made on the recommendation of the manager of the mortgage department, subject to the approval of the Executive Committee of the bank. As for the percentage of loans on city business property in Spokane, we lend up to 40% of the valuation in cases where the loan does not exceed twice the value of either the ground or of the improvements. All loans are made with annual reductions, usually amounting to one-tenth of the loan. These are obligatory on the part of the borrower and prompt payment of them is insisted upon. Thus the security is constantly being improved by virtue of the annual reduction on the amount of the loan.

In residence loans we have had a very good success under a plan of mortgization, under which the borrower makes a flat level payment of the same amount, including both principal and interest, payable monthly during five, six and seven years. This is almost identical with the *Credits Foncier* of France, with the trifling exception that our amortized house mortgage bears interest at 10%, whereas the French pay around 3 1/2 and 4%. In loans under this amortized plan we will make mortgages up to 60% of a conservative appraisal of the land and improvements. Under our scale a monthly payment of \$21.25, including principal and interest, will pay a loan of \$1,000 in 60 months; a monthly payment of \$16.60 including principal and interest will pay a loan of \$1,000 in 84 months.

This plan is admirably suited to savings banks when they will fit themselves with a competent mortgage department to keep the funds reinvested as fast as they are paid in. We consider our mortgage department the most profitable department in the trust company, because not only has it succeeded in lifting the average income on mortgages in savings investments up to 7%, but it also makes a gross profit of about \$1,000 a month in the sales of mortgages. When you can build up a reputation for handling only first class mortgages, there is practically an indefinite demand by purchasers who want to own real estate loans for their separate investment. We are constantly called upon to furnish more mortgages than we can supply. The commissions on this class of business constitute a very important feature of the trust company's business.

The President: With us in Pennsylvania what are known as legal investments are first mortgages on real estate, United States bonds, and State and municipal bonds. Mortgages really form the bulk of our investments for trust funds.

Mr. Gillespie, of New York: Is a trust company under any circumstances permitted to invest its trust funds in mortgages which have been negotiated by it? I have in mind a trust company which has a mortgage loan department? It charges a commission of 2% on a three year loan. The State in which that corporation is organized permits the company to invest its funds in securities "now owned or otherwise secured for trust funds"—which means, as many good lawyers say, that it is legal in that State for trust companies to purchase mortgages of itself. In that company the trust department is entirely separate from the mortgage loan department, and the officers of each department confine their efforts to their respective departments. Now the question I want to ask is this? Does the common rule apply under the circumstances, namely that a trustee shall not deal with himself and make a profit aside from his regular commission as trustee?

Mr. Fuller: That is a question that my company has had occasion to give a great deal of consideration to. I should say that under the law a trustee has no right to deal with itself in that manner. I question very much the right of a trust company selling to a trust estate in its hands its own securities, unless the law expressly gives the company that right. In a law enacted in our State by the last legislature a clause was inserted to the effect that a trust company may transfer trust funds without other liability than if purchased from a third party any mortgages or securities owned by it that complied with the statutes for the investment of

trust funds. I think without such a law that under the general law such a transaction as mentioned by the last speaker is very questionable, and, in my opinion, wrong.

The President: It seems to me that the moral criticism might undoubtedly be made. I do not think it is ordinarily done in our locality. There is such a scarcity of mortgages from time to time that we take for the benefit of a trust fund certain securities when we can get them. One day there may be very little money for investment, and the next day there may be something paid off and funds would come in, and then we would give to our client the benefit of an investment. But we would never sell at a profit and take a commission for doing it.

Mr. Fuller: The purpose of having our law changed in the way I have mentioned, was to avoid what we considered the absolute liability that we incurred in making such transfers. It is impossible in our community to get mortgages always when we want them. We have got to take them when we can get them in order to supply the requirements of our trust funds. We take every good mortgage that is offered to us. We are not so fortunate as Mr. Rutter is apparently in being located in a community where we can always get gullt edged mortgages. It has been our practice for years to transfer good mortgages to trust estates in our hands, but we have always felt that in doing so we took not a mortal liability, but an actual liability; and for that reason we had the law changed.

Mr. Benjamin I. Cohen: Some years ago I know of a case where a large trust company in Baltimore became a subscriber to a bond issue. They got the bonds, we will say, at 95. Thereafter a very highly respected citizen died and the trust company was put in charge of his estate, and they transferred to the estate a large amount of these bonds at 102 1/2, the then selling price. Time went on, and the bonds dropped in the market price. Then the heirs of the estate sued the trust company, and the trust company had to make good the difference between 102 1/2 and 95.

In view of that decision, and also following out my own ideas about the matter, I long ago concluded that it was legally as well as morally wrong to deal with yourself; but I recognize the fact that we have to take good mortgages when we can get them. If we get a mortgage to-day that is gullt edged and we haven't the trust funds on hand and tomorrow the trust funds come in, why, we transfer them to that particular mortgage. We have made it a rule to have a specific clause inserted authorizing us to deal with ourselves, as it were, in that way. In some cases where temporary investments are to be made we have a clause providing that we can put the money in our own certificates of deposit, but at the highest rate of interest granted to our most favored customer. We never make a commission at the expense of our trust. Unfortunately in our section of the country we do not get any commissions when we make a mortgage. It is a question of turning the mortgage over at the full rate of interest, and then charging the trust for proper compensation for our work.

Mr. Ralph Stone: This same question was asked at the first meeting of the Trust Company Section twelve years ago, and one of the members present at the time answered it by calling attention to the case of the St. Paul Trust Company that had taken the benefit of the difference between what the security cost and what it sold for; and in that case the court held the Trust Company liable for several hundred thousands of dollars in one estate and it was obliged to refund. It finally broke the company.

Mr. King: Under the common law the iniquity does not lie in taking the profit, but in dealing with yourself as trustee. I think in any State where special statutes have not been passed the measure of damages against the trust company would be the shrinkage in the mortgage value of the investment from the time it was turned into the estate until it was reduced to cash. What the company that I was formerly connected with has done after consultation with several firms of lawyers was practically what you say you have done: We bought mortgages for account of trusts and so labeled them, and we declared our policy at the time to be investing our capital only in the mortgages, and, buying mortgages from day to day and from year to year, we would have trust funds that we would be able to reinvest. I think with a declaration of policy of that sort—especially if it was shown on the books that those mortgages were bought for trust account—it would not be likely that the courts would hold you liable for any loss.

Mr. Cohen: Wouldn't you be dealing with yourself in just the same way?

Mr. King: No, because you would be really advancing the money.

The President: I assume that you would not use the funds of the company for the purpose. You would keep the trust funds separate and apart from the funds of the company?

Mr. King: In New York we do not keep our funds in that way.

Mr. Edwin Chamberlain: I think it would be a very good

idea to get the same kind of a law passed that Mr. Fuller said they had in his State.

The President: If you knew as much about the hard work that Mr. Fuller had to do before his legislature as I do, you would realize that any law that he had passed would be a good law.

Mr. Robert E. James, of Easton, Pa.: I am frank to say that in view of the discussions this afternoon I am somewhat disconcerted. The only thing we are alike in is in title. The only thing in common in all this membership is our similarity to title. As to powers, they differ as widely as there are individuals in this room. One gentleman inquires what would you do under certain circumstances? Why, follow your statutes. That is the only thing you can do. But your statute and the statute of my State differ so widely that there is no possibility of predicting anything on what I do as to what you shall do. So the gentleman from Oregon can issue circulation, he can build railroads and canals, or run steamships, or he can establish an oyster bed under the magnificent authority given him under the statutes of his State. In Pennsylvania, however, we are tied hand and foot. We must point to the letter of the law to find what our authority is. We cannot say that we can do all this, because it is not permitted; we must find the letter of the law in the statute books indicating what we may do. In New York a trust company can do general banking business. In Pennsylvania we are precluded from it, not only by our statutes, but by the constitution of the State. In looking over the magnificent book issued by this Association recently I found that when you come to certain sections of the country the powers are enumerated in blank; there is nothing specific, and the presumption seems to be—nothing being specific—that you can do anything you like. It is like the characters issued by some States. In Idaho you can do anything in the wide world—even to claiming the discovery of the North Pole and swearing that the other fellow who said he discovered it is a liar. (Laughter.) Under these circumstances it is almost impossible to arrive at any common ground on any subject. One gentleman says, "We do such and such a business. We don't take deposits." Well, we can all refrain from taking deposits if we find it profitable so to do. Unfortunately in our neck of land I have heard of no one who has yet declined to receive deposits on the same old terms.

Now, what suggested this thought to me is the topic suggesting the use of mortgages for saving funds. What are savings funds? In Pennsylvania they are described by the statute to be a certain kind of money deposits in savings institutions. A saving fund in Pennsylvania is money deposited in an institution created by a special law of the State which provides without capital for the regulation of that institution, the preservation of the funds deposited under certain circumstances and for a division of the profits after salaries are paid. In other States savings funds are established on an entirely different basis. Still by reason of this common term "savings funds," we all get at sea as to the basis upon which to form a conclusion. Some forty odd gentlemen, supervisors of banks of various States, and the Comptroller of the Currency himself are widely at variance upon this matter. Why, the Comptroller of the Currency speaks of "segregating" savings funds. Where in all the National Currency Act do you find such a thing as a "savings fund"? A gentleman here at this convention said that the National banks might go into this business. Why, bless you soul, they have been in it for three years. Didn't you know that? The theory of the National bank is that all its deposits are on demand. Outside of that a National bank cannot live under the statute. I am astonished to hear a Comptroller of the Currency speak of two kinds of National bank deposits. Why, it is absurd. Impossible!

#### SEGREGATING DEPOSITS.

This only brings me to the topic—the segregation of deposits sometimes called the segregation of savings deposits. How are you going to do it? Time deposits and demand deposits are of two classes, indicated by their titles. Many people call time deposits savings deposits. Savings deposits are time deposits. I can conceive of such a situation as that the segregation of deposits should be made. For instance, where an institution has three or four million dollars of so-called saving deposits or time deposits with the privilege of notice; and, on the other hand, one or two millions of dollars of demand deposits, and the notice is placed upon the time depositors. You cannot put it on the demand depositors. They might exhaust their active assets, and when the time depositors came along in thirty or sixty or ninety days afterwards they would find a depleted treasury. So far as that is concerned, I can conceive how there should be some effort to save the corresponding amount of assets in the event that the time depositors withdraw promptly at the first sign of trouble. The remarkable condition of 1907-8 was that the demand depositor, notwithstanding that the time depositors had a clause placed upon them, daily walked in and out with deposits, did not withdraw a dollar, smiled at the misfortune of his fellow depositors who were on the time side of the

account, but himself did not disturb his account. As long as that condition existed the general assets of every institution must pay the general debts of every institution. The only possible phase upon which he segregation of deposits can arise is upon the basis that you find that your demand depositors are taking advantage of the time deposits in periods of great public disturbance. How are institutions like trust companies organized in every State? They are authorized by the law to do business in a certain way. They undertake to do it. When John Smith comes up to the counter and lays down \$50, and says "I want to deposit this on an interest account," we give him that privilege. Or if he wants to deposit it on a demand account, we permit him to do that. If he asks for interest he must take the attendant circumstances. The contract is between the institution and him. He understands it. The institution understands it. Why should an outsider come in and say "You must make a better contract with John Smith, a contract that will compel you immediately, the moment you take a hundred or a thousand or ten thousand dollars of deposits and place it upon the counter to reach into the vault and get out the securities and say, "Here is the security." Why, practically that is an impossibility. At the close of the day you would have to add up your deposits for the benefit of a certain class of depositors, and figure the amount of excess over the totals of the preceding evening. Then if there was a diminution on your demand side the demand collateral is deposited and you take the bond out. So at the end of each day there is a see-sawing merely because in these days of reform there are more fanciful reformers than there are practical schemers. I do not say that I am opposed to the segregation of deposits. I merely say that in one point of view every institution ought to take notice, and if the Act is passed to cover that point I am entirely satisfied. Those of you who receive deposits, are you ready to accept the proposition that a legislative act shall be passed requiring you at any moment of the day to discriminate between your assets and your liabilities and to keep a constant running change from one to the other in order that you may not be guilty under the law of an offense which would send you to a different habitation from any you are familiar with? I speak with some knowledge, because we had a bill up in our legislature the last session to segregate deposits, a bill recommended by reformers which provided for the morals of the people, it looked after the spiritual welfare of the officers of financial institutions, it covered a multitude of subjects, physical, mental and political—and the legislature did not pass it; in fact, it did not receive a single affirmative vote in committee. If there is a united effort to impose upon the financial institutions of this country a burden of this kind, if it is right let us meet and encourage it. I believe it is always wise to meet a proper public demand. There is not a statute on the books in Pennsylvania regulating trust companies, or establishing the department which supervises them that was not originated by and pressed by the trust companies of the State. We maintain that attitude to-day. So if there is anything good in the segregation of deposits, let us meet it half way and urge it on. But if it grows out of that one-sided information that comes from the theory of the office without the practice of the counter, let us look at it carefully and scrutinize it. I think when the proper time may come this organization should care for its own interests in looking after this very question which, originating two or three years ago in the height of the panic and fostered by four or five of the State Superintendents, and now spreading to a larger body numbering something like forty and consequently represented in every State in the union, that it behooves us to see what the effect of so great a departure is going to be; what the effect is going to be upon the capital of the institutions by the infusion of them into savings institutions, and whether it is wise to convert all of the State's financial institutions, at least as to one side of their operation, into institutions which can only be denominated savings banks. (Applause.)

Mr. H. A. Rhodes, of Boston, Mass.: I think it is the law in Massachusetts that all trust companies having savings departments must segregate their accounts. The accounts of the various departments are run entirely independently of each other as though in separate rooms. In our trust company we have a savings department, and we keep a separate bank account for it—not with ourselves, but in another institution—and every dollar is kept entirely independent and is invested entirely independent of all other funds. That law went into effect the first of January last, and we started our savings department on the first of February in competition with mutual savings banks. We have received up to the present time about 125,000 savings deposits, and all that money is invested entirely independently and in the kind of investments permitted under the law of Massachusetts. Certainly, in Massachusetts, the law is working exceedingly well. I think there are some ten trust companies in the State doing a savings department business.

Mr. James: May I ask the gentleman a question in order to ascertain how it works practically?

Mr. Rhoades: Certainly.

Mr. James: In Pennsylvania all trust funds are required to be invested in government bonds or in first mortgages. There are no State bonds. Now, if you buy United States bonds at a premium you cannot very well pay much over 2% to your depositors. Now, of these so-called savings funds or time deposits, if a depositor sees fit to ask for interest on his deposit, whether it is a deposit of \$50 or \$500 makes no difference. In Pennsylvania I should say, on a rough guess, that there are \$350,000,000 of deposits of that kind. Now suppose the Pennsylvania institutions were required to invest that great amount of money in first mortgages when there wasn't a first mortgage on the market, what would become of them if they undertook to pay 3% interest.

Mr. Rhoades: In Massachusetts we are not obliged to invest any more money than we see fit to in first mortgages or in any other kind of securities. The investments are limited by law to a certain class. We cannot invest over 70% of our deposits in first mortgages, and the investment in first mortgages is limited to 60% of the appraised value of the property. That appraised value is fixed not by the assessor's value, although that is taken as a basis, but by the value of outside appraisers, just as the board of investments in the bank sees fit to decide. We are limited to United States bonds and to certain railroad bonds. The Commissioner of Banking issues a circular giving the kinds of investments permitted by the State for savings department funds.

Mr. Ralph W. Cutler, of Hartford, Conn.: What is true of Massachusetts in this respect is also true of Connecticut. Under a recent law the eleven trust companies that have savings deposits and savings departments were given five years in which to invest in such securities as are made legal investments for Connecticut savings banks. The investments of the savings banks are mainly in the form of mortgages. I think it is perfectly feasible and quite proper to segregate the savings deposits from the regular deposits.

The President: Perhaps, Mr. James, if the law were so framed as to give the savings deposits the right to be invested in other securities than is permitted in Pennsylvania at present it might have some bearing on your objection.

Mr. James: Yes; but the great difficulty at the bottom of it all is, What are savings funds?

A Member: I understand that by a recent law in California each department of a trust company is kept separate even though they are under the same roof. This movement for segregation is going throughout the country. The law in Ohio and in Michigan does not go quite so far as the California law. Now, if I understand it correctly, the Massachusetts law provides that the savings funds shall be segregated. The savings depositors have a first lien on the securities of the savings department and a general lien on the other assets of the company. In that connection I would like to ask whether the subject of class legislation has ever come up, and is this not class legislation and therefore unconstitutional?

The President: Perhaps Mr. Rhoades can answer that question.

Mr. Rhoades: The law of Massachusetts is that all investments of savings departments shall be held for the payment of the savings depositors, and those are kept entirely separate. Then in case the investments of the savings department are not sufficient to pay the depositors in full the savings depositors become general creditors with the other creditors of the institution and the capital and the surplus is held for the payment of the excess indebtedness.

Mr. James: What do you do with the general depositors—those whom you cannot class as savings depositors?

Mr. Rhoades: I say that the savings depositors become general creditors.

Mr. James: Then you give the savings depositors a specific lien upon a specific line of securities?

Mr. Rhoades: Yes.

Mr. James: And you give them the opportunity of dividing with the general depositors the rest of the assets of the company?

Mr. Rhoades: Yes, sir.

Mr. James: But you do not give the general depositors an equal opportunity with the savings depositors. That is, you discriminate against the general depositors?

Mr. Rhoades: Yes, in that case.

Mr. James: Well, if that is so, I don't think you will have many general depositors in a few years time when the public generally becomes aware of that law.

A Member: As I said before, that is what I would call class legislation.

Mr. H. P. Beckwith, of North Dakota: Every State in the Union, I believe, has different laws on this subject. We have a law in North Dakota that savings funds shall be limited in investments to certain specified securities and approved collateral under the supervision of the State bank examiner.

#### ROLL CALL OF STATES.

The President: Gentlemen, is there any further discussion of this subject? If not, we will pass to the next item of business on the programme, which is the roll call of States, to be answered by the Vice-Presidents in brief reports of the

conditions concerning trust companies in their respective States.

Mr. Edwin Chamberlain: I move that this order of business be dispensed with, and that the Vice-Presidents from the different States be permitted to send in their statements to the Secretary for publication in our Proceedings.

The motion was seconded.

Mr. Cutler: I do not think that would be quite fair to those gentlemen who have come here prepared to answer on this roll call.

Mr. Rempel, of Little Rock, Ark.: I am not a Vice-President, but I for one would like to hear what the conditions are throughout the country. I think we should proceed with the regular order.

Mr. William G. Edens, of Chicago, Ill.: The hour is quite late, and we have had a very long and interesting session, and I think it would not detract at all from the interest of the proceedings if we might have an opportunity to read the remarks of the Vice-Presidents instead of waiting here longer to-day.

Mr. Abrahams, of Denver, Col.: I don't care whether the Vice-Presidents get a chance to talk or not, but I am going to get a chance to say just one word, and that is this. When you go to Los Angeles next year we want you to stop over in Denver, and we will give you a good time.

Mr. Bowles, of Maryland: I hope the gentlemen who are Vice-Presidents and who want to speak now will stand up. That will settle the question.

Mr. Rempel: I think that would be very unfair, because we don't want to embarrass anybody.

(Cries of Question! Question! Question.)

The President: The question before the house is on the motion of Mr. Chamberlain, that the Vice-Presidents send in to the Secretary their remarks for incorporation in the Proceedings. All in favor of the motion will say aye; opposed, no.

Lost.

Mr. Gillespie: I now move that those Vice-Presidents who desire to do so send their remarks to the Secretary, and that those who desire to speak from the floor be permitted to do so.

The President: It is not necessary to make that motion, because the meeting has already decided to proceed with the regular order of business. Of course, as the roll is called those who do not desire to report now may send in to the Secretary a written statement, and it will be incorporated in the Proceedings.

Mr. Ralph W. Cutler, of Hartford, Conn.: Mr. President, I desire to leave immediately and I ask unanimous permission to hand in my report to the Secretary without reading it.

The President: Unless objection is made, the report of the Vice-President from Connecticut may be handed in. The Chair hearing no objection, it is so ordered.

