

THREE SECTIONS—SECTION TWO

The Commercial & Financial Chronicle

AMERICAN BANKERS' CONVENTION SECTION

GIVING PROCEEDINGS OF THE

Convention of American Bankers' Association

Held at Houston, Texas, October 24 to 27, 1927.

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November 12, 1927

WILLIAM B. DANA COMPANY, PUBLISHERS

FRONT, PINE & DEPEYSTER STS., NEW YORK.

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Chartered 1836

GIRARD TRUST COMPANY in Philadelphia
offers its services as Depositary under Re-
organization Agreements and as Transfer Agent or
Registrar for the securities of corporations.

The Company will be glad to act jointly with
institutions in other cities.

Member Federal Reserve System

GIRARD TRUST COMPANY

BROAD AND CHESTNUT STREETS, PHILADELPHIA

INCORPORATED MARCH 10, 1812

The Pennsylvania Company

FOR INSURANCES ON LIVES AND GRANTING ANNUITIES

(TRUST AND SAFE DEPOSIT COMPANY)

Packard Building
S. E. Corner 15th and Chestnut Sts.
Philadelphia, Pa.

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FEDERAL RESERVE SYSTEM

DOWNTOWN OFFICE
517 CHESTNUT STREET

CABLE ADDRESS "PENCO"

**Deposit Accounts of Corporations and Individuals Solicited.
Certificates of Deposit Issued. Trusts of All Kinds Executed.
Safe Deposit Boxes Rented.**

Investment Securities

COMMISSION ORDERS EXECUTED

EDWARD B. SMITH & CO.

Members New York, Philadelphia and Boston Stock Exchanges

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5 Nassau St.

Philadelphia
1411 Chestnut St.

Boston
1 Federal St.



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~Available to Correspondents

We are glad to place at the disposal of correspondents our facilities for the purchase and sale of securities. The Bank of America is not engaged in the underwriting or distribution of securities and therefore its views of investments are unbiased and its advice impartial.

Write to our Securities Department Manager

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NEW YORK

Capital, Surplus and Undivided Profits Over \$11,000,000

COMMERCIAL BANKING
SINCE 1812

DIRECT FOREIGN BANKING
SINCE 1814

TRUST DEPARTMENT
ORGANIZED 1888

Lee, Higginson & Co.

70 Federal Street
BOSTON

NEW YORK

CHICAGO

Established 1848

Investment Securities
Foreign Trade Financing

Higginson & Co.

80 Lombard St., LONDON, E. C. 3

INVESTMENT AND STATISTICAL INFORMATION

regarding all

Bank, Trust Co., Title and Insurance Stocks

WE OFFER THE FOLLOWING FOR INVESTMENT:

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Bank of the Manhattan Co.
Chase National Bank
Chatham Phenix Nat. Bank & Trust
Chemical National Bank
Corn Exchange Bank
First National Bank
Hanover National Bank
Harriman National Bank
National Bank of Commerce
National City Bank
National Park Bank
Seaboard National Bank

INSURANCE STOCKS

Continental Insurance
Fidelity-Phenix Insurance
Firemen's Insurance Co.
Franklin Fire Insurance
Great American Insurance
Insurance Co. of North America
Lloyds Plate Glass Ins. Co.
Missouri State Life Insurance
National Union Fire of Pittsburgh
New York Casualty Co.
Pan American Life Insurance
Providence-Washington Insurance

TRUST COMPANY STOCKS

American Exchange Irving Trust Co.
Bankers Trust Company
Bank of New York & Trust Co.
Brooklyn Trust Co.
Central Union Trust Co.
Equitable Trust Co.
Farmers' Loan & Trust Co.
Guaranty Trust Co.
New York Trust Co.
Title Guarantee & Trust Co.
United States Trust Co.
United States Mortgage & Trust Co.

REALTY, SURETY & MORTGAGE STOCKS

American Surety Co.
Bond & Mortgage Guarantee
Home Title Insurance
Lawyers Mortgage Co.
Lawyers Title & Guaranty Co.
Lawyers Westchester Mtge. & Title
National Surety Co.
N. Y. Title & Mortgage Co.
Realty Associates
Mortgage Bond Co.

Correspondence invited from banks, banking institutions,
trustees, executors or individual investors interested in
the purchase or sale of shares in Financial Institutions.

Write for Folder "C-252"

CLINTON GILBERT

2 Wall Street

New York

Telephones Rector 4845 and 8720

The History of Investments *Follows the History of Industry*

The realization of great industrial accomplishment has always preceded a general realization of the resultant investment values created. In the South, mounting values are being built. Many of the most representative business enterprises in this country are now southern.

Sound southern securities include the obligations of wealthy states and cities, leading railroad systems, great utility enterprises, sound industrial organizations . . . all consistently growing.

The inclusion of sound southern securities among your investments adds to them strength and vitality. Better than average yields are available from southern bonds . . . high type, conservative investments.

For years we have been closely identified with southern finance. We shall be glad to send you our recommendations.

Where Progress Favors Sound Securities

—The South—

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400 Union Street

Nashville, Tennessee

Chicago—Detroit—Cincinnati—Kansas City—St. Louis
Louisville—Chattanooga—Memphis—Knoxville—Greensboro
New Orleans—Birmingham—Jackson—Tampa—Jacksonville—Houston

Rogers Caldwell & Company, Inc., 150 Broadway, New York



The heart of New York's financial district, pictured above, shows the central location of the new thirty-eight story building of The Equitable Trust Company of New York, now nearing completion. The building, fronting on Broad Street, Wall Street and Exchange Place, will have three entrances—35 Wall Street, 15 Broad Street, 55 Exchange Place. The bank's own entrance will be 11 Broad Street.

THE EQUITABLE TRUST COMPANY OF NEW YORK

LONDON

PARIS

MEXICO CITY

Total resources over \$500,000,000

NEW ENGLAND'S LARGEST TRUST COMPANY



Four Indications of Leadership

OLD COLONY, through its *Banking Department*, has over 29,000 individual and corporation accounts. This is considerably more than any other trust company in New England.

OLD COLONY, through its *Trust Department*, is New England's largest corporate fiduciary. It manages Individual Trusts of over \$140,000,000, Corporate Trusts \$901,000,000, and Agency Accounts \$267,000,000.

OLD COLONY, through its subsidiary, the *Old Colony Corporation*, occupies a position in the front rank of distributors of high-grade investment securities throughout New England and other Eastern States.

OLD COLONY, through its *Transfer Department*, is now transfer agent for two hundred and forty-one corporations, and in ninety-nine of these cases it is also appointed agent to pay dividends. This is the largest department of its kind in New England.

These facts show to some extent how generally this company is interwoven with the financial affairs of New England people and business. The OLD COLONY TRUST COMPANY is now in its thirty-seventh year of active business. Its history and its accomplishments in this brief space of time attest the quality of the service it renders throughout its many departments.

OLD COLONY TRUST COMPANY

17 COURT STREET, BOSTON, MASSACHUSETTS

THE CHASE NATIONAL BANK

OF THE CITY OF NEW YORK

57 BROADWAY

CAPITAL.....	\$40,000,000.00
SURPLUS AND PROFITS.....	40,811,628.63
DEPOSITS (October 10, 1927).....	877,085,350.06

DIRECTORS

HENRY W. CANNON	F. EDSON WHITE <i>President, Armour & Company</i>
ALBERT H. WIGGIN <i>Chairman of the Board</i>	ALFRED P. SLOAN, Jr. <i>President, General Motors Corporation</i>
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HENRY OLLESHEIMER <i>Vice-President</i>	
ARTHUR G. HOFFMAN <i>Vice-President, The Great Atlantic & Pacific Tea Company of America</i>	

WE INVITE ACCOUNTS of Banks, Bankers, Corporations, Firms or Individuals on favorable terms, and shall be pleased to meet or correspond with those who contemplate making changes or opening new accounts.

Through our Trust Department, we offer facilities as: Trustee under Corporate Mortgages and Indentures of Trust; Depositary under re-organization and other agreements; Custodian of securities and Fiscal Agent for Corporations and Individuals; Executor under Wills and Trustee under Testamentary Trusts; Trustee under Life Trusts.

FOREIGN DEPARTMENT

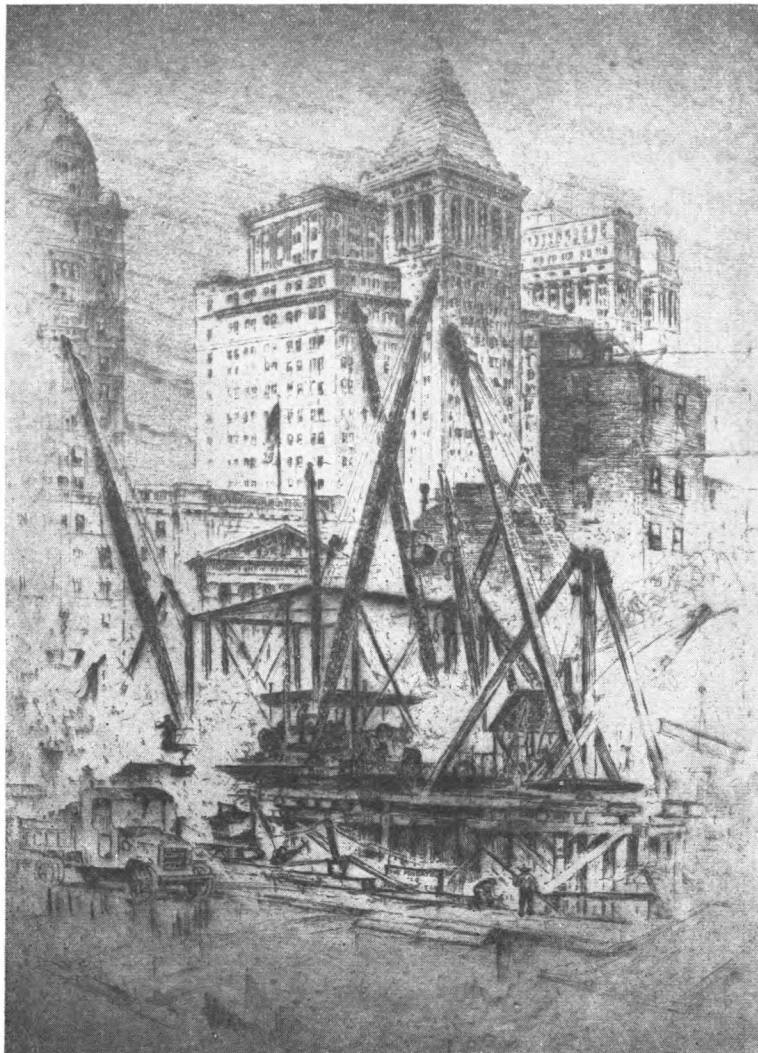
Hallgarten & Co.

Established 1850

New York

Chicago

London



THE FOUNDATION COMPANY is an organization of Construction Engineers specializing in the building of difficult Superstructures and Substructures. The enviable reputation gained in its early history for trustworthy underground construction has followed it into the field of General Engineering Contracting. Among the structures completed by The Foundation Company are *buildings of every known type.*

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CITY OF NEW YORK

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Underpinning . Filtration and Sewage Plants . Hydro-Electric Developments . Power Houses
Highways . River and Harbor Developments . Bridges and Bridge Piers . Mine Shafts and Tunnels*

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PITTSBURGH
CHICAGO

SAN FRANCISCO
LOS ANGELES
MONTREAL, CANADA

MEXICO CITY
LIMA, PERU
CARTAGENA, COLOMBIA

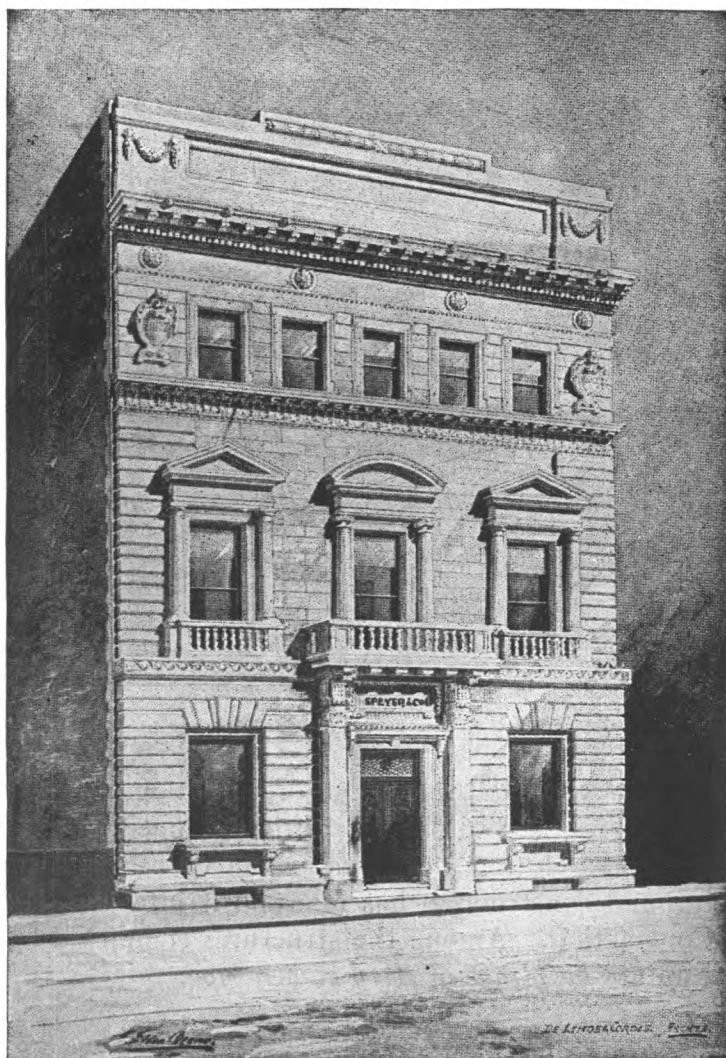
LONDON, ENGLAND
BRUSSELS, BELGIUM
TOKYO, JAPAN

BUILDERS OF SUPERSTRUCTURES AS WELL AS SUBSTRUCTURES

SPEYER & Co.

ESTABLISHED 1837

NEW YORK



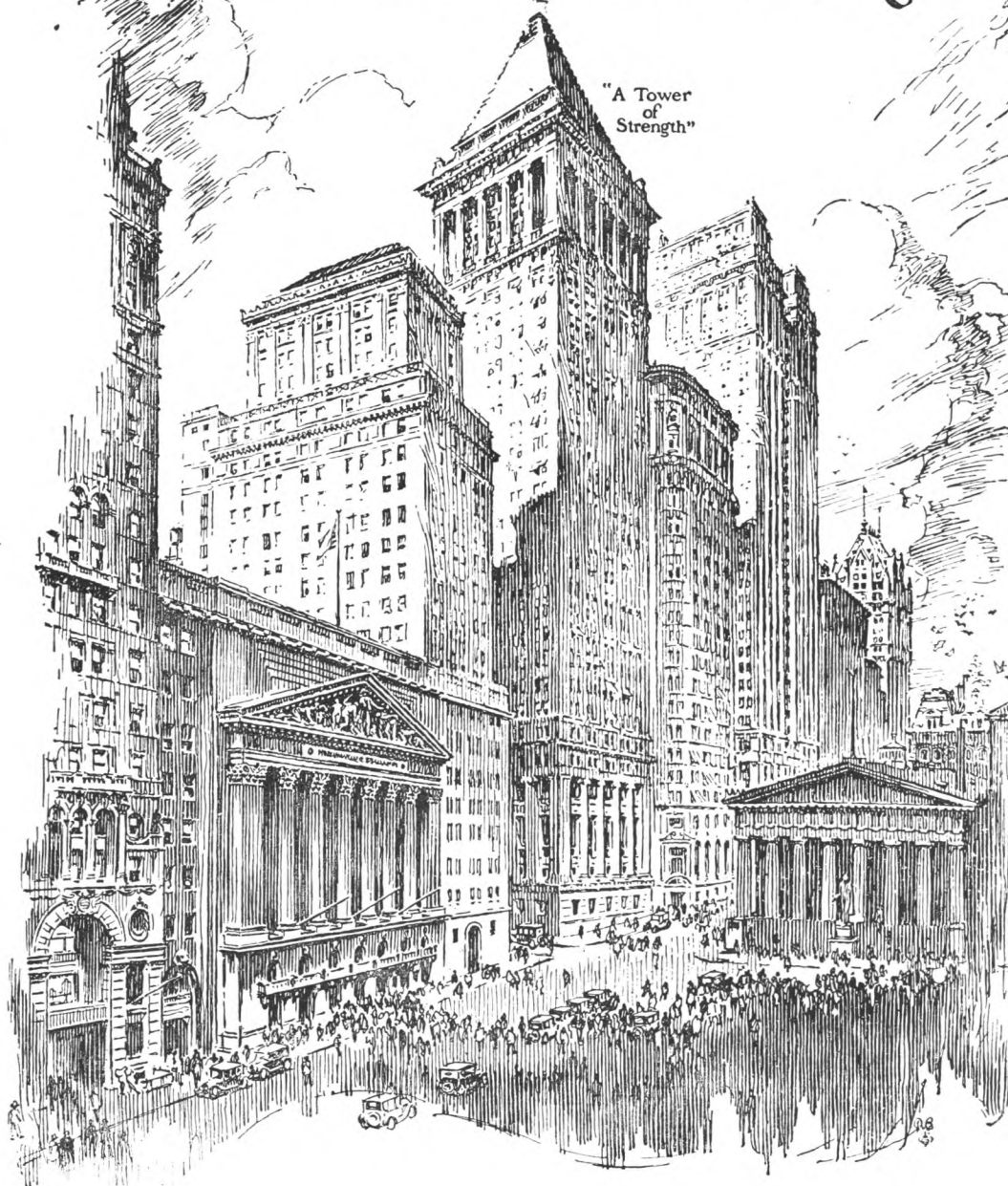
AMERICAN & FOREIGN INVESTMENT SECURITIES

FOREIGN EXCHANGE

CABLE TRANSFERS

LETTERS OF CREDIT

SERVING THE
WHOLE BUSINESS WORLD



"A Tower
of
Strength"

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Issues Travellers' Letters of Credit payable throughout the world. Commercial Letters of Credit for Importations and Exportations of Merchandise.

*Buys and Sells Bills of Exchange
Cable Transfers to all Countries*

THROUGH its office in London, working in close touch with correspondents all over Europe, The Farmers' Loan and Trust Company is in position to be of exceptional service to banks in the transaction of foreign business for themselves or their customers.

In Paris, The Farmers' Loan and Trust Company maintains a representative who receives clients' mail and cables and gives personal attention to banking interests through our Paris correspondent, the Banque de Paris et des Pays-Bas.

Clark, Dodge & Co.

Established 1847

Specialists in Government, Municipal, Railroad and Industrial Bonds suitable for the needs of Individuals, Trustees and Institutions. We invite the correspondence of investors, and are prepared to submit offerings of conservative investment bonds and stocks.

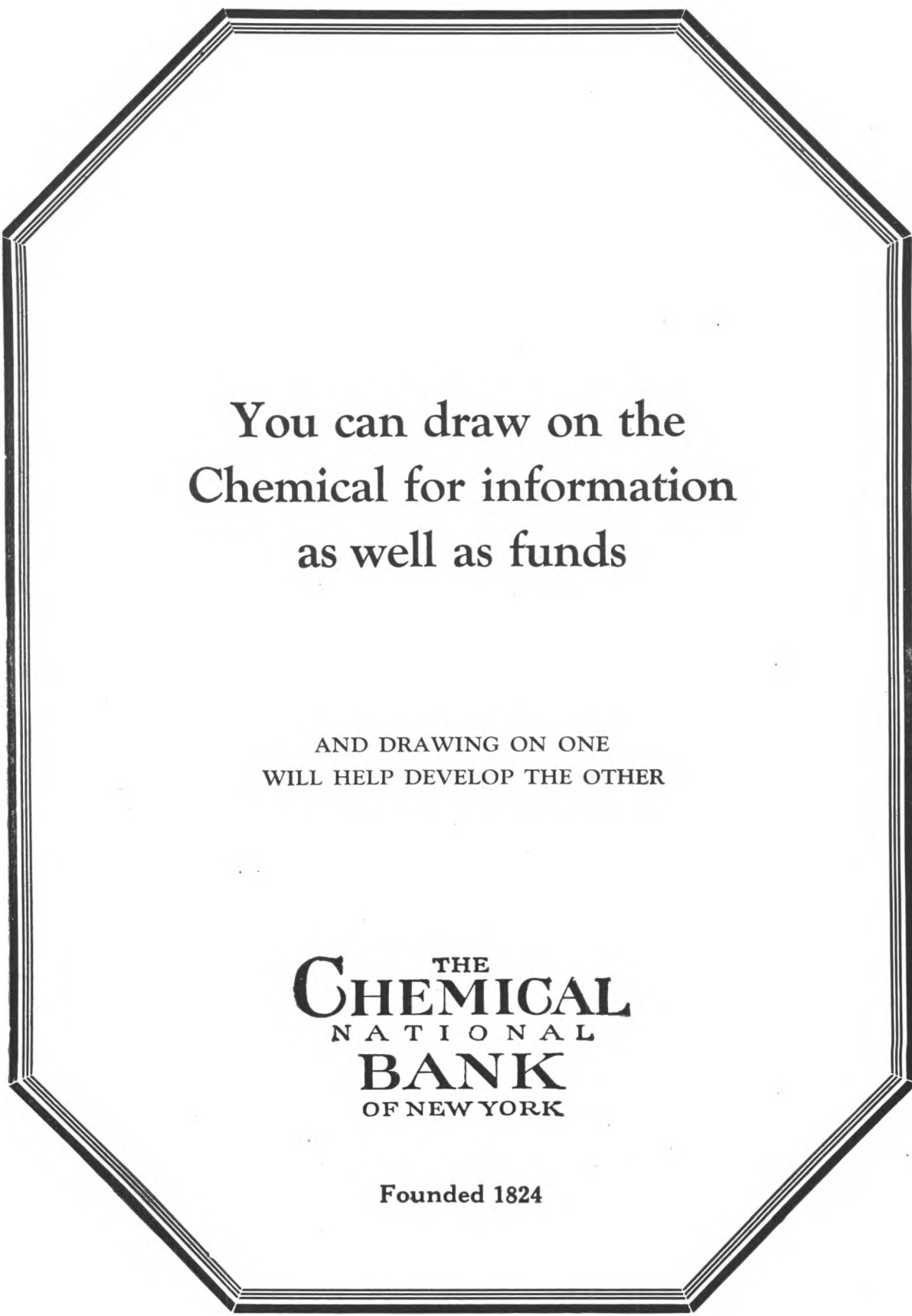
51 Wall Street

New York

460 Park Avenue, New York

790 Broad Street, Newark, N. J.

*Members of the New York, Boston and Chicago
Stock Exchanges and New York Curb Association*



You can draw on the
Chemical for information
as well as funds

AND DRAWING ON ONE
WILL HELP DEVELOP THE OTHER

THE
CHEMICAL
NATIONAL
BANK
OF NEW YORK

Founded 1824

CHARTERED 1853

United States Trust Company of New York

Nos. 45 and 47 Wall Street

CAPITAL,
\$2,000,000

SURPLUS AND UNDIVIDED PROFITS,
\$20,706,713.82

EDWARD W. SHELDON, *Chairman of the Board*

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WILLIAMSON PELL,
First Vice-President
FREDERIC W. ROBBERT,
Vice-President and Comptroller
WILFRED J. WORCESTER,
Vice-President and Secretary
THOMAS H. WILSON,
Vice-President
ROBERT S. OSBORNE,
Assistant Vice-President
WILLIAM C. LEE,
Assistant Vice-President

ALTON S. KEELER,
Assistant Vice-President
STUART L. HOLLISTER,
Assistant Comptroller
HENRY B. HENZE,
Assistant Secretary
HENRY L. SMITHERS,
Assistant Secretary
CARL O. SAYWARD,
Assistant Secretary
ELBERT B. KNOWLES,
Assistant Secretary
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Assistant Secretary

WILLIAM G. GREEN,
Assistant Vice-President

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JOHN J. PHELPS
LEWIS CASS LEDYARD
EDWARD W. SHELDON
CHAUNCEY KEEP

ARTHUR CURTISS JAMES
WILLIAM M. KINGSLEY
OGDEN MILLS
CORNELIUS N. BLISS
WILLIAM VINCENT ASTOR

JOHN SLOANE
FRANK L. POLK
THATCHER M. BROWN
WILLIAMSON PELL

Condensed Statement, July 1, 1927.

RESOURCES

Cash in Banks.....	\$8,996,718.36
*Real Estate Owned (No. 45 and 47 Wall Street).....	1,500,000.00
Bonds and Mortgages.....	4,336,286.00
Loans on Collateral.....	40,314,863.85
Bills Purchased.....	1,941,464.86
New York City and other Bonds and Securities.....	15,920,750.00
Accrued Interest Receivable.....	466,688.48
	<u>\$73,476,771.55</u>

LIABILITIES

Capital Stock.....	\$2,000,000.00
Surplus.....	12,000,000.00
Undivided Profits.....	8,706,713.82
Deposits.....	49,368,029.21
Reserve for Dividends.....	450,012.50
Interest Accrued on Deposits.....	256,070.72
Rebate Interest on Bills Purchased.....	1,180.30
Reserve for Taxes and Expenses.....	694,765.00
	<u>\$73,476,771.55</u>

* Increased from \$1,000,000 in accordance with the suggestion of the State Banking Department to conform more closely to the assessed valuation.



*Du Pont observes
a century and a quarter of usefulness
to the American People*

AN ANNIVERSARY can be either a point from which one looks backward, or a point from which one looks forward. Du Pont regards its 125th Anniversary as a point of *departure, not as a point of arrival*. Du Pont believes that its scope of usefulness calls for no yardstick of years past to measure it, because it is the years to come that will measure du Pont's largest usefulness.

The policy on which du Pont has grown is a policy by which the customer who does business with du Pont grows. Du Pont wants customers with whom to grow; now, always.

E. I. DU PONT DE NEMOURS & CO., Inc.

WILMINGTON, DELAWARE

MANUFACTURERS OF

EXPLOSIVES, BLASTING ACCESSORIES, SPORTING POWDERS, PAINTS, VARNISHES,
LACQUERS, PYRALIN, FABRIKOID, RAYON, CELLOPHANE, DUCO,
ACIDS, HEAVY CHEMICALS, AMMONIA, DYESTUFFS.

STUDEBAKER COMMANDERS

Stock cars, fully equipped, and run under the supervision of the American Automobile Association

Break 11 more records

1000 MILES	24 HOURS
at 75.365 miles per hour	at 75.623 miles per hour
<small>(also 5-mile, 10-mile, 50-mile, 100-mile and 500-mile records)</small>	<small>(also 1, 3, 6 and 12 hour records)</small>

TWO Commander roadsters were started at the Atlantic City Speedway October 6, 1927, under supervision of the American Automobile Association. Not one, but both of them, established new stock car records for 1000 miles, for 12 hours and for 24 hours. Neither of them required any mechanical attention during the entire run. After finishing the 24-hour grind the winning Commander spurred 15 miles at 82.62 miles an hour.

The Commander now holds all stock car records for periods up to 24 hours and distances up to 1000 miles.

Other Speed and Endurance Records Set by The Commander This Year

5000 miles in less than 5000 consecutive minutes—April, Culver City, Calif., under A. A. A. supervision.

New York Harbor to San Francisco Bay, 77 hours and 40 minutes—new coast to coast record set in September.

First and second places in 75-mile stock car race at Atlantic City under A. A. A. supervision on Labor Day.

First, second and third places in 75-mile race for stock cars listing below \$2000—Charlotte, N. C., September 20th, certified by A. A. A.

Climbed Pikes Peak in 22 minutes, 47 seconds—new record for stock cars priced below \$3000. Supervised and certified to by A. A. A.

The Studebaker Commander, "greatest achievement of post-war automotive engineering," is the creation of the finest research and engineering organization ever assembled by one company.

D. G. Roos, chief engineer, and W. S. James,

research engineer, have not only splendid new laboratories and a million-dollar proving ground to work with, but also staffs of experts in every phase of automotive design.

Studebaker cars are engineered, built and broken in to run 40 miles an hour from the day you buy them.

And with ordinary gasoline they will excel the performance which other makes attain only by the use of high-compression engines and high-priced fuel.

Let us loan you a Commander—America's champion motor car—to tell you its own story of thrilling performance and luxurious comfort.

New Low Prices

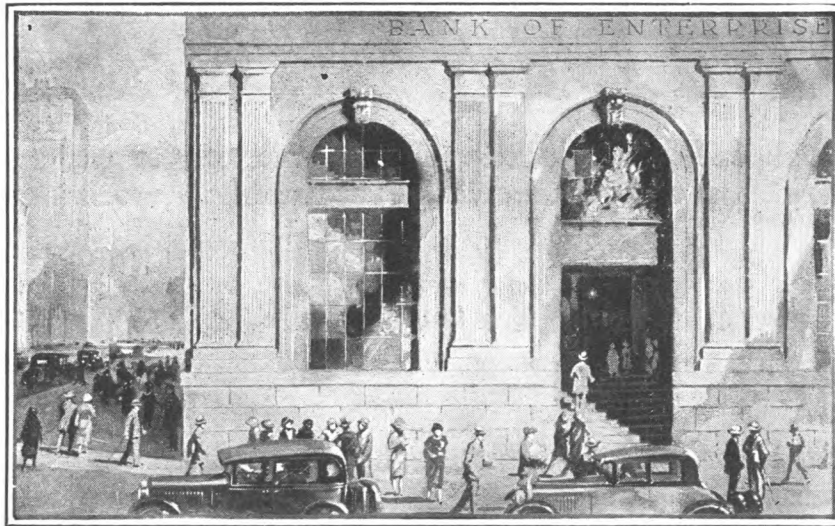
The Dictator.....	\$1165 to \$1295
The Commander.....	1495 to 1625
The President.....	1795 to 2250
Erskine Six.....	895 to 965

All prices f. o. b. factory, including front and rear bumpers and 4-wheel brakes.

3000 Dealers Throughout the United States

STUDEBAKER

THE GREAT INDEPENDENT



Simplifying the Proof

THERE ARE many reasons for the increasing number of Underwood Bookkeeping Machine installations in banks and trust companies.

One of them is the Underwood Continuous Proof Sheet. As one bank executive wrote, "The proof sheet, in addition to giving a perfect record of items, holds the work very closely in balance, provides an identified journal automatically, and renders unnecessary the comparison of ledger and statement balances."

This feature—and the many other good points of the Underwood Bookkeeping Machine — have been important factors in speeding the day's balance of banks the country over. The details can be explained at your convenience. Your letter, or a 'phone call from your secretary, will bring you the facts.

UNDERWOOD TYPEWRITER COMPANY, INC.,
Underwood Building 30 Vesey Street
New York City

UNDERWOOD Bookkeeping Machine

And Today, When Banks are Choosing A New York Correspondent

The capable alert personnel and dependable methods of the United States Mortgage and Trust Company, together with its facilities for the speedy clearance of items and ready credit information, make it the choice of many out-of-town institutions today when they are selecting a New York correspondent. The same advantages are at the disposal of *your* institution.

United States Mortgage & Trust Company

MAIN OFFICE, 55 Cedar Street, New York

Broadway at
73rd Street

Madison Ave.
at 74th Street

125th Street
at 8th Ave.

Lexington Ave.
at 47th Street

Capital, Surplus and Undivided Profits \$8,000,000

181 DIVIDENDS

Paid On Cities Service Common Stock

November 1, the 181st monthly dividend was paid to the thousands of investors located in every state who own Cities Service Common Stock.

Net earnings of the Company behind this 17-year-old security for the year ended September 30 were the largest in its history—\$30,588,000, an increase of 38% over the previous year.

An investment in Cities Service Common stock at its present price will give you a net yield of over $8\frac{1}{4}\%$.

Henry L. Doherty & Company

60 WALL ST. NEW YORK
BRANCHES IN PRINCIPAL CITIES

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this coupon

Henry L. Doherty & Co.
60 Wall St., New York

Please send me copy of latest
earnings statement showing rec-
ord net earnings.

Name _____

Address _____

(153C-123)



Close at hand . . .
though many miles apart

WHEN you consider the close personal interest we take in every customer's problems and our accuracy and promptness in carrying out instructions—all distance disappears. Complete, smooth-working facilities make the Seaboard seem close at hand to every correspondent.

The Seaboard National Bank

of the City of New York

115 Broadway Broad and Beaver Streets 24 East 45th St.

*Accumulation of
The Bank of New
York which has
been engaged in
Domestic and
Foreign Banking
since 1784 and the
New York Life In-
surance & Trust
Company which
has specialized in
Personal Trusts
since 1830.*

CAPITAL,
SURPLUS
and
UNDIVIDED
PROFITS
over
\$18,000,000

STATEMENT

At the Close of Business on September 30, 1927

ASSETS

Cash on Hand, in Federal Reserve Bank, and due from Banks and Bankers.....	\$ 9,977,575.99
Exchanges for Clearing House, and other Cash Items.....	36,410,217.52
United States Bonds and Certificates.....	15,355,670.48
Short Term Securities.....	6,124,433.65
Other Bonds and Stocks.....	11,835,010.06
Real Estate Mortgages.....	2,138,972.94
Demand Loans on Collateral.....	13,283,762.53
Time Loans on Collateral.....	14,913,181.87
Bills Receivable.....	17,806,213.17
Accrued Interest, etc.....	713,374.46
Customers' Liability, Account of Acceptances.....	4,632,394.13
Banking Houses.....	3,527,339.43
Overdrafts.....	252,462.00
	<u>\$136,970,608.23</u>

LIABILITIES

Capital.....	\$ 6,000,000.00
Surplus and Undivided Profits.....	12,477,723.69
Dividend Payable October 1, 1927.....	270,000.00
Deposits.....	110,368,123.75
Annuity Fund.....	1,105,743.97
Interest due Depositors, Taxes, etc.....	491,474.71
Acceptances.....	5,915,381.86
Foreign Bills of Exchange sold with our endorsement.....	342,160.25
	<u>\$136,970,608.23</u>



Bank of New York & Trust Co.

Temporary
Main Office
76 William Street

Uptown Office
Madison Avenue
at 63rd Street

A. ISELIN & Co.

Members New York Stock Exchange

Investment Securities

**36 WALL STREET
NEW YORK**

Goldman, Sachs & Co.

**30 Pine Street
New York**

Investment Securities

Commercial Paper

Commercial & Travelers Letters of Credit

Foreign Exchange

**137 So. La Salle St.
Chicago**

**60 Congress St.
Boston**

**Russ Building
San Francisco**

**421 Chestnut St.
Philadelphia**

**411 Olive St.
St. Louis**

HEIDELBACH, ICKELHEIMER & CO.

49 Wall Street, New York

Foreign Exchange.
Import and Export Letters of Credit.
Travelers Cheques and Credits.
Orders executed on N.Y. Stock Exchange and in Foreign Markets.

LAZARD FRÈRES

120 Broadway
NEW YORK

LAZARD FRÈRES & CIE, Paris
5 Rue Pillet-Will

LAZARD BROS. & CO., Ltd., London
11 Old Broad Street

Lazard Brothers & Co. (Espana), Madrid
Lazard Brothers & Co., Ltd., (London) Antwerp

Foreign Exchange
Securities Bought and Sold on Commission
Letters of Credit

B. J. VAN INGEN & CO.

MUNICIPAL BONDS

57 WILLIAM ST.
NEW YORK

231 SO. LA SALLE ST.
CHICAGO

85 DEVONSHIRE ST.
BOSTON



149 BROADWAY
NEW YORK

Re: Choosing A New York Correspondent

There are many big banks today.

Size is ONE requisite in choosing a New York correspondent—but not the principal one.

The close and genuinely interested co-operation of an ample staff of able and experienced bankers is the first essential—and is an outstanding reason why so many banks in other cities are sending their New York business to Chatham Phenix.

Howe Snow & Co.

Incorporated

New York

Chicago

Grand Rapids

Detroit

San Francisco

Minneapolis

Philadelphia

PURCHASE and DISTRIBUTE

Entire Issues of Municipal, Public Utility and Industrial Bonds

Inquiries Invited

PRINCE & WHITELY

Established 1878

25 BROAD STREET

NEW YORK

UPTOWN OFFICE: HOTEL ST. REGIS

Chicago

Cleveland

Akron

Hartford

Meriden

Newport

New Haven

Bridgeport

MEMBERS { *New York Stock Exchange*
Chicago Stock Exchange
Cleveland Stock Exchange

F. S. SMITHERS & Co.

ESTABLISHED 1857

INVESTMENT SECURITIES

19 Nassau Street

New York City

We Specialize in

PENINSULAR TELEPHONE COMPANY

(FLORIDA)

First Mortgage Sinking Fund $5\frac{1}{2}\%$ Bonds due Jan. 1, 1951

Convertible Debenture $6\frac{1}{2}\%$ Bonds due April 1, 1934

7% Cumulative Preferred Stock

Common Stock

COGGESHALL & HICKS

Members New York Stock Exchange

111 BROADWAY

NEW YORK

W. A. HARRIMAN & CO.

INCORPORATED

26 Broadway, New York

PHILADELPHIA

CHICAGO

BUFFALO

SYRACUSE

SCHLUTER & Co.

Incorporated

**INVESTMENT
SECURITIES**

**111 Broadway
New York**



**Investment
Securities**

**Corporate
Financing**

Dominick & Dominick

Members New York Stock Exchange

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414 Walnut St., Cincinnati**

THE CORN EXCHANGE BANK

WILLIAM AND BEAVER STREETS

and 64 Branches located throughout Greater New York

Capital and Surplus, - - - - \$27,000,000

Deposits - - - - - 240,000,000

In addition to its regular banking service, the Corn Exchange Bank can act as your Executor or Trustee, issue Letters of Credit and Drafts on Foreign Countries, and rent you a Safe Deposit Box.



Our wide connections and affiliations enable us to offer our depositors and correspondents a broad Circle of Service and frequently effect marked economies

AMERICAN TRUST COMPANY

Broadway at Cedar Street
New York City

Brooklyn Midtown Jamaica
Long Island City
Staten Island
Bronx

Kings County Trust Company

342 to 346 Fulton Street,
Borough of Brooklyn,
City of New York

Capital, \$500,000.00
Surplus and
Undivided Profits, over \$5,350,000.00

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WILLIAM J. WASON, JR. Vice-President
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ALBERT I. TABOR Assistant Secretary
CLARENCE E. TOBIAS Assistant Secretary
ALBERT E. ECKERSON Auditor

The Kings County Trust Company offers to its depositors every facility and accommodation known to modern banking. If you are not already availing yourself of the advantages offered by this Institution, the Kings County Trust Company will be glad to have you open an account.

Chas. D. Barney & Co.

Members New York Stock Exchange

Investment Securities

Members American Bankers Association
Members Investment Bankers Association

65 Broadway
New York

1428 Walnut Street
Philadelphia

Winston-Salem, N. C.



Protecting the Customer

A railroad company, whose securities are widely held, recently called for redemption one of its bond issues. Because of a conversion privilege these bonds were selling in the market for about \$350 more than their redemption value.

As the conversion privilege would expire automatically thirty days prior to the redemption date and investors could secure this profit only by taking quick action, American Exchange Irving Trust Company brought these facts to the attention of its customers.

That this unusual service was of benefit to them is clearly shown by the following extracts from acknowledgments:

"The information is of material value."

"We thank you for this rather unusual service."

"We consider this an ideal service on the part of your Bank."

American Exchange Irving Trust Company endeavors at all times to protect and further the interests of customers.

AMERICAN EXCHANGE IRVING TRUST COMPANY
NEW YORK

The Bank of United States

NEW YORK, N. Y.

Member Federal Reserve System

Resources Over \$100,000,000.00

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The steady and consistent growth of this bank is evidence of its constant attention to every detail of banking service. A thoroughly organized foreign department is equipped to handle all classes of foreign financial transactions.

Accounts of Banks and Bankers Invited

MUNICIPAL AND CORPORATION NOTES AND BONDS
COMMERCIAL PAPER

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Investment Securities

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Established 1874
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ATLANTA

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120 BROADWAY, NEW YORK

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Pending Completion of New Building at*

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LONDON OFFICE:

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37 YEARS

of individual attention in personal
trust and banking business.

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149 Broadway, New York

Established 1890

Member Federal Reserve System

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Harold P. Spurr, *Asst. Secretary*

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40 Wall Street

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J. S. BACHE & CO.

Established 1892

Members:

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Branches and correspondents located in principal cities.

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Guaranteed Railroad and Telegraph Co. Stocks

also HIGH-GRADE INDUSTRIAL and UTILITY

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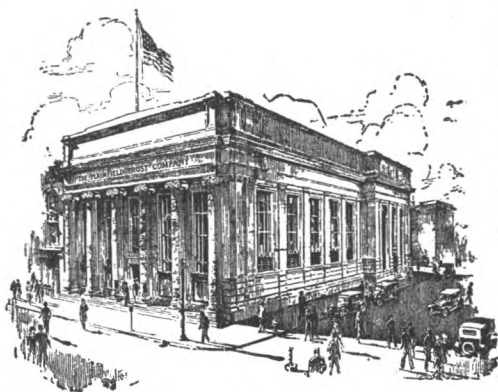
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25 Years of Steady Growth

Deposits 1902 ----- \$124,000.00

Deposits today ----- 21,000,000.00

THE PLAINFIELD TRUST COMPANY

PLAINFIELD, N. J.