(The Secretary then called the roll of States. The only responses made were from Connecticut, Missouri and New York, and responses from other States are to be sent to the Secretary and incorporated in the published Proceedings.)

#### NOMINATIONS AND ELECTIONS.

The President: Is the Committee on Nominations ready to report?

Mr. F. H. Fries: The Committee on Nominations reports recommending for election as members of the Executive Committee to fill the vacancies caused by the expiration of the terms of members expiring this year the following:

E. K. Boisot, Vice-President First Trust & Savings Bank, Chicago, Ill.

John D. McKee, Vice-President Mercantile Trust Company, San Francisco, Cal.

Charles J. Bell, President American Security & Trust Company, Washington, D. C.

F. N. Goff, President Cleveland Trust Company, Cleveland, Ohio.

Edwin Chamberlain, Vice-President San Antonio Loan & Trust Company, San Antonio, Tex.

The President: Gentlemen, this does not exclude nominations from the floor. Are there any nominations other than these?

On motion, nominations were declared closed.

On motion, the Secretary cast one ballot for the election of the gentlemen nominated, and they were declared duly elected.

The President: Nominations for President and First Vice-President are now in order.

H. P. McIntosh, President of the Guardian Savings & Trust Company, of Cleveland, O., was thereupon nominated for President.

There being no other nomination for President nominations were declared closed and, on motion, the Secretary cast one ballot for the election of Mr. McIntosh as President, and he was declared duly elected.

The President: Gentlemen, I present to you the President-elect. (Applause.) Mr. McIntosh, it becomes my very pleasant duty to turn over to you the insignia of your office, and to assure you that I know from the work you have done in the past that you will do good work for this Section in the future. (Applause.)

President McIntosh: Gentlemen, I thank you sincerely. It

is too late to detain you with a speech. I promise that I will endeavor to so discharge the duties of my office as to justify your action in conferring this great honor upon me. (Applause.)

Oliver C. Fuller, President of the Wisconsin Trust Company of Milwaukee, Wis., was then nominated for First Vice-President.

There being no other nominations, on motion the Secretary cast one ballot for the election of Mr. Fuller as First Vice-President, and he was declared duly elected.

President McIntosh: Mr. Fuller, it gives me extreme pleasure to greet you as First Vice-President of the Section. (Applause.)

Vice-President Fuller: I appreciate the honor you have done me, gentlemen, and trust I may be able to perform the duties of the office to your entire satisfaction. (Applause.)

President McIntosh: Next in order is the election of Vice-Presidents to represent each State.

Vice-Presidents from each State were then elected as follows:

Alabama: Arthur W. Smith, President Birmingham Trust & Savings Company, Birmingham.

Arizona: Byrd Brooks, cashier, Merchants' Bank & Trust Company, Tucson.

Arkansas: Clifton R. Breckinridge, president, Arkansas Valley Trust Company, Fort Smith.

California: R. G. Tognazzi, manager, Central Trust Company of California, San Francisco.

Colorado: J. Arthur Connell, president, The Colorado Title & Trust Company, Colorado Springs.

Connecticut: B. G. Bryan, secretary, Colonial Trust Company, Waterbury.

Delaware: Richard Reese, treasurer, Equitable Guarantee & Trust Co., Wilmington.

District of Columbia: Chas. J. Bell, president, American Security & Trust Company, Washington.

Florida: John Trice, president, Citizens' Bank & Trust Company, Tampa.

Georgia: Sigo Myers, president, Oglethorpe Savings & Trust Company, Savannah.

Hawaii: E. D. Tenney, president, Hawaiian Trust Company, Honolulu.

Idaho: W. P. Hurlbut, president, Commercial Trust Company, Lewiston.

Illinois: D. A. Wyckoff, cashier, First Trust & Savings Bank, Alton.

Indiana: J. L. Randel, secretary, Central Trust Company, Greencastle.

Iowa: A. T. Bennett, president, Bennett Loan & Trust Company, Sioux City.

Kentucky: B. G. Witt, cashier, Ohio Valley Bank & Trust Company, Henderson.

Louisiana: Frank Roberts, Cashier, Calcasieu Trust & Savings Bank, Lake Charles.

Maine: E. G. Merrill, Merrill Trust Company, Bangor.

Maryland: Maurice H. Grape, assistant treasurer, Continental Trust Company, Baltimore.

Massachusetts: Wilbur B. Tenney, Fitchburg Safe Deposit & Trust Company, Fitchburg.

Minnesota: Eugene A. Merrill, president, Minnesota Loan & Trust Company, Minneapolis.

Michigan: Ralph Stone, secretary, Detroit Trust Company, Detroit.

Mississippi: R. L. Bennett, vice-president, Hattiesburg Trust & Banking Company, Hattiesburg.

Missouri: H. S. Schwitzgebel, secretary, Commerce Trust Company, Kansas City.

Montana: Walter Collins, trust officer, State Savings Bank, Butte.

Nebraska: W. E. Barkley, Jr., president, Lincoln Safe Deposit & Trust Company, Lincoln.

Nevada: Owen Young, president, Bull-Frog Banking & Trust Company, Beatty.

New Jersey: William C. Reppenheimer, president, Trust Company of New Jersey, Hoboken.

New York: William C. Pollon, vice-president, Mercantile Trust Company, New York.

North Carolina: Matt J. Heyer, president, Atlantic Trust & Banking Company, Wilmington.

Ohio: W. R. Craven, secretary, Dayton Savings & Trust Company, Dayton.

Oklahoma: J. W. McLeod, president, Union Trust Company, Tulsa.

Oregon: E. A. Wyld, vice-president, Security Savings & Trust Company, Portland.

Pennsylvania: E. C. Emerick, treasurer, Susquehanna Trust & Safe Deposit Company, Williamsport.

Rhode Island: Charles Perry, president, Washington Trust Company, Westerly.

South Carolina: John F. Ficken, president, South Carolina Loan & Trust Company, Charleston.

South Dakota: Ernest E. Hart, president, State Banking & Trust Company, Sioux Falls.

Tennessee: W. Z. Dozier, cashier, Farmers' Bank & Trust Company, Fayetteville.

Texas: H. N. Tinker, vice-president, Union Bank & Trust Company, Houston.

Utah: Jos. F. Smith, president, Zion Savings Bank & Trust Company, Salt Lake City.

Vermont: Bradley E. Smalley, president, Burlington Trust Company, Burlington.

Virginia: M. S. Quarles, vice-president, Virginia Trust Company, Richmond.

Washington: John Schram, treasurer, Washington Trust Company of Seattle, Seattle.

West Virginia: B. Walker Peterson, president, Dollar Savings & Trust Company, Wheeling.

Wisconsin: C. C. Brown, of the North-Western Loan & Trust Company, Kenosha.

On motion, the members of the Executive Committee were given power to fill any vacancies occurring in the list of officers.

On motion, a rising vote of thanks was tendered to the bankers of Chicago for the hospitality and courtesies extended to the members of the Section.

A vote of thanks was also extended to the retiring President.

President McIntosh: Is there any further business to come before the meeting? If not, I declare the fourteenth annual meeting of the Trust Company Section adjourned *sine die*.

# SAVINGS BANK SECTION

## AMERICAN BANKERS' ASSOCIATION

Eighth Annual Meeting, Held in Chicago, Ill., September Sixteenth, 1909

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### *The Segregation and Safeguarding of Savings Deposits.*

BY HON. H. M. ZIMMERMAN, Commissioner of Banking for Michigan.

Mr. President and Gentlemen of the Savings Bank Section of the American Bankers' Association:

I am not unmindful of the honor you have conferred upon Michigan bankers, the Banking Department of their State and myself personally, and I would not be at all responsive to my feelings of appreciation did I not at the outset thank you for the very kind invitation which I received through my esteemed friend, your President, to say some things to you on the subject of the segregation and safeguarding of savings deposits.

I fear that I can say but little, if anything, that may be either new or instructive to you on the subject assigned to me. The splendid work which your Association has already done through the medium of its members—men of the highest talent and attainment in the profession of banking—places one who has not given the subject under consideration the same diligent investigation and mature consideration at great disadvantage in the discussion of this very important subject. If, therefore, anything that I may say shall at all prove worthy of your consideration I shall feel that I have accomplished all that I could possibly hope for. I feel assured that in the end your large experience and knowledge as bankers and the most worthy and commendable purpose of your organization will solve this financial as well as economic question in a manner so that the greatest good to the greatest number will be subserved, reflecting full credit upon the high character of our American bankers.

There has been much discussion within the last year or two on the subject of the insurance of bank deposits, one of the great political parties having incorporated the proposition in its platform. Likewise has there been much argument in favor of postal savings depositories, and the other great political party has incorporated this proposition in its platform, while Congress has had both plans under consideration, but as yet has reached no determination.

What has prompted this agitation? Some have said these were matters of mere political expediency, an appeal to the masses for their votes, and so on. Now, is that really the fact, or have we not drifted from our moorings and, under the trials of a panic, been reminded that perhaps not all of this discussion and agitation has been prompted without good reason?

#### KINES OF SAVINGS BANKS.

Originally a bank organized to receive savings deposits was properly and commonly regarded as a philanthropic institution, and its policy was influenced by educational considerations, its object being to promote provident habits and to increase the resources of the laboring classes, *its first concern being the safety of its deposits*. Such a bank was conducted solely in the interests of its depositors. The banks of this character in America are the "trustee" or "mutual" savings banks located principally in the New England States. This was the characteristic type in England, and, no doubt, accounts for their establishment in the colonial States of this country. That these banks have not been more generally established in the States is, no doubt, due to democratic rather than aristocratic social conditions.

There has grown up in the last quarter of a century in this country another kind of savings bank, commonly called a "stock" savings bank, spreading particularly in the extreme and middle West. This is a corporation having the same function as a mutual savings bank, but it is conducted for the profit of the owners of the capital stock. The depositors receive interest on their deposits at a rate fixed by the directors.

Besides, in the United States there are building and loan associations, savings and loan associations and co-operative banks which, in many of their functions, are practically the same as savings banks.

There are also State banks, National banks and trust companies which now operate what are known as "savings" or "interest" departments, although organized to transact solely a commercial business.

Then, again, in some States—notably Michigan, California, Massachusetts, New Hampshire, Connecticut, Rhode Island, Ohio and Texas—banks may incorporate to transact both a commercial and a savings business, although the statutes of these States prescribe certain limitations on the character of the investments such as banks may make with savings funds and require the separation of the commercial and savings business of such banks.

As we look over the history and development of these various institutions can we not see that the deposits of tradesmen, mechanics, laborers, servants, minors and other persons, commonly designated as savings deposits, have been

rapidly drifting into commercial channels? The encroachment through the medium of the various and sundry so-called "savings" and "interest" departments in our commercial banks, trust companies, building and loan associations, etc.—now so common everywhere—gives us much evidence of such a condition of affairs. Thus it is not surprising that the insurance of deposits and the postal savings plans have and are now being so vigorously and effectively discussed.

Savings deposits have always been regarded as "trust funds" when left with "trust" or "mutual" savings banks, and surely should be so regarded, both legally as well as morally, when placed with any other institution. The character of such deposits is certainly not changed, no matter what the character of the corporation or association may be into whose hands they are placed. The investment of such funds in ordinary commercial business risks would not be countenanced by the courts if in the hands of administrators or guardians. Neither should it be countenanced when these funds are in the hands of corporations which are not required by the laws of the State in which they operate to invest them in the most stable securities to be had.

The commercial depositor's money is received under far different circumstances. He expects to leave his money with the bank for convenience and as he may need it in his business. It does not represent his "all." His deposit is very frequently made and received by the bank with the express understanding that in consideration of the use of his funds the bank should extend a line of credit to him to carry on his business. A loss to him in case of suspension or failure of the bank does not mean so much in any sense as it does to the savings depositor. The distinction between a savings deposit and a commercial deposit is so apparent and well understood that it requires no elaboration.

The lawmakers of the States which I have mentioned—in which banks may be organized to transact both a commercial and savings business—have recognized this important distinction and have sought to safeguard savings deposits by requiring the banks to segregate such deposits and invest them only in the most stable securities. Michigan, I believe, is conceded to be the pioneer State in the adoption of such legislation.

#### DISTINCTION NOT UNDERSTOOD.

Though some States have incorporated such provisions in their banking laws, yet it is known that the people as a rule do not understand the distinction between a bank chartered to receive savings deposits and the ordinary bank of discount and deposit or other institution operating a so-called "savings" or "interest" department, maintained clearly in evasion of its chartered functions. It is for that reason that we should go farther, in my opinion, and urge the adoption of a general law in the nation as well as in the States that any institution chartered by either which holds itself out to the public to receive savings deposits should be required to segregate them and invest them in a definite and prescribed manner. Thus, in my opinion, many, if not all, of the alleged reasons for the insurance of deposits and the establishment of postal savings depositories would disappear.

We cannot turn back and undo the past, but can urge the adoption of such general laws as shall bring about these much-desired results. In this connection the suggestion may not be out of place that the Monetary Commission might very properly give this subject its very best consideration.

#### BREAKING AWAY FROM ESTABLISHED PRINCIPLES.

We may disagree with the advocates of both the insurance of deposits and the postal savings plans, but we must admit that we have been gradually breaking away from some of our more conservative and well-established principles, so far, at least, as the safeguarding of our savings deposits are concerned.

This is apparent in the masterly argument of Professor Laughlin, in the July *Scribner's* of last year, in opposition to the insurance of deposits. Though he treated his subject

from a purely national standpoint, yet he found occasion to remark:

"Protection for depositors in savings banks (or small private banks) is a little different problem from one dealing with commercial banks. It is for the protection of the saving depositor that government postal banks are suggested as conferring absolute safety."

Again, Professor Kinley, in his able article in opposition to the insurance of deposits, which appeared in the March number of *The Review of Reviews* last year, uses this significant paragraph:

"The only kind of deposits for the insurance of which there seems to be any reasonable ground are savings deposits. If it be true, as is generally admitted, that these on the whole represent the hard-won earnings of the working people, public policy requires that they should receive all the security necessary to insure against their loss. This, however, is done by institutions of those States who have proper savings banks—like Massachusetts and New York. *There is something to be done in this direction where savings banks of the mutual type do not exist, but are simply branches of commercial banks.* This, however, is something that cannot be reached by any national law. The deposits of the National banks—the only ones that can be reached by national law—are commercial deposits. These deposits belong to the class in a community that is peculiarly able to take care of itself. These deposits fluctuate rapidly and largely from day to day. They need no special protection, either from the viewpoint of the interest of depositor or the banker."

It is apparent that, while Professor Kinley admits that there seems to be reasonable ground for protecting or guaranteeing savings deposits, he is mistaken in his assumption that such deposits are not accepted by National banks. The Comptroller of the Currency reports that on June 23, 1909, the date of the last call, the savings deposit in the National banks amounted to \$380,494,598. Besides, it is well understood that not only the National banks receive these deposits, but State banks, trust companies, private banks and building and loan associations also hold themselves out for their reception, and that a large volume of such deposits are also held by these institutions.

If Professors Laughlin and Kinley are taken as authority on one proposition they should be taken as authority on another. While it may be impracticable or unwise to adopt the insurance of deposits plan or urge the establishment of postal savings depositories, yet it would seem there is an apparent need at least for the segregation and safeguarding of our savings deposits.

#### OTHERS HAVE RECOMMENDED THE SAFEGUARDING OF SAVINGS DEPOSITS.

I am pleased to endorse what the distinguished now ex-Commissioner of Banking of the State of Massachusetts, Mr. Pierre Jay, said to you a year ago on this subject:

"The more I study this subject the clearer it seems to me that morally and essentially savings deposits wherever deposited are trust funds, and should be invested accordingly. It is also argued by the State banks and trust companies that to be required to invest savings deposits in securities of more established value than mercantile credits will seriously diminish their profits. The answer is, first, that for savings deposits safety rather than large dividends is the essential thing, and, second, that profits will not be so largely diminished as they imagine."

The very able Commissioner of Banking of the State of New York, Mr. Williams, it is evident from his late reports, has given the subject under consideration much thought and attention, and I take pleasure in referring you to the language he employs in this regard:

"While we may oppose the plan of State or Government insurance or guarantee of deposits, we must sympathize with the desire of the people at large to have their deposits made as safe as they can possibly be made. It is not sufficient for us as bankers merely to oppose this proposition. It is incumbent on us to take steps to make impossible just as nearly as we can the failure of any State or National bank, and we shall fail in our opposition unless we are able to present a plan which will practically accomplish the desired end and at the same time be based on sound business principles. Is it better to

regulate your own affairs or to have them regulated for you? Is it better to be compelled by government influences to do what is right or do it of your own initiative?"

I wish to congratulate the Association of Supervisors of State Banks for having last year unanimously recommended the segregation and safeguarding of savings deposits.

I am especially pleased to find that among the officers of your association you have such ardent advocates of this subject as my good friend Mr. Johnson, your President, and I am pleased to remind you of what he said in part to the Savings Bank Association of the State of New York in an address made by him last May. After referring to the guarantee of deposits and the postal savings plan, he said:

"Each of these questions being prominent in itself, I will pass on without further comment, other than to say that we must meet this popular cry. The mere fact that we have protested publicly and otherwise against both of these prominent features is not sufficient to convince the masses of their undesirability. We must give them something as good or better, and prove it to them."

In fact, there is such an unanimity of opinion on this subject by those who have given it serious thought that it is unnecessary to quote as authority the opinions of others who are high in the profession of banking as well as in authority in supervision over our banks. To me it seems very clear that the advocates of the segregation and safeguarding of savings deposits have proven their case and that the recommendations made are irresistible.

I have just had an intimation that your Committee on Legislation has already concluded to adopt the segregation and safeguarding of savings deposits as its legislative policy. If that be true, then I am pleased to know that the jury has already, in fact, agreed upon its verdict, and thus, so far as you are concerned, the subject would need no further argument.

#### IN MICHIGAN.

It may be of interest, however, to the members of your Association to know how banks permitted to transact both a commercial and savings bank business are regulated. To those familiar with the statutes requiring the segregation and safeguarding of savings deposits in Michigan, it must be plain indeed that the savings depositors there were the special objects of care and solicitude on the part of the lawmakers, since the statute provides that separate books of account shall be kept, that all investments in the savings departments shall be kept entirely separate and apart from the other business of the bank. Originally the law did not provide for the preference of savings depositors, but the law was amended from time to time. In 1893 this provision was inserted evidently after due deliberation and with the plain intent of taking special care of savings depositors.

The reasons for this are quite evident. The lawmakers returned to the original idea or purpose of savings banks, as it was understood in the New England States when the English savings bank plan was adopted. It is apparent that the lawmakers of Michigan were convinced that savings banks should be established to encourage thrift among wage-earners, to offer safe and profitable depositories for their funds, and provide safeguards against loss, since the law expressly provides that savings banks may receive deposits from tradesmen, mechanics, laborers, servants, minors and others. While this enumeration of the persons from whom deposits may be received by savings banks in Michigan may have no particular legal significance in itself, yet it indicates very clearly the character of the business intended for a savings bank. The Michigan law also provides the amount of reserve to be kept on hand, and details how the remainder of the deposits of a savings bank shall be invested, which, for convenience, may briefly be stated as follows:

Fifty-one per cent. of deposits shall be invested as follows:

1. In notes secured by first mortgage on property worth double the value of the loan.
2. Bonds of the United States.
3. Bonds of any city, county, township or village in the United States.

4. Bonds of steam railroad corporations (subject to certain restrictions).

5. Street railway, steamship, gas and electric light and power bonds, under certain restrictions and provided they are approved by the Securities Commission, consisting of the State Treasurer, Attorney-General and Commissioner of Banking.

6. Banks may loan on negotiable paper secured by above classes of securities.

Thirty-four per cent. of savings deposits may be invested in collateral loans with collateral of known marketable value worth 10 per cent. more than face of loan; or a portion of this 34 per cent. (not exceeding capital and additional stockholders' liability) may be invested in negotiable paper, approved by directors.