ESTABLISHED 1873

CAMDEN SAFE DEPOSIT AND TRUST COMPANY

MAIN OFFICE 224 FEDERAL ST.

CENTRAL OFFICE 4th & FEDERAL STS.

CAMDEN, N. J.

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On the mountainside overlooking New York City, fourteen miles distant. Service via Lackawanna and Erie railroads. Excellent civic features, schools, etc. Famous for the beauty of its setting, its parks and fine homes. The ideal residential town!

COMPLETE FINANCIAL SERVICE OFFERED

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Largest Banking Institution in Montclair

Resources Over \$15,000,000.00

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BANK OF MONTCLAIR

MONTCLAIR, N. J.

Resources over \$8,000,000.00

Thrift Department 4%

Checking Department 2%

Trust service of every character for
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JAMES LORD, Asst. Cashier
E. E. LANGE, Asst. Trust Officer
JAMES S. HUME, Auditor

PASSAIC NATIONAL BANK AND TRUST COMPANY

PASSAIC, N. J.

Capital	\$1,500,000
Surplus and Profits	2,322,000
Deposits	over 24,000,000
Total Resources	over 30,000,000

ACCOUNTS INVITED

Established 1889

THE PATERSON NATIONAL BANK

Paterson, N. J.

Capital, Surplus and Profits \$2,500,000

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JOHN L. GRIGGS, Vice-President.
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WILLIAM M. TUTTLE, Asst. Cashier.

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Prompt and Efficient Collection Facilities for Northern New Jersey

THE REAL ESTATE-LAND TITLE AND TRUST COMPANY

BROAD STREET, CHESTNUT TO SANSOM, PHILADELPHIA

Capital and Surplus, \$22,500,000

Total Resources, \$76,000,000

Individual Trust Funds, \$127,000,000

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Raymond L. Hayman, *Asst. Secy.*
Harold L. McKaig, *Asst. Secy.*
Edward K. Merrill, *Asst. Secy.*
A. King Dickson, *Trust Officer*

The Real Estate Trust Co. of Philadelphia

Broad and Chestnut Streets

Capital \$3,131,200

Surplus and Undivided Profits \$1,464,213

Additional Undivided Profits Carried as Reserves \$569,671

Solicits Deposits of Firms, Corporations and Individuals—Interest Allowed

Is fully equipped to handle all Business pertaining to a Trust Company, in its Banking, Trust, Real Estate and Safe Deposit Departments

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Edward Y. Townsend, *Secretary*

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Frank C. Roberts George Woodward, M.D.
John Gribbel

Louis J. Kolb
J. Wallace Hollowell
Gustavus W. Cook

John A. McCarthy
R. Livingston Sullivan
Ralph Earle



Trust Funds \$26,000,000

THIS COMPANY FOR 56 YEARS has functioned in all forms of Trust Company service

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Baldwin Locomotive Works

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THOMAS D. SULLIVAN
Terminal Warehouse Company

INCORPORATED 1871

GUARANTEE TRUST AND SAFE DEPOSIT CO.

316, 318 and 320
Chestnut Street
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1420-1422 Walnut Street

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L. H. SANFORD, Vice-President and Treas.

FIDELITY-PHILADELPHIA TRUST COMPANY

Capital	\$6,700,000
Surplus	21,000,000
Trust Funds	640,000,000

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Chairman of the Board

HENRY G. BRENGLE
President

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The Bank of Pittsburgh

National Association

226 Fourth Avenue,
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The Oldest Bank in America West of the Allegheny Mountains.

Established in 1810.

Capital, \$3,000,000.00 Surplus and Profits \$4,900,000.00

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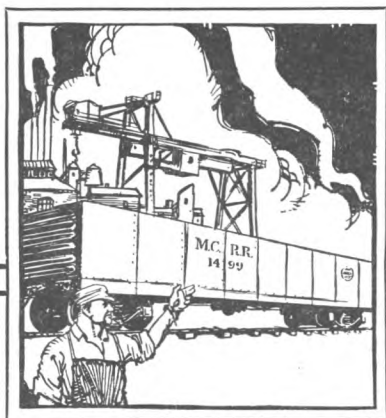
Investment Bankers

Stock Exchange Building

Walnut Street Above Broad

PHILADELPHIA

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Member Federal Reserve System

WE SPECIALIZE IN
RAILROAD EQUIPMENT
TRUST CERTIFICATES

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TRUST COMPANY
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PHILADELPHIA

Citizens National Bank Building
BALTIMORE, MD.

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NEW YORK

The Riggs National Bank

OF WASHINGTON, D. C.

FOR NINETY YEARS
THE LEADING BANK IN THE NATION'S CAPITAL

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Resources \$50,000,000

*We Invite the Accounts of Financial Institutions as well as Those
of Their Friends Who May Come to Washington*



THE COMMERCIAL NATIONAL BANK

HIGH POINT, N. C.

CAPITAL, SURPLUS & PROFITS . \$2,000,000.00

Total Resources 13,000,000.00

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V. A. J. Idol, V.-Pres. & Trust Officer

W. T. Saunders, Asst. Cashier

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IN NORTH CAROLINA

We Would Like To Be
Your Correspondent

WE CORDIALLY
SOLICIT YOUR
COLLECTION
ITEMS—

Capital and Surplus \$1,900,000.00

**ATLANTIC
BANK AND TRUST
COMPANY**
GREENSBORO, N.C.

Burlington
High Point

Salisbury
Spencer

Norfolk National Bank of Commerce & Trusts

NORFOLK, Va.

Capital Surplus & Profits
\$5,000,000

Resources In Excess
\$40,000,000

R. S. Cohoon, President



Hartford National Bank and Trust Company

HARTFORD, CONN.

Capital \$4,000,000 Surplus Profits \$5,700,000

Complete Banking Service

Total Resources over \$46,000,000

ESTABLISHED 1853

The NATIONAL ROCKLAND BANK *of* BOSTON

50 CONGRESS STREET, BOSTON, MASSACHUSETTS

Roxbury Office: 2343 WASHINGTON STREET

Capital \$1,000,000.00

Surplus 2,500,000.00

Total Resources over 25,000,000.00

FOR OVER 70 YEARS A STRONG INSTITUTION
WELL EQUIPPED TO MEET THE REQUIREMENTS
OF OUT-OF-TOWN-BANKS

SAFE DEPOSIT VAULTS AT BOTH OFFICES

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106-112 Genesee Street, UTICA, NEW YORK

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Cor. South & West Sts.

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A Progressive Bank in a Progressive City

NATIONAL BANK OF ROCHESTER

Rochester, N. Y.

Rochester Collections Promptly Handled

Complete Banking and Trust Service

BANKS, corporations and individuals requiring new or additional connections in Rochester, N. Y., are invited to communicate with us regarding our facilities. Adequate service through our various departments is assured.

UNION TRUST COMPANY

ROCHESTER, N. Y.

Resources 50 Millions

FIDELITY'S GROWTH RESOURCES

JANUARY, 1912 \$62,934.56	JANUARY, 1916 \$519,863.37
JANUARY, 1913 \$181,388.81	JANUARY, 1917 \$821,460.75
JANUARY, 1914 \$289,127.33	JANUARY, 1918 \$1,088,536.27
JANUARY, 1915 \$391,656.39	JANUARY, 1919 \$1,634,298.68
JANUARY, 1920 \$2,193,944.95	
JANUARY, 1921 \$3,084,963.59	
JANUARY, 1922 \$3,628,598.49	
JANUARY, 1923 \$4,514,460.83	
JANUARY, 1924 \$5,535,250.26	
JANUARY, 1925 \$7,278,180.28	
JANUARY, 1926 \$9,430,148.42	
JANUARY, 1927 \$12,274,065.12	
OCTOBER 1, 1927 \$14,526,898.16	

GUARANTEED INCOMES

The value of our service is accurately shown by the growth of our Institution

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Alien Property Custodian, Washington, D. C.
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F. S. RISLEY, *Vice-President and Secretary*
Formerly Chief Examiner, Federal Reserve Bank, Philadelphia; State Bank Examiner for the State of New Jersey; Examiner, War Finance Corporation, Washington, D. C.

F. J. WEIS, *Treasurer*
Formerly Credit Manager, Morris, Mann and Reilley, Chicago, Ill.
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W. J. GRIBBEN, *Auditor*

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Securities approved by and deposited with State Departments,
\$9,066,700.00, insuring faithful performance of our contracts.

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INVESTMENT ASSOCIATION

WHEELING, WEST VIRGINIA



MARYLAND TRUST COMPANY

Northwest Corner
Calvert and Redwood Streets
BALTIMORE

**For
Your
Baltimore
Business**

*Member
Federal
Reserve
System*

CHARTERED 1864

SAFE DEPOSIT AND TRUST COMPANY

OF BALTIMORE

13 SOUTH STREET

Capital, Surplus and Profits over \$5,400,000

Acts as Trustee of Corporation Mortgages, Fiscal Agent for Corporations and Individuals, Transfer Agent and Registrar. Depositary under plans of reorganization. Acts as Executor, Administrator, Guardian, Trustee, Receiver, Attorney and Agent, being especially organized for careful management and settlement of estates of every character.

Fireproof building with latest and best equipment for safety of contents.

Safes for rent in its large fire and burglar proof vault, with spacious and well lighted coupon rooms for use of patrons.

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JOHN W. BOSLEY, Asst. Treas. & Asst. Sec.

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THE CENTURY TRUST COMPANY OF BALTIMORE

Baltimore, Maryland

Capital, Surplus and Undivided Profits

\$2,915,000

Commercial Banking in All Its Branches.

Corporate and Individual Fiduciary Facilities.

Underwriting and Distribution of High Grade Bonds.

ESTABLISHED
1866



MEMBERS OF THE
**American
Bankers Association**

Houston extends its hearty appreciation to the delegates who came here, many of them from great distances, to make the 1927 convention a signal success.

ESTABLISHED 1873

THE FORT WORTH NATIONAL BANK

FORT WORTH, TEXAS

Capital, Surplus and Profits \$3,570,000

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COLLECTIONS A SPECIALTY
UNITED STATES DEPOSITARY

For Baltimore Service



The Continental Trust Company

BALTIMORE, MD.

Capital and Surplus, \$2,700,000

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VICE PRESIDENT
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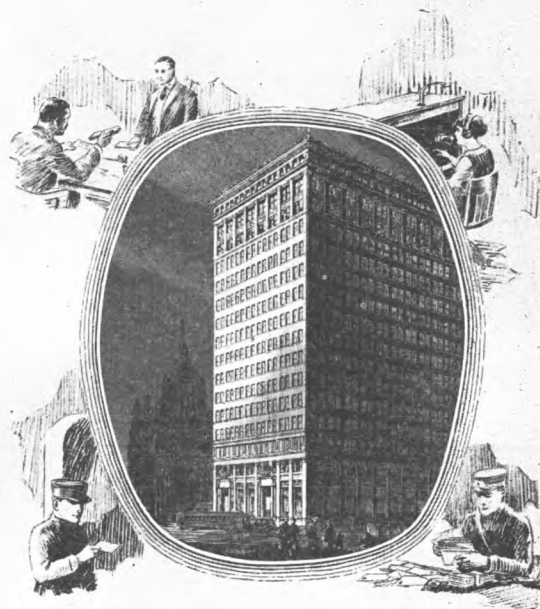
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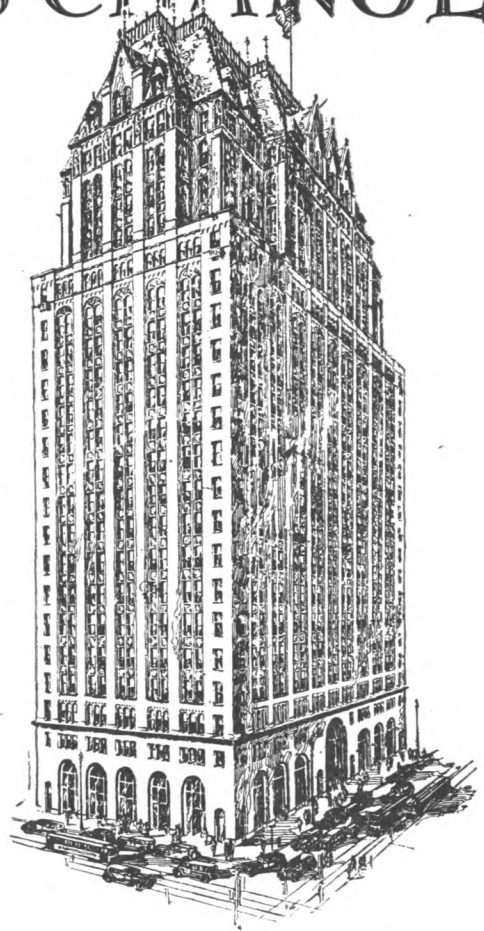
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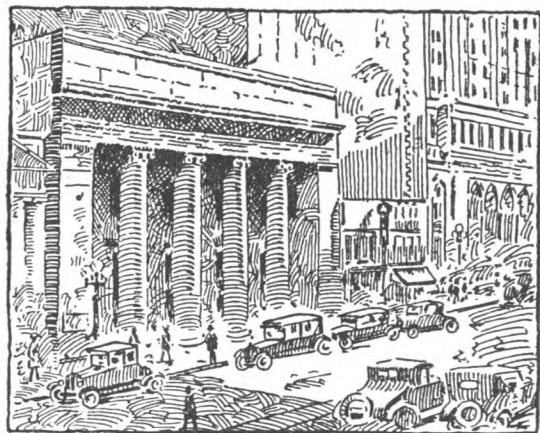
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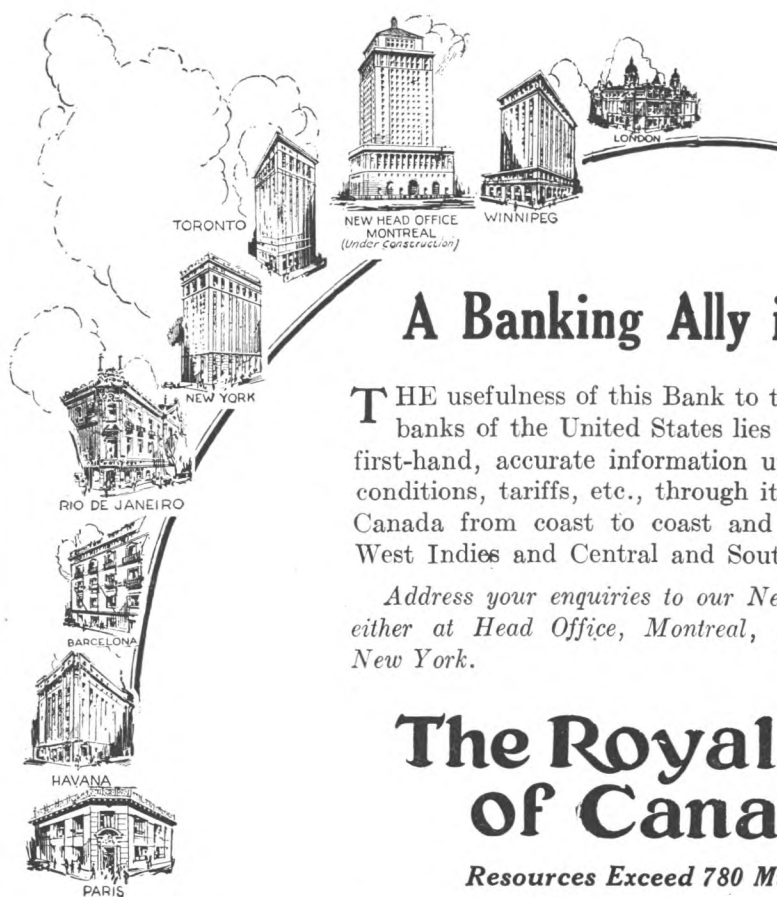
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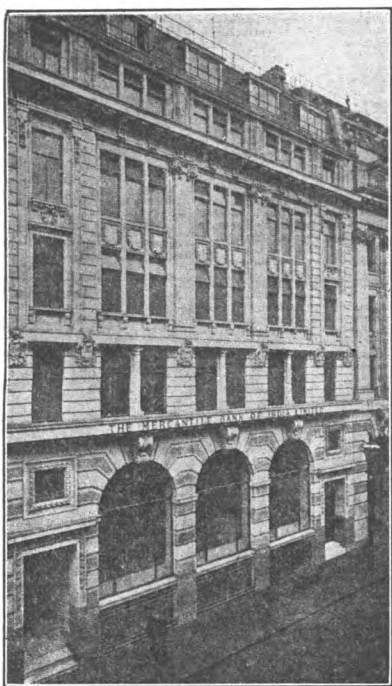
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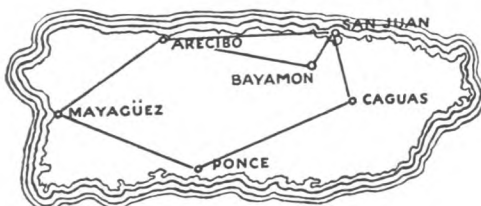
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AMERICAN BANKERS' CONVENTION

SECTION

OF THE

COMMERCIAL & FINANCIAL CHRONICLE.

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Vol. 125.

NEW YORK, NOVEMBER 12 1927

No. 3255.

THE CHRONICLE.

The Commercial and Financial Chronicle is a weekly newspaper of 160 to 176 pages, published in time for the earliest mail every Saturday morning, with the latest news by telegraph and cable from its own correspondents relating to the various matters within its scope.

The Chronicle also issues a number of other, but independent publications, including:—

(1) The **Railway Earnings** Section, issued monthly, containing the sworn returns of earnings and expenses of the steam railways of the United States filed each month with the Inter-State Commerce Commission.

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(3) The **Railway and Industrial Compendium**, issued twice a year on the last Saturday of May and November.

(4) The **Public Utility Compendium**, issued twice a year, towards the close of April and October.

(5) The **State and Municipal Compendium**, issued semi-annually on the last Saturday of June and December.

Terms for the Chronicle are \$10 per annum within Continental United States except Alaska; \$11.50 in Canada and \$13.50 in other foreign countries; U. S. Possessions and Territories.

WILLIAM B. DANA COMPANY, Publishers,
Front, Pine and Depeyster Streets, New York.

INDEX TO ADVERTISEMENTS.

A complete index to the advertisements appearing in the present issue of the Bankers' Convention Section will be found on pages 63 and 64.

THE CONVENTION AND PROBLEMS OF THE DAY.

During many years the business community has been in the habit of looking to the discussions and resolutions of the American Bankers' Association's annual convention for the voicing of the conservative financier's ideas, impressions and conclusions on questions of the day. The conventions have never limited their debates or declarations to purely banking questions. Recognizing that sound finance has a stake in nearly all great public issues, they have taken their position not only on such problems as from year to year arose regarding taxation and

currency reform (which might have been regarded as distinctly banking matters) but on problems of foreign trade, of railway regulation, of labor, of agriculture. Back of all these special subjects of recurrent controversy, the annual conventions have always clearly reflected the consensus of nationwide banking opinion on the country's financial and economic situation of the hour. For that judgment, indeed, it would not be easy to find a body of men more adequately equipped by the circumstances of their calling than a convention of representative bankers from every locality of the United States.

The resolutions adopted by the Association's convention of last month at Houston take a sane and temperate view of the present industrial situation. They admit frankly that the high level of business activity and prosperity reached in 1926 has not been duplicated in 1927. On the other hand, the convention sees nothing to indicate that an era of depression is beginning. "All sections of the country have continued to flourish," its resolutions point out; "both labor and capital have been happily and profitably employed." On the one hand, the destructive reaction of older days could have no reason for occurrence in the face of the recent "marked absence of speculative tendencies in commerce and industry," and the financial disorder which was once apt to arise when the climax of a trade boom had been passed could hardly be repeated at a time when money had not only remained easy throughout the period of trade expansion but when the United States "has been able to continue lending large sums to other countries." These two considerations, contrasting absolutely with the phenomena of such a period in pre-war days, explain the lack of financial uneasiness over the fact of a season's relaxing trade.

Another reassuring consideration in the present period of business activity has been the absence of disturbing public questions. Whether we have out-



lived the era in which the mere fact of an existing or impending presidential campaign was bound to cause hesitation in trade and industry is perhaps a question which can be settled only by next year's experience. Sometimes habit or tradition counts for almost as much as actual apprehension in such matters. But that financial confidence will be shaken and business plans unsettled by controversies over immediately vital questions like radical revision of the tariff or haphazard experiment with the currency, is something that nobody looks for. We still have our controversies over national legislation, but they are conducted nowadays in a sober spirit and none of them embodies the possibility of disastrous consequences.

The question of farm relief is one of them. The convention properly refused to go on record in regard to the farm legislation which the President vetoed. Opinion is probably divided, even among the bankers, as to the form which efforts should take to help the agricultural producer to a more favorable market. The fundamentally unsound character of the McNary-Haugen bill would necessarily have prevented anything like endorsement by the convention either of the measure itself or of the particular theories embodied in it.

But the McNary-Haugen bill, from the legislative viewpoint of the moment, is dead. If other measures with a similar general purpose but with safe economic machinery are hereafter to be considered in Congress, it will be time to pass judgment on them when their character is known. The bankers' convention could scarcely have gone further at this time than its declaration of the necessary and deep interest of all bankers in "sound economic policies for the stabilization of this basic industry." The resolutions approve unreservedly the provision by Congress of the necessary public works to prevent recurrence of such floods as this year devastated

the Mississippi Valley, but that certainly did not lay on the convention the responsibility of taking sides in the controversy as to which kind of engineering expedient would be the wisest.

When the Houston convention assembled, there was rather widespread belief that discussion of the Federal Reserve Board's powers could not be kept out of its discussions. But the Association's President, himself a Chicago banker, set forth at the start the reasons why the recent dispute over the Chicago Reserve Bank rate should not be made a matter of convention controversy. The question at issue, Mr. Traylor argued, involved differences of opinion regarding administration of the Reserve Law, not differences regarding the provisions of the law itself. This conclusion is certainly open to question and we ourselves are not in accord with it. How the convention viewed the matter was sufficiently proved by the fact that the controversy did not figure at all in the discussions and was not mentioned in the resolutions.

On one question of banking policy the convention's declaration was unequivocal—that increase in the number of banks without regard to the needs of the communities served was a crying evil, and that the loose granting of charters without proper weighing of the fitness, qualification and experience of the applicants should be restrained. No one at all acquainted with the facts has any doubt that the chartering of insecure mushroom institutions has been the largest single cause for the seemingly formidable list of bank failures, even in years of recent national prosperity. Yet the statistics provided by one country banker in the course of the debate, showing that, while 3,124 banks failed in the United States from 1921 to 1926 inclusive, 5,784 new bank charters were granted during that period and up to the present time, certainly give food for thought.

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GENERAL SESSION

AMERICAN BANKERS' ASSOCIATION

Fifty-Third Annual Convention, Held at Houston, Texas, October 24-27 1927.

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A Few of the Fruits of Combined Capital

By JAMES FRANCIS BURKE, Former Member of the Banking and Currency Committee of Congress.

The American people are rapidly realizing the responsibilities of living in a billion dollar age, in a billion dollar country.

To do justice to the subject "The Fruits of Combined Capital" in the presence of this distinguished audience composed of those who are primarily responsible for the accumulation of money and its intelligent investment is a task of imposing importance.

From the days of the first depositories—the Shrine of Diana at Ephesus and Apollo at Delphi—the banker has been the one outstanding receiver, guardian and investor of the world's capital.

I shall confine myself, however, to present-day developments, first, because our own lives are intimately interwoven with the story, and second because no period in history compared with it in daring and brilliancy of accomplishment.

Gibbon declared that the few hundred years of the height of Roman Imperial power were the happiest of human days, and that the happiest men of all that period were the Roman bankers.

Whether that statement, when written, was true or not, I know of no epoch in the story of man's journey on earth that will compare with the one in which we are now living.

It is the most ambitious, the most inventive, the most progressive, the most practical and the most constructive age in the ebb and flow of centuries.

It is solving more mysteries, revealing more secrets, lifting more loads from man's back, giving more sustenance to man's body, spreading more light across his pathway, bringing more beauty within range of his vision, more music within range of his ear, more friends within range of his voice, and adding more years to his span of life than any other age in history. It is building more abodes of learning, more temples of art, more shrines of religion, and more happy homes where kinsmen gather at the end of day, than ever marked any period of time since the first sunbeam lighted up the morning of creation.

Combined capital has been an outstanding factor in this development. In fact, that one magic word "combination" has been responsible for a multitude of the mightiest of latter-day achievements.

And nowhere so strikingly as here in America.

Combination Versus Conflict

In discussing the results of combination it may not be amiss at the beginning to contrast the history of the old world and the new, to point a moral.

The story of Europe has been a story of separation; a story of strife. It is a chronicle of centuries of conflicts, a record of monotonous, never ending discords. It has been marked by intermittent bloodshed and bankruptcy, where peace and prosperity might have prevailed instead.

On the other hand the crowning achievement of America's career lies in its glorious spirit of "get together." What might have been forty-eight conflicting provinces, each seeking the accomplishment of a separate selfish purpose, is today a single united republic.

In its genius for combination lies the secret of its greatest conquests. Unity of purpose, unity of effort, and unity of forces have worked its political, social, scientific, industrial and commercial wonders.

When thirteen colonies became one they expressed their faith in combination. In its first struggle for existence, that combination evolved new elements of strength essential to its endurance, and finally emerged from the fires of the Revolution a virile nation.

At the end of three-quarters of a century, when a great fundamental question arose affecting the inherent character of its structure and threatening its separation, it marshaled every force at its command and the Union of States emerged from the conflict to illustrate anew the power of American combination.

In 1898, on land and sea, she spoke again with singleness of purpose, while in 1917, when her sovereignty was challenged, she marshaled over night the most formidable combination of men, money, machinery and moral forces that the world had ever witnessed.

The result was a triumph for the higher humanities and the survival of the nobler purposes for which God had created his children and for the promotion of which He gave birth to this nation.

And now let us consider some of the results of the combination of her financial forces, commonly known as "Big Business."

Since most of the discussion heretofore devoted to big business has come from critics in private life who abhor all forms of combined wealth, and those opponents in public life who see only evil consequences in all combinations of capital, it is a distinct privilege to discuss this subject in a new light in this distinguished presence.

Debt to Individual Genius

In attributing to combined capital its fair share of credit, I have no desire to overlook the physical and intellectual achievements of those whose genius and industry have

created inventions and wrought accomplishments amid scenes of poverty, nor to belittle the initiative, the never ending perseverance and success of individuals who dreamed and toiled and conquered alone.

Nor, on the other hand, shall I defend those excesses and abuses which marked the administration of many large combinations of capital during the closing years of the last century.

While those abuses might be forgotten in the ordinary processes of time, their memory is kept green by the survival of those drastic penal statutes impulsively enacted at that time, to bring them under control.

Statutes so rigid in their terms and so unjust in their class discrimination that they will continue to cripple American commerce as long as they remain an unaltered chapter of our system of jurisprudence.

And yet it is to the distinct credit of American genius and enterprise that even in the garb of a legal straight-jacket, capital has associated itself together in many large units during the last thirty years with the result that untold benefits have followed their creation.

What single individuals never could have done; what small combinations of capital would have been impotent to accomplish, these larger agencies have brought about with such an ease and on such a scale as to arouse the wonder of the world.

In many instances single control over every factor from the raw material in the hills to the finished product at the door of the ultimate consumer, has resulted in economies and improvements unsurpassed in any other country.

Insurance Combines Capital

After the banker's initial accomplishment in accumulating capital and applying it to the promotion of large enterprise, one of the most formidable agencies in the encouragement of thrift and bringing vast sums of money together, has been the insurance companies of America, whose assets at this hour aggregate approximately fifteen billion dollars.

It requires no genius to detail the countless blessings flowing from the financial forces centered in the insurance world, the thrift they have inspired, the want and suffering they have averted, the bereavements they have made lighter to bear, and the mighty part they have played in the building of America.

From the stretching of railroads across the continent to the building of towns and cities beyond the Western Reserve, the story of capital, wisely furnished, is one in which every insurance executive in America should evince a pride.

As money should be loved or hated for the things it does; condemned when it crushes and praised when it lifts our burden, no agency through which money has been combined and invested has wrought more wholesome results than American insurance. A dollar in the hour of adversity has a value all its own.

Insurance is the one investment in which we are building for tomorrow, and that in itself is a mighty main-spring in human achievement.

Building for Tomorrow

When Caesar built the Appian Way and advanced Roman civilization to the zenith of its glory, he builded for tomorrow.

When Pericles found Athens a city of mud and left it a city of marble he builded for tomorrow.

When Columbus defied the hardships of storm and sea and planted the cross on American soil he builded for tomorrow.

When Washington laid the cornerstone of this Republic and Lincoln struck the chains of bondage from four million human beings, and laid broader and deeper than ever before the foundation of the Republic, they builded for tomorrow.

And so, I repeat, the millions of people who are constantly contributing to the combined capital of the insurance companies of this country, are building for tomorrow.

Combined Capital and the Railroads

Another channel through which combined capital has wrought wonders is found in the great railroad systems that unite Northern Lake and Southern Gulf and Eastern and Western Sea.

What that great network of transportation has done for America in time of peace and for the whole world in time of war needs no recounting here.

Had we depended upon small units of capital and separate ownerships, a thousand jerkwater railroads with different schedules and different rates would still be handicapping American business.

The trunk line would be unknown and the luxurious express that plunges up and down the continent at lightning speed by night and day would be a dream of something yet to come.

But combinations of capital and courage have knitted the Republic together with threads of steel, to the end that our social, industrial and political activities and aspirations have been woven into a fabric finer and more formidable than the world ever knew before.

Trains carry passengers North and South for 1,500 miles, and East and West over 2,300 miles in unbroken journeys, while one can travel 3,200 miles across the continent with but a single change of cars.

It is a wide gap between the Chinese coolie's wages of ten cents per day and the American railroad worker's wage of seven to twelve dollars per day, but it emphasizes the paradox when the high rate per ton mile for goods carried on the coolie's back is compared with the American freight charge of approximately a cent a mile.

In a word, America pays the highest transportation wages in the world and charges the lowest rate of service in the world.

The fundamental difference is that back of the coolie there is no accumulated capital, while behind every American railroad man there is at least \$25,000,000,000 invested capital.

The Pennsylvania Railroad alone originally consisted of more than 600 separate corporations.

They are now reduced and under control of the parent company, a three billion dollar corporate combination of American capital.

It is today spending millions of dollars in research work and the installation of improved instrumentalities, in order to keep pace with the exacting demands of the public in this golden age of speed and comfort in transportation.

Such is but one illustration of many in which the railroad world is substituting for the old spirit of selfishness the new spirit of service.

More Modern Public Utilities

Now, a word as to public utilities of more recent origin.

Twenty-five years ago the average light, heat and power and traction company was a financial cripple, an inefficient public servant, a handicap to the community and a perpetual football of a low order of politics.

Every demagogue who ran short of a meritorious appeal to his constituents invoked what gradually became a threadbare attack upon these public service corporations.

Combined capital finally came to their rescue, discarded their archaic equipment, eliminated their provincial policies, and substituted enlightened business management in their stead.

Holding companies came to the aid of single units.

They next merged separate local properties in the same community under a higher class management.

The next combined many companies spread over a broad area eliminating useless and costly duplications of equipment and service, furnishing wider financing possibilities and increasing the stability of securities in such a manner as to inspire willing and widespread public investment.

As the virtues of this new era in management became apparent many community-owned plants, realizing the folly of their continuance at enormous cost to the public were

gradually sold to the more scientifically conducted business enterprises.

During the last year alone more than 100 plants in the United States were sold by municipalities to enterprising, well managed public utilities corporations.

An impressive lesson is taught when we contrast the beneficent results of these combinations in the United States with the conditions that prevail in England in the electric world.

Contrast an Object Lesson

In London alone there are about 110 electric light plants, hardly any two of which operate with the same voltage or frequency. Each has its franchise in a particular ward within the limits of London in which it operates. The public uses electric appliances to a minimum degree, because different sections require not only different voltages, but different appliances.

Each of these companies has small capital, a small plant, and generates a small volume of power, making the service cost to the public many times greater than that in the United States.

It is strange, indeed, that a people whose commerce has circled the world should persist in paying all the penalties of poor service at high cost for lack of combinations of capital in the manufacture and distribution of light, heat and power in the Capital of the British Empire.

In striking contrast with this, our American combinations of capital have brought about the correction of abuses, the institution of economies and the perfection of efficiencies that never before marked the public service.

Capital and Holding Companies

Much of this is due to the recent development of holding companies. In fact, holding companies have created a new profession, devoted solely to the creating and directing of these great enterprises with all their varied activities from the investment in their securities to their mechanical equipment and the last detail of their management.

Those comprising that profession have a dual duty. They are in the very highest sense both private trustees and public servants, whose duties bring them in touch with the people every hour of the day and night, as the mighty engines and agencies under their command dispel darkness and keep the world in motion.

This, of course, reminds us that while combinations of capital are a potent factor, they are not the dominant feature in their conduct. Vast capital is essential to their creation and their continuance, but, after all, the brain and hand of God's geniuses are entitled to the higher degree of credit. Brain, and not wealth, will always be the greatest dynamic force in America's development.

In proof of this I point to the executive heads of the leading corporations of this country, and I defy you to point to a single one who holds his post merely because of his wealth and not because of his ability.

They regard themselves as trustees of the millions of Americans whose investments they represent and the public whose interests they serve.

And what are these investments?

Some conception of their extent may be had from the fact that the total capital stock of corporations in this country at the present time is approximately \$80,000,000,000, distributed among nearly 20,000,000 stockholders.

This number is multiplied when we realize that our insurance companies own over \$2,000,000,000 in railway bonds, and these companies in turn represent the equity of approximately 50,000,000 policyholders.

Combined Capital's Outstanding Leaders

Both the modern tendency towards large aggregations of capital and the distribution of stock ownership among vast numbers of people is found in eight of the hundreds of thousands of corporations at present conducting the great bulk of American business. Let me call the roll:

<i>Corporation</i>	<i>Stockholders</i>	<i>Capital</i>
American Telephone and Telegraph.....	362,179	\$1,064,327,800
U. S. Steel Corporation.....	166,350	1,071,904,600
Pennsylvania Railroad.....	141,504	499,265,700
Cities Service Co.....	109,374	192,000,000
Southern California Edison Co.....	100,687	121,565,475
Standard Oil Co. of New Jersey.....	81,000	24,145,219
General Motors Co.....	86,000	176,085,000
U. S. Rubber Co.....	26,898	146,110,000

All this proves that America's great enterprises today are owned not by the few but by the citizenship of the nation.

Oil Industry Development

A striking illustration of the necessity for combined capital in modern business is found in the great petroleum companies that pierce the breast of a thousand fields from Northern Star to Southern Cross; whose product lubricates the millions of machines that move the world; that fires the furnace, heats the home and lights the Pagoda in far away Cathay and the tent in the distant jungle.

I was born where the fire flag lighted up the night in the oil fields of Western Pennsylvania.

I have followed petroleum's romantic journey from the headwaters of the Allegheny to the sun-kissed sands of the Golden Gate. I have followed it into the jungles of the tropics, across the sands of the desert, and again to those Russian hills in whose bosom lies the wealth of Golconda.

As a consequence I am convinced that the world could not move at its present rate of speed in travel and industrial accomplishment were it not for the marvelous accomplishments of combined capital in that field of world-wide activity.

In the early days when development depended upon the energy and capital of individuals, two dry holes in a wild-cat territory spelled disaster for the individual and frequently ended for years the development of all adjacent territory.

Had that precarious method of development continued the world would be dark for want of illumination and its bearings would be burned out for lack of lubrication.

Fifteen years ago our oil business was appraised at \$2,750,000,000, while today it exceeds \$8,000,000,000.

When I was a boy a lease could be acquired, a rig equipped and a well drilled for \$2,000. In 1925, to drill the average well in California cost \$87,000, while the average for all other parts of the country was \$24,000. And yet the cost of drilling is but a single item in the mighty aggregate of oil investment today.

Development of oil deposits in the Northern sections of South America have required greater combinations of capital than ever for their development.

Tropical climate, lack of organized transportation, and political instability have all added their burdens.

The development of these fields has involved the construction of transportation systems through tropical jungles and the delivery of equipment from distant bases on the seacoast. There is the problem of labor, which means the importation of technical and mechanical experts into strange climates, and ultimately the training of native workers to new tasks. Next came the grave problems involving sanitary conditions in tropical countries, in which disease and death are often the price of success. While an ordinary single field in the United States could be developed and its product marketed with ease in six months, it has required six years to develop some of the fields in South and Central America, and frequently in excess of \$25,000,000 and in some countries double that amount to develop a field and bring its product to the market.

The development of a single field in Colombia and the construction of a pipe line to tide water by a subsidiary of the Standard Oil Company of New Jersey required an expenditure of \$45,000,000 before exports of oil were possible.

All this forms another chapter of achievement to the everlasting credit of combined capital without which many sections of the world now prosperous would still be impoverished frontiers.

Manufactured Gas Enterprises

Supplying manufactured gas to the public efficiently is requiring the investment of hundreds of millions of dollars annually while its volume of business has increased 32 per cent in the last five years.

As a consequence of combined capital, America's leading gas corporations are expending \$6,000,000 annually in research work, every dollar of which is bearing fruit in the form of continuously added uses and reduced cost to the American consumer.

The Story of Steel

The story of steel is another illustration of the beneficent "Fruits of Combined Capital."

With the birth of the twentieth century the real possibilities of the steel industry were revealed in the dreams of those geniuses who saw in the distance the virtue of single control of all the operations from the mining of the ore to its smelting into iron, and the conversion of iron into steel and steel products—one continuous operation performed under the direction of a single organization, eliminating the waste incident to the process when performed by a large number of different organizations each under a separate management.

The constant development of new methods required costly changes from year to year, in order to keep pace with the rapid progress in the art of steel making. All this involved enormously increased capital and the necessity for a great organization controlling vast resources and the power to administer those resources in such a manner as to advance the industry as a whole.

The rise of the steel industry from that day to this borders on romance.

In its first twenty-five years the United States Steel Corporation did an aggregate gross business of \$23,441,000,000.

At the same time it has encouraged the spirit of co-operation through employee ownership of its stock. At the close of 1926, employees numbering 47,647 owned 164,000 shares of Preferred and 502,000 shares of its Common Stock.

In 1906 it inaugurated its safety, sanitation and welfare campaign to protect its workmen from injury or death, and to master the best methods in science, economy and sociology, in order to promote the health, comfort and efficiency of its employees and their families.

As a result, in 1925 serious accidents were 60% less than in 1906, and disabling accidents were 80% less than in 1912. In other words, 47,000 men were saved from serious injury and 322,000 men saved from any injury which would have resulted in loss of time.

The corporation has also established communities, schools, clubs, educational facilities, playgrounds, and other conveniences and benefits for its workers and their families during the last 13 years at a cost of \$160,000,000.

Combined Capital Develops Aluminum

When the Aluminum Company of America was incorporated in 1888, aluminum was a laboratory metal of scientific interest only, with its uses unknown to industry, while its cost of eight dollars per pound deprived it of commercial value.

As a result of its never ending perseverance and the courageous combination and additional investment of capital through many years of adversity, this Company has introduced aluminum to the world, discovered uses for it in practically every industry, and has reduced its cost 3200 per cent to 27 cents per pound.

The research work in which the Company engages from year to year average approximately three-quarters of a million dollars.

Beginning in 1888, with an investment of \$20,000, with a daily output of a few pounds, in a small plant employing five people, it has today a combined capital investment of \$150,000,000, with a capacity for 70,000,000 pounds per year and employs 20,000 people.

The Electric World

Another conspicuous contribution of combined capital to the health, comfort and convenience of mankind is found in the electric industry.

Take the history of the Mazda lamp alone.

In 1879, after searching the world and testing 3,000 different materials, Edison produced the first incandescent electric light by means of a carbon filament.

The General Electric's development of the Mazda lamp in seventeen years has added 600% efficiency to scientific lighting.

Without the Mazda lamp it would have cost two billion dollars to have produced the amount of light the American people used in 1920. Instead, the total cost was only \$500,000,000, with the gap growing wider and the saving greater as each year goes by.

During the war the Mazda lamp turned night into day, and if the country in that emergency had depended upon the lamps used, even as late as 1911, it would have required an additional investment in equipment of \$3,500,000,000 to supply the same amount of light.

In fact, it would have been impossible to have obtained this amount of equipment in that crisis when minutes meant not only dollars, but countless human lives.

While the prices of other commodities have risen in twelve years from 100 to 250%, the average price of the electric lamp has increased less than 1%.

This achievement is the result of the long and patient research made possible by combined capital, the value of whose contributions to scientific invention may be appreciated when we realize that its expenditure in research work of this company alone is \$15,000,000 annually.

Fascinating Field of Research

In the Westinghouse laboratory is an apparatus which tests pieces of steel magnetically without destroying or even marking the specimen.

On another floor a glass worker is making small glass bulbs no larger than peanuts. Inside each is a spot of metallic potassium driven actually through the glass by electric forces after the bulb is sealed. If a light ray falls on the spot of potassium a cloud of electrons flies out from the metal as bees from a beehive when you remove its top.

And what a marvelous atom the electron is. From an area of a filament no larger than a pinhead there escape each second more than a million billions of electrons.

In a barely visible spark from the back of a cat there are more electrons than you could count in a million years. From this you may appreciate the delicacy of the task and the refinement of the research in which this enterprise is engaged.

When we consider the unlimited power which these combined atoms contain, and realize that they are moving the world today, we can understand how electrical engineers dream of the discovery of a perfect insulator; a coating that will permit us to feed six or eight million volts of electricity into an insulated wire and have it come out safely at the other end.

The persistence of combined capital in solving these mysteries commands the world's admiration.

This research work is one of religious intensity, and upon its continuance depends much of the future course of the world's industry.

Another marvelous invention makes it possible the carrying of electricity in one direction and not the other, a one-way electric highway.

After years of research in this laboratory, an outside inventor recently chanced upon the discovery which makes this wonder possible.

How rich is the fruit of combined capital's research is also found in the submarine detector, the wireless messenger that baffles space and time, new motors for industries, more efficient electrification of steam roads, rural electric service extension to farms, and domestic electric appliances from refrigeration to radio.

The Mellon Institute

One of the outstanding research institutions, the direct result of combined capital and public spirit, is the Mellon Institute at Pittsburgh, founded by Andrew W. and Richard Beatty Mellon, whose business foresight has carried their names around the world.

Above its entrance are chiseled these words:

"This building is dedicated to the service of American industry and to young men who destine their life work to industries; the goal being ideal industry which will give broader opportunities for purposeful lives."

Radio's Romance

The marvels of radio are treading so rapidly upon each other's heels that the early sacrifices of such pioneer promoters as Thomas Hartley Given and Hay Walker, the backing of whose combined capital brought millions of dollars to its rescue as it struggled through infancy, is almost a forgotten story.

Advance of Aviation

In the world of aviation Langley may have been a dreamer or a genius, but the Wright Brothers were both. They all served their purpose.

But without detracting from the scores of individual inventors, combined capital and the financial sacrifices being made by Henry Ford and scores of others to remove the perils and add to the practical uses and pleasures of aviation at this very hour is one of the finest manifestations of faith in the future that is marking the present age.

The Machine Relieves the Man

Combinations of capital have effected countless improved methods in various other lines of production.

These include the increasing utilization of machinery and power; the introduction of various sorts of labor devices and mechanical methods; the growth of mass production of standardized articles; the elimination of waste; the intelligent discounting of the future market requirements by planning production in relation to general business conditions and coming needs, and other economies resulting from improvements in methods and management.

Another result is brought about by shifting production from industries dependent upon manual labor to industries more susceptible to mass production through machinery.

Outstanding cases are the manufacture of motor vehicles and the producing, shipping and refining of petroleum. Then comes the substitution of new products for old, such as cement and steel for lumber and other building products, cigars for cigars, and baker's bread and factory canned goods for the old-fashioned products of the housewife.

Since the machine does not have to have food to eat, a house to sleep in and a family to raise, the absence of all these fixed charges must in the end reflect their benefits upon society in general.

Capital and the Farmer

The effects of less pretentious combinations of capital and wider investment units are also revealing themselves in the agricultural world.

While farmers are drifting to the cities, farms themselves are not being abandoned.

A recent study of a single Kansas County discloses the fact that in twenty years the number of farms decreased by 144. This involved a loss of 720 in the farm population, and yet not a single farm was abandoned.

The number of farms less than 260 acres greatly decreased, because with modern machinery it did not pay to farm such small areas. Those between 260 and 1,000 acres greatly increased, indicating a merger of the smaller farms.

In 1900 all farm implements in the County were valued at \$474,000, divided among 1,940 farmers, while in 1920 the farm implements were valued at \$2,171,000, with 144 less farmers than 20 years before.

In a word, while the number of farms decreased 7½%, the value of farm machinery increased 357%.

The answer is that the added efficiency of the implements brought at reasonable cost to the farmer's door by

the International Harvester Company, coupled with the enlarged investment of the farmer himself in extended agriculture areas, is furnishing increased benefits to the country at large in spite of the continuous decrease in farm population.

The Telephone

Nowhere, in all the records of fact or fable, is there a more fascinating story than that of the development of the telephone.

The American Telegraph & Telephone Company, the market value of whose stock is almost two billion dollars, commands our confidence and arouses our admiration because from its inception it has been illustrating in countless ways the virtues of combined capital.

Eighteen million telephones making neighbors of us all. England, Scotland, Wales and Mexico brought within speaking range of the remotest hamlet in America. In its struggle for better service it has expended four hundred million dollars in a single year.

Millions upon millions of dollars have been expended through the years of scientific and other research work for the benefit of mankind.

Let the carping critics and political pygmies rant as they may against combined capital. In their never ending struggle to promote their own fortunes by engendering hatreds among men they will continue to contribute to the world's confusion.

Our answer is that out of all the forces at work in America today there is looming a new area, a new relationship between industry and individuals, between combined capital and community. An area of understanding, an area of healthy, harmonious and helpful co-operation, out of which are being evolved higher standards of living and an ever increasing diffusion of wealth and comfort.

A Silent Revolution

In a word, we are passing through an industrial and social revolution and the glory of it all lies in the fact that it is a peaceful one.

God's children are not being crucified head downward upon a cross; no torture chambers are emitting cries of pain; no bastiles are being stormed by angry mobs; no streets are lined with gibbets; no rivers are running with blood—but a revolution born of co-operation, of light and love is scattering the fruits of prosperity and the flowers of enduring peace as it travels on.

Vicissitudes, have we—yes. Sorrows, have we—yes. The lingering suffering of disease—yes. The penalizing shame of sin—yes. The humiliating handicaps of ignorance—yes. But all of these are constantly decreasing as the days go by, for with every hour the magic touch of man's genius is lifting our burdens; plagues are passing away; sin is casting a smaller shadow. An all-conquering science is alleviating human suffering and prolonged man's days on earth. With every sound of the school bell ignorance is disappearing, while the chimes from the church towers on every highway are telling the world anew of a closer brotherhood among men.

But, my friends, our task is not complete.

We must toil as we travel on and build as we go.

When your work and mine is done our fertile fields will blossom as the rose; our blazing furnaces everywhere will be lighting up the night; our mill wheels will be mingling their merry whirl with the music of the spheres; our products will burden cars that plunge at demon speed across the plains and weigh down a thousand vessels that ride our inland waters as they go singing to the seas, and sail in turn on their mission to meet the wants of mankind in the markets of the world. And those for whom we have toiled; for whom we have pierced the mountains, spanned the valleys and laid low the hills; for whom we deepened the channel, widened the roadway, and brought the prairies' golden harvest to the silver shores of the sea—will thank God for their heritage as they lead the world in the bannered march of crowned humanity.

Within the Law

By SILAS H. STRAWN, President of the American Bar Association.

It was in the brain of Alexander Hamilton, the lawyer, that the idea of a national bank originated. The purpose of the bank, as conceived by Hamilton, was to unite the interests of the moneyed classes in the support of the Government credit, which at that time was in a bad way. Although the present system of national banks avoids the danger of extreme centralization in a single institution, which was the objection to the first bank, the policy of national banking and the general principles upon which our present banking system are based were devised by Hamilton and contained in his now famous report to the Congress dated Dec. 13 1790.

Those of you who have read the often quoted opinion of Chief Justice Marshall in *McCulloch vs. Maryland* (4 Wheat. 316) know that the great judge followed the same line of reasoning as did Hamilton in sustaining the power of the Congress under the Constitution to authorize the incorporation of a bank.

It was in *McCulloch* against Maryland that Chief Justice Marshall said:

The Government of the United States, then, though limited in its powers, is supreme; and its laws when made in pursuance of the Constitution form the supreme law of the land "anything in the Constitution or laws of any State to the contrary notwithstanding."

Among the enumerated powers we do not find that of establishing a bank or creating a corporation. But there is no phrase in the instrument which, like the Articles of Confederation, excludes incidental or implied powers, and which requires that everything granted shall be expressly and minutely described.

The Government, which has a right to do an act, and has imposed on it the duty of performing that act, must, according to the dictates of reason, be allowed to select the means; and those who contend that it may not select any appropriate means, that one particular mode of effecting the object is excepted, take upon themselves the burden of establishing that exception.

Let the end be legitimate, let it be within the scope of the Constitution and all the means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consist with the letter and spirit of the Constitution are constitutional.

After the most deliberate consideration, it is the unanimous and decided opinion of this court that the Act to incorporate the Bank of the United States is a law made in pursuance of the Constitution and is a part of the supreme law of the land.

The story of the stormy career of our national banking system is too long to repeat on this occasion and I shall, therefore, mention but the high spots:

You bankers know that when the charter of the first bank expired, Congress refused to renew it and the first United States Bank, organized on the plan of Hamilton, went out of existence on March 3 1811. Then ensued financial chaos until 1816, when the charter of the second bank, closely resembling the first, became a law.

In his first message to Congress on Dec. 8 1829 President Jackson expressed doubt as to the constitutionality of the bank and the soundness of its notes. President Jackson's hostility toward the bank was said to be based on the "widespread belief that the bank was unconstitutional, the hostility of the States, the opposition of the State banks, the rise of democracy and the envy and hatred which the poor always feel for the rich." Thus the second bank failed to obtain an extension of its charter.

From 1836 to 1863 many kinds of banking systems were attempted, but none proved satisfactory, due to the lack of uniformity in bank notes, the failure adequately to protect them and the absence of any effective Governmental control. Thus, after much discussion, the Act creating a national banking system became a law on Feb. 25 1863. Later it was completely revised and passed again on June 3 1864.

This Act gave the country a system which promoted confidence and security, but it was weak in its ability to meet seasonal credit demands and in the immobility of reserves. The extent and seriousness of these weaknesses were realized in the panic of 1907. As far back as 1894 the American Bankers Association had proposed plans which would give to the country a more elastic currency and credit system, but it was not until the panic of 1907 that Congress was awakened to the necessity of action which finally resulted in the passage of the Federal Reserve Act. And now, due

largely to the intelligent and persistent efforts of this Association, and especially to the indefatigable industry, tact and ability of your President, you have the greater freedom and power granted by the McFadden-Pepper Act.

This is a story with which all of you bankers are familiar. Every banking institution doing business in corporate form, whether under a national or a State charter, is necessarily a creature of the law. It has no power and can exercise no functions which the law does not prescribe.

I take it to be the purpose of the American Bankers Association to develop and improve the banking systems of our country; to endeavor to bring about the adoption and enforcement of wise and just laws respecting banks and banking; to educate bankers how to conduct their banks so as best to serve the interests of their stockholders and to furnish to the people necessary and dependable facilities for doing business.

I would not quote to bankers statistics which they already well know but, just in passing, I will mention a few facts concerning the growth and development of this country during the last fifty years.

In 1876 our population was 45,000,000; now it is more than 117,000,000. Then our national wealth was estimated to be \$40,000,000,000; now it is more than \$370,000,000,000. Then our bank deposits were \$2,000,000,000, now upwards of \$48,000,000,000. Then our savings deposits numbered about 2,000,000; now about 45,000,000, with total savings of more than \$23,000,000,000.

I cite these figures to indicate the tremendous task which is constantly before the bankers to provide the medium of exchange and the credit to enable our citizens to transact the business created by our tremendous growth at home and the extension of our activities in foreign fields.

I briefly call your attention to our territorial expansion in the last thirty years.

As the result of the Spanish War we found ourselves possessed of Porto Rico, the Philippine Islands and Guam and in the same year the Hawaiian Islands became a territory of the United States by Act of Congress. We acquired Samoa by treaty with Great Britain and Germany in 1899; since 1903 we have exercised general supervision over Panama; in 1907 we assumed control of the finances of San Domingo, and in 1916 territorial administration of that country. In 1915 we began to supervise the affairs of Haiti. In 1913 we commenced to exercise a protectorate over Nicaragua. In 1916 we acquired from that country a grant of canal and naval bases. In 1917 we bought the Virgin Islands. The distance between the Philippines and the Virgin Islands is more than half way around the earth. The total area in square miles of territory we have acquired in the last thirty years is more than 280,000, with a population of upwards of 18,000,000.

Our foreign trade for the year 1913 totaled about \$4,280,000,000, while in 1926 it had risen to \$9,240,000,000. I disregard the years 1919 and 1920 as abnormal. Our trade in those two years was for 1919 \$11,825,000,000 and for 1920 \$13,506,000,000.

Considering, as I have said, the tremendous development in our own country, our acquisition of foreign territory and the extension of our foreign trade, and the fact that we have become the greatest creditor nation in the world, am I not right in saying that to-day no business requires greater ability, more judgment, more world knowledge, more vigilance, more care, more patience and more character than banking?

The banker's range of activity is increasing constantly. Almost every day he opens some new department, so that now bankers not only have commercial and savings banks, but they execute trusts, administer estates, act as fiscal agents, deal in securities and real estate loans, form security companies, are interested in investment trusts and in many other activities incidental to their principal business. Not

only must the banker be familiar with the general principles appertaining to the business of his many clients, but he must also know something of every kind of business and industry and he must know the relation of different lines of business and industry to each other. He must be a business pathologist, able not only to diagnose the troubles of his clients or patrons, but also to apply a remedy, sometimes internal and sometimes external. He must be a business osteopath, with a touch soft enough to manipulate delicate situations, yet with a grasp of sufficient vigor to force a disjoined or dislocated vertebrae or limb back into place. Finally, he must be a business coroner, capable of directing an accurate verdict by a jury, sitting upon the corpse, and the best final disposition of the remains.

In doing all these things the banker always must keep within the law, for he is an ever-shining mark for attack, just or unjust, friendly or malicious.

In some minds a bank means a cache for predatory wealth and therefore is a legitimate subject for loot. They do not realize that a bank is but an instrumentality for handling and making liquid other people's money. Too few of our citizens understand that every man and every woman, whether worker or shirker, rich or poor, is directly dependent upon capital. Capital is only another name for savings. We are all capitalists to a greater or less extent as we or our ancestors have accumulated savings.

I dare say there are many in this audience who, out of their daily experience, could furnish the material for stories more thrilling than any conceived in the romances of our writers of fiction. Those experiences are the unwritten and often unrepeatable chapters of your life book.

I have thought it might be of interest and, perhaps to some a helpful warning, if I were to refer to a few of the cases involving banks which have come before the courts in the past few years:

Willett, et al. vs. Herrick, et al.

The case of *Willett, et al. vs. Herrick, et al.*, decided by the Supreme Judicial Court of Massachusetts on March 9 last, is one which has attracted the attention of bankers throughout the country, not so much, perhaps, because of the legal questions, but because of the magnitude of the claim made.

The suit was brought to recover from a group of bankers damages alleged to have been sustained because the bankers, it was charged, had entered into a conspiracy to deprive the plaintiffs of their property by taking it over in the capacity of trustees as security for debts and thereafter converting it to their own use.

After a trial lasting over a period of 185 days, the jury found that a conspiracy existed and returned a verdict against the bankers for \$10,535,000.

The Supreme Court of Massachusetts reversed the judgment of the trial court and held there could be no recovery because the plaintiffs had signed certain releases with full knowledge of their contents. A petition for a writ of certiorari has been filed in the Supreme Court of the United States on the ground that the plaintiffs are deprived of their property without "due process of law" and the "equal protection of the laws" guaranteed by the Fourteenth Amendment to the Federal Constitution.

The petition concludes with a novel proposition which I quote:

National banks were created for supplying the public need of funds and banking facilities and for this purpose were endowed with privileges which include the quasi-sovereign power of issuing bills which, in fact, are current as money throughout the country. The spirit of this Act is grossly violated by the extortionate terms of the transaction of July 29 and the vicious use by the defendants of their power to get the plaintiff's corporations for very little of their value finds no justification in the exaction of interest at the rate of 27.6% a year for the perfectly safe loans made by the banks. There is nothing more odious than judicial favoritism and when, as in the present case, such discrimination has been exercised in favor of bankers, it is as offensive to the Fourteenth Amendment as would be legislative discrimination against them.

I cite this case to indicate the risk the banker may assume in liquidating a failing business.

An interesting case on how easy it is for a banker to be exposed to large liability simply by being agreeable by accommodating a friend in a transaction out of which there was no chance for the banker to make a cent, is that of

Golden vs. Cervenka, 278 Ill. 409 (1917).

The officers and directors of a national bank determined to reorganize the bank as a State bank, with the avowed purpose of acquiring banking powers then denied to national banks. There were no statutory provisions enabling the reorganization of a national bank into a State bank. The plan adopted was the organization of a State bank having the same capital and surplus as the national bank, \$1,250,000; issuing stock to the same shareholders in the same proportion, and having the same directors, officers and organization in every particular as the national bank.

Under Illinois law, it was necessary to have paid in, in cash, the entire capital and surplus, with which the bank proposed to commence business. To meet this requirement, the following program was carried out: All the stock of the State bank was subscribed by twenty-one individuals. Ten persons, among whom were some of the subscribers, executed their several promissory notes, each for \$125,000, payable to the national bank. These notes were not expected to be paid. The amounts, however, were placed to the credit of the makers, each of whom then gave his check for the same amount to the bank, which placed the aggregate amount of these checks to the credit of the proposed new State bank. Then the president of the national bank called upon the president of another bank, which for the purpose of this narrative I shall call the "accommodating bank," and told him he would want an amount of money equal to the capital and surplus of the new bank, to be counted by the State Auditor, in compliance with the requirement of the Illinois law, and that the new bank did not have that much money. He asked if the president of the accommodating bank would furnish the money on a cashier's check of the liquidating national bank. The president of the disinterested accommodating bank agreed to do so. A check for \$1,250,000 was drawn on the stock account of the new bank in favor of the old national bank, which was accepted by the national bank and a cashier's check of the national bank was then issued in the same amount, payable to the accommodating bank. After the State Auditor had been furnished with affidavits of nine directors of the new State bank that the new bank had in its possession \$1,250,000 in cash, the president of the old national bank, and who was to have the same position in the new State bank, went with the Auditor to the accommodating bank and there presented to the cashier the cashier's check payable to the accommodating bank in the amount of \$1,250,000. The cashier delivered \$1,250,000 in cash, which was counted by the State Auditor in the office of the accommodating bank. The money having been counted, it was handed back to the cashier of the accommodating bank, who returned the cashier's check issued to the accommodating bank.

This practice, I believe, had been followed quite generally in Illinois for several years up to the time of this transaction.

Thereafter, the assets of the national bank were transferred to the State bank and stock in the State bank issued to the stockholders of the national bank.

Two years later the State bank being insolvent a receiver was appointed. The receiver sought to impose on the accommodating bank liability for having temporarily furnished the capital to qualify the new bank to do business. As a protection to the public, the law required the capital and surplus to be paid in in cash before the bank commenced business.

The court held that the creditors could hold the accommodating bank liable to the creditors, but not to the stockholders of the insolvent bank, for participating in the misrepresentation that the capital and surplus of the State bank had been paid for in cash, thus leading to the issuance of a certificate by the State Auditor permitting the State bank to commence business. The amount of the recovery being the difference between the capital stock of \$1,250,000 and the actual value of the assets of the national bank at the time they were transferred to the new State bank.

The case is a warning that banks may not accommodate other banks, undergoing reorganization in the manner described, with safety, in reliance upon the book value of the assets of the bank undergoing reorganization.

Director's Liability.

An important consideration, especially for those directors who are not actively engaged in conducting a bank, is that of a director's liability.

Bank directors, like the directors of other corporations, owe a duty to creditors and stockholders to exercise care and diligence in managing the affairs of the corporation, and, owing such a duty, may be liable for loss sustained by creditors and stockholders resulting from their neglect of that duty.

The degree of care required by a director of a corporation depends upon all the circumstances of his office. The courts uniformly have held that each case is to be determined in view of all the surrounding circumstances. Due to the requirements of the National Bank Act, the oath of office, etc., and in the case of State banks provisions of State statutes requiring quarterly examination by the directors of the affairs of the bank, etc., and also to the fact that a bank is a depository for funds of individuals who place trust in the bank, a bank director is put on notice that a higher degree of care is required of him than of directors of other corporations. Certain decisions have commented on the fact that an especially high degree of care and diligence is demanded of directors of a savings bank.

Three leading cases on the subject are *Briggs vs. Spaulding*, 141 U. S. 132; *Bowerman vs. Hamner*, 250 U. S. 504; and

Wallach vs. Billings, 277 Ill. (218).

In that case certain stockholders of an insolvent national bank brought suit against a director alleging that funds and property had been lost by reason of the negligence of the director in failing to perform his duties as such. The bill charged that the director of the bank from 1892 until its failure in 1905, paid little attention to its business during the first nine years of that period and that after 1901 he neither attended any directors' meeting nor made any inquiry into the condition of the bank, and that in the year 1901 he had entered into an agreement with the president of the bank which provided that so long as he was a director he would exercise no supervision over its business or affairs.

The court in affirming the judgment of the lower court sustaining the demurrer and dismissing the suit, regarded as important the fact that the accused director was a non-resident, but relied in its decision on the further fact that the allegations of the bill failed to show that the loss to the bank was the proximate result of the director's neglect of his duty as a director, and also on the fact that the bill was a bill filed on behalf of stockholders (not creditors) who, over a period of years could have easily discovered for themselves the condition of the bank. On that subject the court said:

The stockholders have something else to do besides drawing dividends. By the actions of Walsh, extending over a series of years, the complainants in this case as stockholders of the bank were during that time rendered liable to the depositors and creditors of the bank. . . . They are complaining of the very things which they should have inquired about and had knowledge of and which they acquiesced in for a series of years. They are the ones who participated in the election of the board of directors dominated by Walsh, who, in turn, elected Walsh President and turned the management of the bank over to him.

Had the bill been brought by creditors and not by stockholders, the negligent director might have been held liable.

Bowerman vs. Hamner, 250 U. S. 504 (1918).

In the *Bowerman* case, suit was brought by a receiver against the former executive officers and directors of the bank, to obtain an accounting and decree for money lost by the alleged unlawful and negligent management of the affairs of the bank.

Bowerman was the largest stockholder in the bank save one. He was a director during the five years of the bank's existence, but never attended a directors' meeting. He sought to excuse this conduct on the ground that he lived 200 miles from the bank and communication was difficult. The evidence showed that Bowerman, although a banker of ability who was influential and trusted in the community, paid no attention to the management of the bank during the time he was a director. The bill charged the negligence of the defendant, and this allegation was sustained by evidence introduced at the trial. The court said in its opinion:

Bowerman was a banker, and the letter, from which we have quoted, written to the president of the bank which failed, shows he so understood the business of banking and what was necessary for the safe conduct of it that even slight care on his part in the discharge of his duty as a director must have discovered and arrested what he himself characterized as a hazardous manner of conducting its affairs. He was a man of such importance and reputation that the use of his name must have contributed to securing the confidence of the community and of depositors for the bank, and it would be a reproach to the law to permit his residence at a distance from the location of the bank, a condition which existed from the time he first assumed the office of director, to serve as an excuse for his utter abdication of his common-law responsibility for the conduct of its affairs and for the flagrant violation of his oath of office when it resulted in loss to others.

Empire Trust Co. vs. Cahan.

A recent case on the banker's liability for deposits of a fiduciary is that of *Empire Trust Co. vs. Cahan* (United States Supreme Court, decided May 31 1927.)

The respondent having bank accounts with two banks in New York City gave to his son power of attorney to draw checks upon them, with no qualification as to the purposes for which the checks might be drawn. The son drew checks signed with his father's name by himself as attorney, against the two accounts, payable to his own order, and deposited them to his private account with the Empire Trust Co. The checks were certified by the drawee banks. The son drew out the funds from his personal account and applied them to his own use.

The District Court of the United States held that the form of the checks gave sufficient notice to the Empire Trust Co. to hold it liable for the conversion of funds of the father deposited with it. The Circuit Court of Appeals sustained the District Court. The Supreme Court reversed the lower courts, holding that the rule applied by the court below was too strict a rule for an ordinary business transaction. Mr. Justice Holmes in the opinion points out the fact that the power of attorney was general; that the parties were father and son and that the father was careless in not discovering the misappropriation for almost three years.

From a practical standpoint cases of this sort raise a question of business policy, whether it is desirable on the basis of the facts known to the bank to investigate the conduct of the depositor. The bank might make inquiry of the depositor, but such inquiry might naturally be regarded by a depositor as officious and insulting, and in most cases if the depositor were, in fact, acting wrongfully, his answers would be false and of no avail in preventing breach of trust. Therefore, it would seem to be almost impossible practically for banks to make any real investigation of the circumstances before deposits are received.

Although in most States a bank is probably safe in accepting checks of a fiduciary and depositing them to the credit of his personal account, yet there may be circumstances other than that disclosed by the checks themselves which would make the banker liable to the principal.

For example, in a New York case it was held that where an executor drew checks on the account of the estate to his own order and deposited them in his personal account with the bank and thereafter paid off a part of his personal note to the bank with the funds from his personal account, the court held that although the bank could rely on the presumption that the executor's action in depositing trust funds in his personal account was proper, nevertheless it was charged with notice of the impropriety of all such deposits after the payment by the executor of his own debt to the bank out of trust funds.

The Uniform Fiduciary's Act, adopted in several States, for which the American Bankers Association was largely responsible, solves the problem on the side of non-liability.

United States vs. National Exchange Bank of Baltimore.

A recent case of much interest on the proposition that if the drawer and drawee of a check are the same, the drawer cannot recover for an overpayment to an innocent payee, because he is bound to know his own checks, is that of the United States against the National Exchange Bank of Baltimore, decided by the Supreme Court of the United States on April 12 1926. That was a suit brought by the United States to recover the difference between the amount to which a check paid by it had been fraudulently raised and the amount for which the check was drawn.

A disbursing clerk drew a United States Veterans' Bureau check upon the Treasury of the United States in favor of

one Beck for \$47.50. After its issue, the check was changed so as to call for \$4,750.00. Beck endorsed it to a bank in South Carolina and received the amount of the altered check. That bank endorsed it "Pay to the order of Any Bank, Banker, or Trust Company. All prior indorsements guaranteed, June 3 1922," and negotiated the check to the National Exchange Bank of Baltimore. That bank endorsed the check "Received Payment through the Baltimore Clearing House, Indorsements Guaranteed, June 5 1922," delivered it and received the same amount from the Baltimore branch of the Federal Reserve Bank of Richmond which, of course, was the agent of the United States. This Federal Reserve branch forwarded the check to the Treasury of the United States and was given credit for \$4,750. The Baltimore branch had no notice of the fraudulent change.

The Government argued that acceptance or payment of a draft or check, although it vouches for the signature of the drawer, does not vouch for the body of the instrument, and further argued that the drawer and drawee of the check were not the same in such sense as to charge the drawee with knowledge of the amount of the check, and that, therefore, the Government could recover for money paid under a mistake of fact. Mr. Justice Holmes, in the opinion, held that if a drawer and drawee of a check are the same, the drawer cannot recover for an overpayment to an innocent payee because he is bound to know his own checks.

The Government attempted to escape from that conclusion by asserting that the hand that drew and the hand that was to pay were not the same. The court denied this contention and held that great business houses are no less responsible than small ones; that the United States does business on business terms and that when the United States issues an order upon itself it has notice of the amount, and when it comes to pay to the innocent holder making a claim as of right, it is at arm's length and takes the risk. The court concluded the opinion by the statement:

We are of opinion that the United States is not excepted from the general rule by the largeness of its dealings and its having to employ agents to do what if done by a principal in person would leave no room for doubt.

Negotiability of Interim Certificates.

In the case of *Manhattan Co. vs. J. P. Morgan, et al.*, 242 N. Y. 38; *J. P. Morgan & Co.* issued temporary certificates whereby the bearer was to be entitled to bonds of the Kingdom of Belgium if, as and when bonds in definitive form were delivered. The temporary certificate included the provision: "Every taker and holder of this certificate and the

attached warrant hereby agrees that the undersigned may treat the bearer of this certificate and the attached warrant as the absolute owner hereof and thereof, as the case may be, for all purposes, that the undersigned shall not be affected by any notice to the contrary."

Three temporary certificates were stolen from the owner and delivered to the plaintiff which took them for value and in good faith. The plaintiff tendered the certificates to the defendants to be exchanged for definitive bonds. The defendants refused to make the exchange because of notice of the theft. The question raised was whether or not the temporary certificates were negotiable instruments.

In an opinion of the Court of Appeals of New York, delivered by Justice Cardozo, the court sustained the trial court and the Supreme Court in denying recovery, holding that the temporary certificates were not negotiable. Evidence was introduced as to business custom in treating such certificates as negotiable. The court held that such evidence was immaterial, as by Section 2 of the Negotiable Instruments Law the several requirements for negotiability are set out including "an unconditional promise or order to pay a sum certain in money." (The instrument) "must be payable on demand or at a fixed or determinable future time." Also Section 23 provides "an instrument payable upon a contingency is not negotiable and the happening of the event does not cure the defect." Section 24 declares non-negotiable any "instrument which contains an order or promise to do anything in addition to the payment of money."

The court held that under the express provisions of the Negotiable Instruments Law temporary certificates were non-negotiable and "The law merchant cannot prevail against prohibitions so specific. Holding otherwise we should do more than supplement the statute, we should disregard or contradict it."

I shall not weary you by further references to cases. Those to which I have referred are doubtless familiar to many of you. They cover but a small part of the vast opportunities for the banker to incur liability not for malfeasance but for acts of inadvertent omission.

Considering the volume of business done, the daily temptations to which they are subjected and the many opportunities to make mistakes, I submit that cases in which bankers have been held liable civilly or criminally are surprisingly few. Therefore, may we not conclude that the banker in the conduct of his business, as well as in his daily life, is generally well within not only the civil but the moral law.

Early Banking and Big Business

By JAMES WESTFALL THOMPSON, Professor of History, University of Chicago.

Present day business practice owes a much larger debt to the Middle Ages than the average business man realizes. When he thinks of origins, if indeed he ever thinks of them, the word banking may suggest to him Alexander Hamilton or Andrew Jackson and their efforts for and against the First and Second Banks of the United States; or, if his knowledge extends beyond the borders of his own country he may turn to the Bank of England or the Bank of France. Commercial paper may to him begin with the warehouse receipts which passed for currency in colonial Virginia. And insurance is quite likely to call to his mind imposing reproductions of the Rock of Gibraltar. He might and probably would be surprised to learn that his predecessors of the late Middle Ages were familiar with these and other business devices which he uses every day.

The Italian Renaissance of the fourteenth and fifteenth centuries was just as truly an economic revolution as it was a new literary and artistic movement. Italian spirit, Italian initiative, found new expression in business and banking quite as originally as it found expression in the arts and in literature. The spirit and the practice of the new age were essentially capitalistic in nature. "Capitalism is much older than we have ordinarily thought. No doubt its operation in modern times has been much more engrossing than in the Middle Ages or in the Renaissance. But

that is only a difference of quantity, not a difference of quality; a simple difference of intensity, not a difference of nature."

Capitalism has developed through the centuries from medieval to modern times by a series of "lifts." Before the eleventh century, when the Crusades stimulated commerce and trade, when the towns began to rise, the capitalist class in Europe was composed of the great landed feudal aristocracy, nobles and clergy; for the Church was the greatest landowner of all. It was an age of "Natural economy," not a "money economy," in which the proprietary class produced little beyond its own wants and consumed hardly anything not locally produced. As individual property increased, and along with it differences in the amount of private property owned by each developed, the rich tried to derive advantage from their riches, consisting mainly in lands, either by sustaining men of no means (*serfs*) upon their estates, or by allowing men of lesser substance to utilize part of their lands or share their prerogatives—as market rights, imposition of tolls, coinage—in a subordinate capacity in return for certain obligations in the form of dues and the performance of military service for them. In the latter case such landholders became liegemen (or *vassals*) of the overlord (*suzerain*). This was the economic basis of the feudal system.

This rich proprietary class also possessed another sort of wealth in addition to land in the form of family plate, church plate, bullion, hoarded coins, jewels, etc. The Church especially was rich in this kind of wealth. But it was idle wealth, immobile, not mobile, unproductive, not productive. "The revenues which the landowners collect from their serfs or from their tenants are directed to no economic purpose. They are scattered in alms, in the building of monuments, in the purchase of works of art or of precious objects which serve to increase the splendor of religious ceremonies. Wealth, capital . . . is fixed, motionless, in the hands of an aristocracy, priestly and military." It was necessary for all this immobile and locked up capital to become fluid and to be invested so that wealth might produce wealth before real capitalism could emerge.

Various theories have been propounded to explain this transformation. Sombart's theory is that the revolution was brought about by the monetization of ground rents formerly payable in produce, followed by the conversion of much hoarded bullion and plate into currency. But this is only half an explanation. The root of the change lay in the new necessity and development of a money economy. This was forced forward by the revival of commerce in the eleventh and twelfth centuries which was partly independent of, and partly stimulated by, the Crusades. This change, in turn, stimulated the rise of the towns and the formation of the bourgeoisie. *Towns, trade and capitalism emerged together in Europe.* Merchandizing, manufacturing, banking, business technique, credit, all are of urban origin. Then capital came to have a new sense; it was a value hatching a new value, or as Karl Marx put it: "Mehrwert heckenden Wert." Instead of being immobile, as formerly, wealth now became fluid, mobile. Production was considered in terms of value in money as a means of gaining greater values. Services were no longer required of vassals and serfs, but were converted into money payments. Paid labor paid better than compulsory services. Free workmen were found more productive than servile workmen. Business contracts replaced the old feudal and manorial ties. The accumulation of previously rural ground rents, now monetized, was increased by new urban rents. The towns became commercial and industrial centers, the greatest of them having international commercial relations.

Italy was the earliest country in Europe in which a capitalistic regime and a capitalistic society appeared. The reason is twofold. In the first place owing to Italy's geographical position and peninsular shape the cities of Italy were able to tap the rich Levantine trade, a commerce essentially in luxuries like silk, spices, rare dyes, precious stones from the Orient, which returned enormous profits upon little bulk. A Venetian galley plying between Venice and Alexandria commonly paid one thousand per cent dividends upon a round trip, taking out iron and timber to ironless and timberless Egypt and returning laden with silk and spices.

In the second place, the papacy drew down into Italy the enormous ecclesiastical revenues of all western Christendom derived from Peter's pence, the census tithes, indulgences, fees for appellate causes, etc. The annats alone represented the entire income of a diocese during the first year of a new bishop and were exacted as a fee for investiture. What these sums meant may be appreciated when it is said that the papal revenue out of England in 1252 was three times the revenue of the crown. The income of the Lateran in the thirteenth century must have far exceeded the income of all the princes of Europe taken together. Rome was not only the ecclesiastical capital of Europe; it was also the financial capital of Europe. In the thirteenth century the financial power of the papacy was like that of the great international banking houses of today.

Banking seems to have begun among the Lombard Jews first as a pawnbroking business. Gradually these branched out into money-changing and loans at interest secured by real collateral, and later by commercial products, manufactured or imported articles of commerce. In time the notes and warehouse receipts of these transactions developed into commercial paper. Naturally it was not long before

the Italian merchants, having fared profitably, also began to invest their surplus wealth in these forms of investment and in the thirteenth century full-fledged private banking houses are found, the earliest of them appearing in Siena and Florence.

From the pontificate of Gregory IX (1227-41) the important banking firms of the Italian cities had agencies in Rome and abroad, in France, Flanders and England. Their chief function was to collect and to transmit the Peter's Pence and other ecclesiastical revenues to Rome. These papal clients united papal authority with their own fiscal influence to promote and to protect their own business operations. If an Italian merchant from Florence or Milan was robbed in France or England, or outrageously imposed upon by some noble, or could not collect a foreign debt, the pope intervened in his behalf and usually papal pressure was successful.

"International banking derived its strongest impulse from the Church, whose revenues in Peter's Pence and the census were collected in distant countries, in a currency often depreciated and sometimes even in kind. The local branches of Italian banks, after satisfying the papal representative of the exact amount collected and the sum that would be payable in Rome, were able to remunerate themselves by using the money in their hands in ordinary local business. They seem, however, to have charged the Church for their trouble and expenses, sums of whose amount we know surprisingly little. . . . Schneider found only two instances in which these sums were stated, one being about 12¼% and the other 25% of the amount paid over in Rome. It cannot be doubted that the loans granted to popes and the college of cardinals were, in spite of the Church's thunders against usury, very profitable to the bankers." The Roman curia always protected the bankers against losses and so debts due the papacy or papal obligations were the safest form of banking activity to engage in.

The Italian banking houses not only invested their own profits in business and handled the collection of papal revenues. They acted also as agents of the Holy See to invest its enormous surpluses. No Italian city was so successful as Florence in its fiscal relations with the Holy See. It was in the thirteenth century that the foundations of the great banking houses of Florence were laid—the Albertini, Albizzi, Ardissoni, Bardi (the father of Boccaccio was a trusted agent of the Bardi), Bellicozzi, Ildobrandini, Borgo, Filippi, Gualfredi, Scala, Cerchi, Rimbartini, Frescobaldi, Acquerelli, Leoni, Monaldi, Rocci, Scotti, Marcoaldi, Tedaldi, Spigliati. The Florence banking houses steadfastly supported the popes in their long political struggle with the emperor Frederick II and got their reward. Their loans to papal partisans in neighboring cities which were political and commercial rivals of Florence undermined these places. This is conspicuously true of Siena where the bankruptcy of the Gran Tavola ruined the city.

For Siena made the blunder of backing the wrong political horse in supporting the emperor against the pope. Until she adopted this fatal policy Siena, and not Florence, had been the headquarters of papal banking. The chief Sienese banking house was that of the Buonsignori, called the Magna Tavola or Gran Tavola, the name being derived from the table of the money-changers. In 1289 its capital amounted to the then large amount of 35,000 florins. It loaned money to popes, emperors, feudal princes, cities. But when Siena espoused the imperial cause and forsook the papacy the popes removed their funds to Florence and left no stone unturned to discomfit Siena. In November 1260 all the Sienese banking firms went to the wall in the crash of the Gran Tavola. The tourist may still see in Siena a medieval house built in 1234 by one of the earliest of Sienese capitalists, Angliere Solofica, on the front of which may be read the inscription: *Campsor Domini papae Gregorii IX.*

Between the years 1260 and 1347 Florence rode the crest of the wave of prosperity and there were eighty banking houses in the city, the greatest of which were the Bardi and the Peruzzi. The financial dealings of these two houses were especially intimate with the Angevin kings of southern

Italy and with England. In 1268 they looked upon the expedition of Charles of Anjou for the conquest of the kingdom of Naples and Sicily as a profitable speculation and liberally financed it, in return receiving the right to collect portoria and to manage the mines and salt pans as security. But in 1282 the success of Aragon in promoting the Sicilian Vespers, which ruined the French domination in Sicily, seriously crippled them, in particular the Bardi who were heavily involved. Fortunately for them it was to the interest of the popes to support the Angevin dynasty, and so the papacy rushed the Guelph bankers into Southern Italy to the rescue of its proteges. The Florentines were in the vanguard of the rescue corps and by the end of the thirteenth century had done their work so well that Charles II was completely in their power. The Neapolitan king surrendered part of his revenue and granted monopolies to cover the advances made by the bankers.

Whether the kingdom was at peace or at war, the result was the same: if at peace the rulers needed money for internal improvements or for keeping up their magnificent court; if at war cash was needed to pay the troops. In either case the Florentines reaped the benefit. Such a good thing soon became widely known and numerous houses sent their agents to partake of the rich profits which were to be made directly or indirectly out of the royal patronage. Of these the Bardi were the most important, from the standpoint of money advanced; they furnished 10,000 ounces of silver in 1291, for instance, for payment of the papal tithe. This gives an interesting illustration of the operations of the bankers. They were, as has been seen, agents of the papacy for the collection of the ecclesiastical taxes. They were at the same time the only ones possessing mobile wealth which was available for the making of loans. It thus often happened that they would loan needy individuals money with one hand and collect the same money with the other for transmission to the Curia. All alike became ardent Guelphs, "and their attachment to the Angevin family waxed with the profits which they derived from it." Arnold Peruzzi became counsellor and chamberlain of Charles II, and in 1308 his company paid a dividend of 40%. As time went on the main reliance of the throne came to be placed in a sort of syndicate which included the Bardi, Peruzzi and Acciajuoli, to which was added the Bonaccorsi about 1330. This group got a strong grip on affairs—so strong that it virtually dictated to the kings, complaining to them of the conduct of their own officials, and forcing them to modify or ignore the laws of the land insofar as these conflicted with Florentine schemes of money-making.

The splendor of the court cost so much that the king was forced to give over more and more political and economic privileges to the bankers, and members of the firms came to occupy important royal offices. At the same time, however, they conducted these offices in such a manner as to alienate the masses of the people and thus sowed the seeds of their own downfall. The beginning of the end is to be seen in the failure of the house of Scali in 1328.

Somewhat later (1341) Florence became involved in a war with Pisa. This city had freed the town of Lucca from Florentine control and the latter wished to bring it back under its domination. Not being strong enough to accomplish the affair alone, Florence sought outside aid. A political crisis ensued which involved an economic one as well, and several of the houses went under, including the Gonaccorsi, Cocchi, Antellesi, Usani, Corsini, Castellani, Perondoli, and others. The larger houses survived the crisis, but were badly compromised when the king of Naples repudiated a debt of nearly 200,000 gold florins to the Bardi and Peruzzi.