Since such investments as these are not readily turned into cash the bank is given the right to provide against sudden calls for money in the savings department. In pursuance of such statute the bank may lawfully adopt a by-law calling for ninety days' notice of withdrawal of savings deposits. On the other hand, in the case of commercial banks, the lawmakers aimed to satisfy the needs of business life and the demands for credit in mercantile transactions. Investments made by banks of this character, it is evident, must be readily convertible into cash. By specific provisions of the statute all commercial deposits are payable on demand without notice, except where there is a special contract with the depositor to the contrary. Real estate investments are not suited to the requirements of commercial banking, since they cannot be readily turned into cash, and this statute thus prohibits the commercial banks from investing in real estate securities except in amount not exceeding one-half of the capital stock, and then only when authorized by a two-thirds vote of its board of directors. No limitation is otherwise placed upon the investments which may be made by commercial banks.

These dual functions conferred upon the State banks of Michigan have been taken advantage of by more than 90 per cent. of the banks organized in the State, there being comparatively few strictly commercial banks and strictly savings banks. This must be convincing that the plan operates successfully and to the advantage of both banker and depositor. If we had no such law it is evident that in the smaller communities banking facilities would be seriously handicapped, since in such places if a strictly savings bank were established it would not meet the commercial demands of the locality, and so, on the other hand, if a purely commercial bank were established savings depositors would not have the same advantage or protection as the law intended for such depositors.

In case of failure or dissolution the savings depositors in Michigan have a first lien on the assets of the savings department of the bank, and if these are insufficient then an equal claim with other creditors of the institution on its general assets as well as on the investments of the capital stock and on the stockholders' liability.

The Supreme Court of the State of Michigan has held, in line with the courts of those States in which mutual savings banks are established, namely, that savings deposits constitute a trust fund, and, in *Peter vs. Receiver of the City Savings Bank of Detroit*, reported in 131 Michigan 322, the court used this significant language:

"So long as it is entirely possible to trace the fund which was invested in these securities as a fund derived from the savings department, we think there is no difficulty in saying that it should be impressed with a trust in favor of the savings depositors."

In Michigan there are now 365 State banks, with a total capital and surplus of \$29,467,038. The aggregate of commercial deposits therein is \$56,348,000, while savings depositors of the State have to their credit in these institutions \$147,708,000.

Thus the lawmakers of Michigan, while recognizing the paramount necessity of safety, stability and permanency in the reception and investment of savings deposits, also kept in mind the first requisite of a commercial bank; ease of negotiation of its investments made from commercial de-



posits, and, while artisans, mechanics and laborers were contemplated as prospective savings depositors, the business men were contemplated as prospective commercial depositors, and thus the laws were framed to encourage thrift in the one case and to assist trade operations in the other.

In conclusion I wish to congratulate you upon this most successful convention, and especially upon the good work which the Savings Bank Section is doing. I am very grateful to you, indeed, for both your courtesy and the kind attention given me. I thank you.

## *Real Estate Loans For Savings Banks and Their Amortization.*

BY R. M. WELCH, Cashier of the San Francisco Savings Union, San Francisco, Cal.

From the very inception of saving banks, loans on the security of real estate have been regarded as pre-eminently a legitimate and desirable form of investment for the funds of such institutions. In volume they are virtually inexhaustible, and they afford the most remunerative employment that can be found for funds where security is the first essential. Their immobility in time of stress and panic is the only objection that can be advanced against them, and is the reason why a savings bank is forced to limit them to a certain proportion of its assets. It is an interesting incident in the history of one of the oldest, and what is now the largest savings bank in this country, that having invested its funds exclusively in loans on real estate, the panic of 1837 found it with nothing but these immobile assets. But, even so, it was able to sustain itself by exchanging certain of its mortgages for municipal bonds, which it in turn hypothecated, thereby obtaining the needed cash. Were savings banks restricted in the employment of their funds to bonds of the class prescribed for them by law their earnings would be wholly inadequate to pay depositors a rate of interest that would be sufficiently attractive to encourage savings.

One of the most potent arguments against the wisdom of a postal savings bank system in the United States is the very reasonable apprehension that it will drain away from localities where needed, and absorb in other forms of investment, funds that would otherwise be available for the development of the realty values of those localities. Realizing this, and further realizing that the rate of interest proposed to be paid by the government will be so trifling when compared with that paid by the savings banks as to discourage deposits at the post offices, friends of the measure are gravely suggesting that the government arrange to lend the postal savings funds on real estate security so that a rate of interest approximately as high as that of the savings banks be paid. The spectacle of the Government of the United States adding to its already numerous activities that of making loans on real estate to individual borrowers is too absurd to be dwelt upon.

It is a question, however, whether savings banks have not permitted to drift away to another class of institutions loans of a character that have proved exceedingly profitable to those institutions, and which would have conferred on the banks benefits that might be termed cumulative in their value.

There will come to the savings bank two classes of applicants for loans on real property: one the owner of large holdings in city or country seeking funds to improve or add to their holdings and requiring large sums therefor; the other small farmers or city residents with comparatively moderate needs. To the savings bank of vast resources the single loan large in amount appears more desirable than a number of loans aggregating a like amount; the economy of detail is enormous. There is virtually as much detail in the making of a loan of \$2,500 as one of \$25,000, but in making the ten loans the bank has become known to and has added to its clientele, not alone the ten individual borrowers, but the members of their immediate families and their connections. The savings bank which desires the greatest possible degree of success should seek large individual loans only when it cannot find a sufficient number of smaller borrowers to employ its loanable funds.

There is, however, not to be lost sight of a class of loans

as a rule individually large in amount which are exceedingly desirable for savings banks. They are those for building purposes to religious, fraternal, beneficial and social organizations. A loan of such a character renders the bank making it at least known to each member of the organization. Such loans are particularly sought by life insurance corporations as an introduction to the membership of the borrowing organization.

There cannot exist between the great mass of the depositors of a savings bank and the management that degree of acquaintance and community of interest which exists between a commercial bank and its depositors. The latter are to a great extent corporations and men of affairs who have frequent occasion to call on their bank for accommodation. It is unusual to regard the average savings bank depositor as a possible borrower. During the entire period of his dealings with the bank he may never get beyond the receiving or the paying tellers' desks. It is when he becomes an applicant for a loan that the opportunity offers to identify him with the institution as a permanent friend or client. In all probability his account is the nucleus he has been creating for the acquisition of a home, and, having accumulated sufficient for the purchase of the ground, he is now seeking to borrow sufficient to erect the house.

The loan sought in such an instance may be beyond what a savings bank would ordinarily seem warranted in making. It may seem to be more properly within the province of a building and loan association. There is no intention of discrediting the beneficial work of these institutions. They have enabled many an individual of small means to obtain his home who would never have acquired it otherwise. What is in mind is to endeavor to show that instead of sending the depositor to the building and loan association the loan might be made by the bank to the advantage of both itself and the depositor. The methods of the building and loan associations call for a series of payments beginning with the making of the loan, which, within a fixed period, will discharge it, principal and interest. But as the result of these payments will also be to give the borrower certain shares in the association, in the profits of which he will afterward participate, the payments must necessarily extend over a somewhat lengthy period, and aggregate a considerably larger sum than the principal of the loan plus a reasonable rate of interest. In fact, so burdensome do these payments often become that the borrower surrenders the property he has been endeavoring to acquire, and all he has paid, and these defaults, which are not unexpected, prove a great source of profit to the association.

When application is made for a loan of this class there is to be considered first the lot. Is it well selected, worth what the applicant has paid for it? What are the surroundings? Is it in a locality where values are likely to enhance rather than depreciate? A very important factor is the street work: is it complete and accepted by the city? Many a homeseeker, lured by what seems cheap property, finds himself ruined by the excessive taxes imposed for street improvements. Next, the character of the applicant. Is he industrious and provident? If a depositor, this will be indicated to a great extent by the frequency and regularity of the deposits to his credit. What is his business or employment? To what extent is it precarious or hazardous? Does he carry some form of life insurance with which his family can clear their home from debt in the

event of his death? In these days of industrial and other forms of moderate priced life insurance, the borrower should be urged to make use of this means of assuring his family against the loss of their home. All these points being satisfactorily determined, such a loan may safely be made. There is not lost sight of the added security of fire insurance, which it seems unnecessary to tell an assemblage of savings bank men should be taken, the loss under the policy being made payable to the bank.

But it would be wholly imprudent for a savings bank to make the principal sum of a loan of this character payable at the expiration of a term of years. The improvements necessarily deteriorate from year to year. Even though the upkeep be thorough, in these days of advanced methods of construction and introduction of new facilities and conveniences houses soon become old-fashioned, out of date and undesirable. If there be neglect in the upkeep the deterioration is rapid. Although the amount of the loan may have been confined to the value of the land the improvements represent the margin of security, and as they deteriorate the loan becomes less secure. It is to the advantage of the borrower that through the exercise of thrift and industry he free his home from debt as rapidly as he can do so, and it is the duty of the bank as an exponent of economics to inculcate the practice of these virtues.

A plan of repayment should, therefore, be determined on which within a given time will amortize the loan—at least in part, if not as a whole. It is entirely reasonable, too, in view of the additional bookkeeping imposed that a slightly higher rate of interest be charged. The custom usually is to charge one-half of 1 per cent. per annum higher on the installment loan than on the simple flat loan; but, even so, the borrower gets his money far more cheaply than he could get it under like conditions from any other source.

The form of amortization should preferably be the payment of monthly installments, of which so much as necessary would be applied to pay the month's interest on the balance of principal and the remainder in reduction of the principal sum. In determining what the amount of the installment is to be the borrower should be urged to agree to pay such an amount monthly as would approximate the rental he would have to pay for similar premises for the occupancy of himself and family. We read the repeated suggestion by real estate dealers that the payment of rent be stopped, that the rental money be applied to acquiring a home, and the suggestion is an excellent one. Unhappily, though, too often the payment of rent is stopped through the incurring of debt, and the monthly expenditure for the payment only of interest being so much less than was theretofore necessary for the payment of rent, an apparent surplus is created—which is expended in unnecessary indulgences instead of being applied in reduction of the debt.

In some instances the loan may be of such an amount that the attempt to repay it in any reasonable number of monthly installments will prove too burdensome to the person of small means. In such cases the loan may be divided into two notes, one to run for a term of years and for such an amount that the bank would feel warranted in renewing it if it were not paid at its maturity, the other for an amount to be repaid in agreed installments.

One of the principal savings banks in San Francisco, with an especially large line of loans on small parcels of real estate, principally the homes of the debtors, has adopted this plan in remaking such loans and in granting new loans of this character. When the installment note has been discharged the remainder of the debt will in all likelihood be so amply secured that the bank will be quite content to carry it indefinitely, but there is the strong probability that the debtor having formed the habit and having realized the advantages of systematically providing for the payment of his indebtedness will be incited to attack the remainder in a like manner.

The simplest form of monthly installment is the payment of a fixed sum in reduction of the principal and so much as necessary to pay the month's interest on the balance of principal. This is entirely effective and will as thoroughly

discharge the debt in the end as any other plan. There is, however, a more scientific plan, and possibly more interesting, by which the payment of so many equal monthly installments will discharge the principal and interest of the debt. The problem is, what sum of money paid monthly will in a given number of months discharge the principal and interest of a certain debt. The solution calls for familiarity with algebraic formulas and the use of logarithms, but it is entirely within the capacity of any competent actuary, or, indeed, any one who has not forgotten his school mathematics. It would be tedious, ineffective and unnecessary to attempt within the limitations of this paper to work out an exemplification of the problem, but for any one who may ask "What is the answer?" it will be said \$16.57 paid monthly will in six years discharge a debt of \$1,000 with interest at 6 per cent. per annum. Of the first installment \$5 will be applied for interest and \$11.57 for principal; of the second, \$4.94 will be for interest on the reduced principal and \$11.63 for principal—and so it will go on, the amount required each month for interest growing less and the amount applicable to the principal larger, until when the final installment is reached but eight cents will be required for interest and the balance, \$16.49, will close the loan. Or a simpler proposition—the accuracy of which can be readily verified—is that twelve monthly installments of \$86.07 each will pay a debt of \$1,000 with interest at 6 per cent. per annum. Of the first installment \$5, of course, will be applied in payment of the first month's interest on \$1,000 and the remainder, \$81.07, for principal.

The form of note taken for a loan repayable in a given number of equal monthly installments is as follows:

"\$1,000.00

San Francisco, September 1, 1909.

"For value received I promise to pay to the ..... Savings Bank, a corporation duly incorporated and doing business as such, or to its order, at its office, and in seventy-two (72) equal monthly installments, each of the amount of sixteen and 57/100 dollars (\$16.57), the principal sum of one thousand dollars (\$1,000.00), and interest at the rate of one-half of 1 per cent. per month on the monthly decreasing balance of said principal sum which will remain unpaid after the payment of each of the said monthly installments, whereof the first shall be payable on the first day of October, one thousand nine hundred and nine, without grace, and one of the remainder shall be payable on the first day of each and every succeeding month thereafter, without grace, until all are paid.

"And I hereby covenant and agree that each installment, when paid, shall be applied, by the holder thereof, first, so much thereof as shall be required to the payment of interest accrued, as above specified, and next the balance thereof to the repayment of the said principal sum.

"And I hereby promise to pay both principal and interest in United States gold coin, waiving any right which I may have now or hereafter to pay the same in any other currency.

"And I further agree that in case of default in the payment of any of said installments in the manner aforesaid, then such installments shall bear interest from the date of maturity until the date of payment at the rate of one-half of 1 per cent. per month; and at any time during such default the entire unpaid balance of said principal sum shall become immediately due and payable if the holder of this note shall so elect, and shall bear interest at the rate of one-half of 1 per cent. per month from the date of maturity of the last paid installment until the whole principal sum and interest shall be paid."

The instrument to secure this note may be either a mortgage or a deed of trust of the real property pledged.

This form of loan was at one time very generally made by the San Francisco savings banks, but gradually fell into disuse—largely as the result of the peculiar working of the mortgage-tax provision of the State constitution. This declared that a mortgage is an interest in the real estate it covers, but directs that it be assessed to the lender, the borrower being credited with a corresponding amount on the assessed value of the property as a whole. That is, in assessing a piece of encumbered real property the amount of the mortgage is assessed to the lender and the remaining value of the property, if any, is assessed to the owner. The lender was formerly prohibited, under penalty of forfeiture of interest, from contracting for the payment of the mortgage-tax by the borrower. The tax was in reality paid by the borrower, for the lender added to the normal ruling rate of interest the equivalent of the tax, plus a little more for contingencies. This was all very well, except in the case of a loan repayable in frequent installments. The balance

of the debt as existing on the first Monday of March in each year was assessed to the lender, and he paid a year's taxes on it, but he did not get a year's interest on that balance, because it was steadily decreasing each month through the payment of installments. So the loan repayable in installments fell into disuse among lenders, and another hardship was thereby imposed by the provisions of the State constitution on the very class of persons for whose benefit those provisions were intended.

More recently the prohibition of the agreement between the lender and borrower as to the payment of the mortgage tax has been removed by constitutional amendment, and while the mortgage is yet taxed the borrower agrees to pay the tax, and gets his money at the normal ruling rate of interest. This removes the objection to installment loans noted on the part of lenders, and it is likely that such loans will again come into more general use in California, especially in San Francisco, where loans are needed for rebuilding purposes, often in excess of what is warranted by a conservative estimate of the ground value.

An instance is known where there was needed for the completion of a large and very valuable building—the returns from which were assured once it could be completed for occupancy—the sum of \$100,000 in excess of what had been estimated and what it had been agreed to lend. The note for this additional \$100,000 was taken repayable in

thirty-six monthly installments of \$3,042 each. This is a larger transaction than it is usually contemplated to cover with a note payable in monthly installments; it is merely cited as an instance that the system can be applied with advantage in a large transaction as well as in a small one.

But it is to the small borrower, the home-builder, that the loan repayable in monthly installments of moderate amount is particularly applicable, and if obtained from a savings bank the borrower not only gets his money at a more reasonable cost, but may expect a greater degree of indulgence should misfortune overtake him than could be extended by an association whose rules of forfeiture must be rigidly enforced for the average of the general membership. A savings bank may suspend the collection of the monthly installment for a time, being content until more prosperous conditions return with the payment of interest on the remaining balance of principal, or, if the reduction of principal warrants it, may make a new loan for a definite term of years, with the balance of the old loan as the principal sum of the new, thus enabling the debtor to save his property, which, under other conditions, he might have been forced to sacrifice.

It may with certainty be accepted as a general proposition that the greater the number of small borrowers a savings bank has among its clientele the greater will be its degree of popularity and success.

## *A Mortgage Loan for Home Buyers.*

BY WM. R. CREER, Secretary Cleveland Savings and Loan Company, Cleveland, Ohio.

In fire insurance a dwelling house or home is designated a preferred risk. In savings bank mortgages this kind of property should receive the same classification, for where there exists the home-making and home-owning idea the physical condition of the security does not suffer that degree of depreciation as some others, owing to the pride and care of the owners.

There are two criticisms frequently made regarding real estate mortgages; the first, on the part of the bank: (1) Admitting that a mortgage on improved realty is ideal security, it is argued that in times of financial stress it is hard to realize cash from it. (2) The careful person planning to buy or build a home, for the first time, is appalled at the size of the debt involved in the undertaking.

To overcome these objections on both sides of the business transaction the following described plan of installment mortgage has been designed and has proven popular with borrowers.

Conditions differ in various communities and the rate of interest is governed by local demand, so in presenting the plan it is understood that the plan and rate are to be adapted to meet local requirements. In fact, its adaptability is one of the attractive features of this form of mortgage contract.

In the following example the interest rate is 7 per cent. for the first 25 per cent. of the loan, 6 per cent. for the next 50 per cent. and 5 per cent. for the last 25 per cent. of the loan. These proportions can be changed as well as the rate of interest.

Take, for the sake of illustration, a loan of \$2,000 written on this plan, the obligation would read as follows:

"Homestead, Ill., September 16, 1909.

"The condition of this obligation is such that, whereas the said John Brown and Mary Brown have received the sum of two thousand dollars (\$2,000.00) from the Homestead Savings Bank as a loan, for not less than one year from date, and agree to pay interest on said loan, monthly, at the rate of 7 per cent. per annum, until the principal of said loan is reduced to \$1,500.00, and from that date interest at the rate of 6 per cent. per annum until the principal is reduced to \$500.00, and from that date interest at the rate of 5 per cent. per annum until said loan is paid in full. During the continuance of said loan they further agree to pay monthly on said loan such additional sum as will, together with the interest aforesaid, amount to not less than the sum of twenty dollars (\$20.00) per month, at

the office of said bank. The first of said installments payable the fifteenth day of October, 1909, and one of said installments on the fifteenth day of each and every month thereafter, until all of the said loan and interest, up to time of cancellation, is paid. The monthly amounts so paid shall be credited (annually or semi-annually as desired) on said loan as follows: At the expiration of the (annual or semi-annual) period from date of said loan (or on the regular interest dates if desired) so much of the amount so paid during the preceding (year or six months) shall be applied to the payment of interest up to said time, and the balance shall be credited on the principal, the amount remaining due forming a new principal for the succeeding period, on which interest shall be charged as before. When three monthly payments become due and remain unpaid thirty days, then the entire amount of the principal and interest to become due at the option of the bank."

The average person has been a rent-payer before becoming a home-buyer, and this plan follows the line of least resistance by adjusting itself to his former habit. The man who can pay twenty dollars each month would not have \$120 at the end of six months, in the majority of cases, were the payment deferred until that time. Like rent, only twenty dollars becomes due each month, and there is no apprehension of the whole amount being called at any time. Again the rate is fixed for the entire length of the contract, even though nothing but the minimum amount be paid monthly. After one year the loan may be canceled at any time. Additional payments in sums of \$100 or multiples thereof, may be made at any time, applying directly on the principal, and any amount in addition to the monthly payment can be made at the end of any yearly or half-yearly period. There is a constant incentive on the part of the borrower to reduce the principal in order that a lower rate of interest may be obtained. The contract is simple, easily understood, easy to reckon. Every man owes it to his family to own his home free of debt. The savings bank owes it to the citizens of the community to assist them to accomplish this desirable object. An installment loan is an easy way to get out of debt—a "straight" loan makes it easy to stay in debt.

The advantage to the bank of this form of loan is that it removes largely the consideration of the element of depreciation, for the loan is being reduced regularly, and the security is growing better each month. It provides a constant income *each month* from mortgage loans, instead of a large amount once in six months, thus keeping the funds

of the bank constantly employed, and furnishes reserve without cost. It enables the bank to make a larger loan with safety than on the "straight" loan plan. If money gets tight the bank simply stops making loans. Experience has shown that a million dollars in mortgages of this form will bring in from \$15,000 to \$35,000 in cash each month. This, of course, includes extra payments and cancellations; and this income, which can be counted on, will often prevent the calling of good loans in the other form.

In conclusion, while this form is not practical for all cases, it is very desirable for loans on homes. Objection will be raised by some against it, because there is an impression that monthly payment loans are necessarily more expensive. The fact remains that the person who has been paying rent to a landlord monthly and objects to paying a monthly installment in order to own a home would be a questionable risk for any other form of mortgage loan.

## *Partial Payments Compared With Sinking Funds.*

By ROBERT M. ROTHER, President Hopkins Place Savings Bank, Baltimore, Md.

The borrowing of large sums of money for long periods by corporations of every description has reached such large proportions that it is an important question to determine the most advantageous provisions for the liquidation of these loans. That there are serious objections to the sinking fund plan is generally recognized, but the substitute for it—partial payments—finds favor as yet with but few men. Is it because of lack of investigation or indifference, or is it because of a desire to perpetuate a "system" which gives "opportunities"? The fact remains that sinking funds, with all their shortcomings, are provided for in nearly all loans marketed where provisions are made for the liquidation of the debt. This is especially so with States and municipalities where liquidation by a certain period is obligatory by constitutional requirements, and where partial payments can easily be applied.

Generally speaking, the promise of a sinking fund appears to give a proposed issue of bonds a tone of strength and security in the mind of the intending investor, because the ultimate liquidation at maturity of the money borrowed is theoretically assured through its operation.

Few men, however, ask how sinking funds operate. Experience teaches us that they are a doubtful assurance to the lender and an expensive undertaking to the borrower. To have any value at all the provisions for a sinking fund must be conscientiously carried out, and the accumulated funds must be advantageously invested. That the first is not always done is well known, and that the investment of the fund is subject to all sorts of contingencies is self-evident.

However sound in theory a sinking fund may be, its administration cannot be placed beyond the pale of human weakness; it always was and always will be an unknown quantity—a speculation.

Sinking funds are under the control of the debtor—the borrowing municipality. If badly invested, misused or squandered they are even dangerous. There are uncertainties in the management of a sinking fund which should receive serious consideration by all public-spirited men. It may be depleted by dishonest or incompetent officials, or by unfriendly legislation. Even with wise management the rate of interest yield cannot be controlled, and when the securities must be sold to obtain the funds with which to pay the debt for which it was accumulated the proceeds may or may not cover the loan.

In England the successive failures of sinking funds made the term almost one of reproach.

A. D. Chandler reports: "There was a fraudulent misappropriation of over \$80,000 connected with the Boston sinking fund in 1880, and in 1904 about \$200,000 was taken from the sinking fund for current expenses. Chicago sinking funds have been generally used for current expenses. In Mississippi a sinking fund was begun in 1832 with \$250,000; in 1839 it amounted to \$800,000; in 1848 it had shrunk to \$100,000 from bad investments." These are but a few cases of a large number of mismanaged sinking funds.

Another uncertainty of the sinking fund plan is that at

the maturity of a loan for which provision has been made, the amount necessary for the loan may have been properly accumulated in the fund, but only a part of the fund will consist of the particular loan to be redeemed; the balance will have been invested in other securities, which must be sold whether conditions are favorable or not to obtain the funds necessary to pay the loan for which it was accumulated.

The partial payment plan is free from these uncertainties. The specific amounts to be paid each year on account of principal and interest are determined in advance, and the liability of the issuing corporation is reduced with every payment made. There is no guessing; it is fixed figures and facts from first to last.

Bonds issued under the sinking fund plan mature on the same date, no matter what the desires of the prospective purchaser may be. If a loan is for thirty years the buyer must bid for the thirty-year bond, or not at all. Under the partial payment plan the bonds mature in from one year to the last year of the life of the loan, and the desires of every intending buyer can be accommodated.

The only way to sink a debt is to pay it, and the safest sinking fund, with no uncertainty, are partial payments. There are no doubts about partial payments. If you owe \$1,000 and pay \$100 you know the balance due is \$900, neither more nor less. This is partial payment. By this method the debt is reduced annually by payments on account of principal, thereby reducing each year the liability and the interest charge.

Compared with the sinking fund plan the partial payment method applied to the same loan costs considerable less in the aggregate, as will be shown by the figures given later on. The results given are brought about by the fact that the gradual extinction of the debt by annual payments operates as if the latter were invested at the same rate which the obligation bears. It works automatically without loss of interest. There can be no mismanagement, nor dishonesty, nor manipulation; nor can any unwise or unfriendly legislation interfere.

One of the objections advanced to the partial payment plan is that the earlier payments are too large on account of the large interest payments and a heavy drain on the taxpayers. This only applies to the plan of paying an equal amount of the principal each year; it does not apply to the plans proposed here. The annual charge can be made less from the beginning than the sinking fund requirements would be.

The scheme is flexible and a plan can be worked out to suit almost any condition. The larger the payments on account of principal in the early years the larger the saving in interest on the loan.

The following two plans worked out for a fifty-year 4 per cent. bond issue of \$5,000,000 will illustrate the meaning of the above, and it may be proper to say that similar plans may be worked out for any given amount of loan at any rate of interest and for any period:

SAVINGS BANK SECTION.

Year.	Amount on which interest must be paid annually.	Amount of interest to be paid annually.	Amount paid on account of principal annually.	Amount to be raised by taxes annually.	Year.	Amount on which interest must be paid annually.	Amount of interest to be paid annually.	Amount paid on account of principal annually.	Amount to be raised by taxes annually.
1.....	\$5,000,000	\$200,000	\$33,000	\$233,000	13.....	\$4,430,000	\$177,200	\$60,000	\$237,200
2.....	4,967,000	198,680	34,000	232,680	14.....	4,370,000	174,800	62,000	236,800
3.....	4,933,000	197,320	35,000	232,320	15.....	4,308,000	172,320	64,000	236,320
4.....	4,898,000	195,920	37,000	232,920	16.....	4,244,000	169,760	67,000	236,760
5.....	4,861,000	194,440	38,000	232,440	17.....	4,177,000	167,080	70,000	237,080
6.....	4,823,000	192,920	40,000	232,920	18.....	4,107,000	164,280	72,000	236,280
7.....	4,783,000	191,320	41,000	232,320	19.....	4,035,000	161,400	75,000	236,400
8.....	4,742,000	189,680	43,000	232,680	20.....	3,960,000	158,400	78,000	236,400
9.....	4,699,000	187,960	45,000	232,960	21.....	3,882,000	155,280	80,000	236,280
10.....	4,654,000	186,160	47,000	233,160	22.....	3,802,000	152,080	82,000	234,080
11.....	4,607,000	184,280	48,000	232,280	23.....	3,720,000	148,800	85,000	233,800
12.....	4,559,000	182,360	50,000	232,360	24.....	3,635,000	145,400	87,000	232,400
13.....	4,509,000	180,360	52,000	232,360	25.....	3,548,000	141,920	90,000	231,920
14.....	4,457,000	178,280	55,000	233,280	26.....	3,458,000	138,320	92,000	230,320
15.....	4,402,000	176,080	57,000	233,080	27.....	3,366,000	134,640	95,000	229,640
16.....	4,345,000	173,800	59,000	232,800	28.....	3,271,000	130,840	98,000	228,840
17.....	4,286,000	171,440	61,000	232,440	29.....	3,173,000	126,920	100,000	226,920
18.....	4,225,000	169,000	64,000	233,000	30.....	3,073,000	122,920	104,000	226,920
19.....	4,161,000	166,440	66,000	232,440	31.....	2,969,000	118,760	107,000	225,760
20.....	4,095,000	163,800	69,000	232,800	32.....	2,862,000	114,480	110,000	224,480
21.....	4,026,000	161,040	72,000	233,040	33.....	2,752,000	110,080	115,000	225,080
22.....	3,954,000	158,160	75,000	233,160	34.....	2,637,000	105,480	120,000	225,480
23.....	3,879,000	155,160	78,000	233,160	35.....	2,517,000	100,680	125,000	225,680
24.....	3,801,000	152,040	81,000	233,040	36.....	2,392,000	95,680	130,000	225,680
25.....	3,720,000	148,800	84,000	232,800	37.....	2,262,000	90,480	135,000	225,480
26.....	3,636,000	145,440	87,000	232,440	38.....	2,127,000	85,080	138,000	223,080
27.....	3,549,000	141,960	91,000	232,960	39.....	1,989,000	79,560	142,000	221,560
28.....	3,458,000	138,320	95,000	233,320	40.....	1,847,000	73,880	147,000	220,880
29.....	3,363,000	134,520	98,000	232,520	41.....	1,700,000	68,000	151,000	219,000
30.....	3,265,000	130,600	102,000	232,600	42.....	1,549,000	61,960	155,000	216,960
31.....	3,163,000	126,520	106,000	232,520	43.....	1,394,000	55,760	159,000	214,760
32.....	3,057,000	122,280	111,000	233,280	44.....	1,235,000	49,400	163,000	212,400
33.....	2,946,000	117,840	115,000	232,840	45.....	1,072,000	42,880	167,000	209,880
34.....	2,831,000	113,240	120,000	233,240	46.....	905,000	36,200	171,000	207,200
35.....	2,711,000	108,440	124,000	232,440	47.....	734,000	29,360	176,000	205,360
36.....	2,587,000	103,480	129,000	232,480	48.....	558,000	22,320	181,000	203,320
37.....	2,458,000	98,320	135,000	233,320	49.....	377,000	15,080	186,000	201,080
38.....	2,323,000	92,920	140,000	232,920	50.....	191,000	7,640	191,000	198,640
39.....	2,183,000	87,320	145,000	232,320					
40.....	2,038,000	81,520	151,000	232,520			\$6,389,920	\$5,000,000	\$11,389,920
41.....	1,887,000	75,480	157,000	232,480					
42.....	1,730,000	69,200	163,000	232,200					
43.....	1,567,000	62,680	170,000	232,680					
44.....	1,397,000	55,880	177,000	232,880					
45.....	1,220,000	48,800	184,000	232,800					
46.....	1,036,000	41,440	191,000	232,440					
47.....	845,000	33,800	199,000	232,800					
48.....	646,000	25,840	207,000	232,840					
49.....	439,000	17,560	215,000	232,560					
50.....	224,000	8,960	224,000	232,960					

On the sinking fund plan the above loan would require fifty annual payments of \$244,327.80 each, a total of \$12,216,390—a difference in favor of partial payments of \$578,590.

ANOTHER PLAN.

Year.	Amount on which interest must be paid annually.	Amount of interest to be paid annually.	Amount paid on account of principal annually.	Amount to be raised by taxes annually.
1.....	\$5,000,000	\$200,000	\$40,000	\$240,000
2.....	4,960,000	198,400	40,000	238,400
3.....	4,920,000	196,800	40,000	236,800
4.....	4,880,000	195,200	42,000	237,200
5.....	4,838,000	193,520	44,000	237,520
6.....	4,794,000	191,760	46,000	237,760
7.....	4,748,000	189,920	48,000	237,920
8.....	4,700,000	188,000	50,000	238,000
9.....	4,650,000	186,000	52,000	238,000
10.....	4,598,000	183,920	54,000	237,920
11.....	4,544,000	181,760	56,000	237,760
12.....	4,488,000	179,520	58,000	237,520

On the sinking fund plan the above loan would require fifty annual payments of \$244,327.80, a total of \$12,216,390—a difference in favor of partial payments of \$826,470.

The specific advantage of the plans here given is that the payments on account of the principal are so arranged that the taxpayer derives the benefit of the saving at the very beginning, the amounts being graded in such manner that the aggregate sum of principal and interest required each year is less than the amount it would be necessary to pay into a sinking fund including interest.

The first table showing an aggregate saving of \$578,590 is so arranged that the annual saving of \$11,576.78 per annum is distributed almost equally each year.

In the second table, which shows a saving of \$826,470, the payments of the earlier years are somewhat larger, but even then they are less than the requirements under a sinking fund plan.

That the defects of sinking funds are gradually being recognized is evidenced by the various devices resorted to by a large number of municipalities to reduce their debts by a partial avoidance of them. In some instances partial payments are adopted, but without grading, which is objectionable to the taxpayer. Others reserve the right to redeem at stated periods in the life of the bond, and another resort is to make the bonds optional on a certain date, long before they mature. All are but partial remedies and disadvantageous to the borrower, but will ultimately lead to partial payments applied on scientific principles.

## *Branch Savings Banks.*

BY EDWARD B. CARNEY, Treasurer of Lowell Institution for Savings, Lowell, Mass.

Mr. President and Members of the Savings Bank Section of the American Bankers' Association:

The Legislature of the Commonwealth of Massachusetts, during the session of 1908, codified, revised and amended the laws relative to savings banks and institutions for savings. Very few of the old laws were stricken out, but a number of new ones were added. One of the important amendments to the statutes was that allowing savings banks to receive deposits outside of the banking rooms. This statute as amended is as follows:

"Such corporation shall carry on its usual business at its banking house only and a deposit shall not be received or payment on account of deposits be made by the corporations or by a person on its account in any other place than at its banking house, which shall be in the city or town in which the corporation is established; except that the corporation may, with the written permission of and under regulations approved by the commissioner, maintain and establish one or more branch offices or depots, for the receipt of deposits only, in the city or town in which the banking house is located, or in towns not more than fifteen miles distant therefrom in which there is no savings bank at the time when such permission is given. The annual meeting and meetings of the trustees or board of investment of such corporation may be held at any place in the city or town in which its banking house is located."

In compliance with this statute, written permission was given by the Bank Commissioner, July 7, 1908, for the Lowell Institution for Savings to establish and maintain branch offices for the receipt of deposits only at the factories of Abbot & Co., worsted manufacturers, and C. G. Sargent's Sons, makers of wool washing machinery, in the town of Westford, which is ten miles from the city of Lowell, and the first deposit was received July 18, 1908. The operatives in these factories had for many years been depositors in this savings bank, as it offered them better accommodations when they came into the city Saturdays than the other banks did. They formerly depended on the steam railroad for transportation, and the last train left for their homes at 5 o'clock, but now an electric car line has been built from Lowell to Westford, so that the time of their departure from the city is not limited as it was.

Each Friday afternoon—which is pay day at these factories—one of the clerks of this bank leaves at half-past 1 on the electric cars, reaches the first of the mills about half-past 2 and finishes at the last mill shortly after 5 o'clock. The carfare for the trip is thirty-five cents. For the first few weeks the clerk remained in the office of the superintendent while word was sent to the overseers of the various rooms that the "bank man" was ready to receive deposits. This method did not prove a success, as it was afterward found that an operative seldom went to the office for any other purpose than to receive chastisement, and he, therefore, kept away as much as possible. Another reason offered was that the operative did not want the superintendent or the management to know that he was saving money for fear that his wages might be reduced. A tour of inspection was made through the various rooms, and, after talking with the overseers and many of the operatives under them, it was decided to go directly to the operative at his machine and there solicit deposits. This change proved to be a marked success at once, as in this way we came in personal contact with the very ones to whom the idea of a savings bank had never suggested itself, for those that we reached were the foreigners and the boys and girls. A large per cent. of the unskilled operatives in the New England factories are foreigners, and a personal appeal

to them by a representative of a savings bank, with the assurance and approval of the management of the factory, has done more, in our case at least, to gain their confidence in our savings banks than any written guarantee could do. Within a month of the time that we changed to personal solicitation one afternoon the clerk opened two new accounts with Polanders, one for \$200 and the other for \$100. It is the custom of these foreigners to keep on their person the actual money that they receive, and when a sufficient amount has accumulated to send it to their native land. These are the funds that should be brought into our banks, and in a modest way we have diverted some from their garments to our banks. One operative allowed his deposit to accumulate until it amounted to \$7, when he withdrew the full amount. We afterward learned that this was made a test case to satisfy him and his associates that the money given at the factories actually found its way to the bank. He has since opened a new account and has quite a respectable deposit.

For a number of months the boys and girls were very apt to sit in the seats of the scornful and laugh at those who made deposits. Talking to them brought no result, but finally a plan was adopted that made eight of them depositors, with the promise that more would become so later. It had been the custom for quite a few years for a certain number of these boys and girls to form themselves into clubs, and each member would deposit weekly twenty-five cents into the treasury of the club. Some member, previously drawn by lot, would get all of the week's deposit, and so each week a different member would receive the deposits. In this way, while the member of the club contributed twenty-five cents each week, once in so often, depending upon the number of members in the club, he would receive a good-sized dividend. This method was very good for saving, but the one who received the week's deposit was quite apt to consider it so much clear gain and spend it at once. Acting upon the suggestion offered by these weekly deposits, two clubs, with four members each, have been started, one of boys and one of girls, to make deposits in the bank each week, and as a special inducement to encourage them to save the members of the board of investment, personally, have offered to give \$5 bonus when the deposits on the bank books of each club shall amount to \$50. Each member of a club has the privilege of making deposits besides that received from the club, and so receive a greater share of the bonus money, when the amount of deposit of the club to which he belongs shall reach \$50.

A number of the overseers have taken a special interest in having the operatives under them open accounts and make regular weekly deposits, for with money deposited in a savings bank nearby the operative is more contented with his work. One overseer reports fewer changes among those under him than before we began to receive deposits.

We have heard from a number of individual cases where a good deal of comfort and aid has been possible because there was a bank account, even if a small one, to draw from.

After thus outlining the methods used to solicit deposits, it is interesting to note what has been the result:

At the time of the starting of our branch offices these factories, in common with all New England industries, had not recovered from the financial depression that had so recently been felt throughout the whole country. The number of operatives had been reduced and the hours of labor were very much shortened. This condition existed well into Octo-

ber, when full time was re-established, and the number of operatives was gradually increased until the full force was finally taken back. These factories are not large, employing at the most about five hundred, of which number 120 are aliens, coming mostly from the Russian provinces, with a few from the southern European countries. Of these foreigners thirty-three, or about 25 per cent., have become depositors, with a deposit amounting to \$3,442, and only one of the accounts has been withdrawn, and that was done because the depositor moved to a Western city.

Deposits have been received during the period of one year every week, except the two weeks previous to Christmas. For the fifty times that we have been to the factories 919 deposits from 156 depositors have been received, amounting to \$13,196, or an average of \$84.58 per depositor per year. Of the 156 depositors 122 have opened new accounts at the factories. About 31 per cent. of the total number of operatives are depositors, and of this number 24 per cent. have become new depositors. The average deposit per week has been \$264, with a minimum of \$14 and a maximum of \$1,786. The largest number of deposits made by one individual was thirty-three, with a deposit amounting to \$52. This one case is evidence of the success of the undertaking.

In conclusion, we believe that the benefits derived from the experiment warrant its continuance for three reasons:

First, the spirit of saving and confidence in our savings banks have been brought to the operative; second, the amount of deposits in the savings bank has been healthfully increased, and, third, the operators of these factories have received the benefits derived from those who are more contented since they have become an active part in the great financial system of this country.

Date, 1908.	Number of new deposits.	Total number deposits.	Amount.	Date, 1909.	Number of new deposits.	Total number deposits.	Amount.
July 18.....	7	8	\$27.00	Jan. 16.....	3	19	159.00
25.....	4	10	132.00	23.....	12	23	229.00
Aug. 1.....	5	14	708.80	30.....	1	17	513.50
8.....	1	5	33.00	Feb. 6.....	5	30	436.50
15.....	1	4	14.00	13.....	4	25	358.00
22.....	1	7	39.00	20.....	3	26	145.00
29.....	—	11	99.00	27.....	3	32	220.00
Sept. 5.....	5	19	318.00	Mar. 6.....	4	27	170.25
12.....	5	16	271.00	13.....	5	25	346.00
19.....	1	11	122.00	20.....	2	26	228.00
26.....	—	6	35.00	27.....	3	28	196.00
Oct. 3.....	2	10	200.00	April 3.....	1	19	139.00
10.....	—	4	45.00	10.....	2	31	254.00
17.....	4	15	418.00	17.....	3	31	1,786.00
24.....	4	13	142.00	24.....	1	24	106.00
31.....	—	7	46.00	May 1.....	2	34	493.00
Nov. 7.....	5	20	246.25	8.....	3	22	209.00
14.....	1	16	99.00	15.....	—	24	148.18
21.....	1	13	98.00	22.....	—	18	110.00
28.....	1	12	78.00	29.....	2	25	329.50
Dec. 5.....	2	13	164.00	June 5.....	5	26	659.00
12.....	3	17	177.75	12.....	1	18	179.50
*19.....	—	—	—	19.....	1	27	260.50
*26.....	—	—	—	26.....	4	27	632.00
1909.				July 3.....	1	22	205.00
Jan. 2.....	2	7	147.50	10.....	2	35	248.50
9.....	3	25	715.50				
				Totals .....	122	919	\$13,196.23

\*Bank not opened.