But the greatest financial operations of the Bardi and Peruzzi were in England. Isolated instances of Italian loans to the English kings go as far back as the twelfth century. Richard the Lion-hearted seems to have borrowed from them; for his brother and successor King John promised to pay the merchants of Piacenza a sum of money which they had advanced on the order of Richard to two English envoys sent to Rome, and in 1219 a certain Pietro Guibertini of Bologna came to Henry III and demanded

payment of another loan which he alleged to have been made by himself and others to Richard.

But the real period of Italian finance in England began in the thirteenth century. Then Italian merchants flocked to England to purchase wool or to negotiate loans secured upon wool. The first occasion on which they played a prominent part was in connection with the effort of Henry III to secure the German and imperial crown for his son Richard of Cornwall. Almost at the same time these Italian merchant-bankers made Henry III another loan of 135,000 marks, which was expended in the vain endeavor to put his oldest son Edward, afterward Edward I, upon the throne of Sicily. Edward borrowed Italian money to conduct his Scottish wars and there is an intimate connection between the fall of William Wallace and the history of Florence. The king found loans more convenient than struggling with reluctant parliament for subsidies. During the first four years of the reign of Edward I, the Lucchese merchants were largely employed in the financial operations of the crown. From his coronation in 1272 until January 23 1276 Lucas of Lucca advanced to Edward I, sums aggregating £17236 13s. 4d. The Mozzi of Florence became important during the period from 1277 to May 6 1309, during which they lent £79,941 6s 8d. During a shorter period (June 25 1285-November 18 1293) the Riccardi of Lucca lent Edward I £56,240 18s. 1d. Other firms of lesser importance may be briefly noted: the Pulci, of Florence, with whom were associated the Rimbartini of the same city, the Ammanati of Pistoia, the Ballardini of Lucca, the Cerchi Gianchi of Florence and the Cerchi Neri. The Bardi and Peruzzi of Florence also appear in this period, laying the foundations of the royal favor which was later to be so disastrous to them.

The two firms which seem to have exercised most influence during the reign of Edward I were the Riccardi and the Frescobaldi, with the latter gradually forging to the fore. They virtually controlled the finances of the realm during this reign. During the period between September 13 1290 and May 30 1311 "there was disbursed to them in repayment of loans made by them to Edward I and his son, and as compensation for the losses which they had suffered by the delay in the repayment of Edward I's loans, no less a sum than £110,207 6s 5¼d. Their loans probably amounted to at least £121,941 2s 11¼d." It was during this period that the king resorted to the device of turning over the revenues to the Italian merchants as security for their loans. In the year 1299 the whole of the revenue of Ireland was turned over to them in payment of a loan of £11,000. And from April 1 1304 to May 30 1311 "nearly the whole of the receipts from the customs were handed to them."

A condition such as this at last grew intolerable, and in 1311 Edward II (1307-1327) turned against them, and the Riccardi and Frescobaldi were driven from the realm after suffering severe persecution. They were never fully requited for the advances they had made to the crown, yet some effort seems to have been made to pay the debts, for down to 1303 four payments were made to Italian bankers to the amount of £7,333 6s. 8d. Edward's motive seems to have been entirely selfish, however, as he was interested in keeping the firms solvent so that they might lend him further sums rather than pay his obligations in full.

The difficulties which have been indicated were sufficient to cause the withdrawal of most of the Italian bankers from the English field, or at least to restrict their activities to private operations apart from the court. Two houses, however, maintained their connections with the crown and were ruined in the end. There were the Florentine firms of the Bardi and Peruzzi. They had appeared in England in the time of Edward I and continued their operations through his reign and into that of his successor. The Bardi were the more important of the two houses, and after 1311 succeeded to the position which had been vacated when the Frescobaldi and Riccardi were driven out of England. Between 1290 and 1326 they advanced to the kings sums aggregating at least £72,631, of which only £4,926 was lent before 1311. As time went on the advantages of combination became apparent and they began to act in concert with

the Peruzzi. This custom began about 1337 and was established by 1340. They stood well in the graces of Edward III (1327-77) during the early years of his reign and were accorded many privileges. The laws of the land were relaxed in their favor on several occasions so that they might be safeguarded in the collection of their debts. An example of this took place in 1327 when "the customers of Southampton were ordered to send to the King at once any money in hand of the customs of wool, hides and wool-fells, and of the new custom, and previous assignments notwithstanding, *'except those to the merchants of the Society of the Bardi of Florence.'*" This action of the king was taken in the face of statutes which limited the residence of foreign merchants in the realm and absolutely forbade the assignment of the customs to their credit.

The purposes to which the funds secured from the bankers were assigned were varied. In November, 1331, the Bardi agreed to find 1,000 marks a month for the support of the royal household, to cover which they were granted the receipts of certain customs duties at London, Kingston-upon-Hull, Newcastle-upon-Tyne, Hartlepool and Southampton. Other members of the royal family were supplied by the bankers. The queen, the queen-mother and the Earl of Chester were recipients of advances for which the king acknowledged his indebtedness. The main demands upon them, however, were for carrying on the military operations of the government in France.

The Peruzzi seem to have taken little active interest in financing Edward III before 1336. They made advances in this year which were guaranteed by the income to be derived from certain parliamentary promises to the king. By the end of the first six months of the year it appears that the king was in their debt to the extent of £32,000. In 1337 their dealings took on added importance owing to the increased demand for money growing out of the impending war with France. The only way in which the king could secure an adequate and extended supply of cash was through the manipulation of the wool trade, which was an operation possible only with the consent and cooperation of the Italian merchants who were deeply involved in that branch of business. In March 1338 the king agreed with the two firms that he would deliver to them all the wool granted to him in England, which they were to sell for his profit.

This situation marks the high-water mark of the fortunes of the Italian bankers in England. Even at this time forces were at work in Italy, in France and in England which conspired together to make their position increasingly untenable. The outbreak of the long war between France and England in 1337 placed the merchants in an embarrassing situation. They could not keep on good terms in both powers. The formal declaration of war saw the arrest of their representatives in France, a durance from which they escaped only by the payment of huge sums to Philip of Valois. At the same time Edward III began to be more than ever remiss in payment of his old debts, while at the same time incurring new ones. This double trouble was aggravated by the situation in the kingdom of Naples already related. Florentine investments in Naples were endangered. The next development which has also been observed, was a war with Pisa, the financing of which put several of the smaller banking houses out of business (1341) though the more important ones, such as the Bardi and Peruzzi, managed to keep their heads above water.

It is evident in the years after 1343 that the situation of the Bardi and Peruzzi was becoming more precarious in equal ratio to the ever-mounting debts owed them by the English king. Edward III's wars with Scotland and France not only prevented him from making payment on the debts which he had already contracted, but placed him in the position of requiring more and more funds. To this was added a growing resentment on the part of the rising native merchant class at the favors which the foreigners were receiving from the crown. The actual circumstances are uncertain; there is a possibility that there was a merchant conspiracy in which the king was involved. At any rate the deluge overtook the Italians. They seem to have requested an audit of their accounts at some time between

1343 and 1345. The next development found all their agents in prison, without having any specific charges lodged against them except that they were indebted to the king for large amounts, which, however, Edward III acknowledged were much smaller than the sums he owed them. He demanded payment by a fixed date, but later pardoned them. He did not take any measures toward alleviating their distress. It is plainly evident that the imprisonment of the Italians was not based on any misdoings which could not have been condoned, but was rather the result of a wish on the part of London merchants and financiers to get rid of a group which had become obnoxious to them.

This episode practically ended the active connection of these two great Florentine firms with the crown, though they continued to trade in England in a private capacity for some time afterward. Some belated payments were made to both the Bardi and the Peruzzi after the crash, and they were enabled to make some recompense to the smaller companies which had been involved by their downfall. The Bardi fared less well in this respect than the Peruzzi, as they appear to have received only £150 in return for an acknowledged debt of £50,493 5s. 2½d. In June of 1346 the Peruzzi received £6,375 and in August of 1352 a further payment of £100. The repudiation of the English debt brought matters to a head and it was found necessary to liquidate the assets of the two firms. A panic resulted in Italy as the result of this famous bankruptcy and a meeting was held at Florence which resulted in an agreement of September 6 1347, whereby the Bardi paid about 30% on their obligations and the Peruzzi about 20%.

Thus we have seen how four great Italian banking houses were ruined by their dealings with the kings of England—the Riccardi of Lucca under Edward I, the Frescobaldi of Florence under Edward II and the Bardi and Peruzzi under Edward III. Figures are available only for the failure of the Bardi and Peruzzi, showing that they advanced to the three Edwards during the years from 1290 to 1345 no less than £433,000. But one must multiply these figures by five in order to appreciate the actual nature of the collapse. Even these imperfect data suffice to indicate what must have been the large contributions of the Italian bankers to English economic and political life.

The effect of Edward III's repudiation of his Italian debts and the subsequent panic in Europe may be compared with the crash of the Barings in 1892 and our panic of 1893.

The panic in Florence extended far beyond Tuscany. For the ruined firms had branches almost everywhere. The Peruzzi alone—and they were not so large a house as the Bardi—had sixteen exchanges: London, Bruges, Paris, Avignon, Majorca, Pisa, Genoa, Venice, Cagliari, Naples, Palermo, Clarentza in the Morea, Rhodes, Cyprus, Ceuta and Tunis. We have the record of two English students studying at the University of Bologna who got their remittances from home through the Bardi.

Only one important banking firm in Florence survived this famous "Black Friday." This was the Medici. As the transactions of the Bardi and Peruzzi grew in magnitude, partly in order to help them swing the ventures, partly perhaps in order to assure themselves against too great liability, the two major firms had drawn many other banking houses of Florence into their English deals, nearly all of which were involved in the final collapse except the Medici, who at the time were not prominent enough to be considered. The obscurity of the Medici saved them and upon the ruins of the other Florentine banking firms they rose to riches and to fame. Although the Medici became the princely dynasty of Renaissance Florence, gave two Popes to the Holy See and two queens to France, their memory is to-day preserved principally in the three gold balls of the pawnbroker, for six gold balls were the banking and later the heraldic device of the Medici house.

Florence never developed a State bank, though her State debt was funded as early as 1345 and her bonds were current negotiable paper. Florentine laws were strict and the courts were vigilant in maintaining the integrity of commercial relations. Breach of contracts, fictitious sales, short weights and measures, price cutting, misrepresenta-

tion of quality of goods, like using shoddy in cloth of first rate quality, were heavily penalized. In consequence of these strict regulations Florentine commercial honor was the highest in Europe in the fourteenth and fifteenth centuries. The bill of exchange was widely used and stabilized by the Government.

State banking as distinguished from private banking was peculiarly a Venetian contribution to fiscal history. Government, not private initiative, was the rule in Venice. The earliest incident in Venetian financial history which illustrates this statement occurred after the First Crusade, when the Venetian fleet under command of the Doge Domenico Michael was besieging Tyre. The siege was a long and obdurate one; the summer passed and winter was approaching; the Doge's supply of money was nearly exhausted and the sailors and marines were on the verge of mutiny. In this crisis, with that masterful spirit which so characterized him, Domenico Michael stamped the seal of Venice upon bits of leather and pledged his word that the Senate would redeem every one of these leathern rags—which it did. So far as I know, this is the earliest instance of fiat money in history. The marvel is that the device was not seized upon by Italian princes everywhere to reconquer their finances.

Thirty years later (1157), in time of financial stress, Venice raised money by a forced loan and established a bank to handle the certificates, which were guaranteed by the State and circulated as bonds. The original subscribers to the loan were the first stockholders of the bank, the first State bank in history. But Venice's commercial enterprise was so active, her wealth so great that many private banking houses arose, like the Soranzo, Priuli, Pisani, Lippomani, Sanudo and Tiepolo families. The Bank of St. George in Genoa, a partly private and partly State institution, was not established until 1407.

From Italy capitalistic enterprise passed to Germany, where in the fifteenth century the Fuggers, the Welsers, the Hochstetters became masters of finance and captains of industry. These houses, and especially the first, are of interest in many ways, but not the least important fact in their history is that they were closely identified with German mining, something unknown in Italy except on a minor scale in Calabria.

The Fugger family arose in the first decade of the fifteenth century from simple linen weavers in Augsburg. Originally interested in cloth weaving, the Fuggers of the fifteenth century branched out into the spice and linen trade. They had connections with Venice, where Jacob Fugger, first real head of the family, learned his trade. The Fuggers became interested in the opening up of the German mines, and with the Welsers and Hochstetters were one of the three or four great contributing factors in the progress of capitalism in Europe. The working of the silver mines in Tyrol began in 1487; copper mining in Hungary was begun in 1497; the money the Fuggers made in commerce was now available for the working of the mines. In 1494 the Fugger company was incorporated under an imperial charter.

The Welsers were also interested in the silver mines of Tyrol and Saxony. They began the working of the mines at Schwartz in 1448; at Salzburg, in 1460; in Saxony, in 1471; in Bohemia in 1492. In Bohemia the mines had been closed for eighty years because of the Hussite Wars. The Welsers also operated iron forges in Thuringia. All this mining enterprise of the Welsers could not have been possible without the early experience of the family in trade. The money earned through previous commercial activity was now available for the working of the mines, the operation of which, in turn, afforded new facilities for the formation of capital. The material resources of Germany were in the lands of these Augsburg capitalists. They were the Guggenheims of the fifteenth and sixteenth centuries. The resources of Tyrol, Steiermark, the Alpine lands, Saxony, the Harz Mountains, Bohemia, in gold, silver, iron, copper, tin, salt—in other words, "die deutsche Erde" was privately owned by these men.

Modern monopolistic tendencies in business are strikingly illustrated in the operations of these German capitalists.

Small mining competitors were bought out by the huge Fugger organization by the payment of the debts of the small operators. After the mines fell in their hands, they spread out into the metal trade. In 1498 we find the first attempt to build up a syndicate by agreement. The result was a copper combination. At the beginning of the sixteenth century the Fuggers controlled the mines and metal sources of Germany, Austria, Bohemia, Hungary and Spain—the California, Nevada, Colorado and Montana of Europe. They owned the quick-silver and silver mines of Almaden and Guadalcaul in Spain.

The Fuggers also established commercial and banking connections with the Spanish Hapsburgs, and even branched out into the enormously profitable spice trade of Spain's East Indian Empire, notably in the Molucca islands. But their vessels, for fear of the Portuguese and French, instead of reaching Europe around the Cape of Good Hope, crossed the Pacific to Chile, thence to Panama (where the cargoes had to be transported across the isthmus) and thence again by galleon to Spain. The highest point of prosperity and power of the Fuggers was attained in the time of Anton Fugger (1525-60) who left a fortune of six million florins as the inventory of his will, published in 1562, shows.

Not all of the Fugger loans to kings and princes, however, were profitable. The balance sheet of the house in 1577 shows 6,558,059 florins of sound investments against 1,224,906 florins of bad debts, the chief insolvents being Philip II of Spain, and his great commercial city of Antwerp in the Spanish Netherlands.* Sixteenth century Governments were inclined to stretch their credit in time of war and to scale down or even repudiate their debts. International finance was a ticklish business in the period of the Reformation.

Philip II of Spain twice partially repudiated, and in 1607 Spain went completely bankrupt, owing the Fuggers then 3,500,000 ducats. Besides these Spanish debts, the Hapsburgs during the years 1574-1617 borrowed to the extent of 615,000 florins. In all the Hapsburgs contracted debts which amounted to 8,000,000 florins by the middle of the seventeenth century. Thus, much of what the Fuggers earned during a period of 150 years (1409-1560), was lost because of their banking operations with the faithless Governments of Europe. Let us hope that history may not repeat itself.

It might be added the discovery of America had some effect upon this condition. For the flood of silver and gold which poured into Europe in the sixteenth century from Spanish America demoralized the money market. Between 1492 and 1544 \$56,000,000 of gold and silver was dumped on Europe. In the single year 1545, when the famous mines of Potosi were opened, gold and silver to the enormous amount of \$98,000,000 was brought to Europe. The purchasing power of money owing to this cheapening of money is estimated to have fallen 25% between 1520 and 1540, and to 50% by 1600. The effect was not unsimilar to the effect upon the world of the opening of the Klondike and the Rand in the "nineties" of the last century. On the other hand, of course, prices rose. Between 1500 and 1600 the price of wheat advanced 400%, while workingmen's wages in the same period increased only 30%. The sixteenth century was an age of "hard times," a condition which had great influence upon the Reformation which often was a vehicle for the expression of economic discontent under the cloak of religion.

The shrinkage of purchasing power of money across the centuries, at the same time that the volume of capital in Europe greatly increased, is an interesting phenomenon.

*The following table shows the financial situation in 1577:

Debts—	Good.	Bad.
Spain ----- florins:	5,026,000	785,000
Antwerp -----	120,000	232,470
Emperor Maximilian II -----	220,674	-----
Count Ferdinand -----	12,874	-----
Count Albrecht -----	11,909	-----
Count Albrecht's son -----	4,000	-----
Augsburg debtors -----	270,767	40,239
Nuernberg -----	29,204	2,222
Vienna -----	9,094	18,444
Emperor Ferdinand, since 1547 -----	-----	60,000
Miscellaneous -----	500,000	120,000
Total florins -----	6,558,059	1,244,906

For example, a fortune of 22,000 francs in 1200 was worth 16,000 francs in 1300; 7,500 francs in 1400; 6,500 in 1500. But in the sixteenth century, that is to say in the epoch when Europe was flooded with Spanish American silver that fortune of 6,500 francs shrunk to 2,500 francs! It is no wonder that the seventeenth century was characterized by emigration of Europe's population to the New World. The settlement of New England, Virginia, indeed all our seaboard States, was largely due to the economic distress and social discontent in Europe.

Some conclusions may be reached as a result of the foregoing brief survey of early banking conditions in Europe. In the thirteenth and fourteenth centuries, as to-day, banking was a factor of business development. Its growth in that day was stimulated by the Church, which then played a much larger part in everyday activities than is the case at present. The organization of the institutions and their

relation to the Governments of Europe varied within the period according to time and place and circumstance, even as present banking systems have been the product of varying conditions. For one of the outstanding phenomena of the epoch is the close connection between the Government and the bankers. This political activity of bankers has been indicated in connection with the operations of the Bardi and Peruzzi in England and in southern Italy, and the Papal-Imperial struggle is at all points illustrative of this connection. Then, as to-day, the unrestricted activity of banking houses proved disastrous and a system of regulation was resorted to with the double effect of curtailing action while rendering the residue more secure. A final characteristic which strikes home forcibly in this day of international financial activity is the wide scope of operation of the early banking houses. The international banker is not a product of the twentieth century, nor yet of the nineteenth.

COMMITTEE AND OFFICERS' REPORTS—GENERAL SESSION

Annual Address of the President, Melvin A. Traylor, President First Trust & Savings Bank, Chicago, Ill.

Just why retiring Presidents should not be permitted to slip away into that engulfing obscurity which seems to await an ever-growing army of Ex's, without being obliged by custom to punctuate their departure with an outburst of alleged wisdom, I do not know. In this Association, the custom seems to be as inexorable as it is inflexible, hence, confessing to a lack of sufficient courage to abandon it, I come now along the path followed by that long line of my illustrious predecessors, to submit herein a brief account of the work of the administration during the year now closing, together with certain comments and observations, perhaps neither germane nor pertinent to the problems of the day.

The business of the Association since your last convention has gone forward in an even and somewhat uneventful manner, reflecting the harmony and efficiency at headquarters, which is possible only in an organization where intelligence, experience, and loyalty prevail. The work of the President during the year has been greatly minimized and made vastly more effective because of such a staff in the executive offices in New York. My grateful acknowledgement to them.

The Divisions, Sections, and Committees, under the wise leadership of those in command, have in harmony and cooperation made real contributions to the solution of the everyday problems of our business. Detailed reports of all these bodies have been printed and distributed. I commend their careful reading and consideration, because, after all, much of the worth-while work of the Association is done by these smaller units, which seldom, I fear, are given the credit they deserve. They are the real points of contact between the individual member and the larger organization. They are the diagnosticians of our business and discoverers of the remedies for our ills. May I urge you to attend the business sessions of all the Divisions, Sections, and Committees during this week.

The ever-increasing complexities of the banking business seem to me, more and more, to justify our existence as an organization. Yet, I sometimes wonder if we fully appreciate the powers and corresponding responsibilities of our group. This thought was forcibly brought to my mind recently by an address delivered by that leader of American business, Mr. Owen D. Young, on the occasion of the dedication of a group of new buildings comprising the George F. Baker Foundation of the Graduate School of Business Administration of Harvard University. I can pay no more fitting tribute to the Dean of American Banking, the sole surviving member of the group of men who founded this Association, than to quote briefly from the address of Mr. Young, who in calling attention to the fact that this is the day of organizations, associations, and group action, said:

"Let me say, however, that so far as the public is concerned, organized business has been quick to take the advantages of group action, but has been slow to assume group responsibilities. Too frequently business men have acquiesced, even if they did not participate, in objectionable practices until an outraged society compelled amateurs to interfere. The amateurs were frequently in the Legislature, and unwise laws were enacted. Legislatures reached out for abuses they could readily observe, but the causes of which they did not fully understand."

As the problems of our business multiply, complicated often as we think by unwise legislation or regulations, we sometimes wonder if we haven't too often approached these problems from a selfish viewpoint, without sufficient regard for public welfare—if, in fact, we have not been too ready to accept benefits without making a corresponding contribution in the interest of others.

There may have been a time when banking required little training and when any ordinary, intelligent business man could run a bank more or less successfully. Perhaps this was never entirely so, and it certainly isn't true to-day. Banking is well on the road to becoming a profession, as distinguished from a trade. In other words, banking requires theoretical as well as practical knowledge. It is rapidly developing codes of procedure and ethics, such as are characteristic of law, medicine, and the other older professions. Consequently, there is an ever increasing danger in permitting amateurs, whether in or out of the profession, to settle our problems.

If we are to discharge intelligently and well the duties that rest upon us as the custodians of the world's credit supply, we must have the best banking and financial machinery in the world, manned by the most competent and thoroughly trained executives, whose vision can comprehend national and international problems alike; men whose caution and conservatism will not circumscribe that degree of courage and faith which leads to adventure upon uncharted courses, because it seems to me that much of the way we shall have to go, in the years that lie ahead, will be

without the markings of precedent, to which we habitually look for our guidance.

Have we such a banking system—the machinery necessary for the job? It seems to me that we have. With the so-called McFadden Bill now a law, liberalizing and equalizing the rights and privileges of national banks, with constantly improved State legislation adding greater protection and security to the State chartered institutions, with the Federal Reserve System under indeterminate franchise, there is apparently little of major legislation necessary to perfect our banking equipment.

It is only natural that here and there experience will develop weaknesses in these respective pieces of human creation, but nothing would be more unfortunate, I think, than that there should be either agitation for or actual further legislative action with respect to our banking system for some time to come, and most of all, that anything should be done to change the fundamental structure of the Federal Reserve Act. Let those who think otherwise give careful consideration to the cause of their complaint. After all, are not the criticisms leveled at the System largely those arising from matters of administration rather than from inherent defects in the law itself? If this assumption is correct, may we not ask those in authority to cooperate with us in an effort to strengthen the administrative organization without undermining the foundations of the structure?

The future welfare of this country, and of other countries as well, is certain to be greatly influenced by the financial policy which this country pursues. Is it too much, therefore, to insist that this policy be made and carried out by those who have practical experience as well as theoretical training in matters of finance and banking? Intelligent self-interest ought to impel every citizen of the country, whatever his occupation or employment, to demand that the banking system of the country be supervised only by those familiar, by practice and experience, with the problems of banking, not only in this country, but in the other countries of the world.

Since I have mentioned the necessity of those directing our financial affairs having a knowledge of international financial questions, may I enlarge upon that subject for a moment? In spite of the fact that international finance, as we know it to-day, goes back in its beginning to the middle ages, economists and bankers are far from agreement on many of the questions which this subject presents. In part, this is due to the magnitude of the operations which have resulted from the war and from the treaties of peace.

The Information Service of the Foreign Policy Association published in June a series of tables and figures illustrating above all the changes which have resulted in our economic situation in this respect. Most of you are familiar with these figures and without quoting details of the changes which have followed 1914, the net result has been—according to Dr. Max Winkler, who wrote the pamphlet—that we have not only ceased to be a debtor nation but at the close of 1926 we held foreign investments in excess of 12½ billion dollars, not including the debts owed to our government. We know that this figure has been materially increased during the current year.

I am very well aware that many bankers dismiss this subject with the thought that they neither originate nor participate in foreign loans and that, therefore, the problem of foreign investments is one for Wall Street and the big private banking houses and security companies of that district. Let me remind you, however, that the problem isn't one for these particular gentlemen alone—it is daily brought to the doorstep of every banker and every investor in the country.

The great underwriting houses do not buy foreign investments exclusively for their own account. They are merchants in securities and whether you buy directly or indirectly, the salesmen for these houses are constantly offering these securities to your customers, who are paying for them with the deposits from your bank. Whether you will or not, you are becoming interested in every venture, of whatever character and wherever in the world located, the securities of which are finding lodgment in your community and with your people.

I hope it may be as interesting to you as it has been to me briefly to take stock of what America has done with her money in the matter of foreign investments in the past three years. In that time, we have loaned to Germany alone considerably more than \$1,000,000,000. These loans have been made to cities, States, banks, churches, tramways, automobile companies, housing corporations, steel mills, electric companies, dye works, cigarette companies, harvester companies, water power companies, film companies; in fact, almost everything.

There is hardly a country in the League of Nations which hasn't borrowed money in America in this period, among them: Argentina, Austria, Belgium, Brazil, Bulgaria, Chile, Colombia, Costa Rica, Czecho-

Slovakia, Denmark, the Dominican Republic, Ecuador, Finland, Germany, Greece, Honduras, Hungary, Italy, Japan, Yugoslavia, Liberia, Mexico, Norway, Panama, Peru, Poland, and Salvador. These and others, directly or through their States and municipalities, all got money from the United States in 1926, and these are only the governments themselves which borrowed.

In the same period, American investments abroad include stocks in oil corporations in Cuba, Mexico, Canada, Venezuela, Peru, British Guiana, Persia, and Trinidad; Norwegian aluminum, Russian gold mines, French perfume and silk, Finnish cooperatives, automobile factories in a dozen countries and railways everywhere, Italian shipping, Belgian and Spanish telephones, Brazilian coffee and African rubber plantations, Caribbean sugar fields, Central American fruit, Caucasian manganese, Ural platinum; in fact, a little of everything everywhere and a great deal in many cases.

I wonder if these figures conjure up in your mind, as they do in mine, any answer to that master political phrase "America First," or any interpretation of that political fetish of "American isolation." It is perfectly true that the total sum represented by all these loans and investments is a mere bagatelle compared with the aggregate of American wealth, but unless human nature has changed, or effects a rapid transformation, I have an idea that there are hundreds of thousands of American citizens whose instincts of self-preservation, and whose sense of property rights, may somewhat incline them to take heed of what is happening in the rest of the world.

Not often in the past have the property rights of our private citizens been put in jeopardy by the action of foreign government, but if we may judge by the reaction that has followed the attempt of our neighbor to the south in matters of this kind, we may well imagine that the day may come when no mere small fraction of our people will be not only interested in what is happening in other lands but insistent upon our government likewise taking cognizance of such facts.

Let no one think I am condemning the making of foreign investments. Such a thought is farthest from my mind. I believe, in fact I know, that if we are in truth and reality the world's banker, and it seems indisputable that we are the custodians of the world's available credit to-day, we must make foreign loans and investments both for the preservation of our own economic position and in justice and fairness to the rest of the world.

Such has been the experience of those countries which, for hundreds of years, have been the world's bankers, and I am sure we can not escape the economic laws, which impelled them, and which necessarily impel our citizens, to seek investments for their surplus funds in those markets of the world where returns are most remunerative. The economic effect of this policy has scarcely been considered, and certainly few, if any, have fully appraised it.

When the Dawes Plan was adopted, most economists and bankers expected the Plan to fail at an early date—some because they questioned whether Germany could raise the large sums demanded—others because they regarded the transfer to other countries of the sums involved an impossibility, and yet, as a matter of fact, Germany has borrowed more from us since the adoption of the Plan than she has been compelled to pay to her debtors, and consequently, she has had no difficulty in raising the money or in making the necessary transfers.

To be sure, the day may come when the interest payments required to be made by Germany on her foreign loans, together with the payments required under the Dawes Plan, will bring about a crisis in her financial affairs. If and when that time comes, the Plan itself provides a method of procedure and it is reasonable to believe that the healing influence of peace and tranquillity, which in the meantime will ensue, will make possible, in an atmosphere of justice and equity, an easy adjustment upon a basis fair to all.

Until that time arrives, mere speculation as to what should be done is more than futile and quite as likely to hinder as to further the interests of comity and good will, which in recent years have made so much progress in the former enemy countries.

America is interested in German fiscal policy because, after all, to no small degree, it is the determining factor in the whole problem of the large intergovernmental debts. As long as Germany can pay the Allies, the Allies ought to have no great difficulty in meeting their international obligations. So long as this is true, discussion of our attitude toward the debts due us by the Allies appears quite academic. When and if, however, there is at some time a further consideration and adjustment of Germany's reparation payments, then conscience and good faith will undoubtedly dictate a further review of the subject of the international debt from our standpoint.

Turning from the field of foreign affairs to matters of more intimate, if not more immediate, concern, there is much to attract and hold our attention, though perhaps little to give us cause for alarm. It has always seemed to me that one of the richest blessings of a democracy is the latitude of its individual citizens to criticize "things as they are," their freedom to demand change—a prerogative, the exercise of which, contributes largely to the charm of living, and incidentally does little harm. These outbursts of fervor for some particular cause usually find birth in the otherwise unoccupied intellect of some one individual. Not infrequently, however, converts are rapidly attracted to the alleged cause, thus forming our various sects and groups, which are most industriously working for the accomplishment of their cherished ambitions.

It is perfectly true that many of the so-called reforms are worse, in realization, than the disease they attempt to cure. Thus there is laid the foundation for another assault upon "things as they are." These merry-go-rounds of group reformers are, so to speak, the leaven in the loaf, the salt that saves our body politic from deterioration. The history of our government is one long story of these forays of mere freeborn average men, and recently women as well, to get what they want. Sometimes these experiments are brilliant, sometimes merely stupid, many times just ludicrous. Nearly always they reflect so large a measure of selfishness as to rob them of any appeal to the unprejudiced mind.

Given, always, to voicing our protests and demands after this fashion, it is doubtful if we have ever been more thoroughly organized than now, and it is interesting to observe in what diametrically opposite directions the varying groups seem to work. On the one hand, there is no small group which is demanding more and more from those in political control. We want more public schools, more paved streets, more highways, more free bathing beaches, public parks, anything and everything that will add to the joy of living but which require large expenditures for development. This group is offset by another group, perhaps not so numerous, but no less vociferous, which demands economy in government and ruthless reduc-

tion in taxation. They assert, with mounting stacks of figures, that taxes are crushing the life out of business and sooner or later, sooner perhaps, unless controlled, will destroy our very prosperity.

Between these two warring factions, what is a poor public official, or even one who votes for bond issues, and pays the taxes, to do? Perhaps a middle course would be wise. Some public improvements might be deferred and tax burdens made somewhat lighter, but will this happen? Many people doubt that it will. After all, most of us want all the comforts that money or credit will buy, and this in spite of the fact that we know that ultimately we will have to pay.

Some one has said that there is nothing the matter with taxes except that we have to pay them, and since the pain of paying is felt on the average about once a year; whereas, the joy of the comforts for which we pay is with us the year round, I am not optimist enough to hope for any marked change in the present trend of such affairs in the immediate future. Nor am I greatly alarmed about the matter since our largest taxpayers are likewise our largest bond buyers.

And thus it goes, all through our social and political existence. If things as they are do not suit us, we organize our own pet party and start out on a war of reform. As soon as one group finds a serious defect, imagined or real, in any part of our machinery, another group as promptly proposes a remedy, or rushes to the defense of the status quo.

It may be cigarettes or the length of hair and dresses. It may be Wall Street or Main Street. It may be agriculture or alcohol, and in passing may we observe that in recent years the former of these two has had rather a rough deal, while the latter has not gotten half it justly deserves.

It may be our banking system, or it may be our business practices. No matter what or where, you are certain to find one group that says everything is all wrong and another group which insists that if people will only do it *their* way, everything will be all right.

The most astounding fact is that the smallest group of all is the group that voices a faith in "things as they are" and a confidence that the nation will endure without radical changes being made; and yet, we seem to be doing fairly well in spite of all the critics of "things as they are," and it seems to me we may reasonably expect a continuance of these conditions for some time to come. We will continue to be governed just about as we have been governed in the past. Honesty and integrity will continue to dominate most human reactions, which means that capital and labor, now happily enjoying the most sane and satisfactory relations in their history, will continue their joint contribution toward a still higher and better standard of living for all our people.

The directing influence of honesty and justice also means that the best intelligence of public official and layman must continue to focus upon the problems of those who produce the nation's food supply until an equitable and effective solution is found which will restore this fundamental industry to its rightful place in our economic life. In just what direction the remedy lies, does not yet appear, but that it revolves around two cardinal facts seems to me perfectly clear. Justice demands more for those who produce without increased burdens for those who consume. Our next peace-time national hero may well come from the ranks of those who are now devoting their time to a study of our complex and rapidly changing systems of transportation and distribution, especially as applied to our food supply.

This brief digression has taken me away somewhat from my text, "things as they are," on which, however, I have undoubtedly said enough to convince you that I believe—barring unthinkable stupidity on the part of all of us—our political and economic future is reasonably secure.

There is another group—in fact, several of them—which is not satisfied with "things as they are," or as they portend for the future moral and spiritual welfare of our civilization. They fear that the God of the material is displacing the God of the soul. I do not subscribe to their theory, though I do believe that as our wealth and leisure increase, so does our duty of devotion to the finer things of life. Paradoxical as it may seem, it is undoubtedly true that the problems of wealth for the nation, as for the individual, are often as difficult as are the privations of adversity. Humbleness of character and faith in the destiny of man—the sustaining factors of high ideals—do not seem to thrive as they should in the land that flows with milk and honey. And yet, in spite of what our dissenting groups may say, I do not despair. I am not even discouraged, because I do not believe that this is the first era in human history when apparently men everywhere were chiefly concerned with accumulating wealth and material comforts. The cottage, the vine, and the fig tree of another age were no more than the mansion, the motor, and the money of to-day. They are all only symbols of man's ambition to provide for those whom he loves. No sadder day could come for art, science, religion, or civilization itself than that wherein the incentive of man to work, to achieve, and to accumulate should fail.

Those who cry out that we are surrendering the things of the spirit to the things of the material, overlook the fact that at no time in the history of the world have men of wealth given as liberally as now to churches, universities, libraries, museums, and all those institutions wherein high ideals are instilled, sterling character is built, and the hope of civilization preserved.

Critics are a splendid influence in the world. Their pointed shafts serve to keep us to the paths of rectitude while they prod us on to the accomplishment of greater good, but we must never allow them to shake our faith in ourselves, our fellowmen, or our national destiny. Perhaps what we need most to-day, individually and as a people, is a genuine revival of tolerance, a fresh baptism of faith—tolerance for the views and acts of others—a belief in something beyond ourselves, and faith in the destiny of life. If we can have these, it will not matter what our lives are, for we can live them finely.

This then is my hope for our future—that we may be rich without forgetting to be righteous; that we may have leisure without license; that we may be powerful without being offensively proud; that we may be nationally minded without being narrow minded; and finally, that we may live in a world of fact without surrendering our faith.

Report of Economic Policy Commission, by the Chairman, Evans Woollen, President of the Fletcher Savings & Trust Co., Indianapolis, Ind.—Bank Failures and Limiting Number of Charters—Proposals for Improving Examination System.

Mr. Woollen: This is a ten-minute summary of a sixty-minute report. "In the supremely important matter of safety the recent record of the American system of independent unit banking has been conspicuously

unsatisfactory. During the last six years more than 3,800 banks, somewhat more than one-eighth of the total number of banks in the country, have been obliged to suspend operations, and although a considerable number after a variety of adjustments and sacrifices have been reopened, the aggregate of definite failures has been in excess of 3,000.

"Aside from scattered failures due to dishonesty or gross mismanagement the banking troubles of the last six years have been concentrated in localities which have experienced a prolonged period of adverse conditions or the sudden collapse of a high speculative local situation.

"While the experience of the last six years furnished ample evidence of serious defects in our present system of unit banking as it is now organized and operated, and compels recognition of the urgent need for its modification and improvement, your Commission is hopeful that no revolutionary change, such for example as the general diffusion of branch banking will be required to provide adequate protection for the depositor, and is also hopeful that this result can be attained with no sacrifice but rather with a positive enhancement of the characteristic advantages of unit banking. The causes of numerous failures are not obscure and difficult to discover, and the Commission believes that the number of failures in the future can be substantially reduced through the adoption of arrangements definitely designed to meet obvious defects that experience has disclosed in our system of independent local unit banks.

"In the judgment of the Commission, however, this objective cannot possibly be reached through the imposition of further legislative restrictions covering the details of banking operations. Safety in banking will never be secured if reliance continues to be placed primarily and almost exclusively upon restrictions, which even when carried to an extreme point can do no more than somewhat narrow the field within which an incompetent management will manifest its incompetence. A more immediate enforcement of existing legislation would do much, but remedies for bank failures to be adequately effective must be designed to reduce the number of financially weak banks, secure more competent officers supported by responsible and active directors, and above all ensure that unsound policies shall be checked long before solvency is endangered.

"A system of unit banks is peculiarly subject to the grave danger that a much larger number of banks will be established than is compatible with the requirements, essential for safety, of financial strength and good management.

"A long and essential first step toward the attainment of safety in banking will have been taken when the number of banks chartered is limited to the needs of the community, based upon clear recognition that development of every community is best served by strong banks that employ conservative standards in the extension of credit.

"An increase in minimum capital requirements would do much to hold the number of banks within safe limits. When account is taken of improved means of transportation and the general advance in prices of the last decade, a minimum capital of \$25,000 surely, and presumably of \$50,000, would not deprive any community of adequate banking facilities. But capital requirements alone are too mechanical and rigid to be made the sole factor in the determination of the desirable number of banking institutions in a locality. Needed elasticity in the granting of charters requires that approval shall be made contingent upon evidence of a community need for additional banking facilities.

"The organization of unnecessary banks, would be a far less easy matter, and the management of banks would be subjected to more steady and effective supervision, if the responsibilities involved in the acceptance of the position of director were more generally realized. As an effective means of enabling all directors to become more fully conversant with the condition of their respective banks, your Commission strongly recommends that the American Bankers Association undertake to work out model forms for the presentation of business at meetings of the boards of directors of the banks.

"Restraint in granting charters together with somewhat higher minimum capital requirements, and more regular and careful supervision by directors will do much to strengthen our unit banking system, but by no means all that is needed to afford adequate protection for the depositor.

"It should be evident that in any event legislation can never include within its scope all of the operations that may prove disastrous to a bank. It can only deal with large classes of loans that are usually undesirable. It cannot take account of difference in time or place, or go very far in prescribing well-balanced proportion between various classes and investment. Loans that may be unwise at one time may be entirely satisfactory at another. Or for one bank and not for another. Much must be left to the discretion of management, and the unwise use of this discretion cannot be adequately checked by government supervision which is mainly concerned with the enforcement of statutory requirements.

"Recognizing the limitations of government examinations and supervision, the banks of 33 cities, already organized in clearing houses, have set up their own system of examination, and in general with highly satisfactory results. In the case of country banks, the initial difficulty is encountered, and the burden of additional expense presents an evident further difficulty. It is also important to note that the clearing house system of supervision does not include within its scope all of the banks of the cities in which it has been established. Some banks are unwilling to submit themselves to examination, and the admission of others is withheld on account of their unsatisfactory condition. The clearing house examination system is not only initially selective; it also includes the power of expulsion from the group if criticisms of the examiner are persistently unheeded. By the assumption of these powers of selection and exclusion, the banks accepting the arrangement practically place themselves in the position of guarantors against loss to the depositors in any bank that is a member of the group. If insolvency is allowed to involve loss to depositors, public confidence in the system is weakened, and its permanence is seriously threatened.

"With all its unquestioned merits, then, the clearing house system of examination has limitations which interfere with its adoption by all of the banks of the country. There are cities in which it might now be established with every promise of decided advantage to the community, and the system may well be considered a goal ultimately to be reached everywhere.

"In view of these obstacles to the general adoption of an additional system of examination of the clearing house pattern, your committee has examined alternative suggestions and finds large promise in a less ambitious plan, which would subject the banks to no appreciable expense, is flexible, and involves no implication of a guaranty against loss to depositors. The basic feature of this proposal is the organization of all banks, both state and national, in regional groups of from 50 to 100 banks for the purpose of improving and making more effective use of the present system of state and national examinations.

"To improve and make more effective use of the examinations, it is essential that examiners should be assigned for a period of at least two or

three years, to the banks of a definite area by the banking departments of the states, and that reports of examinations should be considered with the directors of the banks before they are forwarded to the office of the bank commissioner. These are two essential features of the clearing house examination system and to them much of its benefit may properly be attributed. A permanent examiner of the state banks working with the co-operation of the national examiners, with intimate knowledge of local conditions and personalities would be in position to exert a potent influence corrective of unsound banking policies.

"Under this territorial organization of government examinations, much might be accomplished even without a corresponding regional organization of the banks. But the benefit is small in comparison with that which may be anticipated if the examiner is supported by the banks organized for this definite purpose. The moral support thus afforded would be a factor of large significance, and perhaps initially to attempt more would be inadvisable. The Commission believes, however, again following clearing house experience, that a carefully chosen committee of the regional organization should be authorized to receive representations from the examiner regarding unsatisfactory conditions in a bank that have not been corrected at his suggestion by its officers and directors.

"The difficulties that may be anticipated in securing general assent among the bankers of a locality to enter a regional organization are by no means inconsiderable, and the Commission is, therefore, gratified to be able to report that in one instance these difficulties have already been surmounted. During the last few months the banks of Eastern Nebraska have worked out the details and completed the organization of the Fremont District Credit Clearing House Association and it is significant to note that with a single exception, all of the seventy state banks of the area have become members, membership of National Banks being temporarily deferred. An examiner has been assigned to the territory, who with the hearty approval of the State Bank Commissioner is to co-operate with the Association to reduce losses and in general to improve banking standards and practice. The operation of this pioneer organization will be well watched with keen interest since it may prove to be the beginning of an improvement of vast consequence in the conduct of banking throughout the country."

The conclusions of the Commission were summarized as follows:

1. A few banks fail on account of dishonesty or gross mismanagement.
2. Adverse conditions precipitate numerous failures of banks that are financially weak and unskillfully managed.
3. An excessive number of banks is the most potent single cause of numerous failures. This situation can be corrected in part by increased capital requirements, and more completely by the limitation of new charters to the needs of the community for additional banks.
4. In view of the heavy responsibilities, both legal and moral, of bank directors, closer supervision by them is desirable in their own interest and would serve to correct much that leads to insolvency. It is recommended that the Association prepare standard forms for the presentation of business for directors' meetings.
5. While additional restrictive legislation covering loans and investments is not favored, the more immediate enforcement of existing statutes is approved.
6. The clearing house examination system has been in general highly advantageous, and its further growth is to be anticipated.
7. As a plan, more feasible for immediate and general adoption, the organization of local regional associations of banks for the purpose of supporting and securing the more effective use of the existing system of Government examinations is strongly recommended.

Appointment by President Traylor of Committee to Consider Revision of Organization of A.B.A.

President Traylor: Under the head of new business and as my last official act, I desire to carry out the purpose of a resolution adopted by the Executive Council at their meeting Monday night as the same was reported to you by the Executive Manager in his brief report Tuesday morning.

In doing this I want to express the hope that it is the first step in an extremely constructive program for the American Bankers' Association. The resolution was that the President appoint a committee to consider the possibility of a revision of the organization of the American Bankers Association along functional lines. May I just say that that means this Association may be organized in the same modern fashion as are organized the best and in fact practically all of the modern banks in this era, that is, that we shall have a Commercial Department in which any member of the American Bankers Association may voice his sentiments with respect to any problem of commercial banking whether he be State banker, national banker, trust banker or savings banker, because most, if not all, of those engaged in either of these respective lines of banking are also commercial bankers, and likewise we will have a Trust Department in which national bankers, State bankers, or anyone else may likewise appear and act as a member. The same will be true of the State Bank Department, the Savings Bank Department and the same with respect to the Investment Banking Department. That is a basis, as I conceive it, of modernization of organization toward which we should work, because to my mind it is perfectly obvious that any banker who is practicing in his business each of these functions should be assigned to one or another of the divisions of the Association and be enabled to participate as an active member in the other divisions though equally interested in them.

To carry out the purpose of the resolution, therefore, I name as Chairman of such a committee

Mr. Walter S. McLucas, Chairman of the Board of the Commercial Trust Company of Kansas City, Missouri, and President of the Trust Company Division; Mr. McLucas will act as Chairman of the committee.

Mr. Mike H. Malott, President of the Citizens Bank, Abilene, Kansas; and President of the State Bank Division of the Association

Mr. E. A. Onthank, President of the Safety Fund National Bank, Fitchburg, Massachusetts, and President of the National Bank Division.

Mr. George L. Woodward, Treasurer of the South Norwalk Savings Bank, South Norwalk, Connecticut, and President of the Savings Bank Division.

Mr. O. Howard Wolfe, Cashier of the Philadelphia-Girard National Bank of Philadelphia, and President of the Clearing-house Section.

Gentlemen of that committee, into your hands and to your judgment I believe this Association to-day commits the most important duty that has devolved upon a committee of this Association during the time it has been my pleasure to be a member thereof.

I trust you will approach your work with a singleness of purpose as I know you will, which is the welfare of American banking as expressed by this Association.

**Report of Committee on State Legislation, by Chairman
W. S. Irish, President First National Bank of
Brooklyn, N. Y.**

Your Committee has been engaged during the current year in urging through State Organizations of Bankers the enactment of the various subjects of legislation recommended by the American Bankers' Association. At the Spring Meeting a somewhat detailed report was made, based partly on the official session laws, but more largely on private reports from members of the Committee and Secretaries and other officials of State Bankers' Organizations. This report showed the subjects of recommended measures newly enacted or amended this year; also a wide variety of banking legislation enacted in the 42 States which held legislative sessions.

We are pleased to report the passage this year of the following measures recommended by the American Bankers' Association and also certain legislation amendatory of such measures:

1. *Uniform Fiduciaries Act.* This act has been passed this year in the States of Indiana and New Jersey. It is designed to remove an impracticable duty of inquiry placed upon the banks by the courts in the handling and payment of checks and other instruments drawn or endorsed by officers of corporations or other fiduciaries. Legislation has also been passed on this subject in New York and in the State of Washington. The New York legislation amends Section 95 of the Negotiable Instruments Act (Section 56, Uniform Draft) as to what constitutes notice of defect and covers fiduciary paper drawn by officers of corporations. The Washington legislation relieves the depository or drawee bank or any other person which takes a check or other instrument drawn in the name of or for a principal by an agent or fiduciary to his personal order, from all duty of inquiry as to the authority of the agent. This is an amplification and improvement of an Act passed in 1925 which had the same purpose in view. While the Washington Act does not cover everything there is in the Uniform Fiduciaries Act, it does afford a considerable degree of protection to the banks and is much broader than the New York Act.

2. *Uniform Stock Transfer Act.* This Act has been passed this year in Colorado, Idaho and Utah.

3. *Uniform Bills of Lading Act.* This Act has been passed this year in Delaware.

4. *Uniform Warehouse Receipts Act.* Our recommended amendments to this Act enlarging the negotiability of warehouse receipts have been passed this year in Nevada.

5. *State Arbitration Act.* This Act recommended by the American Bankers' Association has been passed this year in California and in Pennsylvania. It is drafted along the same lines as the Federal Arbitration Act and makes valid, enforceable and irrevocable an arbitration clause in a contract. Another form of Arbitration Act has been advocated by the Commissioners on Uniform State Laws and has been passed this year in the States of Utah, North Carolina and Wyoming. This Act is not as broad as the Act recommended by our Association, for it is limited to existing disputes and does not provide for agreements in advance for the arbitration of future disputes. The Supreme Court of the State of Washington has also recently rendered a decision (*State ex rel. Fancher v. Everett*, 258 Pac. 486, Aug. 1927) upholding the validity, enforceability and irrevocability of agreements to arbitrate future disputes; so that the present situation is satisfactory in that State.

6. *Saturday Afternoon Half-Holiday Act.* This Act has been passed this year in the States of Connecticut and Montana.

7. *Time Limit on Stop Payments.* This Act fixing a limitation of time when a stop payment order will be effective unless renewed, has been passed this year in Missouri, there being two acts, one applicable to banks and one to trust companies. In Montana the law has been amended reducing from one year to six months the period a stop payment order will be effective, unless renewed.

8. *Payment of State Check.* Our recommended Act fixing a definite period of time after which a bank may at its option refuse to pay a check because of its age, has been passed this year in the State of Missouri. The State of Montana has amended the law, shortening the time from one year to six months.

9. *Adverse claim to bank deposit.* Our proposed Act relative to notice of adverse claim to a bank deposit and procedure necessary to make such claim effective to cause recognition of the adverse claimant, has been passed this year in Missouri and in South Dakota.

10. *Burglary with Explosives.* This bill, imposing a severe penalty for this offense, has been passed in Indiana.

11. *Slander and Libel of Bank.* Our bank slander bill has been amended in Oklahoma by expressly extending its provisions to national banks.

12. *Checks Without Funds.* This law recommended by the American Bankers' Association has, heretofore, been enacted in nearly every State either in the form recommended or with some modifications or changes. This year Indiana revised its bad check law which now punishes the obtaining of money upon bad checks with intent to defraud and also the giving of bad checks in payment of any obligation, but does not cover a bad check otherwise issued. North Carolina has also passed an entirely new "check without funds" act. Intent to defraud is not an element of the offense. Knowledge of insufficiency of funds is required, but the statute provides for no prima facie case. The provision that no offense is committed if payment shall be made within 10 days after written or verbal notice of non-payment is omitted. The provision seems to be limited to the drawer of a check or other person issuing and delivering it. It does not seem to include a subsequent transferee. The former law expressly provided that it should not apply to a post-dated check or draft payable at a fixed or determinable period of time after delivery. The new law has no corresponding provision. The offense constitutes a misdemeanor punishable under Section 4173 of the consolidated statutes as amended by Ch. 1 of the laws of 1927. This law provides that misdemeanors where specific punishment is not prescribed shall be punished as misdemeanors at common law, but if the offense be committed with deceit and intent to defraud punishment shall be by imprisonment for not less than four months nor more than 10 years or by fine. The former law provided that the offense was a misdemeanor punishable by a fine or imprisonment in the discretion of the court. The law of 1925, which was repealed by the 1927 enactment, provided that a prosecution thereunder should not bar a prosecution under Section 4283 of the consolidated statutes. The inference is that such section was not repealed by the 1925 law. It would seem that the same thing would be true of the 1927 stat-

ute. According to Section 4283 "every person who with intent to cheat and defraud another, shall obtain money, credit, goods, wares or any other thing of value by means of a check, draft or order of any kind upon any bank, person, firm or corporation, not indebted to the drawer, or where he has not provided for the payment or acceptance of the same, and the same be not paid upon presentation, shall be guilty of a misdemeanor, and upon conviction shall be fined or imprisoned, or both, at the discretion of the court. The giving of the aforesaid worthless check, draft, or order shall be prima facie evidence of an intent to cheat and defraud." Under this section but not under the 1927 law, money or property of value must be obtained in order to constitute an offense. Note also that Section 4283 provides for prima facie evidence of intent to cheat and defraud. In Nevada, also, the law has been amended. The former punishment for the offense of issuing a check without funds was a fine of not more than \$1,000, imprisonment for not less than one nor more than five years, or both such fine and imprisonment. For smaller checks the punishment is fine of not more than \$500, or imprisonment for not more than six months, or both such fine or imprisonment. The new law decreases the amount to \$25, where one check is involved and the accused has not been convicted of a prior felony.

13. In Iowa, the bad check law has been repealed and a new act substituted omitting the provision that payment upon demand by the drawer or drawee within three days bars prosecution. This is an improvement.

In South Dakota the bad check law has also been amended by adding a rule of evidence that the giving of a check against insufficient funds shall be prima facie evidence of guilty knowledge on the part of the maker.

In New York, this year, teeth have been put into the bad check law by the enactment of an amendment which makes the law substantially the same as the draft recommended by our Association.

14. *Forged and Raised Checks.* In Montana the statute has been amended so that a bank is not liable to a depositor for the payment of a forged or raised check unless within 30 days after the receipt by the depositor of the forged check he shall give notice to the bank. The former law provided for notice within one year after the return of the voucher.

15. *Nonpayment of Check through Error.* The new Montana banking law omits the recommended draft or act relating to nonpayment of check through error, providing that no bank shall be liable to depositor because of the nonpayment through mistake or error and without malice of check which should have been paid unless the depositor shall allege and prove actual damage by reason of such nonpayment, and in such event the liabilities shall not exceed the amount of the damage so proved. The former act on this subject has been expressly repealed.

16. *Deposits in two names.* Kansas has amended this act so as to include expressly deposits of more than two.

17. *Deposits in trust.* In Connecticut, the former provision that the receipt of a minor who has made a savings bank deposit shall be a sufficient release is supplemented by the provision that the receipt of the guardian of a minor is sufficient where the parent making the deposit in trust for such minor in a savings bank, trust company or national bank shall have become insane or abandoned him.

18. *Competency of Bank or Corporation Notaries.* Our recommended Act has been passed this year in Utah. In Maine, the Act has been extended to justices of the peace who take acknowledgments.

19. *Filing of Federal Tax Lien Act.* This Act has been passed, this year, in Delaware, Montana, New Mexico, Utah and West Virginia. The form of the statute has been changed in Nevada. The Supreme Court of the United States (*Rhea v. Smith*, 47 Sup. Ct. 698, May 1927) has held that the Missouri statute which provides for the registration, recording, docketing and indexing of judgments of the United States district courts for the purpose of making them liens upon lands in that State, does not conform to the provisions of the State law upon the same subject in reference to liens of judgments of the courts of record of the State and is therefore invalid; therefore under the rule prevailing before the enactment of such statute, Federal court judgments are liens upon land throughout territorial jurisdiction of such courts, without filing of the required transcript.

20. *False Statements for Credit.* Our recommended Act to punish the making or use of false statements for obtaining property or credit has been amended this year in Wisconsin. Heretofore, in that State it has been limited to false statements made to procure credit from banks, savings banks, banking institutions and trust companies. The amendment this year extends its scope to cover false statements made to building and loan associations and investment companies.

In Montana a provision has been inserted in the new banking code specifically covering a false statement to obtain a loan, made to a bank. Presumably our recommended False Statements Act, which covers mercantile as well as bank credits, is not thereby repealed.

21. *Bank Robbery.* This year our Committee has advocated a new proposed law making robbery with firearms or other dangerous weapons whereby the life of a person is endangered, a felony carrying the severe penalty of not less than 30 nor more than 50 years' imprisonment. Following the popular demand for increased penalties for bank robbery and holdup, Indiana this year passed a law defining the crime of bank robbery and making the penalty imprisonment for life or any determinate term of years not less than 10.

22. *Bank Collection.* Our Committee has urged for a number of years an act authorizing the forwarding of negotiable paper for collection directly to the payor and this law in its original or modified form has already been passed in some 20 States. This year it has been passed in South Carolina with added provisions authorizing the collecting bank to accept the drawee's check in payment and exempting it from liability in case the payor bank fails. A further provision declares all items sent to a South Carolina bank for collection to be a trust fund and a prior lien on any unassigned assets of such collecting bank.

Montana this year amended this law by adding provisions to the effect that the collecting bank may accept a bank draft in payment and shall not be liable for any loss because of such acceptance in lieu of cash or for the failure of the drawee bank to remit for such item nor for the nonpayment of any bank draft accepted in payment or as a remittance from the drawee bank. Further, it is provided the obligation of the maker of the check or other instrument so handled for collection shall not be discharged by charging such item to him on the books or the surrender of any such item to him by the drawee bank or unless or until such remittance draft is paid. There is a further provision that when a check

or other instrument is deposited in a bank for credit or collection, it shall be considered due diligence to forward the same not later than the following banking business day.

Montana has also passed a law which provides that subject to the prior classes of the expenses of liquidation, funds held in trust and funds of another insolvent bank deposited by the superintendent of banks, the following are preferred claims: "Debts due depositors, holders of cashier's checks, certified checks, drafts on correspondent banks, including protest fees, paid by them on valid checks or drafts presented after closing of the bank, pro rata. All deposit balances of other banks or trust companies and all deposits of public funds of every kind and character (except those actually placed on special deposit under the statutes providing therefor), including those of the United States, the State of Montana, and every county, district, municipality, political subdivision or public corporation of this State, whether secured or unsecured or whether deposited in violation of law or otherwise, are included within the terms of this subdivision and take the same priority as debts due any other depositor. All contractual liabilities pro rata."

North Carolina has also passed a law which provides:

"The following shall be the order and preference in the distribution of the assets of any bank liquidated hereunder: (1) Taxes and fees due the Corporation Commission for examination or other services; (2) wages and salaries due officers and employees of the bank, for a period of not more than four months; (3) expenses of liquidation; (4) certified checks and cashier's checks in the hands of a third party as a holder for value and amounts due on collections made and unremitted for or for which final actual payment has not been made by the bank; (5) amounts due creditors other than stockholders. The word 'asset' used herein shall not be deemed to include bailments or other property to which such bank has no title. Provided, that when any bank, or any officer, clerk, or agent thereof, receives by mail, express or otherwise, a check, bill of exchange, order to remit, note, or draft for collection, with request that remittance be made therefor, the charging of such item to the account of the drawer, acceptor, indorser, or maker thereof, or collecting any such item from any bank or other party, and failing to remit therefor, or the non-payment of a check sent in payment therefor, shall create a lien in favor of the owner of such item on the assets of such bank making the collection, and shall attach from the date of the charge, entry or collection of any such funds."

The State of North Dakota has also passed an important bank collection law, H. R. 249. The law relieves a collecting bank from liability for defaults of correspondents, provided due care is used in their selection. The law also authorizes the collecting bank to take in payment the exchange of either the drawee or any intermediate bank from liability for any loss if the exchange proves valueless. Furthermore, the customer remains liable to the bank until actual collection has been made.

The State of Utah has also passed a law giving preference to all claims based on checks, drafts and other instruments issued by any bank or trust company in settlement of items for collection in the event of the insolvency of any bank or trust company.

In Minnesota this year a law has been passed which enacts into law the standard form of collection agreement which was drafted in the office of our General Counsel in 1925 as a protective stipulation to be printed by banks on their deposit slips and other printed matter. Under the form and under the Minnesota law a bank in receiving items for deposit or collection, in the absence of written agreement to the contrary, acts only as the depositor's collecting agent and its responsibility is limited to due care. All items are credited subject to final payment in cash or solvent credits. The bank is not liable for default or negligence of duly selected correspondents or for losses in transit and each correspondent is not liable except for its own negligence. The bank or correspondent may send items directly or indirectly to any bank including the payor and accept its draft, check or credit as conditional payment in lieu of cash. It may charge back any item at any time before final payment whether returned or not.

Guarantee of Bank Deposits. Texas, this year, has repealed the State Guaranty law and South Dakota has made a vital change so that the guaranty is a matter which affects each individual bank, rather than the creation of a general fund from all banks to pay the depositors of any particular insolvent bank. The compulsory guaranty of bank deposits is gradually being abandoned as a matter of State legislative policy, experience having demonstrated its unsoundness. No new States have been added, this year, to the list of bank guaranty States. Only three States now remain which have compulsory bank guaranty systems, Mississippi, Nebraska and North Dakota. There are two other States, Kansas and Washington, where a voluntary system of bank guaranty is provided by statute; but in Washington this is a dead letter as all the banks, we understand, have withdrawn, while the same is true to a considerable extent in Kansas.

The detailed report at the Spring Meeting was based on reports from unofficial sources and was made at a time when many legislatures were still in session and when the legislature of one state had not yet convened. It was, therefore, necessarily not final or complete. There is in preparation in the office of the General Counsel a complete summary of State bank legislation enacted this year, which is being compiled from the official session laws as fast as they are published and received. Down to the present time such laws have been received from all but nine of the States. When completed this summary or review of State bank legislation will be made an appendix to this report and will also be published for general information. We are advised by the General Counsel that many of the laws passed this year are of unusual interest and a characteristic of State banking legislation this year is a general strengthening of the banking system.

WM. S. IRISH, *Chairman.*

Report of Official Acts and Proceedings of Executive Council, by Executive Manager F. N. Shepherd.

Mr. President, I might say that this is the merest brief of the official acts of the Council which under the Constitution must be presented to this body.

"Since the adjournment of the convention at Los Angeles, Cal., the Executive Council has held meetings Oct. 7 1927 at Los Angeles, May 3 and 4 1927 at Hot Springs, Ark., and Oct. 24 1927 at Houston, Texas.

"The Council elected Nathan D. Prince, Treasurer, re-elected the General Counsel and Executive Manager, and in accordance with the nominations of the Nominating Committee elected members of the Council at large, members of various committees, commissions, and vice-presidents of foreign countries.

"It approved the appropriations recommended by the Finance Committee; contributed ten thousand dollars to the American Red Cross for the flood sufferers in the Mississippi Valley (applause); and endorsed the plan to extend clearing house examinations in group, county and country districts as recommended by the Clearing House Section.

"The following amendments to the by-laws were adopted:

"Amended By-law VII by striking out the first sentence under the sub-heading 'Committee on State Taxation' and inserting in place thereof the following:

" 'The Committee on State Taxation shall consist of forty-nine members one from each state and the District of Columbia who are (1) not members of any other permanent Council committee, except (2) where the entire elective membership from any state is on other permanent Council committees, the member of the State Legislative Council from such state shall also be a member of the Committee on State Taxation and may also be a member of not more than one other permanent Council committee.'

"Changed the number of existing By-law IX to X and advanced by one the number of each succeeding by-law and inserted new By-law IX as follows:

" 'The American Bankers Association having, in commemoration of its Fiftieth Anniversary, created an Educational Foundation to establish scholarships in economics and promote economic research for the purpose of developing a sound public understanding of the business questions which underlie and vitally affect our national welfare and prosperity, there is hereby created a permanent Board of Trustees to consist of eleven members, as follows:

" 'Five members ex-officio, namely the President, First and Second Vice-Presidents and Executive Manager of the American Bankers Association and the Educational Division of the American Institute of Banking, and six members to be appointed by the President of the American Bankers Association, one each for two, three, four, five, six and seven Association years respectively; thereafter, at the beginning of the Association year, the President shall appoint one member each year for a period of six years. Retiring members shall be eligible for reappointment. Vacancies shall be filled for unexpired terms by appointment of the President. The Board of Trustees shall elect its own chairman annually from the appointed members.

" 'Such Board of Trustees shall have the custody of such fund and may entrust the custody to corporate fiduciaries, and shall have full power of investment and administration of such fund and the income thereof.'

"The Chair reappointed the Board of Trustees of the Educational Foundation as named by Past President Wells, and their terms of office to date from original appointments, as follows:

John H. Puelicher, seven years.

Lewis E. Pierson, six years.

Evans Woollen, five years.

Francis H. Sisson, four years.

Leonard P. Ayres, three years.

George E. Roberts, two years.

Ex-Officio members, President, First and Second Vice-Presidents, Executive Manager of the American Bankers Association and Educational Director of the American Institute of Banking.

"Amend the by-laws by changing the number of By-law X to XI and advancing by one the number of each succeeding by-law, and by inserting this new by-law which comes under the caption of Proposed Legislation.

"All recommendations or resolutions made or adopted by any division, section, commission or committee of the Association other than the Administrative Committee pertaining to the enactment, amendment or repeal of Federal or State legislation upon any subject shall be referred to the Administrative Committee for endorsement or approval or disapproval before being reported by such division, section, commission or committee to the Executive Council or to the General Convention for decision.

"The Council recommended to the General Convention the following constitutional amendments making the Treasurer a member of the Executive Council and the Administrative Committee."

These have been carefully prepared by our General Counsel, gone over first by the Administrative Committee and approved by the Executive Council, and at the suggestion of your President, and with your approval I suppose you can pass them without reading.

Amendments

"Amend Section 2, Article VII of the Constitution by striking out the word 'and' and inserting a comma after the word 'President' in the second line thereof and by inserting the words 'and Treasurer' after the words 'First and Second Vice-Presidents' in the third line thereof, so that said section, as amended, will read as follows:

" 'Section 2. The Executive Council shall be composed of members elected by the states, and the District of Columbia and of the President, First and Second Vice-Presidents and Treasurer of the Association, ex-Presidents of the Association for a period of three years immediately after the expiration of their terms as President and five members at large to be appointed by the President with the approval of the Administrative Committee at the beginning of his term. The Presidents and First Vice-Presidents of the Divisions and Sections shall be ex-officio members of the Executive Council. The Chairman of any Commissions which shall be created under the By-laws shall also be members of the Executive Council.'

"Amend the second paragraph of Article VIII by inserting after the words 'last living ex-President of the Association,' the words 'the Treasurer of the Association,' so that said paragraph, as amended, shall read as follows:

" 'The Administrative Committee shall consist of four elective members of the Executive Council whose terms of office shall continue not more than two years during their terms of membership in the Council, and who at the time of their election shall reside in one of the Federal Reserve Districts not already represented on the Administrative Committee; of the President, First and Second Vice-Presidents and last living ex-President of the Association; the Treasurer of the Association; and of the Presidents of the National Bank Division, State Bank Division, Savings Bank Division, Trust Company Division and of the American Institute of Banking Section, Clearing House Section and State Secretaries Section. In the absence of the President of any division or section from any meeting of the Administrative Committee the First Vice-President of that division or section may act in his place. At the first meeting of the Executive Council after the adoption of this Constitution, the Council shall elect from its elective membership one member of the Administrative Committee to serve for a term of one year, and two members to serve for a term of two years, and annually thereafter at the organization meeting provided in Section 7 of Article VII shall elect two such members to serve for two years; provided that any elective member of the Administrative Committee who is so elected prior to the adoption of this Constitution and whose term in the Council has not expired shall continue as a member until the expiration of his term of membership in the Council.'

President Traylor: I want to explain a bit further that previously, for a number of years, the Treasurer of the Association has not been a member of the official family in any way, and it is proposed, rightly I think, he now be made by this constitutional amendment a member of the Administrative Committee and of the Executive Council. An amendment to the Constitution to that effect has to pass with the approval of the

Administrative Committee and the Executive Council. It is now before you for consideration. What is your pleasure?

[A motion for its adoption was seconded and carried.]

Executive Manager Shepherd: "The Council approved the clause in the standard form of trade acceptance suggested by the General Counsel and approved by the Federal Reserve Board which reads, 'the transaction which gives rise to this instrument is the purchase of goods by the acceptor from the drawor.'

"Approved an appropriate amendment to Section 9 of the McFadden Act approved February 25 1927 in order to correct an obvious omission and permit State bank members to establish new branches in foreign countries equally as national banks are now permitted to do.

Revision of Organization of A. B. A.

"A motion was made, seconded, put to a vote and carried that the President should appoint a committee consisting of the incoming presidents of the respective divisions and sections to consider the possibility of a revision of the organization of the American Bankers' Association along functional lines.

1928 Convention in Philadelphia

"Voted that the 1928 convention shall be held in Philadelphia."

[The report was received and filed.]

At the meeting of the Executive Council of the American Bankers' Association on Oct. 21 the invitation of Philadelphia to have the next convention of the Association held in that city was accepted.

Thomas B. Paton on Necessity of Uniform Bank Collections Code—Taxation of National Bank Shares.

Speaking before the Executive Council of the American Bankers Association on Oct. 24, Thomas B. Paton, General Counsel of the Association, called attention to the need of a uniform code of bank collections throughout the nation.

"The necessity for a uniform law upon this subject has recently been emphasized," he said, "by recent decisions of the Federal Supreme Court and of the higher courts of some of the States which undermine the validity of established and necessary banking customs.

"Bank check currency, as compared with money currency, performs 95% of the work of making payments and effecting settlement of commercial and business transactions, and while the rules regulating actual currency are simple and definite, the rules governing the collection and redemption of the bank check have their source in 48 States with uncertain and conflicting application," Mr. Paton said.

"The burden and risk of converting the bank check currency into cash is, in a large measure, borne by the banks of the country. If it is possible to formulate a uniform code of rules, based upon sound and equitable principles, by which the functions of check collections can be carried on smoothly and without undue risk and to have this code uniformly enacted in all the States, it will be a great boon to the banking and commercial world."

The speaker stated that he had prepared a draft of the proposed code and if approved by the proper authorities of the American Bankers Association, it would be urged as a piece of legislation before all State legislatures. It contains provisions covering:

- (1) Making the initial bank of deposit, agent instead of owner of a collection item.
- (2) Not responsible for correspondents' defaults.
- (3) Regulating checks deposited on the same bank.
- (4) the legal effect of indorsements.
- (5) permitting the forwarding direct to drawee.
- (6) Allowing the taking of bank drafts instead of cash in payment.
- (7) Defining due diligence in forwarding and in cases of dishonor, items lost in the mails and the collection of paper taken in payment.
- (8) Continuing the liability of the drawer of checks remitted for by an insolvent drawee.
- (9) Regulating preferences of claims on failed banks.
- (10) Defining certain duties of receivers of failed collecting banks.
- (11) Regulating liens as between collecting banks.
- (12) Providing general definitions.

Reviewing the recent decisions of the United States Supreme Court affecting the taxation of national banks by the States and the consequent agitation in many States for an amendment of the Federal statute governing the subject, Mr. Paton suggested as a possible solution the abandoning by the States of the tax on bank shares and the substitution of a tax on the income of national banks not greater than is imposed on other business corporations. He stated that such a method of taxation is now permitted by Federal law and its adoption would avoid all vexatious questions which arise out of alleged discrimination in the taxation of bank shares as compared with other competing capital. The States of New York and Massachusetts, he declared, have already adopted with successful results, the taxation of bank income as a substitute for a property tax on the shares, and a law has just been passed in Wisconsin along the same lines.

Report of Membership Committee, by Clark G. Mitchell, Vice-President Denver National Bank, Denver, Colo.

On August 31, 1926, there were 31,145 banks in the United States. On August 31, 1927, this number had decreased 802 banks to 30,343. However, even in the face of this mortality of banking institutions your Association has lost in membership only 335 members as compared with a net loss for the previous year of 464 members. We have thus registered a gain in membership of .7 of 1% of the eligible banks of the country bringing us up to a total membership of almost 69% of all the banks.

During the period between August 31, 1926, and the present time we have lost for various reasons 2,451 members. During this time, however, your membership committee has obtained a total of 860 new members which is an increase of 34 over the previous fiscal year. During this same period the committee regained 1,256 delinquent members or added a total of 2,116 banks to our list of members in good standing, as compared with a total of 1,961 added the previous year.

There were 768 delinquent members for the fiscal year ending August 31, 1926, or 3½% of the total membership of August 31, 1925. Last year there were 532 delinquent members or only 2½% of the total membership of August 31, 1926. This decreased the delinquent list for our last fiscal year 236 or 1%.

There were erased from our rolls during our fiscal year ending August 31, 1926, due to failure, liquidation and merger 522 members, which was 186 less than the number of banks lost during the previous fiscal year. For the fiscal year just ended we lost for the same reason 665 banks or 119 more than the previous fiscal year. Undoubtedly this increase is the result of the large number of bank mergers that have taken place during the year just passed.

During the past year we have added two more States to the 100% membership column, namely, Utah and Rhode Island. Therefore, at the present time the District of Columbia, Nevada, New Mexico, Rhode Island and Utah have all of their banks as members of the Association. It has been suggested by one member of the Council from a Western State that 100% states should be granted an additional member on the Council. It would appear that some such arrangement would stimulate the membership work in the Association, and would possibly allow the Western States, with their vast territory, a more equitable representation in our organization.

New York State again leads all the States in membership with 1,439; Pennsylvania is a close second with 1,396; Illinois third with 1,199; California fourth with 1,123; and Texas fifth with 1,041. Out of 48 States 44 have 50% or more in membership.

To this report is appended a compilation of the increase and decrease in membership in the various States. This list indicates that 13 States have shown substantial increase in membership, and that 33 States have lost in the number of members, while 3 States have remained exactly stationary.

This year the committee has been fortunate in being materially assisted by many members of the official family, and I wish to extend our hearty thanks for this assistance. Too much cannot be said for the efficient and capable work of our New York office. Regardless of the efficiency of the committee such results as those shown above would not be possible without the great assistance and valuable suggestions of Secretary Fitzwilson and his very effective staff.

CLARK G. MITCHELL,
Chairman of Membership Committee.

\$500,000 Educational Fund of A.B.A. Practically Subscribed—Report of Foundation Trustees.

More than \$445,000 of the half-million-dollar goal for the Educational Foundation Fund of the American Bankers Association to be used in establishing scholarships in institutions of higher learning in the various States, have been paid or definitely pledged, according to the report of the Foundation Trustees made Oct. 26 during the convention. Only \$60,542.75 is lacking to complete necessary funds to found these scholarships and two months still remain to secure this amount.

At the fiftieth anniversary meeting of the American Bankers Association held in Atlantic City two years ago, the fiftieth anniversary committee announced plans for forming this Educational Foundation. In order to secure the \$500,000, personal pledges were secured for about half of that amount and the balance was allocated to the various States to be apportioned among their respective banks. The plans provided for the fund to be completed by Jan. 1 1928.

An analysis of the report shows that of the combined quotas of the States, \$252,375 has been secured—\$173,500 from individuals, \$50,000 from the American Bankers Association, \$26,844.50 from the American Institute of Banking, this being \$1,844.50 more than their quota. Sixteen States have already overpaid their quotas, they being: Alabama, Arkansas, Connecticut, District of Columbia, Florida, Illinois, Maryland, Michigan, Mississippi, Nevada, New Jersey, New Mexico, North Carolina, Virginia, Washington, and Hawaiian Islands.

The following nine States have paid their quotas in full: Arizona, Delaware, Idaho, Kansas, Minnesota, Louisiana, Oregon, Rhode Island and Utah. The eight States of Montana, South Dakota, Tennessee, California, Vermont, West Virginia, Wisconsin, and Pennsylvania have pledged their quotas in full. Seventeen States remain to complete their quotas. They are: New York, Texas, Ohio, Maine, New Hampshire, Indiana, Georgia, Oklahoma, Wyoming, Massachusetts, North Dakota, Colorado, Kentucky, Iowa, South Carolina, Missouri and Nebraska.

One hundred and seventy-four thousand dollars have been contributed by individual subscriptions. Thirty of these subscriptions were for \$5,000, one for \$3,000, two for \$2,500, and sixteen were for \$1,000.

With more than two months yet to go, the trustees expressed confidence that all States would go over the top by that time and the complete fund of \$500,000 would be ready for preliminary work in establishing the scholarships.

The present trustees of the Foundation are: Chairman, J. H. Puelicher, President Marshall & Ilsley Bank, Milwaukee, Wis.; Leonard P. Ayers, Vice-President Cleveland Trust Co., Cleveland, O.; Lewis E. Pierson, Chairman of Board, American Exchange Irving Trust Co., New York; Stephen I. Miller, Educational director, American Institute of Banking section, New York City; George E. Roberts, Vice-President National City Bank, New York City; Francis H. Sisson, Vice-President Guaranty Trust Co., New York; Evans Woolen, President Fletcher Savings & Trust Co., Indianapolis, Ind., and W. Espey Albright, Deputy Manager, American Bankers' Association, New York, secretary. The President, First and Second Vice-Presidents and executive manager of the Association are also trustees of the Foundation.

Report of Protective Committee—Condonement of Crime Under Cover of Insurance Protested.

The practice of crime insurance companies to compromise with criminals whenever expedient in return for restitution of stolen property instead of pressing relentlessly for their punishment was deprecated in the report of the protective Committee of the American Bankers Association to the Executive Council. The report, presented by James E. Baum, Manager of the Protective Department said in part:

"During the year ended August 31, 1927, member banks kept close to their remarkable record of 1926 in stopping daylight robbery, although renewed activity by night burglars in the Mississippi Valley and Southwestern states has spoiled an otherwise favorable report. Against the 112 daylight robberies and 29 burglaries committed last year, there were 114 holdups and 62 burglaries reported by member banks this year.

This sudden return of the bank burglar did not materialize until the late Spring and Summer, when 46 of the 62 night attacks occurred.

"In contrast to this sharp increase in the number of burglaries is the fact that the loot taken in the 29 attacks of 1926, namely \$122,353, dropped to \$113,042 in the 62 burglaries committed this year. Also in the current year non-members, which comprises only half the number of member banks, suffered 113 holdups notwithstanding the fact that the association membership embraces as many banks equally isolated and unprotected as are the non-members.

The re-awakening of the bank burglar sounds a warning against the continued use of old-fashioned 'soft' safes and vaults which are made obsolete by the torches, drills and explosives employed by the burglar of today. It is an open record, more so to the burglar than anybody, that these types yield readily to the yeggmen's tools. Our investigations also prove that nearly all the burglaries committed this year succeeded only against weak safes and vaults that had long since become obsolete for banking. Only modern equipment will baffle the bank burglar, as evidenced by the increased number of burglaries which were frustrated during recent years.

"With a continued reduction in forgeries, swindles and other paper frauds, the Protective Committee is pleased to note a reduction in the total number of crimes reported for investigation during the past year. Our detective agents caused the arrest of 278 of the 420 bank criminals apprehended during the year, 135 of these being convicted and imprisoned. In addition there were 130 convictions of prisoners who were arrested in the previous year.

"Gratifying as the results of the Association's system of conducting nation-wide and relentless investigations have been in the pursuit of bank criminals, the committee regrets to find a growing tendency on the part of the banks with insured losses to compromise or relent in the prosecution of confessed criminals. If equally intensive measures toward prosecution were followed by the casualty and surety companies which underwrite the losses suffered from criminal attacks, there would be fewer bank criminals at large and less inducement for the insured banks to settle by restitution or otherwise condone the misdeeds of criminals.

"The spread of crime in this country warrants no compromise in the prosecution of criminals, and the committee deprecates the fact that the possibilities of salvage on an insured loss too often seems to determine the underwriters' action in prosecuting those responsible for losses which are insured. Unless the prospects for salvage are promising it is not uncommon for the insurance companies to do little more than spread the loss among their co-insurers.

"It is generally recognized that adequate insurance coverage gives the safest form of protection against the hazards which are peculiar to banking but over-indulgence or excessive reliance upon insurance for indemnity for loss breeds negligence and crooks thrive on the opportunities which negligence creates. Although this attitude of leading upon insurance contracts as a cure-all for crime is as old as insurance itself, it not only continues to invite crime but also violates the principles of sound underwriting. Bankers have been no exception in adopting this form of subsidizing crime as a business risk and your committee believes that the underwriters have the power of applying the best remedy, namely more intensive effort toward apprehending professional criminals and stronger insistence upon their prosecution in strict accordance with the law. Believing that insurance protection should not be pitted against the prevention and punishment of crime, the Protective Committee welcomes suitable action by the casualty and surety companies toward eliminating this evil, which seems to grow in proportion to the increased volume of insurance carried."

Resolutions Adopted at the Second General Session October 26.

Mr. Thomas B. McAdams: Mr. President and Gentlemen: The following is the report of your Resolutions Committee:

The American Bankers' Association is glad to note that the country has been prosperous and practically all sections of the country have continued to flourish. It is true all lines have not enjoyed the same high level of prosperity in 1927 so characteristic of 1926. At the same time there is nothing in recent developments to indicate that we are likely to have anything in the nature of a depression. There has been a marked absence of speculative tendencies in commerce and industry. Both labor and capital have been happily and profitably employed. Money has remained easy and the country has been able to continue lending large sums to other countries, notably to Europe, and this has been of the greatest assistance in aiding the economic rehabilitation of the world as a whole.

Agriculture

Agricultural conditions are improving, though there is still much room for betterment. The indices of price levels of farm products are approaching the level of other commodities, partly as a result of good crops and partly as a result of higher prices, the farmers of the country are likely to have much less cause for complaint than they have had for some time past. The community of interest between bankers and farmers cannot be too strongly emphasized. Many members of this Association are themselves farmers by long experience and the prosperity of practically all bankers is dependent upon that of our farming communities. They are deeply interested in the development of sound economic policies for the stabilization of this basic industry.

Taxation

This Association desires to reiterate the opinion expressed at the convention last year, that the ever-growing burden of State and local taxation is becoming a detriment to the development of trade, industry, transportation and finance in this country. There continues to be a tendency to have overlapping and competitive taxes, especially as regards taxes on inheritances and transfer of estates.

This Association recommends that in the event of a revision of our income tax law, special consideration be given to the tax now levied on corporations with a view to reducing it greatly. This would be effective in maintaining proper competitive conditions in this country by aiding the development of small corporations.

This Association believes that time has proved that the limitation contained in Section 5219, United States Revised Statutes, is a wise one and has protected State banks as well as national banks. It is therefore urged

that Section 5219 be retained without any modification. The States of New York, Massachusetts and Wisconsin have substituted a system of taxation of banks on their incomes in lieu of the ad valorem tax on shares with successful results. It is believed a system of income taxation of banks can be successfully adopted in many other States and thereby escape the vexatious questions of discrimination which grow out of taxation of credit investments and intangibles at a lower rate than bank shares.

Flood Control

The general convention of the Association heartily endorses the action of its Executive Council in aiding the sufferers of the floods which occurred in the Mississippi Valley earlier in the year. It believes that every effort should be made to avoid the recurrence of this national calamity and urges the Congress of the United States to take prompt action to provide for the construction and maintenance of the necessary works to prevent floods of this nature in the future. The Federal Government should assume the sole responsibility for financing, placing, building and operating the necessary works needed to bring about permanent relief. The seriousness of the situation is such that it demands immediate and comprehensive legislation dealing solely with this problem. It is also urged that, because of the seriousness of this flood problem, it be divorced from all other national issues and dealt with in legislation and administration upon its merits apart from all other undertakings.