## The Department of Mercy.

BY EDWARD L. ROBINSON, Vice-President Eutaw Savings Bank of Baltimore, Baltimore, Md.

Most of the papers presented for consideration at the meetings of our Section are technical in thought and presentation; we do not generally seek an audience wider than our earnest efforts to serve those who honor us by placing in our hands their hard-earned hoard, expecting confidently to receive "their own with usury" whensoever they will.

We are practical men of affairs, gathering together for the interchange of ideas, for the stimulus of the elbow touch and for the friendly discussion of our mutual problems.

We do not meet in vain if each can carry back to his institution some helpful mode of doing his work a little better than before, and if we can inspire each other with enthusiastic interest in the work to which our lives are devoted; yet, after all, the highest end each should seek is to improve the quality of the service he is rendering his community, and it is with the modest hope of suggesting how this latter end may be accomplished that I have accepted an invitation to prepare a paper on "The Department of Mercy."

At the outset may I define "mercy" as kindness, beneficence, a willingness to help; definitions countenanced by Webster, though the word, as we generally use it, conveys the idea of clemency or compassion.

The best of us and the worst of us have a yearning for something brighter, happier and higher to which we would attain if we knew how, and the world is looking to the strong to help the weak to reach the goal of their endeavor: *herein lies our opportunity*. "Dum expro, aspiro" are the tender words inscribed on a tablet to the memory of a distinguished Southern poet, and they fitly define the buoyant American temperament. It was an Englishman, not an American, who said "optimism is possible only by wearing blinkers"; it was likewise an Englishman who chanted that mournful dirge, "Alas for the rarity of Christian charity under the sun." Surely sentiments such as these are not cherished in the offices of our savings banks, where, though

we see much of the seamy side of life, we still retain an unflagging faith in our fellow man and maintain a patient and cheerful optimism.

In our savings banks the Gospel of Push does not crowd out the Gospel of Helpfulness, and it is our nature to "seize the day" for relieving the pain of the world. Considerations of profit are subordinated to the great privilege of lending a hand. The wide range of opportunity for material gain enjoyed by David Harum is forbidden to us; many legitimate avenues of profit and promotion open to the commercial banker are closed to us. We must keep far from the strife of business conquest and content ourselves by playing an humbler part; the great opportunity we enjoy is the chance to be useful and faithful to our trust.

We must be guide, philosopher and friend to our clients, and find our compensation in the exercise of all our kindly instincts. We are the peculiar stay of the ignorant, the helper of those who cannot help themselves; from the very nature of our business we "rejoice with those who rejoice and weep with those who weep." We note the air of triumph, the buoyant self-complacency of the one who is keeping his head above water and adding constantly to his "rainy day" fund, and we, too, are glad. Our hearts go out to the one in whose face we see written pain and defeat and who is rapidly losing his foothold through the gradual depletion of his slender savings, and we show him our sympathetic interest, bidding him take heart again. We must confess, though, that many conflicting emotions stir us during the course of the day's work: not all of those who daily throng our counters appeal to our gentler emotions; the selfishness and greed of the human heart are constantly in evidence; deception and knavery of many kinds often tempt us to lose faith in our fellows. There are those, for instance, who habitually hand in less than the amount named as their deposit; there are others who present orders affirming the genuineness of signatures which we know are

forgeries; there are still others who constantly seek an unfair advantage of the bank. These occurrences sicken our souls, but the percentage of such transactions is small indeed, and we disregard them when we consider the multitude of those who have a claim upon our more tender side. We train ourselves to be gentle to those who bear the marks of sorrow and bereavement; we try to speak a word of courage to the man who seems to be losing his grip—fighting an uneven battle with forces he cannot master; we try to be tolerant of those who love to tell their fancied troubles—in a word, we must be all things to all men, entering deeply into their heart problems and giving them counsel in their many-sided business relations with the world.

Does it pay? you ask. Yes, it does. After a long experience with many depositors of many minds I can affirm with truthfulness and candor that the average savings bank depositor is responsive to sympathy and good advice. Wise and tactful influence brought to bear upon him often yields the fruit of good citizenship; a little leaven of kindness will leaven a big lump of sunshine for those who have to live with him, for if he can succeed in cultivating the thrifty and frugal instincts I submit that we go far toward establishing the happy and well-ordered home.

The Department of Mercy in a savings bank should throw its protecting arms about our unfortunates and incompetents; it should be able to protect its depositors who are ignorant of the real value of their property, which others, wiser than they, are seeking to buy below its value. It should protect them when tempted to place their little capital in questionable enterprises advertised under "Business Opportunities" in the daily press. It should go farther and warn the spendthrift when he is rapidly frittering away the little hoard laid aside for his benefit by the self-denial of his parents. It should be able to reconcile family difficulties; many domestic problems have been aired in our offices—a few at least have been solved; young married folk who find it difficult to make the necessary adjustments (financial and otherwise) during the first year or so of married life, frequently need friendly counsel. Many such as these have been helped over thorny places.

A chapter from my own experience, illustrating the selfishness and unfairness of husbands to their wives in money matters, may be interesting. Money earned through the joint efforts of husband and wife in a little mercantile enterprise was deposited in the name of the husband. He, tiring of the faithful wife, planned to desert her. She made known her trouble to the bank and appealed for justice; payment was refused when demanded by the husband, the bank exercising its legal right to require sixty days' notice. He was advised that his wife claimed a share of the deposit, and that she would be given a chance to establish this claim in a court of equity; meantime the fund would be tied up. Rather than test the matter in the courts he weakened in a few days and divided the fund with her equally—a practical case of help extended when needed

badly. This occurrence is typical of similar cases, which many of you doubtless can recall.

Let me cite two other illustrations of the way in which savings banks have served their depositors:

A large bank in New York a few years ago advertised for information concerning a depositor whose account had lain dormant for many years: the bank's record indicated that the depositor was a private in a certain company of a certain regiment in the United States Army. A young woman responded to the advertisement, stating that her deceased father bore the advertised name. Patient investigation by the bank's officers established the daughter's claim to the fund, and, better yet, the bank's minute record of the depositor's occupation furnished the missing link in a chain of evidence required to secure a pension to which the daughter was entitled. The arrears alone of this pension represented a sum in excess of \$3,000.

The following incident occurred in the office of a large savings bank in the West: A woman in evident distress was about to withdraw \$500 from her savings account. The attention of the president was directed to her, and upon inquiry he learned that her son was in trouble in another city; a lawyer had just wired his demand for a fee of \$500 before undertaking to defend the young man, and the mother was about to comply. The president advised the woman to allow her deposit to remain undisturbed, stating that he would take up the matter with the bank's correspondent in this other city. The attorney of the latter bank in a few days reported that the offense was a trivial one and easily handled without expense.

Such disinterested acts of kindness are by no means uncommon, and go to show that the whole world is knit together by common ties of brotherhood.

"The Department of Mercy" should aid old and infirm depositors to end their days in suitable institutions. Savings banks may often work in harmony with other societies for the betterment of social conditions and will find it possible to be of great mutual assistance.

Many other means of helpfulness will occur to you without further suggestion from me, and I have no doubt that the sort of service to which I have referred is rendered frequently and without ostentation in many of the banks throughout our land. I trust, though, that bringing the subject to your attention in a concrete way may stimulate some to greater activity in this line and open up to others an unexplored field of usefulness.

Having given this imperfect recital of what the savings banks are doing and of their desire to be even more active in good works, may I venture to hope that the public may thus apprehend our lofty aims? Let it be spread abroad in the land that we are in the vanguard of these forces working for the uplift of human kind. Let it be known that we are energetic and faithful in the discharge of our trust and that each of us feels in a true sense his responsibility as his brother's keeper.



# Committee Reports—Savings Bank Section.

## Annual Report of the Executive Committee.

To the Members of the Savings Bank Section, American Bankers' Association:

Upon the adjournment of our Denver meeting, on September 28, 1908, your Executive Committee organized by electing Mr. Edward L. Robinson Chairman and re-electing our worthy Secretary, Mr. William Hanhart, whose allowance was fixed at \$1,500 per annum.

A second meeting was held at Briarcliff Lodge, Briarcliff Manor, N. Y., on May 3 last, and it is gratifying to report that practically all of our members were present and remained throughout the entire session, lasting until after 5 o'clock.

The several committees of the Section, viz., the Postal Savings Bank Committee, the Committee on Savings Bank Laws, the Membership Committee and the Auditing Committee, made interesting reports of the progress of their work.

The report of the special committee on our proposed new constitution, made to the Denver meeting, was approved and submitted to the Executive Council for its sanction, which was duly bestowed. You will be called upon at this meeting to vote upon the final adoption or rejection of this report. We might say that all the changes made in the old constitution were technical amendments with the view of harmonizing its provisions with those of the parent body. Thirty days' formal notice that these amendments will be voted on at this meeting has been forwarded to our members through the columns of the journal of the American Bankers' Association.

The Secretary will file a report of the expenditures of our Section for the past year, which you will observe are heavier than usual, due mainly to the important and extensive work of our Postal Savings Bank Committee. This committee has prosecuted a vigorous campaign of education on a subject of profound interest to every banker, and, indeed, to every citizen in the land. An appropriation of \$4,500 made by the Executive Council at Denver was generously supplemented by a second appropriation of \$5,100, made by the Council at its spring meeting at Briarcliff. We have spent \$8,736.48, and the balance of our appropriation—\$863.52—has been covered back into the general treasury of the Association.

A third meeting was held in these headquarters on Monday of this week, September 13.

The offices of our Section have been moved to the general offices of the Association, 11 Pine street, where our members may find every facility for the transaction of their business while in New York. It is hoped that they will call and become better acquainted with the work of the Section.

The accounts of the Secretary have been audited by Mr. G. Bryon Latimer, who was appointed for that purpose at our Briarcliff meeting.

The day of the annual meeting of our Section has been changed from Monday to Thursday of our convention week. It is hoped that the change may result in an increased attendance and a deeper interest.

The affairs of the Section are prospering; we have gained 113 new members since last year's report—after striking from our list sixty-four banks merged, failed or delinquent. Since 1902 our membership has grown from 500 to 1,636; by another year we should have 2,000. It is not fair, however, to measure results by growth in membership alone. The increasing interest taken by our members and their loyalty are encouraging signs of the times. We have been generously advertised by our book of printed forms—which, by the way, should have a much wider circulation than it already enjoys—and the work of our Postal Savings Bank Committee has attracted to us the attention of the whole country; our other committees have likewise contributed their full share toward widening the sphere of our usefulness.

Respectfully submitted,  
EDWARD L. ROBINSON,  
Chairman.

## Report of Secretary.

September 16, 1909.

To the President and Members of the Savings Bank Section of the American Bankers' Association:

I beg to report that the membership of our Section on the first of this month amounted to 1,636; last year at this date the membership was 1,523. During the year we have enrolled 177 new members and have lost sixty-four through mergers, failures and non-payment of dues, thus giving us a net increase in membership of 113 members. This increase, while fairly satisfactory, is not what it should be; there is no question but that our membership should be at least 2,000. Many of our vice-presidents have worked energetically and successfully to increase our membership, and I would respectfully urge every one of our members to endeavor to bring in additional members. Please do not forget to mention to your neighbor non-member banks that membership in the Savings Bank Section involves no additional dues beyond the regular annual dues to the general association and that its membership is open to every institution receiving savings deposits, whether

mutual or capitalized savings banks, or National and State banks and trust companies with savings departments.

Appropriations amounting to \$9,600 were made during the year by the Executive Council of the Association. This amount was larger than usual owing to the extraordinary work and expenses of the Postal Savings Bank Committee. All expenditures were kept within the lowest possible limit, and economy was used in all our expenses.

The following were our expenses during the fiscal year from September 1, 1908, to September 1, 1909:

Printing and stationery .....	\$277.45
Postage .....	408.00
Stenography and typewriting .....	756.00
Rent .....	300.00
Convention expenses .....	280.95
Allowance of Secretary .....	1,475.00
Book of Proceedings .....	980.30
Sundries .....	71.36
Expenses, Executive Committee .....	602.09
Expenses, Committee on Postal Savings Banks.....	3,044.58
Expenses, Committee on Auditing .....	45.95
Expenses, Committee on Savings Bank Laws.....	364.64
Expenses, Committee on Membership.....	88.85
Expenses, Vice-Presidents .....	40.74
Total .....	\$8,736.48

This leaves an unexpended appropriation of \$863.52 reverting back to the general association.

All vouchers for expenses were audited and approved by the chairman of the Executive Committee, and, as usual, a special committee has audited the financial accounts of the Secretary.

As regards the book of printed forms, the total sales amount to-day to \$7,368.70, the cost so far being \$6,032.07, leaving a net balance of \$1,336.63. During the year we have sold thirty-five books, and we have now on hand forty-four bound and one hundred unbound books.

On the first of May, last, the offices of the Section were moved to the headquarters of the Association at 11 Pine street, where the library, newspapers, services of stenographer, etc., are always at the disposal of our members, who are invited to call when in New York, and who will always be very welcome.

Very respectfully,

WM. HANHART,  
Secretary.

## Report of Committee on Savings Bank Laws.

To the President and Chairman Executive Committee, Savings Bank Section, American Bankers' Association:

That a connected review of the work of the Savings Bank Law Committee of the Savings Bank Section may be had for the time intervening between the Denver meeting of 1908 and the present it seems fitting to briefly refer to the several reports already made.

This committee met on February 15 last in the rooms of the association, and on the following day again, in conference with a number of prominent bankers.

That savings deposits, wherever held, should be segregated and safeguarded was unanimously conceded at this conference. The work of planning a skeleton banking law which would effect such a safeguarding was placed in the hands of General Counsel Paton, in consultation with the chairman of the standing Law Committee, with the chairman of the Committee on Protective Laws of the Trust Company Section, and the chairman of the Committee on Savings Bank Laws of the Savings Bank Section—the draft to be submitted at the next meeting.

In furtherance of such plan it was agreed that Secretary William Hanhart and the Chairman, Allen W. Johnston, get in touch with the States which are now lacking laws, that conditions and needs in each State might be known, and also to learn if help could be rendered by this committee.

A letter, a copy of which, together with copies of other circular letters of this committee, is attached to this report, was addressed to the Governors of States and Territories, to banking commissioners and superintendents and various State authorities, setting forth the purpose of this committee and requesting co-operation. Courteous replies were received, and the information thus obtained laid before the general counsel, Mr. Paton. A part of the co-operation asked for was that the Governors of the various States would, in their discretion, call the attention of legislatures to the savings bank needs which might exist in various States, for improvements and further laws in the interest of the savings depositor.

At the meeting referred to Mr. Paton had prepared and presented a list of States showing generally the condition of savings bank laws, namely: Eighteen States having no savings bank laws; eight States allowing stock banks to be organized with departments for commercial and savings business; other States permitting organizations of stock savings banks; in New England, some of the Middle States and

a few of the Western and Southern States trustee savings banks (without stock) were provided for.

It was found that in some States, notwithstanding laws for the organization of trustee savings banks, few, if any, were in operation, and, instead, the savings deposits and savings business was cared for by the commercial banks operating savings departments, without the restrictions which are generally conceded to be a safeguard in the interests of savings depositors.

At the meeting of the Executive Committee at Briarcliff Manor, N. Y., in April last, the action taken, after hearing read the replies to the circular letter of this committee, placed this committee in further communication, by special questions, with many prominent bankers and banking associations throughout the Union.

Replies to the second letter, which were placed before Mr. Paton, evidences such hearty interest in the work that your committee was encouraged to send a third letter with still more definite questions as to the matter which must be contained in a skeleton banking law.

The sustained interest in the subject, shown by the replies which came from practically every State and Territory in the Union, established a desire on the part of many influential bankers to give their counsel, and any other assistance they can give, for the placing of good laws upon the statutes of every State safeguarding small savings.

Of the hundreds received, the approval of such safeguarding was expressed in every letter, with the exception of two or three.

It has been manifest at its conferences that this committee has not considered practical a definite law which would be acceptable in its details by all of the various States of the Union, but, rather, information has led the committee to feel that a law safeguarding savings deposits, wherever held, would be acceptable, and it is upon this line that the work of your committee has progressed.

Communication with the various States has proved that the designing of committee work of the character laid out by the Savings Bank Section has been timely.

Not a State has been heard from but which has expressed through its correspondent an interest in the questions involved.

In many States the discussions of savings and other banking laws have in the past year been foremost in councils of the legislatures.

The extent of the inquiries of this committee made necessary by a proposition for the safeguarding of savings deposits, wherever held, has led to much information in its possession which will without doubt prove of value to the other law committees of the American Bankers' Association in their councils.

As so great an interest is centering in the present convention of the American Bankers' Association, your committee has deemed it advisable to await the developments of the informal discussion of the various phases of safeguarding savings deposits, which have lately been brought anew to the attention of State authorities and bankers throughout the Union, feeling assured that the progress already made and that which is in prospect will enable the Law Committee of the Savings Bank Section to report at the spring meeting of the Executive Committee of the Savings Bank Section in 1910 that the draft of a skeleton banking law for the safeguarding of savings deposits is ready for its consideration.

Respectfully submitted,

ALLEN W. JOHNSTON,

Chairman Law Committee, Savings Bank Section.

### Report of Committee on Auditing.

New York, September 16, 1909.

To the President and Members of the Savings Bank Section of the American Bankers' Association:

Your Committee on Auditing Savings Banks has since its continuance by you at the last convention, held in Denver, Col., given its attention particularly to the subjects hereinafter set forth. In placing the results of the committee's work before you it is our unanimous hope that this report will meet your approval and that the efforts of our Section toward the complete safeguarding of the funds of depositors in savings banks will be advanced by the adoption, where needed, of the lines of action suggested in this committee's past reports and herein.

The subjects upon which the committee has been deliberating and to which it calls your attention may be classified as follows:

First—Examination and audit by professional accountants or by auditing companies.

Second—What are the most suitable periods of the year upon which bond and mortgage interest payments should be due and payable?

Third—Proof of income.

Fourth—Card ledgers.

Fifth—Postings in depositors' ledgers—"Coupon System."

#### FIRST—EXAMINATION AND AUDIT BY PROFESSIONAL ACCOUNTANTS OR BY AUDITING COMPANIES.

In our last report this subject was brought to your attention and the recommendation was made that all savings banks able to do so have their books and accounts audited by an audit company or by professional outside accountants. "Passbooks are the hotbed of defalcation, and the hardest item to audit, owing to the practical impossibility of having all pass books exhibited at bank during the same year, or other reasonable period."

A large bank in New York, which is periodically examined by a firm of accountants, employs the following system in addition to regular auditing: Once every year for a period of a week, or sometimes two weeks, all pass books coming to the bank, either for deposit or withdrawal or entry of interest, are required to be vided by one of these outside accountants then present in the banking rooms, and this ac-

countant or auditor then and there compares the pass book carefully with the ledger account. This, of course, does not bring about the complete comparison of the pass books with all ledger accounts, yet it provides for a fair amount of careful comparisons and appears to have so far proved effective. A complete comparison of all pass book accounts with their respective books is the only known method of absolute proof of the liability of the bank to its depositors.