Foreign Relations

Occasion is taken to express gratification at the remarkable progress that has been so clearly evident in most of the countries of Europe during the past two years and to extend to their peoples our sincere congratulations on the improved conditions that now prevail.

Since the World War the countries of the world have become increasingly interdependent and ill-advised expressions from the platform and in legislative halls, which are often wrongfully construed by the peoples of foreign countries as reflecting the sentiment of our people, are to be deplored.

Bank Failures

In accordance with the report to this convention by the Economic Policy Commission, it is believed that one of the most potent causes of bank failures is the excessive number of banks; that this situation can be corrected in part by increased capital requirements and more completely by the limitation of new charters to the needs of each community; that, to the end that directors better discharge their obligations, this Association should prepare standard forms for the presentation of business to directors' meetings; that additional restrictive legislation covering loans and investments is not desirable, but rather the better enforcement of existing statutes; that the clearing house examination system having been in general highly advantageous, its further development is strongly recommended, and that the appropriate agency of this Association should promote the organization of local regional associations of banks for the purpose of supporting and securing a most effective use of the existing system of Government examinations.

President Traylor

Thanks are due to President Traylor for the time and energy he has devoted to the business of the Association. Especially should bankers of this country be grateful to him for his activity in carrying out the instructions of the Los Angeles Convention in reference to the McFadden Act. This law definitely strengthens our national banking system and insures the continuance of the Federal Reserve System.

Hosts and Speakers

This Association extends its sincerest thanks to the bankers, hotels, press, ladies, and general public of the city of Houston and the State of Texas for the manifold kindnesses and gracious hospitality extended to all of the delegates and their families. Likewise, the Association is indebted to the speakers at the various sessions of the Convention, Divisions and Sections who by their carefully prepared addresses have helped to make the Fifty-third Annual Convention of this Association one of profit and enjoyment to all those who were privileged to be present.

Necrology

This Association notes with regret the passing away since the last General Convention of three of its distinguished ex-Presidents, Mr. Lyman J. Gage, formerly Secretary of the Treasury, Mr. John L. Hamilton and Mr. William E. Knox.

Resolutions Committee

THOMAS B. McADAMS, Chairman
WALTER LICHTENSTEIN, Secretary
M. E. HOLDERNESS
FRED I. KENT
W. S. McLUCAS
M. H. MALOTT
E. A. ONTHANK
W. A. PHILPOTT, JR.
J. H. PUELICHER
BURTON M. SMITH
FRANK M. TOTTON
O. HOWARD WOLFE
GEORGE L. WOODWARD
EVANS WOOLLEN

[A motion to adopt the resolutions was seconded and carried.]

Mr. McAdams: Mr. President, on behalf of the Committee, I should like to present one other resolution of the Committee and ask that the Association rise in respect to the memory of our former associate, Charles W. Carey.

Resolution on Death of C. W. Carey, President National Bank Division

"The American Bankers' Association records its sorrow and sense of irreparable loss in the death of CHARLES W. CAREY, President of the National Bank Division. Beloved for his modesty and gentleness of spirit, he was admired for his ability as an executive and the dominating force of his personality. Faithful to every trust imposed upon him by the division of which he was a member, his clarity of judgment and his fidelity to duty made for him a respected place in the councils of this Association and the hearts of its members. It is peculiarly unfortunate that his illness and untimely death prevented his being the recipient of even greater honors. The sympathy of this body is conveyed to the members of his family and his associates in the business and banking life of Wichita and Kansas."

Report of Nominating Committee—Election of Officers.

William G. Edens, of Chicago, Chairman: In accordance with the rules of the Association, the members of the Nominating Committee, representing nearly all the States, as well as the District of Columbia, met yesterday afternoon at the Rice Hotel and by unanimous action requested me to report the following recommendations for officers of the Association: President: Thomas R. Preston, President Hamilton National Bank; Chattanooga, Tenn.

First Vice-President: Craig B. Hazlewood, Vice-President Union Trust Company; Chicago, Ill.

Second Vice-President: John G. Lonsdale, President National Bank of Commerce; St. Louis.

President Traylor: Gentlemen, you have heard the recommendations of the Nominating Committee. Are there any other nominations? If not, a motion would be in order, and I accept Mr. Edens' motion to that effect, that the nominations close, that the Secretary be instructed to cast the unanimous vote of those present for the officers nominated and recommended by the Nominating Committee for the ensuing year.

[The motion was regularly seconded and unanimously carried.]

Appointments to Executive Council

At a meeting of the Executive Council for the organization of the new Council for the coming Association year, T. R. Preston, President of the Hamilton National Bank, Chattanooga, Tenn., newly elected President of the Association, announced the appointment of the following members of the Executive Council at large:

A. P. Gianinni, Chairman of the Advisory Committee, Bank of Italy, San Francisco.

Thornton Cooke, President Columbia National Bank, Kansas City, Mo.

F. M. Law, Vice-President First National Bank; Houston; Tex.

Harry J. Haas, Vice-President First National Bank; Philadelphia.

J. Elwood Cox, President Commercial National Bank, High Point, S. C.

Harold J. Stonier Appointed Educational Director of American Institute of Banking.

Announcement was made Oct. 31 by Thomas R. Preston, President of the American Bankers' Association, of the appointment of Harold J.

Stonier, Vice-President of the University of Southern California, Los Angeles, to the position of educational director of the American Institute of Banking section of the Association. Mr. Stonier will succeed Stephen I. Miller, who assumes the executive managership of the National Association of Credit Men.

As the new educational director, Mr. Stonier becomes the active head of the largest adult educational group in America. The American Institute of Banking, as the educational section of the American Bankers' Association, is a nation-wide organization devoted exclusively to the education of bank employees. It gives an opportunity for evening instruction in banking practice and technique, following which graduate courses in law, economics and kindred fields are offered. Of the nearly 60,000 members, 35,000 are now enrolled in these classes, which are presided over exclusively by members of college faculties. Classes are conducted by 192 different chapters located in all but two States of the Union. Correspondence courses are offered for those in isolated sections of the country. Some of the most prominent bankers in America are graduates of the Institute.

Mr. Stonier organized the College of Commerce and the Extension Division of the University of South California eight years ago, leaving the field of investment banking to do this work. He is President of the Pacific Coast Advertising Clubs Association and Vice-President of the International Advertising Clubs Association. Last year he was President of the Los Angeles Advertising Club.

A. B. A. Executive Staff.

As the closing chapter to the fifty-third annual convention the Association's Executive Council on Oct. 27 elected its executive staff officers. F. N. Shepherd was again chosen Executive Manager and Thomas B. Paton was re-elected General Counsel. Under its constitutional power to elect the Association's Treasurer, the Executive Council also named W. D. Longyear, Vice-President of the Security Trust & Savings Bank, to the office. By action of the convention the Association's constitution has been amended this year making the Treasurer a member of the Administrative Committee and the Executive Council.

NATIONAL BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-Second Annual Meeting, Held at Houston, Texas, October 25 1927.

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Bank Investments

By H. C. NICHOLSON, Vice-President Packers' National Bank, Omaha, Neb.

In discussing Bank Investments, no attempt will be made to do more than roughly outline some of the fundamental principles, and even these can only be treated in a general way.

Formerly cash and strictly commercial loans were recognized as the only good bank assets. Today, there is found in the portfolio of nearly every banker a round amount of purchased investments. By this name, we shall know Call Money, Acceptances, Commercial Paper and Bonds. And to them, this discussion will be limited. The aim is to establish them as prudent and profitable channels for investment; notwithstanding they deviate somewhat from former banking practice.

In recent times, the position of a commercial bank has undergone some change. Ten years ago 93% of the deposits were payable on demand. To-day more than one-quarter are on time. Today there is at our command the rediscount privilege of the Federal Reserve System. The necessity for quick assets in such a large ratio has passed. National legislation has recognized the changed conditions, and has materially reduced legal reserve requirements. Idle funds must go to work. Such funds may be loaned to our worthy borrowing customers, or they may purchase investment securities. The customer's loan needs little comment, as it constitutes the primary function of banking. The prosperity of the bank depends upon the good will of its customers, and they must be served. However, the experience of the past few years has taught that there is safety and stability in the diversification of the class of our loans and investments. We build up our defenses as weak places appear in our financial structure. Thus has developed the so-called Secondary Reserve. It is the investment of surplus funds in high grade, quickly marketable bonds, and in sort time, self-liquidating paper that is eligible for rediscount. Such investments occupy a midway position—both in interest return and liquid character. Conceding something of one virtue for benefit in the other. And the safety of the investment and its stabilizing influence is entirely compensating. The exact amount of this secondary reserve, and its proper ratio to local loans, varies with geographical location and seasonable conditions. The answer can only be obtained by a careful analysis of the individual bank. It has been suggested it should at all times at least equal the legal reserve requirement.

Call Loans, Acceptances and Commercial Paper have some advantages over Bonds, namely; comparative nonchalance in making the individual selection, and relative freedom from attention during the life of the investment. They suffer no loss from depreciation. In Call Loans and Acceptances, the loss occasioned by default has been negligible. The average annual loss in commercial paper is less than

one fiftieth of one per cent. These three classes of investments will be treated briefly.

Funds put out on the call money market are well protected by highly negotiable collateral, and by their very nature are extremely liquid. At a 4% interest rate they net 3.80 return.

Trade and Bankers Acceptances enjoy a wide market, have sound security, are admitted to discount by Federal Reserve Banks within ninety days of their maturity, and at present yield about 3¼% discount. They are two-name paper, and are exempt from the limitations of the Act prohibiting national banks from loaning in excess of ten per cent to any one person or firm. They are an excellent medium of investment, though their merits are not universally appreciated.

The purchase of Commercial Paper has become sound banking practice, because it fulfills several fundamental requirements.

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It is a safe, self-liquidating form of short-term investment. The return is fixed and definite and is in the form of discount. It is rediscountable in the Federal Reserve Bank. Its face value does not fluctuate.

Records show if all Commercial Paper names were purchased indiscriminately without credit investigation, buying banks would have lost only 20c on each \$1,000.00 purchased. The Commercial Paper market has had a great development in the past twenty years. The panic of 1907 established such paper as a desirable investment.

So much for the short-term paper. Each class qualifies without reservation as an excellent medium for the employment of surplus funds and in the maintenance of a secondary reserve.

The ideal investment is recognized by certain characteristics: Security of principal; equitable income return; and wide, active marketability. It should be acceptable for rediscount and collateral purposes; be exempt from direct taxation and have a good chance for appreciation. Bonds possess these qualities in varying degrees. Obviously they cannot exist to a high degree in the same investment. A Bond that is thoroughly safe will not return a high rate of interest, and at the same time have a broad market. Consequently, such investments should be arranged so that these qualities are combined in proper proportion. The bond which fulfills more of these requirements than any other investment security, naturally stands in a class by itself. It is the obligation of the United States Government. It typifies the utmost in safety. It commands a broad market. It is the only bond acceptable for collateral purposes in the Federal Reserve Banks. It enjoys certain tax exemptions. It has shown some remarkable price appreciation in

the past, and it is an easy assumption that the remote maturities will show compensating appreciation in the future. The interest return on such an outstanding type of investment is, inevitably the lowest of any bond. The ideal foundation for any investment fund is the Liberty Bond and the Treasury Certificate.

Municipal Bonds differ as do the magnitude of the stars. For which reason, a discussion of them will necessarily be very brief. They are generally tax exempt, which is their outstanding characteristic. Their income return will vary inversely with their security and their marketability.

Foreign dollar Bonds enjoy some popularity on account of the differential in yield between them and Domestic Bonds of comparable security. Foreign Government Bonds are alike in one respect; the bondholder enjoys no real security, except the good faith of the borrowing nation. The performance of a domestic corporation may be enforced by legal procedure, but against a foreign government, such remedy is not available. Two factors then determine the credit rating of a nation; its will to pay and its ability to pay. It should have a stable form of government and be likely to so continue. It should be free from internal and external conflict. It should balance its budget. It should have a currency based on a metal, preferably gold. Its debt record should be good. Our own economic conditions since the World War have led us into foreign investing on a large scale. We have changed from the world's greatest debtor to its leading creditor. This new policy requires careful study to judge accurately the individual foreign credit position. The obligations of those countries with a good credit record, and a prospect for peaceful prosperity, constitute a bank investment that is safe and otherwise desirable.

Corporation Bonds may be divided into three classes: Railroads, Public Utilities and Industrials.

Thanks to efficient management, Railroad Bonds have returned to public favor. Twenty years ago the bulk of publicly owned securities were Rails. Financial pyramiding, incompetent management and other abuses did not entirely destroy faith in the essential value of these securities. Transportation is a prime necessity. Railroads are permanent. They operate on a cash basis. They show relatively good earnings. So, despite the event of many defaults and receiverships, Railroad Bonds are a favorite medium for conservative investment. This is indicated by the fact they are included with Governments and Municipals as the permitted investment for Trust Funds in those states whose laws are restrictive. An analysis to determine the investment position of Rails would take into consideration the capital structure; valuations; physical conditions; location and earnings. Through governmental requirements, there is sufficient available data supplemented with frequent published reports, to make such analysis possible; and through recent Federal legislation, investors in railroad securities are afforded an added protection. The principle of the Transportation Act of 1920 practically assures a fair return upon capital investment.

Telephone and telegraph; gas; water; electric light; power and traction are the Public Utilities. They possess characteristics which make the industry a desirable field for investment. They provide a service indispensable to modern living. They are usually non-competitive. They are on a cash basis. They are little effected by commercial fluctuations. They enjoy a remarkable stability of business and the trend of their earnings is constantly upward.

There are certain tests which might be applied to Public Utility Bonds to determine their soundness as a desirable medium for investing. The utility should operate without competition and should satisfactorily serve its community. It should have a suitable franchise, which should exceed the life of the bond by at least five years. The bonded debt should not exceed one and one-half times the capital stock nor two-thirds the property value. The interest requirement should be earned at least twice for the past five-year period. The bonds should be secured by senior mortgages. The issue should be of sufficient size to insure

something of an active market. Utility Bonds which possess these underlying elements have found much favor with discriminating investors.

Industrial Bonds involve a greater element of risk than Governments, Municipals, Rails or Utilities. There is a hazard in business and there is an absence of governmental regulations and protection. The prudent investor will, therefore, select those companies which are engaged in industries, whose earning power is inherently stable. He will prefer a corporation with a large fixed capital investment compared to its funded debt. He will choose securities based on essentials rather than non-essentials. He will do well to study production and commerce for usually prices move upward as trade becomes prosperous and conversely. Few industrial corporations can demonstrate the stability of earning power that a good railroad or public utility enjoys. For which reason, the investor should include fewer industrials in his holdings than the other types of bonds, and they should compensate with a higher interest return.

There are two distinct types of bond investors; the one is chiefly concerned with investing for security, the other with investing for profit. The investor for safety will choose only such bonds as have the highest security behind them and consequently he will take a low yield. He will diversify his investments both as to industries and according to their geographical locations. He will insist on a ready and a broad market for his securities, so if need be he can dispose of his holdings without delay. **He will buy only when he is in funds, regardless of business cycles or trade barometers.** He is satisfied with his coupon so long as the quality of his bond does not decline. The investor for profit, while giving full consideration to the question What to Buy, is also influenced by When to Buy. He knows the theory of the Business Cycle, which has been developed by learned economists. He knows it consists of four main periods. First, steady expansion of business; second, prosperity; third, liquidation; fourth, depression. Broadly speaking securities begin their advance in time of depression and continue until the latter part of the period of prosperity, when the downward movement commences and lasts nearly through the period of liquidation. The investor who recognizes those cycles may profit from year to year by changing from long term bonds to short maturities and back again, and at the same time enjoy a high measure of safety.

The present market condition shows that bonds are higher today than any time since 1913. Before the war, we annually absorbed only 2½ billion of the new securities and now we take 8 billions. There is a shortage of new issues and it is likely to continue. There is so much capital for investment that good bond issues are quickly over-subscribed. The money market today has all the earmarks of distinct ease and gives clear promise of remaining in that condition for some time to come. Cheap money means high priced bonds. Each day brings forth a new crop of investors with ever increasing purchasing powers. We have acquired as a basis of our credit a stock of gold equal to half the world's visible supply. Each and every existing condition promises a continued upward trend of bond prices, subject only to minor reactions.

In the formulation of an investment program, the investor might well keep in mind certain general fundamental principles. The higher the rate, the lower the security, is applicable to bonds as to other types of investment. If large interest returns are required, you must forego something of safety or something of marketability, et cetera. Your investments might prudently be a compromise between the desire for income and the necessity for other fundamental qualities.

Don't keep your eggs in one basket. While diversification affords no substitute for the use of intelligence in selecting securities, it does, in a measure, protect against the consequence of unforeseen misfortune in business. Distribute your commitments as to the type of bond, the geographical location, and the maturities.

A bond may be known by the company it keeps. Reputable high grade investment houses carry their responsibilities to their customers very seriously. Their advice and recommendations are entitled to considerable weight. You must have confidence in the opinions of some financial experts. Choose them with care.

Don't guess when investing. Analyze the relative merits of a bond. Scratch the surface and see just what is behind it. Scrutinize the company's past record; investigate its present management; try to visualize its future welfare.

Don't try to guess the exact month to buy nor the exact month to sell. Business trends and price swings are not confined to single months, nor to single seasons. Don't try to speculate. It is entirely outside the province of banking.

Without further recapitulation, the statement might be made that because there is available today such an abundance of vital information concerning investments, the investor can, with reasonable certainty, keep his funds profitably and prudently employed.

Taxation—National Safeguards

By THORNTON COOKE, President Columbia National Bank, Kansas City, Mo.

"The power to tax is the power to destroy." To make sure that no local jealousies or misapplied theories of State rights should tear down the national banking system, Congress provided, when the system was only one year old, that the States must not tax the shares of national banks more than other moneyed capital. For sixty-three years that provision, now contained in Section 5219, Revised Statutes of the United States, has been a national safeguard against excessive taxation not only of national but of State banks; for, of course, if the States could not tax national bank shares more than bonds or mortgages or other moneyed capital, they would not tax State bank shares appreciably more.

This winter, Tax Commissioners of a number of States will probably attack this safeguard in Congress. It is practically all the safeguard there is against destructive bank taxation, and I want to explain this afternoon why any amendment that would make the safeguard ineffective would be against the public interest and dangerous to the banks. If you believe I am right, I shall then urge you to be active in your opposition.

What the Tax Commissioners want is to have Congress amend Section 5219 so that the States may tax national bank shares as highly as they please if they tax State bank shares to the same extent. Other competing moneyed capital would no longer be the criterion. They asked for such a change once before and were unsuccessful. Why is it that they plan to ask again? To tell why, it is necessary to go into some details of tax legislation; but you will not find the facts tedious or dry, for taxation is one of the most important elements of our bank expense budgets, and controllable only if we understand tax legislation well enough to argue our own cause.

To details, then. The limitation upon the taxation of national banks was not criticised for many years. But economic progress created wealth in many forms, and there came to be men of large means who owned relatively little tangible property. The flour mill, for instance, was no longer a small water-power affair owned by the miller himself, but a structure costing a million to build and equip, much of the million furnished by hundreds of people who had bought its bonds. Bonds are easy to hide, will be hidden if we try to tax them like real estate. Many of the States, therefore, began to tax bonds and other forms of credit rates much lower than those imposed upon tangible property. Now, bank shares are classed economically, along with money, notes, and the like, as intangible; but as subjects of taxation they are very tangible indeed. The assessor has only to refer to our own published reports to find out the amount of our capital, surplus and undivided profits. It was only natural, therefore, that most states continued to tax banks in the old way, on the sum of their capital assets, even when taxing so-called intangibles only one-fourth or one-half of one per cent of their value. But, as to national banks, this discrimination was unlawful, and the Supreme Court of the United States so held six years ago in the famous Richmond case.

The Tax Commissioners of those states where low rate taxation of intangibles was in vogue then sought to have Section 5219 amended so as to permit the States to tax national bank shares as highly as they pleased, no matter

how low the rates were for intangible property, so long as State bank shares were taxed as highly as national. The American Bankers Association opposed such amendment; and, by way of compromise, the law was changed in 1923 to permit the States to tax national bank shareholders on their dividends, or the banks on their incomes, or to continue to tax the shares as theretofore. No state could use more than one of these three methods of taxation. Now, in the State of New York all corporations but banks were already taxed in proportion to their income, and the banks desired to be taxed likewise. But the legislature would not agree to that, because it could not, as Section 5219, R. S. U. S. stood after the amendment of 1923, make the taxation of banks and other corporations exactly equivalent. These other corporations were paying to the State excise or franchise taxes equivalent to taxes upon income that, under Federal statutes, would have been exempt from taxation directly as income. The distinction between taxation *upon* income and taxation *according to* income or *measured by* it is technical, and it is not necessary to go into it here. There is such a distinction, and I refer to it merely in recalling to you how this Section 5219, in which is the chief national safeguard against discriminatory taxation of banks, assumed its present form, and what it is worth to the banks and the country.

There was a further reason why New York State would not establish income taxation of banks until this famous Section as again amended. Not only were other corporations subject to income taxation, but their shareholders were also taxed on their dividends, a duplication then expressly prohibited in the case of national banks. With the assent of Committees of the American Bankers Association and of the National Tax Association, Section 5219 was last year again amended so that, as stated by the Hon. Thomas B. Paton, our General Counsel, in the American Bankers Association Journal for April, 1926, it now "provides four alternative exclusive methods for taxing national banks, viz:

- (1) Taxation of the shares as heretofore.
- (2) Taxation of the dividends as personal income as heretofore.
- (3) Taxation of the bank on net income as heretofore, and
- (4) Taxation of the bank, according to or measured by net income.

"The adoption of any one of the above methods excludes the other three with an exception. That exception is to accommodate states which tax personal income and also impose corporation franchise or excise taxes. The bill is designed to permit the taxation of national banks and dividends to their shareholders in such states to the same extent as States tax corporations and their stockholders upon their dividends as personal income."

So much for the history of one taxation safeguard. There is another, of course, in the fourteenth amendment. It is important, and the Supreme Court of my State, Missouri, has just held that to assess bank shares at full value and other property at 75 per cent is to deny that equal protection of the laws which the fourteenth amendment guarantees. This safeguard, however, will rarely affect bank taxation problems so fundamentally as Section 5219. To amend the latter as some State officials want would take the lid off.

A concrete instance will show why there is likely to be such a movement to amend. The United States Supreme

Court in February of this year held that the Minnesota three-mill tax on money and credits, and the even lower tax on mortgages, amounted to discrimination, and invalidated the taxation of national bank shares. The court found that large amounts of capital invested in bonds and mortgages, not only by corporations but by individuals, were competing with national banks. This decision makes it necessary for Minnesota, and other states that have preferential tax rates for money and credits, to advance those rates, or tax banks on their incomes, as I shall explain later. Wisconsin, whose provisions for taxing national bank shares were held invalid at the same time the Minnesota case was decided and for practically the same reason, has already enacted an income tax for all banks. On the other hand, the officials of some states would like to keep their tax systems intact by inducing Congress to amend what I have called our chief national safeguard against excessive bank taxation so that bank taxes should not be limited by the taxes levied upon moneyed capital in the hands of corporations other than banks or of individuals. Then, it seems to me, there would be no effective safeguard left.

Or would there? This limitation would remain, that national banks could not be taxed higher than State banks. Is not that enough? Well, what do you think such a limitation would amount to in your own States? I am thinking particularly of those States, and they are the great majority, where the banks are still under the general property tax.

Where have your State and local taxing authorities been wont to look when they wanted more money to spend? Haven't they looked your way? Haven't they advanced your assessments just as far as they legally could? Of course they have. I don't mean by this statement to blame them; they have mistakenly felt, I suppose, that bank stock owners were rich and could afford to pay on very large assessments. I want to consider, however, what would happen if Section 5219 of the Revised Statutes were amended as proposed.

Does it not seem clear that in most states, if the taxes imposed upon State banks and trust companies were the only limit upon the taxation of national banks, the authorities would simply put all the banks into a class by themselves for the purposes of taxation and levy upon the banks a very large part of the taxes required to meet the constantly increasing needs of State and local governments? If in some States it would be necessary first to amend the constitutions, that would certainly be done.

What would be the effect of such increase of bank taxation? All banks would have greater incentive than ever before to keep their capital and surplus small, and depositors would have less protection than is their right. You all know that this tendency has been at work already and that excessive bank taxation has had something to do with bank failures. And, even if it doesn't fail outright, no bank or other business is likely to be strong and useful if it doesn't make reasonable profits.

But what business is it of the Federal government to limit State and local taxation? Well, as to national banks, certainly the Government has an interest. National banks are still agencies of the Government, and make up by far the largest proportion of the membership of the Federal Reserve System. Congress should not allow their profits to be minimized and their capital curtailed as they surely would be in many states if it became possible for the legislatures to tax banks by themselves. The argument of local convenience must give way to the argument of national welfare: we must not weaken our national banks.

Yet we cannot simply obstruct. While some money can be saved by efficiency in public administration and economy in public expenditure, taxes, in the aggregate, are not likely to come down. Why did they go up? We are undertaking in a public way to do things that we did not attempt to do governmentally or as communities a few years back, and we have since expanded beyond anticipation such enterprises as were already functions of State and local government. Education, largely teachers' wages, is the largest

single item in farm taxes. A Kansas cattleman complained to the writer one day that the taxes on his ranch had been raised in order to send out a bus each morning to bring the children of the township to school. And on the same day a rich city resident dropped in to complain because money was being spent in the new high school for a swimming pool and a gymnasium. But are we likely to take swimming and athletics out of our educational programs? Or cooking? Or sewing? Or carpentry? The teaching of these subjects costs money—money that we did not have to spend a few years ago.

The cost of State and local government is not likely to fall. Taxpayers do not really want it to fall. Agricultural experiment stations? How, without them, should we learn how to conquer the corn borer, the cotton weevil, and the other insects that contend with the human race for the products of the earth? Inspection of milk and other foods? Water supplies and sanitation? Hospitals? The decline in the rate of deaths from typhoid and tuberculosis—the lengthening of the span of life—all are worth the taxes they cost. Roads, bridges, street paving? We want more of them. Lighting? How could we face the crime wave if lights were curtailed? No, more money must be raised instead of less, and, while it would be against the public welfare to load more taxes upon banks and so weaken the custodians of the nation's liquid capital, we cannot content ourselves with saying: We can't pay more. We should point out how the additional public revenue that will undoubtedly be needed can best be raised. If we don't point out the way, and convince our respective legislatures that it is the right way, we must not be surprised if they stick to the theory some of them so evidently hold that the capital of the banks is the easiest source of revenue.

Generally speaking, the farmer should not be asked to pay more taxes for some years to come. Proportionately, the farmer's assessment has grown most during the period of rising State and local expenditures that has followed the war. Bank assessments were already so high that relatively they could not be raised so much as farm levies. Farm taxes per acre increased 126 per cent from 1913 and 1914 to 1921 and 1922. In Kansas, from 1913 to 1923, the price of land per acre went up 28 per cent, while taxes increased 132 per cent. Land prices are decidedly lower now than four years ago, but taxes have come down only a little.

A witty French financier, Colbert, said more than two hundred years ago that the art of taxation consisted in plucking the goose with the least squawk. If that is so, we must change our system. We are getting too much squawk from two important classes, the farmer and the banker.

Where can our states and cities get the additional revenue modern administration demands? That is a tremendous question that must be left to each state itself. Some states have supplemented their general taxes with specific taxes on ore mined, oil taken from the wells, or timber cut. Others tax the sales of gasoline and tobacco. All tax motor vehicles at the annual registration. One taxes theatre admissions.

For a solution of the problem in a large way, can we find anything better than the State income tax? For the banks, that would be the ideal way out of conflict between State and federal laws. Massachusetts put all banks upon the income basis of taxation under the amendment of 1923 to Section 5219. New York followed after the amendment of 1926. Wisconsin followed this summer, and more states ought to welcome the opportunity to establish this just plan of bank taxation and so avoid the litigation that banks in so many states will otherwise be compelled to undertake to overcome the injustice of unequal assessments under the general property tax. Especially should states that desire to tax intangibles at low rates consider income taxation for banks. So long as they impose substantially equal income taxes upon all corporations, including banks, there is nothing in Section 5219 to prevent their fixing as low rates as they please upon moneyed capital in the hands of individuals.

The State income tax seems to work well in most of the states that have adopted it. In a few states business men are reluctant to consider its establishment, for fear that

industries would then locate elsewhere. No state wants to handicap itself in business competition. But if the advantages evident in the income tax from many points of view should lead many states to adopt it, there would be no question between them of advantage or disadvantage by reason of their tax systems.

The chief argument for the income tax is, of course, its equality. Another is its flexibility. More readily than any other tax, it can be adjusted to the varying requirements of the public service. Even the United States could never have fought the war if its sudden financial requirements had fallen upon one class alone. And it was the use of the principle of raising revenue from and according to income that filled the gap in the nation's revenues.

It is perfectly evident that the problem of bank taxation will not be solved except by the solution of taxation in general. All of us are learning that the old general property tax system has been too long an incitement to evasion, a penalty for success and a brake on progress. Bankers are better informed upon the subject than many other citizens, but all of us need far more information than we have. We cannot know what is going to happen to us in the matter of taxation unless we study out general trends and shape them into what we conceive to be for the best interests of our business and the common good. Our State and local governments are going to spend more and more money. That

money can be raised in a way to hamper industry and destroy prosperity, or it can be raised with justice and with hardships that will be inconsiderable in proportion to the benefits of public administration. Bankers can largely determine which, and it is partly because our study of taxation must from now on take in a far wider field than banking alone that I have stopped to consider what the states can do if they find bank taxation more closely limited than they had supposed it was.

But we must not be led now into a general discussion of taxation. National banks do not desire advantage over State banks or trust companies, and of course any limitation of the taxation of national banks will, as a practical matter, inure to the benefit of State institutions as well. We agree, do we not, that in the interest of all classes of banks, the national safeguards against over-taxation should be maintained as they are, and that the shares of national banks must not be taxed more highly than competing moneyed capital, no matter who owns it. We agree that States that find their revenue likely to be impaired when this safeguard is invoked have a considerable choice of substitutes they can tax. I am sure, too, that we all agree upon the grave importance of the issue, and that if it comes to controversy we shall every one of us take part, and show how necessary to the highest integrity of our banking system are the existing national safeguards against excessive taxation.

The Financial Statement—Its Purpose and Character

By M. H. CAHILL, President Utica National Bank & Trust Company, Utica, N. Y.

I have been requested to take as my topic for discussion before this distinguished gathering, "The Financial Statement—Its Purpose and Character."

I am sure that you will concede that this is rather a sizable assignment, as it places upon me the responsibility of discussing before a group of specialists their particular specialty, which is certainly a difficult and unenviable task.

The purpose of the financial statement is, of course, to furnish an accurate and complete picture of a particular business, from a financial viewpoint, which can be used as the basis for the procurement of desired credit. It is supposed to be, and should be, a logical, accurate, detailed and honest analysis of assets and liabilities which will clearly show on its face the soundness or unsoundness of the credit applicant.

Before we can successfully and intelligently analyze and use a financial statement, however, it is necessary that we have a clear and definite understanding of the fundamentals of credit.

The definition of credit, as we understand the term, is that it is the name given to that business operation by which delivery of money, merchandise or other consideration is made on the promise of future payment.

Credit is the greatest asset from an economic standpoint in the world, because it is the basic foundation upon which all commercial, industrial and financial activity is carried on. However, it is a very delicate proposition which can be more easily destroyed than created.

Someone has compared injured credit to a broken piece of beautiful porcelain. You may glue it together again and it may seem as good as of old, but the cracks are there and you cannot forget that it was broken.

Credit is based upon confidence. Confidence in man's resources and ability to pay; in his character, capacity and integrity. Confidence in the stability of the locality in which he conducts his business.

Credit making is an opinion of future commercial conditions and of the ability of business men to carry out their business contracts. The man who buys on credit is basing his success upon the anticipation of future profits. Therefore, the banker who sells credit must have the ability and vision to foresee and analyze carefully and correctly the future business conditions which are to produce these profits.

The problem of the credit officer, therefore, is three-fold:

1. He must satisfy himself by investigation that the applicant for credit has sufficient substantial liquid assets to insure the payment of the loan when due.
2. He must have before him facts that will warrant his belief that future conditions will be such as to enable the applicant to carry out his business transactions successfully.
3. He must be convinced that the applicant is a man of integrity and capacity to the extent that he is not only able to but will carry out his obligations.

How is he to uncover facts which will justify sound conclusions in relation to these three points?

The scientific method to pursue in the investigation of any subject is to reduce it to its simplest elements, examine how and why they came to be in existing relations, and in this way disclose the laws or rules which define and govern those relations.

Every activity of life, organic, social and economic, is governed by a set law, natural or otherwise.

Natural law has been defined as a generalization deduced from a multitude of facts which point unmistakably to one conclusion.

Science, it has been said, consists not in the accumulation of heterogeneous facts, any more than the random piling up of stones is architecture, but rather in the detection of principles which co-relate facts and of the order which binds the parts together.

What a potent description this is of the method that should be pursued by the credit investigator. It shows how necessary it is not only to secure, but also to organize and classify facts, in order to provide a sound and intelligent basis for a proper conclusion.

The financial statement, when properly constructed, should furnish the credit officer with sufficient facts to form his first conclusion, that relative to the true condition of the applicant from a financial standpoint.

It should consist of two parts. First, the balance sheet, which should set forth in detail its current and capital assets and its current and capital liabilities; and, second, the operating statement, which should set forth in detail income and expense, profit and loss.

It is not possible for me in the limited time at my command to discuss the balance sheet in detail. However, I do wish to point out in a general way the items on the balance sheet that require the most careful scrutiny and analysis, and therefore relate to its character. Naturally, every item is important, as each is a fundamental part of the whole.

However, there are certain items which must be analyzed with greater care than others, and those are the items I wish to refer to briefly.

To me, the three most important items on a balance sheet are the surplus, bills receivable and inventory.

It should be clearly determined that surplus has as specific a meaning as any item on the statement. It should be actual and should represent a balance of net profits after all reserves have been provided for, for only in this way can it be a true index of the condition of the company.

The item bills receivable is to my mind one of the most dangerous items with which the credit man has to contend. It frequently serves as a morgue where putrid assets are carefully concealed. Therefore, it should be scrutinized with great care in order to ascertain what portion is represented by current bills for merchandise sold customers, not yet due, and what portion is represented by renewals, past due and disputed claims, and overdrawn accounts of officers.

Inventory is another item which should receive careful and thorough analysis. It should be so detailed as to show clearly the following facts: How book value is arrived at—whether cost or market, and if cost, whether this includes selling and administrative costs or merely manufacturing costs. It should be further examined to determine character of goods—whether goods are made up of new or carried-over stock. In other words, an accurate estimate of actual or approximate liquidation value should be arrived at, in a scientific and intelligent manner.

If the analysis of these items has been thorough and complete, and the credit officer has satisfied his own mind regarding the value of the other items on the balance sheet, including the earnings of the business and the ratio of current assets to current liabilities, he should have a sufficiently complete picture to warrant a definite and accurate conclusion relative to the real condition of the company.

His work, however, is not completed. There remain still two important problems to be solved, before he can intelligently extend or refuse the requested credit.

He must marshal facts which will warrant the conclusion that it is reasonable to assume that the credit applicant can and will carry out successfully the transaction which he is endeavoring to finance.

To determine the ability of the applicant to carry out the transaction successfully, two factors must be investigated. First, the future conditions that may affect the transaction from an economic standpoint, and, second, the capacity of the individual or individuals involved.

There is, of course, but one way to accurately estimate future conditions, and that is by studying the past. That is the only gauge at his disposal. The pendulum swings both ways. A careful study of the record and earnings of the business over a given period of time, combined with a real knowledge of economic conditions generally, should furnish facts which will give the credit officer a pretty clear indication of what to expect from the future and should also give a fair picture of the capacity of the individuals.

But where do we stand now? Supposing the balance sheet has furnished sufficient facts to warrant the conclusion that the business is sound from a financial standpoint, and supposing there are sufficient facts to justify the conclusion

that the personnel of the applicant has capacity, and that economic conditions are such as to make it reasonable to assume that the particular transaction in question can be successfully carried out; can the credit officer rest at this point and render his decision?

My answer to that question is "No." He has failed as yet to investigate the most important factor of the entire transaction, namely, the character of the personnel of the applicant.

The derivation of the word credit implies credulity, worthiness, confidence, honesty and integrity. How can these intangible elements be analyzed and assessed at their true value? It is a task that requires genius of the type that can read the mind of man. Our conclusions on this point are at the best based upon a weak foundation.

It has been my experience, and that of every banker, that the majority of men are honest outwardly because there has never been an occasion when their honesty was put to an acid test.

The man who is fundamentally honest is the man who, when faced with business disaster, accepts his misfortune as a cross, but does not permit it to crush his fine moral fibre. How few men there are of this type amongst the millions every banker knows.

Desperation causes many so-called honest men to become dishonest over night. Their false vanity and foolish pride destroy their sense of fair play, and as a result they are ultimately found listed in the category where they belonged from the start: that of the dishonest debtor.

How this problem can be successfully solved is a question. The facts available upon which to base a conclusion are never conclusive in character. An investigation of the past history and conduct of the individuals involved are the only means apparent. We should, however, investigate these facts with the utmost care.

The world at large heralds Socrates, Aristotle, Plato and other philosophers as great because of their illuminating metaphysical essays on the human mind. I contend, however, that the greatest philosopher is yet to appear, and when he does he will be a banker who has the ability to put in print the workings of the human mind as they have been disclosed to him in his daily contact with men.

Such a philosophy would be a revelation to the Spinozas, the Bacons, and to our present-day philosophers, as it would show beyond question of a doubt resultant reasonings which these great men never even dreamed of.

It has been said that the most successful banker is the man with the ability to select and foster honest and successful business men whose credits are based upon capacity and integrity rather than upon assets. There is food for thought in that statement.

To sum up, I would say that the financial statement furnishes a scientific and substantial means for determining the real condition of the credit seeker. When it is honestly prepared it accomplishes this result and fulfills its real purpose. However, we should appreciate the fact that it is not conclusive in itself and that we must look beyond it for evidence of that intangible keystone of all credits—character. Without character and integrity in the individual, financial statements are of minor importance, regardless of the ratio between assets and liabilities.

COMMITTEE AND OFFICERS' REPORTS—NATIONAL BANK DIVISION

Death of President of Division, C. W. Carey, President First National Bank, Wichita, Kan.—Address Read by E. A. Onthank, Vice-President.

E. A. Onthank, Vice-President of the Division: *Delegates and Guests of the National Bank Division:* As Vice-President of our Division it becomes my sad duty to announce the death [on Oct. 22] of our esteemed President, Charles W. Carey of Wichita, Kansas. Mr. Carey was taken ill in the early part of this summer and left on an extended trip in the hope that through the change and rest he would meet with a recovery.

Many of us knew that his condition was such that he would be unable to attend this convention, but it was a great shock to us on our arrival in this city at the opening of our convention to realize that he had gone. Your Executive Committee has done everything possible to express the sympathy of our Division to Mr. Carey's family and I now ask you all to rise and stand for one minute in silent meditation for Mr. Carey.

[The Division stood in silent tribute for one minute.]

Vice-President Onthank: The program for this meeting was arranged by Mr. Carey with the co-operation of our efficient Deputy Manager, Mr. Mountjoy.

Many of us who knew Mr. Carey and have worked with him and feel his loss, believe it would be his wish to have this meeting carried on in accordance with the original arrangement. Mr. Carey was to have opened the meeting with his annual address as President of the Division. In his absence I will read his message for him.

"The year 1927—now drawing to a close—marks an epoch in the history of the National Banking System. Without disturbing the tried and sound fundamental principles laid down for its guidance more than sixty years ago, new life was injected into it by the enactment of the McFadden-Pepper Bank Law. This achievement, after several years of effort, is a source of great satisfaction. Thus made more effective, and with its field of activity measurably broadened, the National Banking

System supported by the Federal Reserve System is acknowledged today by leading financiers of the world as the peer of all financial systems.

McFadden Act

"It is proper that acknowledgement be made to those who assisted in the work incident to the modernization of this law. First must come Honorable L. T. McFadden to whose untiring zeal the major credit must be given for what has been accomplished. A just tribute and a highly proper one at this time is to acknowledge the obligation of this Division to him. Grateful acknowledgement must be made also for the assistance rendered by the Treasury Department of the United States, and particularly the Comptroller of the Currency, Mr. McIntosh. Likewise, the Federal Legislative Committee of the American Bankers Association was very helpful and thanks are due also to many individual bankers who contributed so generously of their time and their ability to secure enactment of this law.

"So much has been written in explanation of the McFadden-Pepper bank act that it is not necessary at this time for your president to point out or specify the numerous advantages it carries. However, most gratifying and worthy of special mention is the change in the attitude of the banks themselves toward the Federal Reserve Act and the preservation of our National Banking System. For years national bankers viewed with disquieting thoughts the spectacle of prerogatives being swept away one by one and their ability to serve their clients fully being gradually lessened. They looked with alarm upon the growing disparity between the powers of State banks and those of national banks and the consequent narrowing sphere within which the latter were compelled to operate.

"Happily, however, this situation has changed and the future of our National Banking System is now more completely assured. Already the denationalizing of national banks has ceased and some of the largest and most powerful State banks, not theretofore members, have entered the Federal Reserve System, and an increasing number of State banks have converted into Nationals. Therefore, we have a great deal to congratulate ourselves upon today and we may well feel that a distinct advance in national banking has taken place during the current year.

"In the field of the fiduciary, too, considerable progress is noted. More than one-fourth of all national banks now hold permits to exercise trust powers and to maintain trust departments. Latest reports show that out of approximately 7,800 national banks 2,300 have been authorized and that more than one-half of that number are engaged in the performance of actual trust work. This is a very creditable showing and indicates satisfactory progress.

"The advisability of entering the fiduciary field becomes more apparent each year. It offers an unusual opportunity to the national bank which will properly equip itself to handle the work in a successful way. Likewise it makes available to the public a service the value of which is more generally recognized today and which by its very nature is destined to be availed of by an infinitely greater proportion of our people. Trust departments of national banks functioning under laws enacted by the National Congress, and under regulations laid down by the Treasury Department of the United States subject to rigid Federal and State examinations, and guided by the experience and business judgment which has characterized other phases of national banking, should continue to attract a large percentage of the ever-growing trust-creating public.

"In addition to the acknowledged greater efficiency of corporate administrations, the costs of such make a strong appeal. They are shown to be considerably lower than the average incurred by individuals. The availability also of the national bank in a trust capacity attracts favor. There are numerous towns and cities and rural districts in which there are national banks, but no other corporations with fiduciary powers, where people wish to create trusts and appoint executors, trustees and guardians. It is obvious, therefore, that national banks are in a position to not only carry fiduciary services into every nook and corner of the United States, but that the advantages of so doing will accrue alike to the public and to the banks.

"Aside from the McFadden-Pepper Bill no measures directly affecting national banks were given serious consideration by Congress in its last session. A number of measures were introduced, but not acted upon. Guaranty of bank deposits, a topic which furnishes a great deal of political provender, was the subject of a number of bills introduced, but at no time threatened serious trouble. It goes without saying that the guaranty of bank deposits will always be a fruitful subject for ambitious politicians. Notwithstanding the fact that it has proved an entire failure in every State in which it has been tried, still it possesses that attractive feature, which appeals to all mankind, of getting something for nothing at the expense of somebody else.

Propose to Provide Fund to Save Weak Banks

"In this connection might well be mentioned a proposal which, though in no sense a guaranty scheme, is thought of as possibly affording greater protection to depositors in national banks. It emanated from Washington and was outlined in one of the well known financial publications several months ago. It was given wide publicity and was suggested as a possible additional safeguard for depositors. It would provide a fund of fifty millions of dollars, which would not be reduced at any time, to save weak banking institutions and to prevent failures.

"Briefly summarized, but not worked out in detail, the idea advanced is that when the capital of a bank becomes impaired and the loss is not immediately made good, the Comptroller's office would close the bank, appraise the assets and dispose of such of them as are salable at par, borrow from the fifty million dollars funds a reasonable amount on the remaining assets and with the funds thus gathered pay off as large a percentage of the deposits as possible. The bank would then be liquidated in due course, the amount borrowed plus 6% would be returned to the revolving fund, and out of the remainder of the assets the last of the creditors would be paid and the balance turned over to the shareholders. The theory is that were the Comptroller permitted to step in at the first sign of impairment of a national bank and before actual insolvency, the loss to creditors would be practically nothing.

"The plan is not a guaranty, for conceivably there might be instances in which the assets, even though taken immediately upon discovery of the impairment of the capital, would not be sufficient to pay all creditors. Apparently it is felt, though, that in practically every instance the assets, together with the additional liability of shareholders, would make possible full payment of all obligations.

"The question of securing the fifty million dollars has not been given much consideration, although it has been suggested that it might be obtained either from direct appropriation or through amendment to the Federal Reserve Act making it possible for that amount to be taken from the surplus fund of the Federal Reserve System. It is not in any way proposed that the strong national banks should be made to pay for the protection of the weaker members of the system. It is understood that the Comptroller of the Currency has not passed upon or given his approval to any plan of this character.

"This proposition has been discussed by the Executive Committee of the National Bank Division and there is considerable variance of opinion on the advisability and feasibility of the plan. I may say, however, that this Committee, including your President, recognizes the fact that any additional protection or safeguards which can be given to depositors in banks should be provided. Bank failures have been so prevalent and have resulted in such heavy losses during the past few years that bankers who are alive to the demands of the time all recognize that everything possible must be done to make deposits secure. A great advance has been made by the Comptroller's Department in recent years in the examination of national banks, and the conscientious bankers of the country are devoting their efforts in every way possible to correct fallacious banking methods, but there is still room for improvement.

Reduction in Size of Paper Currency Opposition Thereto

"Another problem to which your Executive Committee has been devoting some time and consideration is the proposition of the Treasury Department to reduce the size of paper currency. This plan provides for the reduction in size of all classes of currency except national bank notes which are to be left in their present dimensions. The Executive Committee has taken the position that this would produce a very cumbersome currency. It would be extremely inconvenient and tedious to handle, and would operate against the popularity of national bank currency on account of the disparity in size. A most earnest protest has been filed with the Treasury Department against any change in the size of currency unless national bank notes are included.

"The opinion has been advanced from some sources that the known attitude of the Treasury Department in opposition to national bank note circulation is one of the reasons why two sizes of currency are planned. National bank notes being larger would undoubtedly become unpopular as a circulating medium and automatically be forced out of circulation. It must be recognized by national bankers that it is a matter of only a few years until all United States bonds available as security for national bank circulation may be retired. The three classes of bonds which may be employed for that purpose are about six hundred million dollars of U. S. Consols callable in 1930; fifty million of U. S. Panamas due in 1936 and twenty-six million of U. S. Panamas due in 1938. All of the Panama bonds are callable at any interest payment date and may be retired at any time. It would seem to be not an unreasonable request on the part of the national banks that during the comparatively few years they are yet sure to have national bank circulation it be not unfairly discriminated against.

Declining Bank Earnings—Government as Competitor

"For a number of years banks have been confronted with gradually declining earnings. One of our problems, therefore, is the rehabilitation of our institutions to such an extent as to insure their continued existence. This reduction in earnings is brought about largely by a supply of credit funds greater than the demand, and this, in turn, is due in a great measure to the gradual encroachment of our Government upon the business of lending money. If our Government presumed to become a competitor in other lines of business to the same extent that it is now in actual competition with banking there would be such a wave of protest as would cause our legislator politicians to take notice and put an end to the constantly increasing practice of passing laws to the advantage of certain classes of business and to the detriment of other classes. It is not the function of Government to give special advantages to any groups. Rather it is the function of Government to regulate the activities and practices of individuals so as to give equal opportunity to all. The economic balance of our nation rests upon the success of individual effort, and each violation of that underlying principle makes the balance proportionately more difficult to maintain. The common good is aided most by observance of the principles for which Government was created, and I rest securely in the belief that with their guidance we cannot fail.

"Now, as I approach the time for passing over to other hands the responsibilities of the presidency of the National Bank Division of the American Bankers Association, I experience a feeling of relief, and I confess also a feeling of regret. The presidency of this Division entails much work and sacrifice, but it is not without compensations. It has made me very happy, indeed, to have the opportunity to work with the whole-hearted and always reliable gentlemen who have assisted me, and to meet more frequently and become better acquainted with the staunch and generous members at large. Their interest in the work of the Division, and their contributions to the successes achieved call forth instinctively my highest praise and my warmest personal thanks. I wish for my successor nothing better or more comforting than their continued good will and support."

Tribute to Late President C. W. Carey.

Mr. Onthank, National Bank Division: I would like to present W. H. Harrison, President of the Union National Bank of Wichita, a brother banker from our esteemed President's home town. He has a message to us from his associates. It gives me pleasure and a great privilege to present Mr. Harrison of Wichita.

Mr. W. H. Harrison: *Mr. President, Ladies and Gentlemen:* Just a few words, if you please, about Mr. Carey and his home town. Mr. Carey entered the banking business in Wichita thirty-five years ago with a capital of \$25,000 and three employees in the bank. When he left us he had the largest bank in the State with a capital of \$1,000,000 and a surplus of \$1,000,000. I think that of itself is a notable achievement in banking history.

In the City of Washington at this time is an old colored man who is president of a large negro life insurance company. He was the first janitor of Mr. Carey's bank. I mention this because in all the years succeeding, Mr. Carey kept in close touch with him and frequently gave

him business advice and helped him rise to the position which he has attained.

There was one distinctive feature about Mr. Carey as a banker to which I owe a lesson, and I think that many of us here can learn a lesson from it. Never at any time did he become confused between the relation of deposits and of loans. Never at any time did he grant a loan because a man had a good account with him. I personally know of one case where a bank not far from Wichita had for years carried a balance averaging \$200,000 in that bank, and the president of that bank applied for a personal loan of \$10,000 with collateral that would ordinarily pass scrutiny, but it was tight times in the banking business at that particular period, and Mr. Carey turned down that \$10,000 loan with the simple statement that the collateral was not sufficient.

He thought that he performed his duty to his depositors by always having their money ready for them if they wanted it, and he had no other obligation to them than good service. When it came to making loans, they were made on the merit of the loan and not on what business the customer did with the bank. As a result of that policy and his keen understanding of the banking business, Mr. Carey built up a bank that was second, perhaps, to none in the United States, at least few would claim to exceed it, in the character of its assets and the liquid nature of its business.

We of Kansas and Wichita, his home town, were all proud of him as a very able, conscientious, capable banker. In addition to that those of us who knew him loved him as a man. We knew that he was the soul of honor, that he had the highest sense of integrity and while he might sometimes have seemed cold in his business relations because people did not understand the principles that actuated him, in his private life and social relations no one could have been more pleasant or agreeable, and no man could have created more friends, as those of you who knew him are well aware.

So in Wichita and Kansas, we feel that we have lost not only a leader and a shining light and an example in the banking business, but that we have also lost a close personal and highly esteemed friend.

Vice-President Onthank: Mr. Harrison, we thank you for your assistance in helping us pay the tribute we all wish to pay to Mr. Carey.

One of the many problems of bankers today is the proper employment of surplus funds. With the steadily increasing volume of idle money, more and more banks are seeking outside investment market. We are fortunate in having with us one who has made a study of bank investments, and it gives me great pleasure to present Mr. H. C. Nicholson, National Bank Examiner, now President of the Packers' National Bank of Omaha.

Report of Committee on Resolutions.

Mr. W. C. Wilkinson (Charlotte, N. C.): We have only three resolutions. May I ask, on behalf of this Committee that you call for a separate and rising vote on the first resolution, which will refer to our beloved departed President.

Tribute to Late President C. W. Carey

"It is with unspeakable sorrow that the National Bank Division of the American Bankers Association, in annual convention assembled, learns of the death of its President, Charles W. Carey. His long service in the American Bankers Association, and in the National Bank Division thereof, made him a familiar and a popular figure at bankers' meetings. His years of labor developed for him a wide circle of staunch friends and acquaintances, who knew him at work and at play; to whom he became endeared for his cordial and considerate manner, but whose esteem he held chiefly because of the earnestness of his efforts wherever directed, and because of the strength of his convictions.

"The pages of American Bankers Association and National Bank Division history hold many evidences of the high character of Mr. Carey's work and the accomplishments of those organizations bear the multiple impress of the splendid service he gave. His contributions aided materially in attaining the goal set, and his genial manner warmed the atmosphere of the entire Association.

"The officers and the entire members of the National Bank Division mourn the passing of that noble soul, thankful, however, that his example and the memory of his unselfish devotion to duty and his friends and to his ideals will strengthen our purposes and stimulate our loyalty to our trusts,

"RESOLVED, That these resolutions be made a part of the minutes of the National Bank Division and that a copy of them be suitably engrossed and sent to the members of his family."

[The resolution was accepted by a rising vote.]

Mr. Wilkinson: The second resolution which we desire to present can be voted on with the other one which we will bring before you.

Opposition to Reduce in Size of Paper Currency

"The announcement made by the Treasury Department, sometime ago, that currency is to be reduced in size to about four-fifths of its present dimensions, gave rise to much comment and speculation. There is a large group of people outspoken in their declaration that the inconvenience and expense of handling two sizes of notes for overshadow all the advantages which could possibly arise.

"A disturbing feature of the plan is that while all other notes are to be made smaller national bank currency will remain unchanged. This must necessarily mean two sizes of currency in circulation continuously or the elimination of national bank notes in 1930 when the United States two per cent Consols bearing the circulation privilege may be retired. One of these contingencies would be sure to arise with the adoption of the Treasury Department plan, and both of them are looked upon with a great deal of disfavor.

"The reasons for opposition to the use of two sizes of currency are so obvious as to require no elaboration. Also, the elimination of national bank notes is not called for by any sound economic or financial policy. On the contrary, there are numerous reasons why national bank currency should be retained.

"The National Bank Division of the American Bankers Association, in annual convention assembled here to-day respectfully, but with a strong conviction of the correctness of its position, expresses its opposition to this plan and to any other plan which seeks to change the size of less than all of our currency, or which contemplates the retirement of national bank notes.

"It is directed that a copy of this declaration be sent to the Secretary of the Treasury, to the Governor of the Federal Reserve Board, to the Comptroller of the Currency, and to the Chairmen of the Banking and Currency Committees in both houses of the United States Congress."

The third resolution is as follows:

"The National Bank Division feels deeply indebted to the several speakers who addressed the convention in such masterly style. Their presentations were timely and highly informing and their value to members of the Division is inestimable.

"To the banks and bankers of Houston, also, the National Bank Division acknowledges its lasting obligation. Their extensive preparations and their untiring efforts joined to make this occasion epochal in the history of the Division. Their cordial welcome and their generous hospitality stamp upon the minds of the members of the National Bank Division an indelible and happy recollection of the Houston Convention.

W. C. WILKINSON, *Chairman*,
H. J. HASS,
R. E. HARDING.

[A motion to adopt the balance of the report was seconded and carried.]

Report of Nominating Committee—Newly Elected Officers.

Mr. C. J. Lord, Olympia, Wash.: *Mr. Chairman and Gentlemen of the Division:* Your Committee on Nominations beg leave to report and to place in nomination for the consideration of the Division:

President, E. A. Onthank, President, Safety Fund National Bank, Fitchburg, Mass.

Vice-President, E. H. Sensenich, President, West Coast National Bank, Portland, Oregon.

Members National Bank Division—Executive Committee for three years:

First Federal Reserve District, E. S. Wolfe, President, First National Bank, Bridgeport, Conn.

Fifth Federal Reserve District, Alan T. Bowler, Vice-President, American Exchange National Bank, Greensboro, N. C.

Seventh Federal Reserve District, Gwynn F. Patterson, Vice-President, Indiana National Bank, Indianapolis.

Twelfth Federal Reserve District, Arch W. Anderson, Vice-President and Cashier, Los Angeles-First National Trust & Savings Bank, Los Angeles.

For term ending 1928:

Sixth Federal Reserve District, Robert Strickland, Jr., Vice-President, Fourth National Bank, Atlanta, Ga.

For term ending 1929:

Eighth Federal Reserve District, A. O. Wilson, Vice-President, State National Bank, St. Louis, Mo.

[The report was unanimously adopted.]

STATE BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Eleventh Annual Meeting, Held at Houston, Texas, October 24 1927.

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Adjusting Banking to Changing Conditions

By DAN V. STEPHENS, President of the Fremont State Bank, Fremont, Neb.

Conditions.

Whenever a financial disturbance occurs the attention of the people is directed to any weakness that may exist in our banking system.

For a half century or more students of banking have understood the necessity for the mobilization of reserves for use in times of depression or financial disturbances in order that business may continue as usual. The panic of 1907 was directly the cause of the creation of the Federal Reserve System. The deflation resulting from the World War has demonstrated another weakness in our banking system. This weakness has been apparent to students of banking everywhere for many years. Evidence on every hand proves beyond a question of doubt, that our financial ills are due to the ineffective banking departments of the States and nation. The banks of the country are creatures of the State and nation and they exist and function through charters issued by banking departments and these departments have power of life and death over them.

Throughout the United States since deflation began seven years ago there have been more than four thousand bank failures, which have tied up a total of over one billion dollars in deposits, 50% to 75% of which will be a total loss to the depositors. In addition to this staggering loss, other billions have gone into hiding through the withdrawal of deposits by timid people who lost confidence in our banking institutions.

The authority for creating banks is vested by legislative bodies in the State and nation. The bankers have nothing whatever to do with the issuance of bank charters. They are not responsible for the failures of the last seven years.

The business of the country is now being conducted by approximately four thousand less banks than existed seven years ago. The business no doubt could be conducted in a perfectly satisfactory manner if we lost four thousand more banks, if these losses could be taken without dealing to the remaining banks and the country a staggering blow.

In other words, the first and primary cause of bank failures is the excessive number of banks created by the various State banking departments and the Comptroller of the Currency.

The second cause is attributable to the inefficiency of bank supervision by the banking departments. This is not a criticism of the officials now conducting the various banking departments of the country, nor of the Comptroller of the Currency, but it is a criticism of the system which they employ and which has been employed for many years in the conduct of their business.

So we have in these two causes an explanation of the widespread disaster that has come to various communities of this country during the last seven years of deflation through bank failures. Remove these two causes: first, by limiting

the number of the banks to the needs of the country, and, second, by adequately supervising those that are created, and bank failures will disappear. There can be no other causes for this condition excepting those enumerated. Deflation, untoward circumstances that have arisen, local conditions that may exist, all, of course, contribute to an aggravation of the situation that was originally produced by one of the two above causes, viz. too many banks or too poor supervision.

Therefore, the next step in the consideration of this subject should be directed toward a remedy. What is the remedy? How can we secure it? Where shall we commence? These are pertinent questions and will constitute the basis of my further remarks on this subject.

The Remedy.

The remedy lies first in the mere voluntary act of the various banking departments in restricting charters to actual needs, and the fact that banking departments have never been able to do this thing, regardless of the power they possess, is proof of the need of legislation that will take the granting of charters out of the control of political appointees.

It is impossible for a continuous business-like administration of the banking department so long as that department is in the control of a political appointee of the Governor or the President. Additional machinery is necessary. The creation of an entirely separate banking board with a continuous existence independent of the Governor or President, with power to grant charters for banks, would cure to a very large extent this situation from which we now suffer. An independent banking board for each State, made up in the manner the Federal Reserve Board is constituted, would guarantee to the banking business of the country an intelligent consideration of the subject of granting charters.

In my own State of Nebraska we have at the present moment something like 800 State banks. We should have possibly not to exceed 400. We have lost approximately 200 in the last seven years, which made our grand total just a little less than 1,000 banks when deflation began its deadly work. This excessive number of banks—one to every 1,250 inhabitants—has been the main factor in producing failures.

One little town of Dix, Neb., with 200 population, at one time had four banks. It now has none and probably does not require any. The stupidity of a banking department in granting charters in such reckless fashion is apparent and it is also proof conclusive that a political banking department cannot be entrusted with this power. There are hundreds of towns throughout the Middle West with less than a hundred population that have banks, and these banks are so small that, if they render any service practically at all excepting to furnish change for the people, their very exist-

ence is in danger, and certainly such banks cannot stand through a period of depression, and thousands of them did fail.

The national system of granting charters and supervising banks is no doubt on a much firmer and stronger footing than are the various States, but even the nation system is subject to very grave criticism not only in regard to granting of charters but in regard to their method of supervision.

The majority of failures, however, that have come to the country are confined largely to the Middle West and the South. This territory covers a vast area of the United States and the losses that have arisen out of these failures have never been totaled and never will be, but it is safe to say that the losses have been staggering, and paralyzing in their effect, and, in passing on to a further consideration of the remedy, I wish to say that, in my judgment, these losses have been wholly and entirely unnecessary and could have easily been remedied.

Supervision of Banks.

The supervision of banks as they exist to-day is ineffective as shown by the results obtained. Why is it ineffective?

Now, contrast the position of the examiner under a Clearing House association with that of an examiner from the Comptroller's office or the office of the State banking department. Such official examiners are capable (just as capable, no doubt, as the Clearing House examiners), but they are not permanently assigned to a location and charged with responsibility of maintaining or improving the status quo of the banks of that locality. They are not made responsible to a local organization that is deeply interested in the welfare of every bank within the organization. They report to their respective superiors the result of their examinations and move on to other places. Their superiors at their respective banking departments attempt to enforce the findings of these itinerant examiners at long range and with varying results.

The examiners' reports are usually made up after they leave the banks they examine and the bankers generally do not know the sort of report the examiner is going to make until he receives a copy of it later on from the banking department. The result of this practice has encouraged the examiner to avoid a controversy with the executive of the bank and his board of directors by keeping from them, until he has gone, the result of his findings.

When a copy of the report is finally received by the bank, if it is exacting and not in harmony with the views of the bank officials, they immediately appeal to the banking department over the examiner's head and, as a rule, they either modify the findings of the examiner or succeed in going ahead in their usual way.

We are informed that the Comptroller of the Currency has now reversed his former position on this subject and is exacting from the examiners the practice of laying before the boards of directors and the managers of the banks their reports before they are mailed to the Comptroller. This gives the boards of directors and the examiners a chance to fight out the controversy face to face and agree upon some plan and avoids the haphazard method to some extent of attempting to regulate banks through the findings of an examiner by a total stranger to the locality, hundreds of miles away.

But, taking it all in all, the entire system of both Federal and State examinations has been exceedingly ineffective. Failure and corresponding losses have resulted on a vast scale throughout the entire country, but principally in the Middle West, where small State banks have been chartered at most every crossroad, until competition has become destructive.

The Remedy.

The remedy is clear and it is within reach without the necessity of additional legislation and without the consent of anyone. All we have to do is to readjust our viewpoint; change the method of approach by adapting the banking departments of the various States and the Comptroller of the Currency, to the Credit Clearing House Examiner idea. But this idea cannot be brought about through voluntary associations, but the banking departments of State and

nation can bring it about by the simple act of permanently locating examiners in banking districts around commercial centres and making them responsible for the banks within such districts.

The permanency of the examiner's position and his assumption of responsibility for his acts are the two vital factors in the success of this plan. This, of course, does not in any way release the banking department of responsibility, but it does make the examiners accountable for their acts to the department, and the moral force of the Clearing House is ever present.

Every district surrounding a commercial centre should organize a Clearing House association, not for the purpose of clearing checks, but for the clearing of educational ideas on better banking practices and for the purpose of furnishing organized bodies for advisory purposes. It will enable the official examiner to have an executive committee, created by the Clearing House association, to which he can appeal for support in solving some difficult problem of local interest. This committee would afford an excellent buffer for the banking department when local controversies arise that can best be solved through the joint action of the members of such a committee.

The results of such a plan of procedure will be about as follows:

The viewpoint of the examiner under such a system will be entirely changed. Responsibility and the permanent character of his employment at a better salary will cause him to act with greater care and greater efficiency. There will be no opportunity to hide behind his superiors. He will be compelled to defend his actions at every turn of the road and watch the results of the enforcement of his recommendations. He will now be as keen to make the bank a safe institution as the manager of the bank. He will attempt to enforce sound banking practices and will aid in securing the paper and maintaining the bank in a solvent condition so that it will be able to weather any kind of a storm. He does this because he can't run away from his responsibility. He can't permit a bank to get in a bad condition without ruining his own reputation as an examiner. He can no longer say: "I told the Department that Blank's bank was in a bad way and they paid no attention to me. If the Department had followed my advice it would not have happened, etc." He can't say that under the new order of things because he is on the job and he is in full control and responsible to the Banking Department, as well as to the Clearing House Association. He can't "pass the buck" to anyone. He can't afford to do anything but his level best for the reason the Clearing House is always back of him and ready to add to his salary and make his position worthwhile if he is able to keep the slate clean. He has every incentive to become a great examiner and to make his district a great banking centre of solvency and public confidence.

Instead of being merely an irresponsible critic making reports to his department and moving on, like the old time "boarding around" school teacher, without a worry about the bank he examines, under the new plan he becomes a co-partner in effect with the bankers of his district and with full power to act. The fact that he is permanently located in the district with the possibility of being adequately paid gives him the ambition to become fully and thoroughly acquainted with the borrowers of the district and with their signatures. In other words, he becomes a thorough credit man for the banks of the district.

Lastly, but not of the least importance, is the ease with which a credit bureau is established automatically and legally by this official examiner. For many years the greatest effort possible has been made in various localities to establish credit bureaus. They are invariably voluntary associations and are only beneficial to those who join them, and their efficiency is often reduced by the fact that there are always some banks who will not join them. This is all done away with under the new plan because the examiner becomes automatically his own credit bureau. He can card-index the borrowers of the district and furnish information to the banks that are entitled to have it of all duplicate borrowers through a perfectly ordered credit bureau.

He is required by law to preserve inviolate the privacy of the reports he makes. These he can guard and protect, but there is a latitude for his operation in this respect that will enable him to furnish facts about duplicate borrowers that will conserve the interest of banks and without in the least violating the spirit or letter of the law. He can do this without anyone's consent and such a credit bureau includes every bank within his district which he is lawfully called upon to examine.

There are other steps, of course, that the examiner should take, but these are outside of the province of the Clearing House association, as the examiner is a legally constituted official, and his acts are wholly subject to the direction of the banking department, but with a thorough understanding with the banking department that it is co-operating with the association in carrying out this idea of Clearing House examinations, there need be no difficulty experienced by virtue of what might appear to be two sources of authority. There can be no conflict, as the Clearing House association is without legal status, but the moral force of the association can be effective and constructive in character. Even a conflict of opinion over some mooted question has its advantages because, out of the debate, a solution of the problem in question may be obtained.

New Objective of Examiner.

The examiner, of course, will no doubt be influenced by the program that the association conceives to be effective and practical and which, no doubt, would harmonize with the best ideas of procedure on this subject.

Under this system the examiner should forget his old practice of merely grinding out so many examinations a day, at so much per, in the manner of a space writer in a newspaper. There are higher objectives to be obtained than merely examining banks. It is very much more important to keep them solvent. The mere examination of a bank does not improve conditions in the least. It is the constructive work on the note case, coupled with sound banking practices, that will be worth while. The examiner can keep banks solvent if he is capable and efficient.

Therefore, we conceive it to be the duty of the examiner under entering on this program to forget his old methods of procedure and take the reports that have already been made upon the banks included in his district and classify the banks. By the process of elimination he will find that certain banks do not require immediate attention. This does not mean that he should not drop in on his rounds of visiting, touching lightly here and there as the circumstances require, but it does mean that he should strike at the weak points first. The reports will show him the banks that are struggling along and needing help. It should be his aim and his solemn purpose to relieve the distress in such banks immediately by using every known practical method of improving the bank's note case and after this has been done, turn his attention next to the second step, viz. increasing its earnings.

The average bank has sources of income now which are untouched. A clever bank examiner will point the way to these sources and utilize them through service charges and otherwise. He can influence competing banks to take these steps of salvation.

He will find in small towns two and three banks, all operating at a loss. By careful application of sound business teaching he will soon be able to consolidate some of these banks into stronger institutions, thus rendering a very great service to the bankers themselves, as well as to the people of these various communities.

As a result of the method of doing the necessary work first, he can give a great deal of time to this rejuvenation work, instead of extravagantly using his time striking balances in banks, which primarily is not profitable work. This does not mean that balances should not be taken and reports should not be made, but it does mean that the important and necessary things should be done first. Our troubles do not arise from poor bookkeeping, but rather from poor note cases and lack of revenues.

What is the object of the State in examining banks, anyway? Was it not originally designed that banks should be examined for the purpose of seeing that they were performing their functions? Notwithstanding this great purpose, the various banking departments of the country seem to have completely lost sight of the main objective and have reduced our activities merely to that of auditing departments with formal reports to the commissioners of banking, who perfunctorily attempt to administer the findings of the reports by mail.

Their objective should be that which was contemplated by the Legislatures, which created these banking departments, viz. the supervision of banks with a view of guaranteeing the people that they perform their functions.

To do this an examiner must be an executive officer in effect. He must sit with the banker in an effort to see that these sound banking practices are observed. If not it is his plain duty to see that they are observed. If note cases are not sound, he should find the cause for these unsound conditions and remedy them at the very earliest possible moment, even if he finds it necessary to bring the borrowers into the bank, one by one, and go to the very root of the difficulty. The cause should be removed, whatever it may be, and, as a rule, the cause will be found in the unsound ideas that the banker possesses in regard to the conduct of a bank, and his duty then would be the replacement of these

ideas of unsound banking with those that will produce better results.

The examiner, living at home with his family, is contented. He can drive each day to the remotest bank in his district; make such casual examinations and such specific recommendations as he may see fit and call on probably a half dozen banks on the trip, going and coming, completing other minor details of supervision by keeping in close touch with his banks.

Instead of giving up his entire time to this more or less useless work of auditing, he gives more of his time to supervision and administration where it is vitally needed. There isn't one bank in a thousand, which fails, whose failure can be attributed to bad bookkeeping. The failure is attributable directly to mismanagement and competition. The examiner can influence tremendously these factors. He can influence the management. He can influence the competition. He can raise the qualifications of the banker by carrying on an educational program on his numerous visits.

Without doubt the aims and purposes of an examiner, as covered in this outline, is in harmony with the objectives that the various Legislatures had in mind when they created banks and set such restrictions about them as they thought would safeguard the people. The trouble has been that everybody becomes muddled about these very simple matters and the objectives are so hidden and obscure that the purposes of the States have been lost.

Experimental District.

In order to demonstrate the feasibility of this plan an experimental district has been set up at Fremont, Neb., known as the "First Nebraska Bankers' Credit Clearing House Association," and is now commencing operations. It is the first attempt in the United States to utilize the advantages of the city Clearing House with examiner through the legally established Banking Department.

The State examiner assigned to this territory lives in Fremont. He has been provided an office and a secretary by the bankers of the district, who are united into an association with the above title for credit Clearing House purposes.

This association is wholly voluntary, co-operating with the examiner and for the purpose of aiding him in an advisory way whenever called upon to do so in difficult cases that come under his supervision.

The district includes all State banks, of course, because the bankers of the district are as much concerned about the weak banks as they are about the strong ones, and the examiner, of course, examines them all because he is a State examiner assigned to this district.

It is hoped that within a few months from the date of the organization of this district the system will be effectively working with a complete credit bureau in operation and possibly with an assistant, furnished by the association, accompanying the examiner merely for the purpose of aiding banks here and there to carry out the findings of the examiner, whatever they may be.

The credit bureau will be established at the same time under the supervision of this assistant. The information gathered from bankers and from the examiner will suffice to spot every duplicate borrower and classify him. This information will be given only where it is needed and to those who are interested. It goes without saying that in the course of a year these five counties will save tens of thousands of dollars that they have heretofore lost.

Banking Departments Can Do It.

What we are attempting to do in this district, with great promise of results, can be done by banking departments throughout the United States without practically any additional legislation at all. It is now within the power of banking commissioners everywhere, practically speaking, to apply this policy. They can create districts and establish an examiner in each of these districts with responsibility for his work and give aid and encouragement to the bankers of the district to organize Clearing House associations with credit bureaus and assistants, that will make the system perfect.

No Clearing House Association with Examiner now in existence seems to possess any advantages whatever over the system we have now established in this district at Fremont. The results that have been obtained by these Clearing House Associations with Examiner have proven to be highly satisfactory, but there are only 35 of them in the United States and they do not affect the great mass of bankers and bank-

ing communities, but through this simple method that is being demonstrated at Fremont, it would appear to be within the range of possibility for the great bulk of the States of the Union to have the full benefit of a Clearing House Association with Examiner and credit bureau combined. The only thing necessary to change is the viewpoint of the commissioners themselves.

Archaic Court Decisions Affecting Check Collections

By O. HOWARD WOLFE, Cashier Philadelphia-Girard National Bank, Philadelphia, Pa.

A delegate from one of the Southern States to the Democratic Convention held in New York City in 1924, issued checks on his own bank in payment of his hotel bill in the total amount of about \$500. These checks were accepted by the hotel, presumably on the theory that the convention would make good its guarantee of all such checks issued by the delegates, who, owing to the unforeseen time of their stay in New York, were compelled to use checks after their cash had run out. In any event, the hotel accepted the items, which were deposited in a bank in New York City. In the regular course of business, the checks were sent to a correspondent bank in Philadelphia, and by the Philadelphia institution sent indirectly to the drawee bank in the Southern State under the usual disclaimer. Remittances were never received, nor was any satisfactory reply made to repeated demands that the checks be covered. The delegate, who incidentally was an officer of the bank upon which the checks were drawn, returned to his home town, and it is presumed tore the checks up. Shortly thereafter, the bank failed. The Philadelphia bank, acting upon its disclaimer, charged back the items to the New York bank, which in turn charged the account of the hotel. Having the right under present court law to choose which bank it would endeavor to unload a bad debt upon, the hotel on legal advice sued the Philadelphia bank, since under Pennsylvania Court decisions it is still ruled to be negligent to send checks direct to the bank upon which drawn, even if the drawee bank is the only bank in its town. The case was won by the hotel and, the amount involved being too small to appeal to a superior court, the net result is that the Philadelphia bank enjoys the distinction and honor of having paid the entire hotel and other debts of a delegate in attendance at the New York Convention.

The facts are that the hotel accepted checks from a guest who, if there is any logic in court rulings, should have paid cash. In the regular course of business the checks were sent by the Philadelphia bank to the bank on which they were drawn, partly to save delay, but chiefly because there was no other practical thing to do. In what better position would the hotel have been if the checks had been returned through banking channels with this perfectly honest statement:

"We cannot collect unless we send the items direct to the bank on which drawn, nor can we in any event guarantee the drawee bank will assent to our request that they remit cash."

No doubt this is what the Philadelphia bank might have done, but that is beside the real question, which is: should the bank be legally penalized for taking the only possible course to collect, if collection were possible, a debt proven to have been bad even at the time the hotel permitted its customer to incur it? Unjust and inequitable as such a decision seems to be, it is typical of hundreds, if not thousands, of other similar cases with which every bank handling out-of-town items for its depositors and correspondents is familiar.

In discussing the need for adequate legislation to protect banks in the collection of out-of-town items, it must be remembered that we are dealing only with such questions as arise from bank failure. In other words, unless a failure is involved, all such discussion as to negligence, responsibilities, and obligations are purely academic. This must be borne in mind as we consider hypothetical or specific cases

which may be referred to in what follows. Lacking definite laws on the subject, the courts have always decided these questions on common law, and the law governing the relationship between principal and agent producing a situation analogous to decisions based on the law merchant before the adoption of the Uniform Negotiable Instruments Act. There are two methods which suggest themselves as to the proper treatment of the problem. Should the remedy be along the lines of specific legislation adopted by the various States, as was the case with the Uniform Negotiable Instruments Act, or should an effort be made to prove that banking custom is such that the present common law is inadequate, inequitable, and archaic? This latter solution would be possible, however, only through a test case, upon which the Supreme Court of the United States would ultimately decide, and since a failed bank must always be involved in such test case, it is impractical, if not impossible, to bring into the situation by prearrangement all of the elements which might insure a clear-cut decision entirely applicable to all cases.

Although, as has been stated, there are hundreds of cases to which reference might be made, they are all summed up in the now famous *Malloy Case*, decided by the Supreme Court on Feb. 18 1924. For our purpose it will be sufficient to use this case as a sort of text upon which to base argument and draw conclusions. This famous decision was the result of a question which arose between the Federal Reserve Bank of Richmond and Malloy Brothers, Plaintiffs, who sued the Federal Reserve Bank of Richmond to recover \$9,000, the amount of a check drawn to their order on a state bank in North Carolina. The check took the usual course, and was remitted for by the drawee bank with a draft on another North Carolina institution. Before this draft could be collected, however, the drawee bank failed. The Supreme Court, although admitting the right to send the item directly to the drawee bank, held that the Federal Reserve Bank of Richmond should have accepted nothing but cash in payment, and its failure to accept anything but cash made it liable to the plaintiff, who recovered in full. There is nothing in the conditions surrounding this transaction differing essentially from other cases which have been similarly decided. In the opinion handed down, however, the Supreme Court has made certain statements which apparently have been accepted by bankers and Courts without question, although these statements can be easily shown to be not in accordance with banking practice.

It is significant to note that the Court frankly admits a confusion in State decisions with respect to similar cases. For example, quoting the opinion of the Court in the *Malloy Case*:

"The State decisions in respect of the liability of a correspondent bank to the owner of a check forwarded for collection by the initial bank of deposit are in conflict beyond the possibility of reconciliation."

Again,

"The special situation with which we are dealing is controlled by a definite rule of law, which it is sought to upset by a custom to the contrary effect. It is not now necessary to consider the effect of a custom which contravenes a settled rule of law or the limits within which such a custom can be upheld. Decisions upon that question are in great confusion."

The language immediately following the foregoing brings us point-blank to the doubt previously expressed as to the facts upon which the Supreme Court based its decision. To the quoted language immediately preceding the Court adds:

"But whatever may be the doctrine in other respects, certainly a custom relied upon to take place of a settled principle of law, and therefore to have the force of law, ought to be as definite and specific in negating the principle as the law which it assumes to supplant is in affirming it."

One would gather from this language that the Supreme Court not only reverses itself with respect to the clarity of the law as expressed in State decisions, but also seems to be of the opinion that there is no definite well-established custom covering the collection of out-of-town checks. If we examine the opinion in our effort to understand in what respects the Supreme Court seems to doubt the existence of a clearly established custom, we find the following quotation from the testimony:

"When checks are sent with the expectation that the bank receiving them will remit at once, we call it sending for collection and return. When this is done, the bank upon which the checks are drawn is expected to cancel the checks and charge them to the accounts of the drawers and to remit by means of its exchange draft or by a shipment of currency."

The Court, however, falls into what we perhaps should consider a very natural error when they conclude:

"It thus appears that the custom, if otherwise established, does not fix a definite and uniform method of remittance."

What the Federal Reserve Bank was referring to in their statement was, of course, the custom generally adopted by Federal Reserve Banks (and by them alone) to accept cash in remittance of checks sent to country correspondents, such cash to be sent to the Federal Reserve Bank at its expense, as a concession to member banks which protested they could not create sufficient exchange to pay by draft without exacting an exchange charge. In this practice of accepting cash (admittedly not by preference) the Federal Reserve Banks had no thought of avoiding risks, but rather to assume the cost of remittance which otherwise would have fallen upon the country banks.

The simple facts are that no bank, within the knowledge of the speaker, ever sends out by mail a check for collection with the request that it be remitted for in cash, nor does any country bank, with the exception noted, so remit. Since the Malloy Case, we have been curious to find whether any banker, city or country, knows of any such request that has been made and acted upon. We have never learned of a single case, and it is therefore safe to assume that the Supreme Court is without any evidence whatever that such is the custom among banks.

A glaring error, however, in the Supreme Court decision lies in that it ignores the fact that there is no possible legal way to compel a country bank to remit cash (or anything else for that matter) even when requested to do so. All large city banks are familiar with the so-called "black list." Upon this list are the names of several score of banks which refuse to remit at all, by cash or otherwise, and if there is any way they can be legally compelled to do so, I am not aware of it. Among such banks the custom is, upon receipt of a check drawn upon them from a city bank asking for remittance, simply to credit the amount to the city bank and to remit at their good pleasure. We have known of many cases in which the city bank was compelled to send a representative to a distant point and demand payment of an amount owing for checks. We know of one such representative who was given a great pile of unwrapped silver, which put him to considerable trouble to get it back to his bank. When we consider that we are speaking only of banks that fail or are about to fail, the proposition of expecting them to remit cash on demand becomes absurd.

The Supreme Court also states (and here we will not go to the length of quoting the exact language) that the plaintiffs in the case under consideration had no knowledge of banking custom in such matters, presumably entertaining the naive belief that banks usually insisted upon cash payment. While this may be a perfectly safe and sound legal presumption, and was undoubtedly the proper position for the plaintiff's attorneys to take, it is very difficult to believe that any bank depositor entertains any such belief. If a business man is so ignorant of business or banking customs as to think that all checks which he draws on his bank are paid for in cash, should he not suffer the penalty of his ignorance of business custom as he would should he violate statute law through ignorance?

Neither the Supreme Court of the United States nor any other Superior Court has ever apparently given consideration to the fact that the payee of a check has himself and without any question, taken the first step in assuming the risk when he accepts from his debtor a check instead of cash. It is common law that a check is only a conditional payment. When the creditor accepts a check, he has taken a conditional payment. Rarely if ever does he insist upon actual cash from an out-of-town debtor. Having accepted a check, he can either attempt to collect it himself, or give it to his bank to collect for him. In making such collection the bank enjoys no privileges or rights at law which he, the payee, does not enjoy. It does not seem logical, therefore, that he should seek to hold the bank for doing not only what he has already done in principle, but what he would also do if he himself should undertake to make collection by sending the check through the mails to the bank on which it is drawn, asking them in turn to remit to him in payment.