Massachusetts savings banks are required by law to call in depositors' books for verification once in three years. The time occupied in such verification must be at least one full month, and the method must be approved by the Commissioner. Many banks make it a practice at such times of employing an outside, disinterested, person to receive and compare the books. There are some large banks where the pass books are verified every time they are brought in, and where all the clerks are tellers, and receive deposits, make payments or verify pass books, as occasion may require. Such an arrangement would seem to be an excellent safeguard, for there is no certainty that the pass book will fall into the hands of the same clerk twice in succession, although it is certain that it will be verified by some one each time it is presented. Under this system nothing short of a collusion among all the clerks would prevent the discovery of an error on a depositor's book when presented.

In the report of this committee to the convention in 1907 we referred to the plan inaugurated by a New York State savings bank to secure from their depositors a comparison and verification of their pass books with the bank's ledger. The bank referred to writes us as follows in regard to results of their method, and we take pleasure in quoting their letter and drawing the attention of our members to this new system:

"THE SCHENECTADY SAVINGS BANK.

"Schenectady, N. Y., April 5, 1909.

"Mr. John C. Griswold,

"Chairman Auditing Committee, Savings Bank Section, A. B. A.,  
Corner 23d Street and Sixth Avenue, New York City, N. Y.

"My Dear Sir: We have your favor of April 3, and take pleasure in complying with your request for some account of the results obtained by the publishing of the detailed statement of this bank for January 1, 1907.

"The immediate result of the printing of the entire list of our depositors' accounts by number and amount of balance was the exciting of an interest in the vicinity of our patronage so great that the Schenectady Gazette—which published the statement on February 20, 1907, on ten pages of its regular issue—made extra provisions for the demands for the paper on that morning. We had previously advertised in surrounding towns that such a statement would be made.

"While we do not attribute our rapid increase in deposits at that time altogether to this statement, yet it is noticeable that the increase during that year of our deposits was over \$700,000, while there were savings banks in our vicinity which fell far short of such an increase. It is, perhaps, as noticeable that at this date, notwithstanding the fluctuations in deposits natural to a savings bank located in an industrial town and subject to the extraordinary depression of business which affected all banks during the past eighteen months, our deposits have fallen off comparatively little from total of January 1, 1907.

"In what degree this fact is due to the publicity, which seemed to meet with such general approval by our depositors and the public, I am unable to say, but feel assured that our detailed statement worked for our good when there was more or less distrust in the business circles throughout the country.

"Some of the results which appeared at our counter were such as these:

"A well-known citizen had laid aside his pass book years before, but, remembering the number, saw it in our statement, and presented his pass book with a remark that he had supposed the account was balanced. The balance was a considerable amount remaining to his credit.

"The executor of an estate by the publication had his attention called to an account he had neglected. There were several cases of executors and joint accounts which were straightened out by the attention of the depositors being called to their balances through the statement.

"Our bank has received from every part of the Union and from Canada numerous letters of approval and containing requests for information—so many that our treasurer, Mr. A. W. Johnston, issued a circular letter regarding the process of making up the statement, a copy of which I enclose.

"We have letters on file from some of the most eminent business men in the country to the effect that they believe it to be the only complete and satisfactory method for audit of liabilities of a savings bank.

"The advertising results obtained, although great, were not primarily sought for, the direct object being a full audit of both the assets and liabilities of our bank.

"Aside from the publicity and the satisfaction the audit afforded to the public, I believe that it has helped inspire our clerical force with a purpose to keep up the exact balances, which they obtain at each abstract period.

"We are looking forward to a preparation of another such statement three years from the first statement, which will be on January 1 next, it having been deemed by our management that once in three years, owing to the expense and extra work of such statement, would be sufficient for all purposes.

"Yours very truly,

"EVERETT SMITH,

"President."

To audit a bank thoroughly every branch of its work and the work done by, and records managed by, every employee and officer must be investigated and proved up. Not only should the records prepared by clerks, bookkeepers, etc., be well scrutinized and checked by competent examiners, but the affairs more closely related to the higher employees, officers and trustees or directors should be minutely gone over to determine if the law is being strictly complied with by such individuals. "As a rule, clerks' peculations are of minor importance," has been said, and quite truly, although these must be guarded against as well as the larger.

After such complete checking up the following or some other similar form of attestation, printed on the statement of the bank issued to its depositors and to the public, would no doubt prove acceptable, to wit:

"We have audited the accounts of the treasurer of the..... Savings Bank during the fiscal year ending....., and have audited all the general books of accounts, individual ledger, etc., for the said, and we have carefully examined in detail all the assets of the bank, consisting of stocks, bonds, loans on bond and mortgage, notes and other assets, and have counted the actual cash on hand and have compared the bank balances with certificates of the proper officers in banks and trust companies, and hereby certify that they are correctly shown in the above statement, and that all securities were found intact and in their proper places.

".....  
"Signature Audit Company or Public Accountant."

#### SECOND—LOANS ON BOND AND MORTGAGE.

An interesting question has been raised as to at what dates of the year payments of interest on loans on bond and mortgage may best be made to fall due. In savings banks holding many such loans (some Eastern banks have over 3,000 loans) is it desirable to have this interest all payable at a given date (usually semi-annually), or is it better to arrange loans on bonds and mortgages into classes, interest on each class to mature at periods not touched by the other class? An argument in favor of interest payments being made, say first days of January and July, is that at those periods interest on deposits is being paid to depositors, and the receipts at same periods of the interest on bonds and mortgages provides the bank with funds which have not been idle to pay its depositors' demands then being made. A drawback to this method is that January 1 and July 1 are the busiest days in the year for savings bank employees, and that practice of this plan necessitates such excessive work within the given few days. Some savings banks make the interest on their loans payable on the anniversary date of the loans, others on the first or fifteenth day of the current month, while others, as an example, pay depositors' interest, say January 1 and July 1, and collect bond and mortgage interest April 1 and October 1. Considering the work called for in attending to fire insurance, taxes, etc., on the properties as required, these two last methods would seem to be preferable, as in practice either would divide the work and spread it, and, besides, thereby possibly saving extra clerk hire, sometimes necessary during the rush consequent to payment of interest to depositors and receiving interest on loans on one and the same day. This question is probably of more particular interest to large banks carrying many mortgage loans than it may be to very small institutions, but the subject does affect all.

#### THIRD—PROOF OF INCOME.

In the many replies received last year to the inquiries sent out by the committee it appeared that in some instances our inquiries on the subject were not thoroughly well understood. Perhaps it might be well to say that "proof of income," which was recommended by the committee, need not necessarily be made as an advance proof, but may be, and is, made by some banks for the elapsed period of six months or one year. The fact is that every savings bank should prove thoroughly its receipts of income by some method that will satisfactorily show those in charge (as well as show to the audit company or accountants) that the whole of the income due the bank on its investments has been really received in cash, and also show what, if any, interest or other income may be in arrears. We speak advisedly on the subject, for some savings banks have actually no proof whatever that their income has all been received at the proper rate and at the proper time.

#### FOURTH—CARD LEDGERS.

One of the objections by many savings banks, and by the minority of this committee in its last report, to the adoption of the use of card ledgers by savings banks has been the danger of cards being abstracted from the rack, destroyed and replaced with cards on which have been placed figures showing false balances, etc. This objection may be partly, if not entirely, overcome by having (as now is done in many banks) the depositor affix his or her signature on the ledger card at the same time he or she affixes his or her signature on the signature card or book when opening account. Should such ledger card be abstracted and another substituted it would necessitate a forgery of the depositor's signature on the substituted card—"a serious matter." When this "ledger card" is entirely filled in, then at next ensuing transaction (depositor being present) account may be closed out in usual manner (by draft), a new account in same name opened, its proper cards duly signed by depositor, as before, a pass book issued therefore, to which new account will be credited the amount of balance withdrawn from said closed account. Some banks not only take the signature of the depositor on the ledger card, but also the depositor's age, and father's and mother's names. In small banks or small savings departments in banks, the signature and full pedigree, etc., of the depositor may be taken on the top of the ledger card, thus saving

some time and cost by dispensing with the other signature and pedigree cards. This last suggestion, it seems to the committee, might be considered by banks having less than 5,000 accounts. Your committee favors the foregoing described method of using card ledgers in which to keep depositors' individual accounts. By the employment of card ledgers time and space are economized without question. With the above method of using card ledgers correctness is in some respects guarded more surely than ever before.

#### FIFTH—POSTING IN LEDGER, "COUPON SYSTEM."

There have been received many inquiries as to the system of reverse or coupon posting. Such system the committee commends to savings banks. For your consideration several printed examples are shown hereinafter which demonstrate in a general way the working of the system.

Examples Nos. 1 and 2 show in reduced form the sheets used on the teller's desk, and report the daily transactions. These sheets are each day delivered to the auditor, who separates the parts where perforated, and next morning hands the larger and unfinished sheets to the bookkeeper, who fills them in as shown by examples Nos. 3 and 4, and returns the sheets to the auditor, who thereupon compares the completed sheets with their respective stubs, as shown by examples Nos. 5 and 6, which comparison proves whether or not the postings in the ledger were correctly made in detail as well as in total, and affords a proof of agreement between the cash and the ledger.

It is understood that the postings of the daily transactions in the depositors' ledgers are made in the usual manner, either from tickets or in any other acceptable manner; the following refers only to the proof of such postings.

These following forms are used and filled as marked, by the teller:

[We do not attempt to reproduce these forms.]

A sheet of each, as above, is used daily for every ledger or section, entry of each transaction being made as above. The right hand part of the sheet is then detached where punctured and kept by the auditor, who hands the bookkeeper the remaining portion of the sheets, and from what they find posted in the ledger they fill the sheets as follows:

[We do not attempt to reproduce these forms.]

Then the said sheets are returned to the auditor, who takes the coupons torn off from the complete sheets, places them alongside their respective sheets, returned by the bookkeeper, and compares, as follows:

[We do not attempt to reproduce these forms.]

Should all entries agree, both as to individual amounts and daily totals, this should be a practical and reliable proof that the daily postings have been correctly made in the ledgers and agree with the cash entries of the same day. The duplex system of bookkeeping used much in commercial banks, and most highly commended by eminent authorities for such banks, is of the same nature as the aforesaid coupon system, which the committee has as aforesaid commended to savings banks.

The committee takes this opportunity to say that it will be much pleased at any time to receive from any savings bank suggestions as to improved methods of bookkeeping or auditing. We might suggest that savings bank officers having such suggestions to make should forward them to the secretary, and they would be published for the consideration of our members, the names and figures in such communications not to be divulged unless such be perfectly agreeable to the writers thereof.

Respectfully submitted,

JOHN C. GRISWOLD, Chairman.  
EDWARD L. ROBINSON,  
F. W. JACKSON,  
ALBERT I. COUCH,  
WM. HANHART, Secretary.

#### Report of Postal Savings Bank Committee.

By LUCIUS TETER, Chairman.

#### MEETINGS.

This committee was continued in service by your action at the convention at Denver last September.

We realized, after carefully considering the discussion in reference to the postal savings bank subject at the convention, that there was very definite work for us to do. Therefore, as soon as was practicable after the convention, we called a meeting of the committee, which was held in the city of New York on November 16, 1908. This meeting was well attended, not only by the members of the committee, but by the executive officers of the Savings Bank Section. A very thorough consideration was given to the entire subject of possible postal savings bank legislation, and the unanimous attitude of your committee was that the most desirable method to be pursued in discouraging such enactments was to carry on a thorough and fair-minded campaign of education in reference to the savings bank situation throughout the United States and the relation of the banks to the people.

We, therefore, compiled for circulation a letter addressed to all of the banks in the United States, whether members of the American Bankers' Association or not, and sent with this letter a copy of the then Senate bill introduced by Senator Carter, of Montana; a copy of an address by Mr. E. R. Gurney, of the First National Bank, Fremont, Neb.; copy of an address by the Hon. George E. Roberts, of the Commercial National Bank, Chicago; a press summary to be used by bankers in advising their local papers as to the facts in reference to the situation, and a copy of the report made by your Postal Savings

Bank Committee at the Denver Convention. These papers were mailed about November 24, 1908, and were received with interest by the bankers throughout the country. There was such a demand for these circulars from various quarters, including universities, libraries, etc., that five thousand additional copies of the above documents had to be printed.

There was also a meeting of our committee held in the city of Washington February 25, 1909, the committee having been called there to appear before the sub-Committee on Postal Savings Banks of the House of Representatives Committee on the Post Office and Post Roads, to which hearing reference will be made later.

Different members of your committee have held frequent informal meetings for consultation and have been in constant touch by correspondence. We have also had conference with the executive officers of the American Bankers' Association and have endeavored to work in harmony with its Committee on Federal Legislation.

On February 11, 1909, we sent out 25,000 follow-up letters to the banks of the United States, again calling attention to our subject and asking them to send for circulars if the first ones sent had not reached them or had been used.

#### HEARING AT WASHINGTON.

The chairman of your committee received an invitation from the Hon. Jesse Overstreet, chairman of the House Committee on the Post Office and Post Roads, asking the committee to appear before the sub-committee at Washington on February 25, 1909. We accepted the invitation and were received very cordially and given ample opportunity to explain our point of view in reference to the postal savings bank proposition.

We were furnished with several copies of the hearing, but so great was the demand that subsequently we arranged with the government printer for 4,000 additional copies. Copies have been sent to all of the members of the Savings Bank Section and to numerous general inquirers.

#### STATISTICAL REPORT.

Very early in the year our secretary, Mr. William Hanhart, began the laborious task of compiling as nearly accurate figures in reference to the savings deposits throughout the United States as would be possible. He undertook this work, realizing that the figures submitted heretofore gave a very misleading impression as to the volume of savings business in the United States. He found the banking departments of the States very kind in furnishing information. At the suggestion of our committee the Comptroller of the Currency made a call, requesting the totals of savings deposits in national banks. With the figures obtained from these various sources Mr. Hanhart was enabled to prepare a report showing quite accurately the total of savings deposits in the country. His report shows a total of approximately six billions of savings, as against three and one-half billions, which has heretofore been regarded as the total.

Our committee has offered to furnish supplies of these statistics and copies of the Washington hearing at the various State conventions. This offer has been quite generally availed of, and thousands of copies have been distributed to bankers in this way.

#### THE STATE CONVENTION SEASON.

Your committee very early in the present year realized that the interest manifested by bankers in the question of postal savings bank legislation made it desirable that the subject be discussed quite generally at State bankers' conventions. With the thought in mind of co-operating with the State associations as much as possible in bringing the subject before their delegates, our committee prepared a list of names of men who would accept invitations to speak at State conventions. While we have not accurate information from all the States, we are glad to be able to report that in addition to addresses on the subject at numerous group meetings there were postal savings bank speakers at nineteen State conventions, at all of which conventions great interest was manifested in the subject. At many places the question was discussed on the floor and resolutions condemning possible postal savings bank legislation were adopted.

In connection with this work the committee would like most sincerely to express its appreciation for the loyal services of all those men who have devoted their valuable time to preparing and delivering addresses upon this subject.

#### THE ATTITUDE OF THE BANKS THROUGHOUT THE COUNTRY.

Our year's experience has proved clearly that the bankers of the country are united in that they do not regard a postal savings bank system necessary; in fact, hold that such legislation would result in injury to the American people.

The bankers, as well as the officers of group and State bankers' associations, have shown by their hearty support and sympathy how much they appreciated the work which the committee has done and expressed themselves as being willing to co-operate heartily in the work of your committee. The attitude of these men has been a constant inspiration to your committee and has made easy a volume of work

which otherwise would certainly have been burdensome. We find that the bankers are entirely alive to their responsibilities, and while condemning the idea of postal savings banks they are willing to co-operate actively in the enactment of laws, both national and State, that shall make for better savings facilities and for better banking methods.

#### EXPENSES.

The expenses of your committee since September 1, 1908, have been as follows:

Committee meetings .....	\$397.73
Printing and stationery .....	1,067.22
Postage .....	1,346.00
Express and sundries .....	33.63
Total .....	\$3,044.58

You will notice that the chief expenses have been in connection with the large amount of literature that has been circulated. The expenses of speakers at State conventions, etc., have in practically every case been paid by the State associations.

#### THE PRESENT SITUATION AND THE FUTURE.

The members of your committee are inclined to think at this date we can say that there has apparently been a great change in sentiment throughout the country in reference to the advisability of passing postal savings bank legislation. In other words, the campaign of education which we started has to a considerable extent had the desired effect in that it has caused multitudes of people to study carefully a question to which they had heretofore given only a superficial attention.

The question of postal savings bank legislation, of course, was not discussed at the recent special session of Congress. We are hoping that the question will be turned over to the Monetary Commission, and fully believe that in the final report of that commission will come promises for a future development of American banking that will assure all the people that legislators and bankers, working together, can take care of the banking needs of the American people.

Your committee is of the opinion that so long as this question is in the public mind you should have a committee on the subject. We suggest that you see to it that a committee be kept in charge of this work.

Your committee has recognized the importance of working in harmony with the Savings Bank Law Committee, realizing that the result of such work as we do must be closely followed up by the work of that committee.

In closing this report our committee wishes especially to thank our secretary, Mr. William Hanhart, for his faithful services during the past year in connection with the enormous volume of correspondence and other exacting duties connected with our committee's work—the volume of correspondence at times reached most unexpected proportions. It is our desire thus to express appreciation for work of the very highest order most loyally done.

Respectfully submitted,

LUCIUS TETER, Chairman.  
MYRON T. HERRICK.  
F. R. MORISON.  
C. LA RUE MUNSON.  
CHARLES E. SPRAGUE.  
P. LE ROY HARWOOD.  
WM. HANHART, Secretary.

#### Report of Committee on Membership.

The Committee on Membership has held two meetings—the first on March 5 and the second on August 11, 1909—and reports a net increase of 113 in the membership of the Section, after deduction of sixty-four banks which have failed, merged or lapsed in their dues.

It was not thought desirable this year, mainly on account of the heavy expenditures for the Postal Savings Bank Committee, to circularize as usual. A circular letter, however, was sent to all the non-member banks of the Association, the cost being defrayed out of the profits accruing from the sale of the book of printed forms, and this resulted in securing sixty-one new members.

Secretary Farnsworth informs us that 162 new applications, received since the first of September last, stand to the credit of this Section, being traced directly to their solicitation.

Many of our vice-presidents have been of great service in increasing the membership in their various States, deserving thanks for their co-operation.

We would recommend that this committee, or a similar one, be elected or re-elected every year, to continue the work which we have only begun, and we would also recommend that the circularization by letters be resumed.

Respectfully submitted,

W. R. CREER,  
Chairman.

# Detailed Report of Proceedings.

Eighth Annual Meeting SAVINGS BANK SECTION, Held at Chicago, Ill., September Sixteenth, 1909.

## MORNING SESSION.

AUDITORIUM HOTEL,  
CHICAGO, Sept. 16, 1909.

The annual meeting of the Savings Bank Section of the American Bankers' Association was called to order by President John H. Johnson at 10 o'clock A. M.

The President: The first is a prayer by the Rev. William O. Walters, Rector of Grace Episcopal Church of this city.

### PRAYER.

Rev. William O. Walters.

Almighty God, our Heavenly Father, who doth commend the hand to be diligent, we humbly beseech Thee that Thy blessings may rest upon all who are in the business ranks of life, and especially upon those in Convention here assembled. May Thou be pleased to direct and prosper them to Thy glory, the good of this nation, the safety, honor and welfare of all Thy people. Give them strong convictions concerning personal integrity and honesty, and such boldness in doing right that their examples may never be questioned. So direct them that they may in all their dealings exemplify the consistency of the Christian religion, and always give the first place to Thy law and commandments. Through their exalted lives may Thy Church be honored and many souls be turned to righteousness. We ask all in the name of Him who has taught us when we pray to say "Our Father who art in Heaven, hallowed by Thy name, Thy will be done on earth as it is in Heaven." Amen.

### Address by President.

The President: My first thought, gentlemen, was to come here to-day and act purely as a presiding officer, to do no talking whatever; but the developments of the last few hours have been so startling to me that I cannot refrain from repeating the sentiment which seems to be crystallizing so rapidly, not only in the Association, but in the business, commercial and social world. As a result, I have made a hurried resume of the thoughts of others, amended and polished and rubbed down a bit, so as to give you an idea to what tremendous importance has grown this Section. Starting as it did at New Orleans in 1901, with an attendance all told of, say, 25, the membership at the end of the first year, naturally of the most enthusiastic members in the savings line, and to-day of over 1,000; and instead of being a sort of a sub-committee of the parent association, having risen to that importance that they have given us a whole day and have deferred the deliberations of that august body in deference to us.

We are gathered here to-day to interchange ideas, not, as our critics would say, for selfish purposes, but rather that our business may be developed along safe and permanent lines, and for the common good, for I know of no interest more vital to prosperity and peace of the nation than the care and safe keeping of its funds, and that this is the first and great purpose of this Association. How best to do it is the question, and it seems to me that this is being well answered by the development of the various types or departments of banking represented in this Association.

It is my pleasure to-day to speak to you on the subject of savings; and what gives me even greater pleasure is to observe the splendid unanimity and positive unselfishness of every section of our business, in agreeing that savings deposits must have our first consideration.

The honored guest of to-day, President Taft, said but two days ago that "our banking and monetary system is a patched up affair which satisfies nobody." President Reynolds, in his opening address, said "There should be a change in our present laws governing National banks," and further on, "National banks should be allowed to act as trustees," and they should be given the right, under a specific declaration of law, to accept savings deposits, but the savings deposits thus received should be segregated from their general deposits. Furthermore than this, the law should definitely define the character of investments the bank should carry against savings deposits, which investments should be segregated from the general assets of the bank, and in case of a failure of the bank, the savings depositors should have a first lien upon the specific securities held in the savings department, and, in addition, be general creditors. The public statements should show the amount of savings deposited and securities held against same, and the savings deposits held by National banks should carry the same requirements as to reserve, and be subject to the same notice of withdrawal that is now required under the various State and savings bank laws. If this were done, and the laws in the various States so changed as to require a State bank or trust company to segregate their savings deposits and securities in the same manner, with the same restrictions, it would go far towards answering any arguments advanced in favor

of the establishment in this country of a system of postal savings banks, and I would add, give much better results than any form of guaranty.

As a further evidence that we are all working along the same lines, I quote from the address of President Jackson, of the Trust Company Section: "These laws, while all enacted with the same general purpose, namely, to make our banking system safe, are greatly at variance, and I think we should take advantage of opportunities such as this convention offers, to study each other's methods and to be prepared to exert our influence in procuring regulations as nearly uniform in all the States as possible."

You cannot make a man honest by regulation, and cannot positively prevent bank failures, yet you can minimize the latter, both in number and effect, by wise and practical restrictions.

It is not sufficient that we oppose the plan of State or governmental guarantee of deposits, for the postal bank means that just as much as the so-called guaranty. We must sympathize with the desire of the people at large to have their deposits made so safe as they can possibly be. It is incumbent upon us, as experts, to take steps to make impossible, as nearly as we can, the failure of any bank—savings, State or National—and we shall fail in our opposition unless we are able to present a plan which will practically accomplish the desired end, and, at the same time, be based on sound business principles. Is it not better to regulate your own affairs than to have them regulated for you? Is it better to be compelled by governmental influences to do what is right and best, or to do it of your own initiative? I hold that we should not attempt to curtail any of the banking facilities now enjoyed in this country. The people should be given every possible agency consistent with safety and good business principles. The savings bank man has always held that the National bank should not receive savings deposits; he said the same thing about the trust company; and yet each seemed to be doing a very commendable duty, and each seemed to flourish and be prosperous. And again, I am more than pleased to observe that the divisions are being gradually broken down, and we are fast becoming of one mind, at least on the subject now directly under consideration.

It is clearly evidenced that the people want these various types of depositories, and I think it is our duty as bankers to recognize the demand of our clients from a purely unselfish standpoint, and to permit the people to deposit their savings where it is most convenient; but for their protection, these funds should be most sacredly safeguarded and their investment restricted, no matter by whom received. Briefly, a savings deposit, whether made in a National bank, a mutual savings bank, a stock savings bank, a State bank or trust company, should be under the law of the State in which those institutions are located, and we should do our part in seeing that these laws are made reasonably uniform. At first mention of this to a National banker, he naturally says, as far as we are concerned, this cannot be done, but I am reasonably well advised, and feel positive, that the Federal Government will co-operate with us, and at least impose restrictions similar to the standard provisions now being inserted in all of the progressive States; and to show you that this demand is not only deep-rooted, but world-wide, I need only refer to the new banking law recently introduced into the land where they object to everything that is new, namely, China, and which, according to the London "Financial News," contains many admirable provisions; prominent among them is one clearly distinguishing between commercial and savings deposits, even restricting and defining the investments for the latter.

Our committee on this subject has done and is doing heroic work, and will give you facts and figures showing splendid progress. While the work is well begun, it must be carried on to a successful finish, and I most earnestly recommend that this committee, above all others, be continued.

Last month I attended a meeting of the Commissioners on Uniform Laws; last Monday, in this city, a meeting of the Superintendents of State Banks, attended by the official representatives from over two-thirds of the States, and all are of one mind on the subject, and what seemed impossible two or three years ago now seems not only probable but sure, and the result will be a system of depositories for savings that will be so permanent and so satisfactory as to entirely satisfy the demands of the people and to positively set at rest the fallacies of the hour. (Applause.)

We will now listen, gentlemen, to the address of welcome from Mr. Henry S. Henschen, Cashier State Bank of Chicago. I take pleasure in introducing Mr. Henschen. (Applause.)

### Address of Welcome, by Henry S. Henschen.

There is nothing perfunctory or half-hearted in the welcome which the bankers of Chicago extend to the members of the Savings Bank Section of the American Bankers' Association. For months we have been looking forward to your coming as the chief event of the year, and now that you are among us, as our honored guests, our pleasure and gratification are greater than I can express.

Chicago is the ideal convention city and September the ideal month in which to visit Chicago. Many of you are frequently called by business or pleasure to our city; others remember Chicago as she was during the halcyon days of the World's Columbian Exposition; while others, chiefly, perhaps, our Eastern brethren, are receiving their first impression of the Western metropolis. To one and all we extend our sincerest welcome and the freedom of the city during your stay here.

Standing before the Savings Bank Section, I realize that I am in the presence of a body of men who have earned and are deserving of the confidence of their fellow men. In all the world there is no more striking example of trust and faith among men than in the relations existing between depositors and the banker. As savings-bankers you are the custodians of those slowly accumulated dollars which, deprecate them as you may, still represent food for the hungry, healing for the sick, education for the young, comfort for the aged—these and a thousand other human necessities.

Your deliberations at this session are fraught with more than usual moment because of the present state of the agitation for Postal Savings Banks. Every banker is in the first instance a citizen of the great Republic—an intelligent, well-informed and patriotic citizen. He is seeking primarily not his own good, but that of his country. If the good of his country demands that it shall discard the experience, the knowledge and the judgment of the men who have devoted a lifetime to caring for the savings of the people and their proper safeguarding and investment, and to turn over these functions to third and fourth class postmasters whose actions and judgment shall be controlled by the Third Assistant Postmaster General at Washington—if, I say, the welfare of the nation demands that this be done, the bankers of America are patriotic enough to acquiesce in the proposed change. But if, on the other hand, such a radical change would be a detriment not only to our system of banking and credit, but to the welfare of the people as a whole, circumscribing their opportunities for growth and development and retarding rather than adding to the success of the commercial world, again the banker will speak and in no uncertain tones, even though he may be accused of a selfish motive. In this discussion the only arguments entitled to consideration are those based upon the broad grounds of public policy.

Chicago is proud to count as one of her sons Mr. Lucius Teter, the indefatigable Chairman of the Postal Savings Bank Committee of the American Bankers' Association, which committee by its report at the convention last year and by its subsequent efforts has done so much to inform the American people on the subject of Postal Savings Banks.

Before such an intelligent body, I need not take time to dwell on the size, the financial strength and the many attractions of Chicago, for they are quite apparent. Let me merely call your attention to the fact that in matters of finance Chicago has never departed from the most conservative methods, and her reward has been the prestige and high rank which the world concedes her as a banking centre. Her savings banks are among the strongest and best managed in the United States. During your stay in Chicago, you are authorized to act as bank examiners and visit the substantial buildings in which Chicago's banks are domiciled.

We sincerely trust that this session of the Savings Bank Section may be successful in every particular, and that the delegates to it may remain in our wonderful city as long as possible, form lasting friendships with its bankers, and depart with none but favorable impressions of Chicago and her hospitality. (Applause.)

### AMENDMENTS TO CONSTITUTION.

The President: It is hardly necessary for me to repeat part of Mr. Henschen's hearty greetings as to the fact that they have been waiting for us all these years. I think we can go even farther and say that we have been waiting to come to Chicago, and that we are pleased at the realization of our hopes.

I think, first of all, in order that we may proceed in the regular order, is the adoption of the amendments to the Constitution which were submitted at Denver, and the report received and filed. The findings were then submitted to the Executive Council at Briarcliff last spring and formally approved, and the amendments are now up to you for adoption. You will find them in the "Journal" of August, 1909, the formal and necessary notice having been given in that way. I will now entertain a motion for their formal adoption.

Mr. Edward L. Robinson, of Baltimore, Md.: I move the adoption of the amended Constitution.

Mr. Allen W. Johnston, of Schenectady, N. Y.: I second the motion.

The President: Gentlemen, you have heard the motion that

the amendments to the Constitution of the Savings Bank Section as submitted in the August number of the "American Bankers' Association Journal." Any comment? If not, kindly signify your approval by saying aye; contrary, no.

Adopted.

The President: Please so record, Mr. Secretary.

The President: We have with us to-day several distinguished speakers, and with your permission and by request, in order to keep a previous engagement, I would like to make a slight substitution in the order of the programme, and ask Mr. Radford, whom I understand is to read the address of Mr. Welch, to kindly defer to the Hon. Henry M. Zimmermann, Commissioner of Banking for the State of Michigan.

Mr. Joseph D. Radford: I esteem it a pleasure to step aside in favor of Mr. Zimmermann.

The President: With your consent, then, we will hear from him whom we consider a commissioner second to none—as we call him a "live wire," and not at all afraid of the cars or the size of the locomotive. Mr. Zimmermann, we would be glad to hear from you on the subject of the hour, if you please. (Applause.)

### "The Segregation and Safe-Guarding of Savings Deposits," by H. M. Zimmermann.

[Mr. Zimmermann's address will be found on pages 194 to 197.]

The President: I feel quite sure that the illustration of the practical workings of a subject so important is highly appreciated. On behalf of the Association, we thank you.

While the speaker was telling us of the workings of this law, I noticed that the chief executive of our Association came in, and I think we should at least accord him the courtesy of calling your attention to our chief, President Reynolds. Won't you say a word of commendation, Mr. Reynolds, as to the work we are trying to do? (Applause.)

President Reynolds: Mr. President, Ladies and Gentlemen of the Savings Bank Section: I fear that if I should undertake to commend all the commendable things that this section is doing, the time which I am able to spare would not permit of my finishing my discourse. I am glad to see the splendid results that are being accomplished, due to your efforts on every hand, and I compliment and congratulate you upon the efficiency shown by the Section in this and past years. I wish to especially thank you for your worthy efforts in the work that you have done in opposition to Postal Savings banks. Just at this time a great many of our leading journals are strongly in favor of establishment of Postal savings bank, and I think the work done by your Section, and by other members of the Association in general will have to be continued, if we may hope to succeed in thwarting the establishment of these institutions. As bankers, we can see no reason why they should be established, and I hope we will all continue to register our opposition to them and be active in that opposition. I have listened with a great deal of interest to the paper just read by Mr. Zimmermann, and I am heartily in sympathy with the sentiments expressed therein.

I think I am warranted in saying to you that in a few months there will be introduced in Congress by the leaders of the Finance Committee or the Currency Commission, legislation, or contemplated legislation, which will cover in our National system, so far as savings deposits are concerned, the character of the investment of the funds, and the priority of lien of the investment of those funds. I am confident that in the year you will see a revision of the National banking laws which will bring about this end, in so far as National banks accepting savings deposits are concerned.

I feel I must apologize to you for not being able to be with you through all of your session, but I think you will appreciate that we are all more or less busy in entertaining the bankers, and while it has been a great pleasure to do so, it has nevertheless occupied our time, and as we are to have Mr. Taft with us this morning, I must now answer the call of duty elsewhere. I appreciate the opportunity of being with you this morning, and again congratulate you on your meeting and the excellent work which your Section is doing. (Applause.)

I omitted for the moment to say that last evening when I went into my room I found a letter from the Postal Savings Bank leader—an open letter to the Executive Council of the American Bankers' Association, addressed to me as President of the Association. Whether or not you gentlemen have seen that letter in the morning papers, I do not know. I assume, since it was stated to be an open letter, that it has been published. I simply call your attention to it. I don't know whether it is anything that you want to take action on or not, but I shall refer it at the next meeting of the Council for their attention.

The President: I might say that the letter has not reached us, nor has it reached my attention yet. If it should, we will dispose of it by referring it to the Postal Savings Bank Committee.

President Reynolds: The gist of it is that they call upon the American Bankers' Association to exercise the spirit of patriotism and to favor the Postal Savings bank establishment for the general good, to their own detriment. I think that is about the gist of the letter.

The President: We will now have the report of the Executive Committee. Mr. Robinson, gentlemen.

#### Report of the Executive Committee.

[The report of the Executive Committee is printed on page 205 of this publication.]

The President: Gentlemen, you have heard the report of the Executive Committee—

A Member: I move that the report be received, adopted and filed.

Motion seconded and carried.

The President: The next is the report of the Secretary, Mr. William Hanhart.

#### Report of the Secretary.

[We print the Secretary's report on page 205.]

The President: Gentlemen, you have heard the report of the Secretary. What is your pleasure?

A Member: I move that the report be received and filed.

A Member: Motion seconded.

The President: It has been moved and seconded that the report of the Secretary as read, be received and filed. Those in favor will signify the same by saying aye; contrary, no.

The President: It is so ordered.

The next is the report of the Committee on Savings Bank Laws, Mr. Allen W. Johnston, Chairman.

Before Mr. Johnston delivers his address, I want to pay special tribute to the time and labor and attention he has given to securing the details that are indispensable to the ultimate solution of the problem that confronts us.

Mr. Allen W. Johnston, of Schenectady, N. Y. I thank you. I may say in that connection that the credit is rather due to the people who have given me these details.

#### Report of Committee on Savings Bank Laws.

[This report will be found on page 205.]

The President: Gentlemen, you have heard the report of the Committee on Savings Bank Laws. I think you have been impressed, or should be, with the importance of the task.

A Member: I move that the report be adopted, with a vote of thanks to the committee.

The President: Gentlemen, you have heard the motion. Before putting it, however, I would like to call the attention of the members present to the desirability of continuing that committee. They have the matter well in hand, and while I do not believe in any way in perpetuating any committee or any official, this is a matter of great study, and it would take a new committee quite a time to get in position to handle it as well as they can. As I understand the motion, it is that the report of the committee be received, and that the committee be continued. Do I hear a second?

A Member: Motion seconded.

The President: Are there any comments? Then those in favor of the motion will signify by saying aye; contrary, no.

It is so ordered.

#### Report of Auditing Committee.

The President: The next is the report of the Committee on Auditing, and that being purely a technical report, with certain cuts and diagrams necessary to explain it going with it, I have the consent of the Chairman of that committee, I believe, to waive the reading of it and to refer you to the printed report, which will be sent to you later, and which will be more effective in your hands than a reading of it here. Is that correct, Mr. Griswold?

Mr. Griswold: Quite so.

The President: Gentlemen, you have heard the disposition of the report of the Committee on Auditing, and with your further permission we will now go through the formality of receiving and filing it.

A Member: I move that the report be received and filed.

Motion seconded and carried.

[The report of the Auditing Committee is given on page 206.]

The President: The next is the report of the Savings Bank Committee. Gentlemen, Mr. Lucius Teter, Chairman.

#### Report of Committee on Postal Savings Banks.

[We print the report of the Committee on Postal Savings Banks on page 207.]

The President: Gentlemen, you have heard the report of the Postals Savings Bank as read by the Chairman of that committee. What is your pleasure?

A Member: I move that the report be received with thanks, and that the present committee be retained for another year. They seem to have performed very efficient service in the last year, and they are familiar with the details of the work.

Mr. Briggs, of Denver, Col.: I may be a little out of order, but I think we ought to express our thanks to the Law Committee and to the Committee on Postal Savings Banks for the excellent work they have done. I think very few of us who have no connection with committee work of this character really appreciate the large amount of time and energy required to accomplish what our committees have accomplished for us during the past year; and to allow them to continue in their work without even a vote of thanks seems to me to look careless and ungrateful, and I am not willing

to admit that this body is careless or ungrateful in regard to its committees. I therefore move you that we express to both committees a vote of thanks for the excellent work they have done.

Mr. Kauffman, of Tacoma, Wash.: I make the same motion. I think it is thoroughly incumbent on the Savings Bank Section to express their thanks to the Committees for the work they have done. I second the motion.

The President: Gentlemen, you have heard the motion.

Motion seconded and carried.

The President: The committees, as represented by their respective Chairmen, will please convey to the individuals thereof the appreciation of this Section for their splendid work.

The next is the report of the Committee on Membership, which the Chairman has requested our Secretary to read.

#### Report of the Committee on Membership.

The President: Gentlemen, you have heard the report of the Committee on Membership. What is your pleasure?

A Member: I move that it be received and filed.

Motion seconded and carried.

[For report of Committee on Membership see page 208.]

#### APPOINTMENT OF COMMITTEE ON NOMINATIONS.

The President: The next is the appointment of the Committee on Nominations. I would like to ask if Mr. Frederick C. Nichols, of Fitchburg, is in the room.

No response.

Gentlemen, I will name as a Committee on Nominations Messrs. Clinton T. Rose, of Syracuse, N. Y.; Mr. R. C. Stephenson, of South Bend, Ind., and Mr. Frank N. Briggs, of Denver, Col. The committee will meet immediately upon the adjournment of this session—this morning's session—and will be pleased to receive from any member present a nomination for any office.

We would particularly urge that you go out of your way to submit a Vice-President for your State; and that you be not at all bashful about naming yourself, if you happen to be the only man here, and you think you are all right. We want men who will work. The assistance that has been given us by the Vice-Presidents of the respective States has been very valuable, so please see that we get as full a list as possible, and that we be not obliged to turn to the bankers' directory to fill in with.

As you are probably aware, the coming of the President of the United States here to-day has caused certain engagements to be made, and possibly a lessened attendance here at the moment, and I think that in deference to his presence, and in order that our members may have an opportunity of seeing him, that we should facilitate our programme as much as possible. If, by continuing our morning session up to 12:30, we will be able to get some of our business out of the way, you can see him and meet him at the public reception at 2 o'clock, and we can resume our meeting here at 2:30. Shall we continue our morning meeting as long as possible, and then adjourn to meet at 2:30?

Mr. Joseph D. Radford: If we continue our morning session and carry out the programme as laid down, how long will it take us?

The President: I do not think we could possibly finish in less than two or three hours. There are a great many people here who would like to be heard on different subjects. We have the real estate mortgages to savings banks—two papers, one by Mr. Welch and one by Mr. Croer. Then there is an address by Mr. Rother, as well as one by Mr. Edward B. Carney and Mr. Edward L. Robinson, as well as the open discussion, which may be quite lengthy. I think we ought to give the members an opportunity to meet the President, if possible to do so without seriously curtailing our programme.

Mr. Radford: I therefore would move you that when we do adjourn we adjourn to meet again at 3 o'clock.

Motion seconded and carried.

Mr. Eden: For the benefit of those members who may wish to attend the ball game this afternoon, the game will not begin until after the arrival of President Taft at the ball park. It is expected he will leave the Art Institute about 3:15 and reach the ball grounds about 3:45; so those who hold tickets to the ball game will know what time the game will begin—between 3:45 and 4 o'clock.

The President: Thank you.

The President: The next in order, then, is to take up the papers that are to be presented to us. The first one is "Real Estate Loans for Savings Banks and Their Amortization." Mr. R. M. Welch, Secretary of the California Bankers' Association, being unable to present, has asked his good friend, Mr. Joseph D. Radford, to present same for him. I take pleasure in presenting to you Mr. Joseph D. Radford. (Applause.)

#### Real Estate Loans for Savings Banks and Their Amortization.

[Mr. Welch's paper will be found on pages 197 to 199 of this publication.]

The President: Gentlemen, you have heard this most interesting paper on a peculiar phase of our business, and before putting the motion I would say to Mr. Radford that on behalf

of our Association we know that you will convey our appreciation to Mr. Welch for his efforts.

Gentlemen, you have heard the paper, and I am sure are very much interested in it. At the moment we have another one similar in character, but of a different type, and I think it is quite proper that it should immediately follow. However, before taking up that, and by way of a little momentary intermission, I want to call your attention to the fact that we have with us one of the great bankers of America—a man who in the emergency of the moment retired from professional banking to that of Departmental Governor. I refer to Mr. Clark Williams, Commissioner of Banking of the State of New York. I notice he is here. (Applause.) I would like to introduce you to the gentleman and he to you, and have him say a word or two to you.

#### CLARK WILLIAMS' ADDRESS.

Mr. Clark Williams, of New York: Mr. President and Gentlemen. It is a great pleasure for me to be with you this morning, and I assure you I take great interest in the matters you are discussing. I will only take a moment of your time, and the burden of my talk is to thank you for the opportunity of meeting you face to face.

We have in the State of New York, as you well know, mutual savings banks. There are 139 of such institutions, with total resources of \$1,587,000,000; but gentlemen I am very happy to say that they give us less trouble in the matter of supervision than the other characters of financial institutions under our charge, and I daresay that is due to the character of laws which are on our statute books to some extent; but I am convinced that whatever those laws might be, unless it was because of the character of the individuals having in their care the funds of the provident poor—the personal element—there would be opportunity for as much disregard of law in the savings bank system as in that of the State banks and trust companies and building and loan associations. During the week there has been a convention, perhaps of which you have not heard in this city. That convention was by the National Association of Supervisors of Banks. Those earnest, hardworking, underpaid servants of the people, through me, would ask your co-operation as bankers in the different States for a better system of supervision, and perhaps better laws, and I think they have met you in one particular in their declaration of approval of the segregation of saving deposits in State banks and in trust companies. I daresay your president will announce this to you, if he has not done so already; but I bespeak for them in their earnest efforts for a more satisfactory character of supervision, your hearty co-operation with them to that end, and I speak to the point because you can bring the influence which is necessary upon your legislators, and upon the executive. If the funds are not sufficient for the purpose, or if the laws are inadequate, or if there is a general disregard or a lack of appreciation of the necessity for supervision, you gentlemen can do more than any one in your respective States to bring about the desired results.

Gentlemen, I thank you for this opportunity of speaking to you for a moment, and I cannot help but feel that you each one of you—should be enjoying an intense satisfaction in the unselfish efforts which you are making for the protection of the moneys of the provident corps. Gentlemen, I thank you. (Applause.)

The President: We want to assure you, Mr. Williams, that we are heartily in accord with all the movements of your Association, and you can count on our support at all times for the enactment of good and proper laws. There is no question about it.

Now with this little intermission we will proceed with the next paper, which is by Mr. Wm. R. Creer, Secretary Cleveland Savings & Loan Co., Cleveland, O.

Mr. Wm. R. Creer, of Cleveland, O.: Every corporation should have for its function the best of service to the general public. It is not sufficient that a bank shall loan money for the building of a home, and then be content so long as the security is adequate. It should be earnestly and actively engaged in inducing and assisting the home builder to become a home owner in every deed by working out the payment or repayment of the money advanced upon mortgage. A man can step from the sidewalk of the street below to the floor if he is willing to come up a stair at the time. A straight loan is a good way to keep a man in debt if it is made on good security. An installment loan is the easiest plan in the world for getting out of debt, because that is what the man has been doing all his life, paying rent once a month.

#### Mortgage Loans for the Home.

[The text of Mr. Creer's address will be found on page 199.]  
The President: I think, gentlemen, you seem to be very much interested in that other phase of our business, which is fast developing, namely, the partial payment plan.

Mr. Mitchell, of Richmond, Va.: I wish to state that the proposition made by the distinguished gentleman who has

just spoken, is the most admirable one I have heard of since I have attended the meetings of the Savings Bank Section. I wish, however, to inquire relative to the aggregate amount of interest on the total amount of money loaned, whether or not it would exceed the rate of 6%. I presume that he understands what I mean by that. He starts out, I think, with an interest of 7%, and then graduates down to 5%, and I think that is the most admirable feature of your plan, but I wish to know, Mr. President, whether or not he has figured it out to know whether the profit of a bank would, on the total amount of money loaned, exceed the amount of 6% interest?

Mr. Creer: The answer is very evident, and should be very clear. Ordinarily speaking some one is apt to think that if we are paying 7% for 25% of a loan, and 6% for 5% of a loan, and 5% for the other 25%, it is an average of 6%, but it is very far from that, because you will notice in this case which I have stated, that 7% is paid on the loan when the principal is from \$2,000 down to \$1,500; 6% is paid upon the loan when it is being reduced from \$1,500 to \$500, and 5% is only paid upon the loan when it is reduced from \$500 to nil; therefore, it produces more than 6%. The virtue in the loan is an incentive to reducing the principal, and the safety of the loan is in following the habit of a life of a monthly stipend for a place to live in. (Applause.)

The President: We have a paper to be read, "Partial Payments Compared With Sinking Funds," by Mr. Robert M. Rother, president of the Hopkins Place Savings Bank, Baltimore, Md.

#### Partial Payments Compared With Sinking Funds.

[Mr. Rother's paper in full is printed on pages 200 to 201.]  
The President: I am glad to have had Mr. Rother call our attention to not only the economy, but the desirability of this form of bond, because the banker very frequently has much influence in the dictation of the form which municipal bonds shall take. I think it is worthy of your deepest consideration that this form of serial bond—which in other bonds is handled by many of us, and liked very much by us—should have your attention.

Before adjourning, I would like to ask the courtesy of the floor for a moment for our good friend Mr. Radford, from Los Angeles, who has a personal and an interesting announcement to make.

Mr. Radford: You are patient and long suffering like all bankers, but I will not bore you to any great extent. I was appointed a committee with Mr. J. M. Elliott, of the First National Bank of Los Angeles, to convey to the convention last year an invitation for the American Bankers' Association to meet in Los Angeles in 1910, and we were somewhat encouraged then; so we have come back again this year with the same proposition for you. We expect to-morrow to have the opportunity of extending this invitation from the platform in the regular meeting of the Association, and in order to prepare you people somewhat we have brought along a little pamphlet, describing the accommodations which we can offer, and the facilities that we have for handling such a convention. These pamphlets are on the table at the door. They are of a convenient size to go into your pocket, if we get the convention—if not they are worth nothing. I only hope the convention is going to meet in Los Angeles next year. We have lots of things to show you there, and I am sure that you would be pleased with your selection of our city as a place of meeting.

Mr. Creer: I have been asked if I have any printed matter regarding the short paper which I have read. I have none with me. I will say this, that this plan was evolved in our own business and has been in successful operation with us for some years, and to you who will write me after my return home I will be pleased to send a pamphlet explaining the modus operandi and also such forms of note and mortgage as we use.

The President: I will now entertain a motion to adjourn to meet again at 3 o'clock.

A Member: I so move.

Motion seconded and carried.

Adjourned until 3 P. M.

#### AFTERNOON SESSION, 3 P. M.

The President: Gentlemen, you will please come to order. The counter attraction seems to have had its effect upon our attendance, but under the circumstances I think we will have to forgive them, because we all think a great deal of the Chief Executive.

The first in order now is a paper on Branch Savings Banks, by Mr. Edward B. Carney, Treasurer of the Lowell Institution for Savings, Lowell, Mass.

#### Branch Savings Banks.

[On pages 202 to 203 will be found the full text of Mr. Carney's address.]

The President: I am quite sure in this case, as in the previous ones, that we have been very much interested.

The next, gentlemen, is—what should be in every bank—the Department of Mercy, by Mr. Edward L. Robinson, Vice-pres-



dent of the Entaw Savings Bank, of Baltimore, and the most valued member of our official staff. Mr. Robinson, if you please. (Applause.)

**"The Department of Mercy."**

[We print Mr. Robinson's address on pages 203 and 204.]

The President: Mr. Robinson, your heart to heart and sympathetic little talk seems to me to be a fitting tribute to the finish of the formalities of the day—that we should pause and pour out our hearts to-day, as evidence that we all have hearts and sympathies, and it seems to me to be very proper. You know, the average banker is rather harshly regarded in the community, and I think it delightful that you should be so reminded of this obligation to our patrons.

Mr. H. L. Remmel, of Little Rock, Ark.: This is such an unusual paper that I feel like making a motion that this section extend to the author of that paper its thanks. I make that as a motion.

Motion seconded and carried.

The President: We have now reached No. 16 in the order of proceedings, and having heard first of all the paper on the Segregation of Savings Deposits; next the Different Types of Mortgage Loans, the Serial Bond, the Feature of Branch Banks, and the one just closed, and we not being particularly pressed for time, I hope that we will hear from everybody and anybody that has the slightest comment to make, and that any discussion that may be provoked will result in the benefit of all.

Gentlemen, we would be glad to hear from anybody on any subject in our business. Before starting, in case there should be a tendency to tarry a little, let me say that it is customary to limit any remarks to five minutes to one person, and no person to speak more than once on the same subject.

Mr. Allen W. Johnston: In view of the paper we have just heard, I think it would be an interesting point for the Postal Savings Bank Committee to consider, if they have not already done so, as to how many third and fourth class postmasters, in the bustle and hurry of the delivery of mail and the receiving of deposits, would take the time to give the depositor the sympathetic little talk as has been suggested by the paper.

**SAVINGS DEPOSITS TO BE SEGREGATED.**

Mr. Shea, of Dayton, O.: I hesitate to make any remarks to this assemblage, because of two reasons: First, because it is the first convention that I have attended, and secondly, because I am among the younger men who should sit and listen while the older men drop these words of wisdom. I think we all have been impressed with the papers that have been read here to-day. I know that to me it has been a source of much instruction, but if there was one paper more impressive than the others it was the paper which was read by Mr. Zimmermann on the segregation of savings deposits; and I believe we will all agree that the most pertinent question which is before this body for consideration is as to what measures may be adopted to prevent the establishment of Postal Savings banks; and if the Postal Savings bank is more injurious to one branch of the banking business than to another, it is certainly more injurious to the Savings Department than to the Commercial Department; and so, I believe it would not be amiss—in fact, I think it most opportune—that this branch of the American Bankers' Association—this Section—make some declaration as to its position with reference to the questions that were discussed to-day, and for that reason I offer the following resolution:

"Resolved: By the Savings Bank Section of the American Bankers' Association, that we favor legislation requiring all savings funds to be segregated, and limitations placed upon their investment, and giving preference to the savings depositors in the total amount of savings funds over general creditors of the bank."

I offer that resolution to this body.

The President: Gentlemen, you have heard the resolution offered by Mr. Shea. Is it seconded or supported?

Mr. Oiler: I second the motion.

Mr. Radford: I question very much whether in the last clause of that resolution we are not on dangerous ground, when we refer to creditors in any branch of our business. To a bank doing strictly a savings bank business it is good—it sounds good, but there are banks all over the United States which are combining the two. I fully believe in the investment of savings funds under the strictest possible construction of the law, but wherever these two come together—the Commercial and Savings Departments—and you make the Savings Department a preferred creditor, it strikes me you are doing an injustice to the institution that you profess to be anxious to help; and while I stand perfectly with the gentleman all the way through, I hesitate a little about that. It might be worded to meet what he wants a little differently, but the way it sounds there it looks to me as though we were getting out where the ice was pretty thin, and where it is bound to have a marked effect upon some of us at some time in some place. So, were we to take it just as it stands, I fear that out of justice to my conscience I should vote against it; not because I am not in sympathy with the whole purport of it, but I am a little out of sympathy with that last clause.

Mr. Remmel: I am also in accord with Mr. Radford's views. I think the last clause is very dangerous. I do not think we should give our sanction as a body—should pass a resolution of that kind. I think it would be a very dangerous break; and I say, in all deference to the gentleman and his ideas about the matter, which are very well stated, at the same time I should think it would be a very unwise move on our part for us to endorse that principle, and I trust he can see his way clear to eliminate that part of his resolution.

Mr. Teter: I do not want to use a great deal of time, and yet this has a very definite bearing upon work that is very near to all our hearts, and we do not want to fumble with it. I think we all agree with the gentleman who made this motion, and I would like to make a suggestion here, if he is willing to have it in the way of a suggestion, and that is this, that he withdraw his resolution for a moment, and let him with the Chairman of our Standing Law Committee withdraw and prepare such a resolution as they may agree upon.

Mr. Allen W. Johnston, of Schenectady, has this in mind. He knows all about it. He knows what plans these committees have, and when we go before the public we want to do it in just exactly the way which we all mean to work. This is suggested with no thought at all of defeating the object of the motion, but of getting it in accord with the views of a committee in which we all have much confidence. I make that suggestion, Mr. President.

The President: With the permission of the mover and the seconder, we will hold the motion over. If you will pardon me, I will make this suggestion. I think our sentiment is that we have no objections to savings deposits being preferred in a departmental institution by the act of segregating the deposits, but we do not want to put it in specific language; and the wording of the committee resolution originally drawn and to which we have adhered closely during the whole year, has been that savings deposits be segregated, and that their investment be carefully safeguarded, and we have stopped there. In some States, if you will look at the list, you will find that by enactment they are preferred; by inference, sometimes, in other places. So, as these gentlemen have said, we must approach this subject gingerly. I do not think any of us are averse to the idea. I do not think we have any objection to their being preferred by segregation. We will allow these gentlemen to confer and bring the question up a little later.

Mr. Dinwoodie: I trust the committee will be careful not to tread on the toes of the savings bank and the Savings Bank Section. I hear, as I go around among the banks—the savings banks—a dread or a feeling or an opposition to what seems to be an attempt to draw into the National banks a savings department. This segregation proposition never would come up if it were not for that. This Savings Bank Section is almost ceasing to be a Savings Bank Section, while it encourages a line of business in direct competition with the savings bank business, and makes it necessary to bring about a segregation of deposits. I dislike to see anything come into this part of the Association that might bring up that thought, and it seems to me that it would be just as well if this resolution were not passed at all; that there be nothing passed in the way of a resolution concerning the segregation of deposits at this time. We know that is what we want; that is what it will come to, but do not let us do anything that will bring about any opposition in the ranks of the savings banks. I move that the resolution at least be referred.

Mr. Creer: Mr. Chairman, we want to go carefully and not precipitate trouble for ourselves. I think if Mr. Shea had been thoroughly familiar with the work of the Savings Bank Law Committee he would not have offered that resolution, and had he paid attention to the report of Mr. Johnston, which stated specifically that they will await the opinions offered at this convention before presenting any definite provisions, he would not have suggested it. Now, then, if this committee, after all the careful work of past years, are not in a position to offer satisfactory instructions or standard provisions for this matter, it would seem ill-advised for us on the spur of the moment to say that we knew what to do and to pass resolutions covering these points. There is still another important fact which we must bear in mind—that we are a subordinate body of a parent organization, and this Savings Bank Law Committee is working along lines and in co-operation with the Standing Law Committee of the parent body, and if we are ever going to accomplish anything, we are not going to accomplish it, gentlemen, by passing resolutions, but by getting together and after carefully determining what is the proper and best thing to do, having behind us the whole force of the American Bankers' Association. It is not proper or right that we should start something without knowing where we stand on that matter, and therefore, I move you, Mr. President, that this resolution offered by Mr. Shea be referred to the Savings Bank Law Committee.

Motion seconded and carried.

**NOMINATIONS AND ELECTIONS.**

The President: Is there any other question that you wish to take up or discuss? If not, it would be in order to hear from the Committee on Nominations. Mr. Rose is the chairman.

Mr. Clinton T. Rose, of Syracuse; Mr. President and Gentlemen: I wish to say that in response to the request of the President a number of names have been handed to us as candidates for the positions of Vice-presidents in the different States. Still there are several States which have not recommended any name, and I will thank the members from those States to make nominations as I read the list.

We recommend as follows:

For President, Mr. Wm. R. Creer, Cleveland, O. (Applause.)

For First Vice-president, Mr. Edward L. Robinson, of Baltimore, Md. (Applause.)

For Members of the Executive Committee, to serve three years: Messrs. Henry S. Henschen, of Chicago; H. L. Remmel, of Little Rock, Ark., and R. C. Stephenson, of South Bend, Ind.

Mr. Stephenson is a member of our committee, and Mr. Briggs and myself have taken the liberty of making this nomination at the earnest request of some of the members of the Association.

(Mr. Rose then read the list of nominations for Vice-presidents, which had not been completed.)

Mr. Rose: If we have suggested any names that the delegation on the floor would rather have someone else nominated, this report is not yet completed and we are ready for further suggestion.

Mr. Kauffman: I move that the Secretary be authorized to cast a unanimous vote of this Section for the gentlemen named in that report, and as for the few States that are entitled to a Vice-president, and for which names have not yet been suggested, that the Secretary take it up while he is here with some of the representatives of those States, so that the list may be complete, and fill in the proper names for those respective places.

A Member: Motion seconded.

The President: Before putting the motion, let me ask if there are any other nominations for any office or for any one, or any suggestions to make, objections or corrections? I hear none.

It seems to me that with your approval the matter is now up for a vote. Those in favor will signify by saying aye; contrary—

The motion is carried. Mr. Secretary, you are instructed by the Section to cast a unanimous ballot for the gentlemen named in the report of the Nominating Committee.

The Secretary: I wish to report, Mr. President, that I have cast this ballot, according to the list read by Mr. Rose, the chairman.

The President: It is now in order, gentlemen, to install the officers elected. I take pleasure in retiring and in calling to the platform and presenting to him, first, the emblem of office, and next, the little power that goes with it, as evidenced by the instrument I hold in my hand. Mr. William R. Creer. (Applause.) In the four years that I have served with Mr. Creer on the Executive Council, and in committee work, I

have found him a most earnest and sincere guardian of the savings of the people; up to date, clever, and I am sure that in him you will find a most worthy and competent presiding officer. Mr. Creer, I take pleasure in retiring and in presenting to you this badge, and in doing so I beg to thank the Association and the Section for the honors that they have conferred on me. I have not cut a very large figure in the work, but I have endeavored, as I said to you a year ago, to put upon that work an impress of earnestness that would convince you I was working from a purely unselfish standpoint, and that whatever we did should and must be done for the common good, and that we must recognize the demands of our clients, the people, and meet them upon fair grounds as citizens and not as we are sometimes called selfish bankers. Thank you very much. (Applause.)

President-elect Creer: Mr. President and Gentlemen: Words would fall me if I tried to express to you the keen appreciation of the manner in which you have honored the State of Ohio, which I represent, and my humble self; therefore, I will not attempt to do it. I thank you heartily, one and all, for this great honor which I deeply appreciate.

You have proven that the American Bankers' Association through its Saving Bank Section is magnificently great and splendidly broad, for it can take within its folds all the savings institutions that are preaching the gospel of thrift to the people of the nation, no matter what the style of the corporation or what its name.

It is now my pleasure to ask Mr. Edward L. Robinson to come forth and to introduce him to you as your first Vice-president.

(Mr. Robinson mounted the platform.)

Mr. Robinson, it gives me great pleasure, sir, to hand you the badge of office of the first vice-president of the Savings Bank Section of the American Bankers' Association. In honoring you, I feel that this Section has honored itself, because with your rich experience, your high ideals and your splendid purposes, you are doing a great work, not only at home but abroad for all that is best in savings institutions. (Applause.)

First Vice-president-elect Robinson: Thank you, sir. It is only expected of me, I am sure, gentlemen, to say a very small word. I have already been on my feet long enough to have taxed your patience, but I cannot forbear thanking you for this distinction—one which I shall strive to wear as worthily as I may.

President-elect Creer: At the close of this meeting, when we adjourn, there will be held a meeting of the Executive Council. I trust that the members newly elected are present so that we may have the meeting convened at once and without any delay.

Gentlemen, is there any further business to come before this Section at this time?

Mr. Teter: I move you that we now adjourn.

Motion seconded and carried.

Adjourned.

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