When referring to the payee of a check we are reminded of the fact that he is only one of four parties interested in remedial legislation. These four are the maker of a check, the drawee bank, the payee, and the bank or banks which endeavor to make collection for account of the payee. The present court-enacted common law protects only one of these four parties, namely, the drawer of the check. If his bank should fail before the checks he has drawn upon it are fully remitted for, he is protected to the extent that he has succeeded in recovering from his bank one hundred cents on the dollar of that part of his deposit represented by the checks he has used in paying his out-of-town debts. The payee is then in the position of taking his place with other creditors of the failed institution, and he must accept whatever dividends the receiver is ultimately able to disburse; that is, always providing the lawyer of the payee is unable to find a loophole in a bank disclaimer, or to convince the Court, as it seems sometimes easy to do, that the payee's bank has been guilty of apparent negligence somewhere along the line.

Even the drawee bank is not protected under the present law. To illustrate this, we may quote the language of the Supreme Court in another case, decided a year previous to the Malloy case. This decision was rendered when a test was being made of the constitutionality of the North Carolina law which permits banks to remit in exchange rather than in cash. Said the Supreme Court in that case:

"The practice (of presenting checks at the counters of drawee banks for payment in cash) would, if pursued, necessarily subject country banks to serious loss of income. . . . It would reduce their income producing assets by compelling them to keep in their vaults in cash a much larger part of their resources than theretofore. That such loss must result was admitted. That it might render the banks insolvent was clear."

Further, in the same opinion:

"The only purpose of the statute was to relieve State banks from the pressure which, by reason of the common-law requirement, Federal Reserve Banks were in position to exert."

Note the use of the word "pressure." Does it not seem odd, if not illogical, that the same tribunal of justice would in this language in one case make it appear that they are of the opinion that the Court-imposed common law works a hardship upon banks, and a year later in another opinion apparently ignore the fact which sound banking practice and economic law readily recognize?

A layman unlearned in the ponderous and slow-moving processes by which the legal body finally is persuaded to accept practical business and economic facts might ask what further evidence is needed other than has been presented in hundreds of cases in the past twenty-five years or more to prove that custom, practice, equity, justice, and economic necessity demand a change of attitude upon the part of our superior courts. Happily we are not without evidence that this change is taking place. For instance, we may refer to an opinion rendered by Justice Stone of the Supreme Court of Minnesota, who in a recent case had this to say of the Malloy decision:

I concur in the result, but only in deference to the opinion of the Supreme Court of the United States as expressed in the Malloy case. The major premise of that opinion,

that a check, draft, or note is payable only in money, is true technically but untrue practically. It is true only to the extent that the holder may demand money if he chooses and is entitled to it if he demands it. Under modern banking practice, it seems to me that the proposition has become untrue in every case where the instrument is deposited for the credit of the holder with a bank other than the one upon which the instrument is drawn or where it is made payable. In such cases the holders not only do not demand but normally do not expect or even want payment in money. What they do want and expect in every such case (unless the contrary appears by some special circumstance) is not payment in money, but a transfer to the account of the depositor, through banking channels, of an amount of credit equivalent to the money called for by the check, draft, or note. The number of transactions where that is not the case is less than negligible.

So it seems to me that we are submitting this case to decision upon an archaic rule, one utterly out of harmony with modern banking practice. If banks everywhere should put in practice the premise that only currency or coin should be taken in payment of individual checks and drafts, the fiscal system of the country would break down at once under the excessive demand for money. Not only does the premise of the right to payment in money, unqualified by banking practice and commercial custom, seem obsolete, but it also seems out of harmony with our statute. But as the similar rule of the Federal Reserve Banks was before the Supreme Court in the Malloy case, our error, if any, in following that case is on the side of the conservatism, and one that can easily be corrected by the Legislature if it desires that the law should be otherwise than we are now finding it to be.

Justice Stone has expressed the fallacy of the Malloy decision in such clear and concise language that it seems to us a copy of it ought to be put in the hands of every Superior Court in the United States. To me it is interesting as the first expression we have seen of the opinion of a member of a court clearly admitting that banking practice today is entirely different from what it might have been some seventy-five years ago. In this connection, we also ought to refer to an opinion expressed by Mr. George Bryan, Counsel of the Virginia Bankers Association, Richmond. It is Mr. Bryan's opinion that the Malloy decision is both harsh and impractical.

As bankers, however, we should not sit supinely by and await spontaneous action by state legislatures or expect courts to take the initiative. Thus far little if anything has been done except following the Malloy decision, there was a frantic revision of disclaimers all over the country as banks sought to protect themselves in accepting out-of-town checks. As one exponent of good banking aptly put it, banks have put themselves in the position of putting ambulances at the foot of the cliff to take care of the crippled, instead of putting a stout fence at the top to keep people from falling over. In the judgment of Mr. Bryan, one of the effects of the Malloy decision, if taken literally, is to compel every bank to be an insurer of the solvency of the banks upon which they accept checks for collection.

The provisions which remedial legislation should include admit of considerable discussion. The language of the Supreme Court in the Malloy case itself hints at one possibility. For example, it is stated therein:

"There is nothing to prevent the sending back from requiring the drawee to remit currency as a condition upon which the checks may be satisfied and charged to the account of the drawer."

What assurance have we that the drawee bank in financial difficulties would act favorably upon the request does not appear. I do not know whether Judge Paton in preparing the form of disclaimer which he recommended to members of the American Bankers Association took this hint into consideration or not, but in any event it would appear to be an entirely impractical suggestion, and in view of the fact that there is no legislation which compels a bank to remit at all, it might also tend to create

a situation more to be avoided than the present risk. For example, suppose a country bank should receive a check with such instructions from a city bank, namely, that unless it would remit actual cash the check should be returned. It would be an interesting legal puzzle should the bank charge such a check to the account of the drawer and fail before the currency could be gotten together and dispatched. A court having to decide upon such a question would find itself in the predicament of the chameleon on a piece of Scotch plaid.

Another thought which we find in the opinion of the Supreme Court in the North Carolina case is found in the suggestion "that there is nothing to prohibit a depositor from consenting when he draws a check that payment may be made by draft." In other words, should we give consideration to a provision that all checks should bear upon the face a statement to the effect that the drawee bank might at its discretion remit a draft rather than cash in payment, thus putting the payee upon notice upon what terms he is accepting the check in payment of the debt. This is such a radical departure from present banking practice and custom as to preclude the possibility of its general adoption. We may at this point consider what has already been done in four States—Minnesota, California, Montana and Utah. Minnesota and California have simply legalized the ordinary disclaimer such as is used by most banks since the Malloy decision, and contains no new thought. Montana takes the same position with respect to the provisions covering the responsibility of the bank in acting as agent for the collection of a check, but adds an additional provision:

"The obligation of the maker upon any such check, note, draft, or negotiable instrument so handled for collection shall not be discharged by the charging of such item to him on the books of the drawee bank or by the surrender of any such item to him by the drawee bank unless or until such remittance draft be paid."

Utah has taken an entirely different position, and gives preference to "claims based on checks, drafts, authorizations to correspondents to charge account, or other instruments issued by any bank or trust company in exchange for or in settlement of any bills, notes, checks, etc., received for remittance and not for deposit."

Each of these three methods can be commended, but none of them fully solve the difficulty, and they lack the very desirable quality of uniformity.

Assuming that bankers, business men, and courts and state legislatures would all agree that the use of checks in payment of debts is not in any way to be hampered, but rather encouraged in every possible way; admitting the economic value of this highly developed instrument of American banking, then it would seem that any legislation to be equitable to all parties concerned, and sound both from an economic as well as from an accounting standpoint, ought to contain these definite provisions.

First, that the bank of deposit has the right either to send an out-of-town check directly to the bank upon which it is drawn, or to use one or more intermediate agents for that purpose.

Second, that in the case of local checks, a bank shall be permitted to present such check for payment through the Clearing House, and shall not be held negligent if it fails to make presentation across the counter of the drawee bank.

Third, that it shall be permitted to accept in payment the draft of the drawee bank or a solvent credit. It would be necessary to define a solvent credit, which might be done by including a provision that the drawee bank must be open for business for a specified time following the payment of the item.

Fourth, that in the event of the failure of a bank before its exchange draft sent in remittance of checks should be paid, that such draft should be returned to the drawee bank, which should recredit to its depositor's account such checks as were covered by the draft in question, these checks to be returned to the bank from which received, and by such bank returned to the original depositor. This provision would put the burden upon the drawer of the check to look to the receiver of the failed institution instead of placing that burden as it now is upon the payee.

Fifth, the same principle should be applied to checks presented through the Clearing House and charged to depositors' accounts, if the drawee bank fails before settlement is made with other members of the Clearing House.

Sixth, that checks on non-Clearing House members may be presented at the counters of the drawee banks, and the banks making presentation of such checks shall be authorized to accept a draft in lieu of cash, and subject to the same considerations mentioned in the foregoing provisions. Although it is not strictly a part of the subject under discussion, it would not be amiss to include in new legislation a provision that a bank receiving on deposit a check drawn upon itself would have the privilege of returning such check to its depositor the following morning if, at the close of business day of deposit, the check is found to be not good.

But whatever may be the form or intent of legislation ultimately enacted, it should be drawn with very careful consideration of the following facts, which may be submitted as a sort of summary:

All commercial banks receive on deposit checks drawn on both local and out-of-town banks. Relatively only a small amount of currency and coin is deposited. Credits to depositors' accounts consist mostly of checks or of proceeds of loans and discounts. Banks in reserve cities and all large banks everywhere handle daily checks payable on thousands of banks throughout the United States. A large part of these items are payable in what are known as "one bank towns," hence checks by the hundreds of thousands must be and are sent daily for collection and remittance to banks on which the checks are drawn. Other thousands are presented for payment through Clearing House Association.

It is impossible for banks to secure reliable credit information at short notice concerning all of the banks upon which they must accept these checks for collection. It is impractical to send out checks with the request for cash remittance to such banks concerning which the sending bank may be in reasonable doubt. Even assuming that this could be done, and compliance with such requests legally enforced, demands for cash payment could very readily cause damage and underserved injury to sound banks. It would be difficult for such banks to escape the effects which these requests would have upon their credit standing. If persisted in, it would cause serious loss to the drawee bank due to the necessity of keeping an unwarranted amount of cash on hand, this loss in addition to the actual cost and expense of continually shipping in cash. The question of loss and responsibility therefor, only arises when a bank fails. Since there is no legal obligation upon any bank to remit in cash or otherwise, it is only natural that a weak bank, compelled to use every means at hand to conserve its cash position, should disregard such request, and it is obviously unfair to penalize the sending bank for failing to do what actually it is impossible to do, namely, demand and secure cash at will. Under the Malloy decision,

banks of deposit have but two alternatives from which to choose: Either to assume the risk of insuring the solvency of every bank upon which they accept checks for collection, or to refuse all checks offered them on deposit; i. e., go out of business as a bank of deposit.

The disclaimer method of avoiding risks is inadequate because it offers no protection to the payee or depositor, and merely "passes the buck" without getting at the root of the trouble.

Banking practice is sufficiently well established to warrant the enactment of uniform legislation by the various states. Such legislation should be comprehensive and inclusive, and it should be devised with due respect to the rights of all parties concerned in check collection. It must do no violence to established economic and business practice. Primarily, it should be the purpose of such legislation to correct the inequities and limitations of common law based on court decision, which are clearly archaic and out of harmony with modern business and banking requirements.

Clearly it is the duty of the American Bankers Association, through its various legislative committees and sections, and with the aid of state associations, to prepare and present the necessary legislation as soon as possible. We can think of no opposition which would be encountered from any interest involved, nor is the character of the needed legislation subject to much difference of opinion. Quoting again the words of Justice Stone, the situation is "one that can easily be corrected by the Legislature of it desires that the law should be otherwise than we are now finding it to be."

Footnote: A very desirable "by-product" of such legislation as we have suggested would be a provision defining the true intent and effect of a bank endorsement stamp used on checks accepted for credit and collection. There is much confusion at the present time due to the fact that although the matter of endorsements is covered in the Negotiable Instruments Act, that Act does not cover in any way, except by indirection, the problems discussed in this paper, the solution of which might affect endorsements. In providing for a new form of endorsement, it would also be possible to designate a form of endorsement very much shorter, and hence more economical, than the present, "Pay any bank, banker, or trust company—all prior endorsements guaranteed."

The Commercial Banker's Responsibility For His Investment Account

By HUGH H. SAXON, Vice-President Continental & Commercial Trust & Savings Bank, Chicago.

The commercial banker's first responsibility is not to make profits. It's to safeguard his depositors.

When commercial banking was strictly commercial banking, that is, when loans were all short time loans, 60 to 90 days or less, it was comparatively easy to safeguard depositors, if one had the necessary credit experience to determine the quality of the commercial credit risk. Of course there were plenty of men in the banking business who did not have such training and experience, and this fact in part explains why there were so many bank failures. There were other reasons, but this was part of the story.

But to-day commercial banking is not merely commercial banking. Commercial bankers to an increasing degree have bought long-time investment securities for the investment of their funds. Thus, on June 30 1922, 18,232 State commercial banks held investment securities amounting to \$2,289,487,000, including Governments, while four years later, June 30 1926, 16,493 State commercial banks held investment totaling \$3,192,850,000, including Governments. So, under these changed conditions, we have commercial banking with a dash of investment banking.

A number of people have recently been alarmed over the increase in collateral loans and investment holdings by commercial banks. I do not share the feeling of alarm that has been expressed. But I do feel that those of us who are commercial bankers must put ourselves in a position to appraise investment securities as part of our earning assets and as part of our secondary reserve.

It is not my intention to try to talk to you in the jargon of the investment banker or bond salesman. I couldn't if I

wanted to. But I've found myself in a position where I have had to learn more about investment securities than was the case some years ago, and a lot of my friends have told me that they are finding themselves in much the same position.

The old order of commercial banking has changed, at least for a time. The new order means new problems to study, but the old responsibility continues—the responsibility of safeguarding our depositors. We simply have to face this age-old responsibility with the application of new investment principles.

Roughly speaking, investment securities go up in price when money rates go down, and vice versa. This has always been and is likely to be throughout the rest of our lifetime. When money is easy and security prices are rising, there is always the temptation to speculate with bank funds—that is, buy investment securities with an idea of making a profit. The only trouble with such procedure is that most of us are not able to foretell exactly what is going to happen to the money market, and none of us has the right to speculate with depositors' money if we are going to adhere to the cardinal principle of commercial banking—safety first for depositors.

So far as I know, there is no mechanical forecaster that will tell us when to buy investment securities and when not to buy them, or when to sell them. One of my economist friends tells me that there never has been a decline in the securities market when prime commercial paper rates have not stood above 4½% for more than a seasonal period. But as for blast furnace tests or any one of the thousand and one mechanical forecasters, I take no stock in them and main-

tain the old, conservative position that when a banker is buying investment securities he should buy them as investments and not for a quick profit.

While it is true that investment security prices move inversely with money rates, and that when investment securities are rising all investment securities tend to follow the procession, still it is also true that some investment securities move more rapidly than others and they do not all move at the same time. Some even break loose and run in the opposite direction from the course of the big parade. So, as a commercial banker looking into the matter of investment securities, I find it necessary to ask and get answers to certain questions just as if I were the ordinary bond buyer: What is the capital structure of the borrower? What is the earning record of the company over a period of years? What is the quality of the management of the concern? What are the conditions in the particular line of business, if the security is an industrial one? What have been the conditions in the past and what are the future prospects of the industry? These questions, at least, must be answered to my satisfactory before I feel that I can invest some of our depositors' money in the particular security.

Frankly, I do not believe that most commercial bankers are equipped to answer these questions on their own. I know I am not. And I feel sure that the best way is the normal way, namely, to establish investment banking relations with a high grade, or several high grade, security houses which can provide us with detailed analyses. Then we must use our own judgment. Few men have the power to judge 100% accurately all of the time, and I know of no cut-and-dried rule to follow. It is no professional secret that every banker at some time in his career has rejected loans that later turned out to be perfectly good and, conversely, has made loans which he felt at the time of making were sound, but which later turned out to be sour. But the prize comes to him who makes few losses, and we cannot yield to the lure of high interest rates without facing a hazard. The temptation for profits is great, but we must remember—safety first for depositors.

If the investment bankers from whom you buy your securities have a connection with commercial banks and understand the problems of a commercial banker, so much the better. All of which is not an advertisement for some of the New York banks, because the bank with which I am connected has a securities division itself. I find that I am much better informed if I consult this company and use the facilities it has.

Of course, the nub of the whole matter of safeguarding depositors is the age-old question of liquidity. It is our first job as commercial bankers to keep our assets sufficiently liquid. The question of marketability also enters here, but the bond that is marketable to-day may not be marketable six months from now.

We know about our primary reserves and the regular requirements regarding these, but when it comes to secondary reserves, we have the nice problem of not only getting the right kind of securities but also getting them with the right maturity dates.

We know that we are going to have seasonal requirements, and we therefore buy short-time bonds or commercial paper to meet these requirements. But even in the case of our long-time security holdings it is desirable for us to have maturities arranged so that year in and year out the securities that we buy in the expectation of holding to maturity will give us an inflow of funds regularly and at desirable intervals.

In other words, it would not do to load up with everything maturing in, say, 1940 or 1945, because we cannot foresee what conditions will be in that particular year. We should have our maturities spreading over a period of years. Yet you would be surprised to know how many commercial bankers overlook this fundamental point of considering maturity dates when buying securities.

A proper investment account for commercial banks cannot any more be built up in a year than can an acorn grow into an oak in that period. I would not attempt to lay down a formula or strict rule or even to suggest how much of certain classes of securities should be held in your portfolio,

but I have found that some very able bankers in starting to build up an investment account have restricted themselves to bonds of approximately five-year maturity for 20% of what they might expect their investment account ultimately to be. The other 80% is put into municipals and corporation bonds of a shorter maturity or those that have been called.

The second year about 20% is put into approximately five-year maturities and 60% in short-term obligations, and so on into the third and fourth years.

At the end of that time they have 20% of these bonds maturing each year, and have an automatic, revolving investment account.

This plan, of course, may be extended to longer maturities with the same general principle in mind.

Banks will always find a commercial market for its one, two and three-year maturities, because they rightly fall into the class of prime short-time paper. And with its maturities current, it should be able to cash in on short notice, if necessary, 80% of its investment account, if, indeed, not 100%.

Liquidity, of course, ties in with the matter of marketability. Even though maturity dates are well planned, something unforeseen may happen that will cause us to need funds. If we do not have commercial paper maturing at that time, we have to dispose of some of our security holdings. Sometimes we even have to dispose of them without making a profit, but the point is that when we have to sell we should be able to sell. Frequently, listed securities are the most marketable investment securities. On the larger exchanges, such as New York and Chicago, there are usually buyers for the securities offered. Listing on such exchanges is then an indication of marketability, but is not an infallible indication. Sometimes listed securities move very slowly. Sometimes trade in unlisted securities is very active. In other words, there is no ready-made formula to guide us in our testing of a security for marketability, and herein lies another of our problems in discharging our obligation to safeguard depositors.

Frankly, I have come to feel that the inclusion of some commercial paper in our secondary reserve program is ordinarily very desirable. Just how big a proportion of commercial paper, I cannot say. That is a matter for individual judgment.

In the fall of 1924, when money rates were unseasonably easy, due in part to the open market purchases of Governments and bankers' acceptances by the Reserve banks, many banks throughout the country found it difficult to do much more than cover expenses. They were particularly interested in yield and disinclined to give proper consideration to liquidity.

The feeling was perfectly natural and was one that bond salesmen could have used to considerable advantage, but many of the bankers I know felt that it would be unwise, even under such conditions, to give over the standard of liquidity.

And so, under changed conditions of commercial banking that have been due in part to the Federal Reserve System, that have been due in part to the tremendous inflow of gold from abroad, that have been due to the building up of enormous corporate surpluses, that have been due to a hundred and one other causes—many of us who were jogging along comfortably, making short-time commercial loans, find that we have new problems thrown at us for the employment of our funds, whether we will or no.

The old obligation continues; that is, to safeguard depositors. But under changed conditions we have become security buyers. We are investing part of our bank funds in securities as a secondary reserve. We are asked to buy securities for customers and give them investment counsel. And whether we like it or not, in the discharge of these obligations, we must know about securities.

In the investment of our banking funds, we must consider marketability, liquidating maturity dates, as well as price and yield. It is not enough to know what security markets are doing generally; we must know the facts as to each security that we consider. And frankly, gentlemen, there is no ready-made rule that we can follow. We must have

connections such that we can get at the facts behind securities, and we must learn how to exercise that same quality of credit judgment that we have long been accustomed to exercise in the case of commercial loans. Admittedly, the job of forecasting what is going to happen five or ten years from now is more hazardous than is the task of forecasting what is likely to happen within a period of 30 to 90 days, just as it is more difficult to forecast the weather for 1929 than it

is to say what the weather will be to-morrow. However, the very difficulty of this task of exercising credit judgment with respect to long-time investments is merely a challenge to our sources of information and to our intelligence.

I do not know the answer to the problem I have raised, but I do know that the members of this organization will meet the challenge.

Relation of Government to Business

By WALTER F. GEORGE, U. S. Senator, Georgia.

Mr. Chairman, Members of the State Banking Division, Guests: Perhaps I should have talked to you about some phase of legislation applicable especially to your line of business, but I chose rather to talk more in generalities.

Nevertheless you are, as bankers, interested in good government because good business depends on good government and good government depends first upon adherence and fidelity to some fixed principles. In other words, good government must be stable in the first instance.

Perhaps I should not have come to talk to bankers at all on second thought because my previous conversation with the banking fraternity is not exactly of a character to encourage me to believe that I can make much impression upon them. Yet I am going to talk to you briefly about the relation generally of government to business, including, of course, your own business.

As I said just now, stability in government is the first essential and stability of course depends upon some fixed principle. It was said by a philosopher many centuries ago that the principle upon which the State is founded is nothing less than the soul of the State, and so it is, and States may lose their souls just as individuals and they may lose their souls and yet continue to prosper during a period and even to prosper largely, but ultimately they will discover that they have sustained the loss of their chief asset.

A socialistic State recognizes the necessity for capital reserves, but the socialistic State seeks to vest in the State property all accumulations of wealth and necessarily would direct and often misdirect all of the business of the State. The socialistic theory is not so much a denial of the right of the individual in matters of thought and personal conduct but it proceeds upon the theory that the ordinary human being hasn't either the intelligence or the industry to make a living for himself and therefore the State must do it.

A monarchy limited or absolute is based upon the theory that common men are incapable of self government and must therefore be regulated in their conduct and business by those in authority. The theory demands a concentration of power in one man or a group of men, and every attempt to concentrate power unduly is a step in the direction of monarchy. The multiplication of governmental boards and bureaus separates the individual from his government and limits the power of the individual to obtain redress. Monarchy is paternalism.

Democracy is the antithesis of monarchy. It asserts the right and capacity of common men to govern themselves. Liberty is inherent in the individual. It is the indefeasable right of the individual as a responsible moral being. Our constitution is an obvious effort not to create but to safeguard the liberty of the individual. On its restrictive side its main purpose is to preserve those immemorial rights of free men held sacred as against all government, local as well as general. The right of the majority is of course recognized, but the doctrine that a majority may in all circumstances work its will; that whatever the majority at the moment wills to do is necessarily wise and right, has no place in our system of government.

During the World War government entered into the closest co-operation with business and of necessity regulated and controlled trade and commerce to an extent never theretofore attempted. During the emergency the abnormal demand for goods and the fact that basic raw materials were limited and unevenly distributed among the nations

necessarily pressed government into new lines of activity. One result has been the growing disposition to set up trade barriers and to assert the power to regulate, suppress or prohibit commerce. The belief has also grown that self government was well enough for early Americans, but it will not do today. In lieu of adjusting conditions to our theory we are resorting to the stupid policy of changing our theory of government as conditions change. Good business depends upon good government. Stability in government is the first condition of good business. Laws framed to meet the exigencies of every changing condition lead inevitably to political chaos.

In the creation of statutory boards and bureaus the main purpose undoubtedly has been not to hinder trade but to facilitate commerce and promote industry. The natural disposition to grasp power and to extend authority has led to mischievous and harmful interference in the management of private business. Legislation of this day should be turned back towards the Constitution and the Bill of Rights. Self government means the freedom of the individual to direct his life in his own way, with the least possible interference from any source, general or local. It means the maximum of liberty and the minimum of restraint.

Government in America is not reduced to the status of the policeman on his beat. We have not set up the night-watchman theory of government. There must be laws and law making. But there must also be a limitation upon law making. The limitation upon government is that it may not control the individual in his business or conduct except in the interest of the general welfare. The individual may carry on his business and conduct his affairs without let or hindrance and free from the tyranny of petty officialdom, so long as he does not encroach upon the right of his neighbor and does not jeopardize the interest of society. Those who make those who administer laws need to be constantly reminded that the best governed people are the least governed people.

Government is free to prohibit corrupt business practices and to prevent agreements in restraint of trade. The basic principle of self government places upon government the imperative duty to stay corruption and oppression in business and to break down every restraint in the interest of special classes, to the end that the paths of opportunity may be kept open. Authority exists to regulate and control every business affected with a public interest. But every grant of power and every rightful reservation of power is modified by the implied inhibition against the unnecessary and therefore oppressive use of power.

Limitations of time compel me to specify in one particular only. I wish to make some suggestions in regard to taxation and its resultant effect upon our future business prosperity, particularly since the power to tax, as to the amount of the tax, is perhaps the nearest approach to absolute political power under our constitution. Taxes and government have been almost synonymous terms from the beginning. We have no record of government where tribute was not exacted from the governed. Every wise ruler has known that the power to tax involved the power to destroy the productive capacity of his people. While the Government is not limited as to the amount of the tax, the Government is limited in its purposes, and it may exercise

only these general powers expressly granted to it or necessarily implied from the powers thus granted. It must be a sound doctrine that government may impose taxes for a public purpose only, as distinguished from a private purpose, and the amount of the tax which the Government may levy and collect is limited by the necessities of government economically administered, confined to its proper channels. To employ the power to tax for any other purpose is a perversion of government and a denial of the basic principle upon which our system is founded.

Taxes are paid from the accumulated wealth of the people. Wealth cannot be made out of nothing. It must be created by labor. Wealth is the conserved labor of yesterday. So that in the end extraordinary taxes must be paid by the men and women who toil or there must be a diminution of the accumulated wealth and a slowing down of the business of the country.

We must consider our present Federal tax levy is within the principles I have suggested. It is certain that we have a surplus in the Federal Treasury. An occasional surplus may not be avoided but the tax levy has resulted in the accumulation of a surplus in more than one year. While government should live within its income and should seek to avoid a deficit or debt, the Government does not stand in this regard upon the same footing with the individual. The potential asset of the Government is the entire wealth of the people of the country to take that wealth through taxation.

The reduction of the National debt of course accords with common sense and sound ability. As a result of the war the Government expended the enormous total of some forty billion dollars. Approximately twenty-two billions of this total have been paid. Much of it was paid in direct taxes. Our bonded indebtedness has also been reduced since the war. Aside from every other consideration the entire burden of the war should not be thrown upon the present generation. Obviously it is not immediately necessary and manifestly it is not just to do so. Suitable provision has been made for the retiring of our bonded indebtedness. The law is being complied with. Debts due us by the allies with one or two exceptions have been funded. The surplus should be used in part at least as the basis of a new revenue act.

The new revenue act should be simplified so that its provisions may be readily understood by the average tax payer.

The intent of the Congress should be clearly expressed in order that rules and regulations may be avoided.

The tax rate on net profits of corporations should be reduced to 10%. The specific deductible should be allowed all corporations having a net taxable income. Accumulation of a capital reserve is necessary in order to secure the expansion of business and the development of our natural resources. The corporation is of course indispensable in our modern life. The competition from abroad may be expected to grow stronger and stronger. A reduction in this tax will enable American business to maintain American standards of life, to pay American wages, and to meet the increasing competition beyond our borders.

The new act should give proper relief to tax payers whose incomes range from ten to seventy thousand dollars. An equitable reduction and adjustment of our tax rates especially in these brackets should be made.

War time excise taxes should be wiped out. If the Congress is to continue the 80% provision, Federal Estate Taxes should be repealed outright. The 80% provision is obviously a coercive force amid at the States. It has no place in a revenue act and indeed it has no justification under the Constitution. Lovers of constitutional government do not seek to destroy it by indirection.

Democracy offers large opportunity for self-imposed obligations. Unfair practices, agreements in restraint of trade, ruthless destruction of honest competition tend always to incite retaliatory measures, and invite hampering restrictions. The friends of good government among American business men will wisely avoid practices offensive to public opinion. The man who rightly wishes his business to remain free from the tyranny of undue political regulation and desires his Government to attend strictly to the affairs of State may well consider the obligations placed upon business by our free institutions.

When in the interest of the common welfare it becomes necessary to regulate and to control business, the measure of regulation should be reduced to the minimum. Laws should be so simple and direct as to foreclose departmental rules and regulations, to the end that the citizen may live and his business may thrive under a government of laws and not of men. History and our own experience admonish us that we cannot usurp power upon the old plea of necessity and public benefit but that we must remain within the clear limitations imposed by the Constitution.

COMMITTEE AND OFFICERS' REPORTS—STATE BANK DIVISION

Address of President G. E. Bowerman, President Fremont County Bank, Sugar City, Idaho.

A well established precedent, and in some respects an ancient custom, requires the President of his Division to make an annual report which is in the nature of an accounting of his stewardship during his tenure of office, outlining briefly the work of the Division during the past year, and, so far as I am aware, he is privileged, without violating the ethics in such matters, to prevent and comment upon any subject which in his opinion may prove to be of interest to his audience.

There will be no erudite touch to my remarks, nor will I offer a bewildering complexity of facts and figures, and but one trace of sentiment if you so wish to characterize my brief tribute to the Country Banker, from which I ask to be absolved from all personal reference.

I want to talk to you, not altogether as the President of this Division making a formal annual report to its members, but as one son of toil to another, as one small country banker to others in the same category, because my banking life has been spent, and my banking experience gained in the struggle (and it is a struggle) of country banking, and by far the greater part of the time upon the frontier, or in pioneer communities where money was scarce, values unsettled and the country in a more or less hectic state of development. And so I claim full membership in the great fraternity of small town financiers.

I doubt very much if anyone without practical experience in that particular field understands or appreciates fully the problems and vicissitudes of the real Country Banker. The responsibilities of leadership which are either voluntarily assumed, or more often thrust upon him by his fellow citizens who seem to hold him personally accountable for all local progress and development, to encourage and support which, he is expected to make all necessary financial advance in some form or other. Then when he does, what usually happens. When the County Fair or the local hospital blows up leaving nothing tangible but debts, it would surprise the uninitiated to know just how few, if any, of his contemporaries take the slightest interest in the aforesaid tangibles. Yet he carries on, laboring unceasingly for the welfare of his community, and, many times, financially speaking without pride of ancestry or hope of posterity.

After, but closely following, the Country Doctor and the Country Minister, it is my belief that the majority of Country Bankers have opportunity to render a greater service to their communities than the representative of any other human endeavor, because there is something more to banking than being a mere money changer in spite of any belief, real or assumed, to the contrary. You are, if you are performing your full duty, acting as guide, philosopher and friend to all of those you come in contact with, especially those who seek your advice. You may not get your reward here, but if you have kept safe the funds entrusted to your keeping, you will, I hope, get it Over There.

I take it for granted that you all understand the general plan of organization of the American Bankers Association, the classification of its members in groups or divisions representative of the different types of banking. The American Bankers Association has more than 21,000 members of which this Division constitutes more than half, having in all 11,108 members of which 1,483 are associate members but entitled to our service. We take great pride in the fact that we are numerically by far the largest Division of the Association, but conduct our affairs with the smallest annual appropriation made for any Division. Our appropriation for this year was \$17,500, or \$1.57 per member. The active work of the Division is carried on by committees. The chairman of each committee will report to you later in the session, giving a resume of the year's work.

The problems of this Division are those of the great agricultural interests of the country, for the reason that a large majority of our membership consists of country banks, small banks located in the various farming districts, and it is this type and character of bank we are striving hardest to serve.

Covering the period from 1921 to 1926 inclusive, there were 3,124 bank failures in the United States. More than a bank failure a day for every day of the entire time, and each one bringing to its particular community hardship and distress. Three thousand one hundred and twenty-four headstones strewn along the pathway of banking these last six years marking the graves of once presumably prosperous institutions and, what I think is of equal or greater importance, is that each failure lessens in a large degree the public confidence in banking generally.

During this same period, plus the first six months of 1927, there were 5,784 bank charters granted. Some of these represent charters issued to

banks which reorganized after having closed, but in the main represent new banking institutions. It would be interesting to know if all of them served a public need and were under experienced and capable management. Did you ever consider this. All professions require an examination as to fitness before permission is granted to practice. Why not something of this character for those who aspire to engage in banking. The suggestion is worthy of serious consideration.

It is my opinion that, under present methods, the country is, or is rapidly becoming, overbanked. We have, or soon will have, too many banks, too few of which are profitable. I think I can best illustrate the point I am trying to make by saying that a survey made by one state, with 845 banks reporting for the year ending June 30 1926, shows an average net profit per bank of \$1,970. But fortunately these conditions are being corrected.

We may not be willing, at this time, to believe or acknowledge that we are approaching a new order of things, or that there is the dawning of a new day in banking which contemplates and makes necessary fewer, stronger and more profitable banks. This will not affect banks already in existence where they are properly managed and are adequately serving the public but it does in my opinion indicate that fewer bank charters should be granted unnecessary competition discouraged, the elimination of the weaker institutions, and consolidation of the stronger ones.

What with the airplane, automobile, radio, telephone, rural mail and good roads, a change in customs, habits and methods is taking place, of which we are as yet hardly conscious, but the changing condition of business life especially is to me very definite and very real in the constancy of its approach. As applied to the business of the smaller towns, I believe the change will be revolutionary. The tendency of the times is toward centralized control and distribution. This is evidenced in nearly every line of commercial undertaking. Chain stores of every description dot the landscape and with their enormous buying power are rapidly putting the small merchant out of business or making it increasingly more difficult for him to continue. The automobile has reduced the day's journey of yesterday to one of an hour to-day. It is a singular characteristic or attribute of human nature to enjoy transacting business in the larger centers. It's a holiday for the women, an adventure for the children, and an imaginary necessity for the sterner sex. Why should rural banking be exempt from this new and constantly growing influence.

One learns, or at least should learn, many things in the great school of practical experience that are not found in text books, or acquired by listening to technical and theoretical discussions upon any given subject. Banking is no exception to the rule. I do not pretend to any gift of prophesy, or that I have greater power to penetrate the future and forecast coming events than anyone of you here. What I have said, and what I may say is but the result of my observations and convictions, especially in recent years, and my only desire in presenting them to you at this time is that I may possibly be of some service to this part of that great body of men and institutions who have had some part in directing the financial affairs of this country, so that it has prospered as no other country ever did. It's also possible, if not probable, that I have, or may, call to your attention some matters of personal interest to which you have given no particular thought, or which may not have fallen within the range of your vision. I want to say to you without prejudice of any character something that you may not care to hear, something that you may not believe when you do hear it, or, hearing and believing, will be able to convince yourself that you, personally, or your successors will never be affected. It is this:

Branch banking and chain banking as important, if not at this time dominating factors, have taken their place in the scheme of things financial in this country, and are here to stay. Just how far reaching the movement may be only the future will reveal. It seems to me, considering the present movement toward centralized control, and speaking of the future rather than the present, that if Unit Banks are continued indefinitely and individual banking is to be perpetuated in this country, there must be some change in present methods. Banking after all is an individual matter and our destiny, as I see it, is largely within our own keeping. Legislation may at times be helpful, but above and beyond all is the character of the man at the helm. What is needed is that the governing and directing genius of the organization be a man for whom no legislation is needed, or supervision necessary. A man who is a banker in all that it signifies, well balanced, careful, with the courage to say no, and the full realization of the responsibilities of the trust which he administers. Banking, in its final analysis, is nothing more or less than a trusteeship. And so I say again that unless we are to finally drift toward the European system of banking which has already gained such a foothold in this country, it behooves everyone interested to recognize the new conditions which exist, to understand and appreciate that there should be more bankers in the banking business, that there should be fewer and stronger banks, that the general adoption of better banking methods is imperative, that greater care should be exercised in investigating the qualification and fitness of those applying for bank charters, that there should be the establishment of non-political banking boards in every state, and sufficient compensation, and longer terms in office, for bank superintendents, in order that men of the highest integrity and ability, men with experience and understanding may be secured for, or maintained in, such positions.

Successful banking, in all its different phases is predicated upon, and the result of, public confidence. In view of the comparatively recent banking debacle there is primarily but one problem to solve, and that's how to make banking safe for all concerned.

Several years ago the State Bank Division outlined a definite policy as to its activities in order that there might be a co-ordinated and successive line of endeavor which should be carried on until tangible results were obtained. Some of the direct banking problems requiring legislative action, to which much time and effort have been given by the Division, are:

Increasing the minimum capital requirements of banks to \$25,000 (of the 2,235 banks which have closed during the 1920-1926 period, 1,486 were in towns of 1,000 population or less, presumably with small capital equipment);

Granting Bank Commissioners or Banking Boards sole power to charter new banks;

Creating banking boards to act in an advisory capacity with the Bank Commissioner;

Increasing the compensation of Bank Commissioners, lengthening their terms of office to six years with power to appoint necessary deputies and examiners, and making the office non-political;

Empowering Bank Commissioners to take complete charge of, and liquidate insolvent banks as distinguished from liquidation through the courts; Prohibiting, or limiting an officer or director of a bank from borrowing from his bank unless his collateral is first approved by a majority of the Boards of Directors;

Making the issuance of worthless checks a misdemeanor with specific penalties;

Urging uniform state bank legislation and greater efficiency in state bank supervision.

All, or nearly all of these subjects have been presented to you in pamphlet form during the past year and have met with appreciative response from all sections of the country. In carrying on the work we have had the co-operation and active support of many of the bank commissioners for which we are deeply grateful. In one instance the bank commissioners of twenty-seven states ordered quantity lots of a pamphlet for distribution to the various State legislative committees.

The curing of what I think may be termed legislative ills, is usually a slow process, and requires patience, courage, conviction as to the justice of your cause, and what is of greater importance, keeping everlastingly at it. These qualifications are possessed by the State Bank Division. We are confident that our efforts have been beneficial and far reaching in their effects. While much has been accomplished, much more remains to be done. It will be far easier, and the objective more quickly attained, if each one of you will give the best there is in you to hasten the day when bank failures are a thing of the past, or at least become exceptional, and every bank, large and small, shall command and enjoy the fullest measure of public confidence.

One important factor of safety has been neglected by many banks in the past and I presume that in many instances the neglect continues, and that's the diversification of loans. It's a violation of one of the fundamental principles of safe banking if the loans are not diversified. It's self-evident that if a bank lends all of its funds to one line of industry that it must suffer all the fluctuations attending upon that particular line of business. If conditions become bad in that line, the bank loans reflect it. To lend all of their funds upon the resources of their immediate vicinity seems compulsory upon many small banks in the rural districts, but no one can maintain in view of our recent experience, that the practice is sound, and sound banking practice is one of the things most urgently needed.

There is one underlying, fundamental reason why many banks fail, and that's their inability to liquidate the loans previously made. That is a bromide you will say, and it is acknowledged as being such, but none can deny the truth of it. The trouble in some communities is that many of the loans are not loans at all in the strict interpretation of the term, but rather adventurous advances upon the crops of the country tributary to the banking location, which are repaid if, as and when the commodities are safely harvested, and profitably marketed. Otherwise the bank extends the note and prays for better conditions the following year. It is usually not a difficult matter to weather one year of crop failure, of low prices, but a succession of them, such as we have had recently, is largely responsible for the high rate of bank mortality since 1920. It would lift a tremendous load, in times of stress, if all banks would carry something in the way of a secondary reserve.

I believe one difficulty, one contributing factor, to less cautious methods in the small communities, is the strife for business, and the bitterness, and the jealousies which it engenders. I am familiar with more than one situation where the local bankers have not spoken to each other for years, and where, as a matter of so-called principle and established custom one bank is against everything the other bank is for. I am willing to acknowledge that it is the other fellow's fault, and probably no such condition exists in any of the communities which you here represent, but if perchance they should, take my advice, get together and forget it, and for this reason: Of all trades, callings or professions between the members of which there should be mutual confidence and respect and a willingness to assist through an exchange of information, there are none in which these things are of greater consequence than in the banking business. Were this done, in many instances duplication or borrowing, and consequent losses would be avoided. I am emphatically for the organization and maintenance of county or regional clearing houses and I hope each one of you will encourage the movement wherever and whenever possible. It may surprise some of you to know how many of your customers are borrowing from other banks. I think the record is held by one bank customer who borrowed from seven different banks without his activities being disclosed until a county clearing house was established. Then the interested banks got together, bestowed the championship belt upon the individual, took their losses, and were unanimous for an interchange of information thereafter.

There is another thing which I would like to present or suggest for your consideration, and I do this upon my own personal responsibility with no reference to the State Bank Division, and that is the segregation of savings deposits. I think we will all unhesitatingly acknowledge that each and every depositor is entitled to, and should enjoy the same protection. Is there any difference in the object and purpose of a savings account, no matter where deposited. The mutual savings bank carries on its business under the most rigid restrictions as to the character of its loans and investments. These restrictions were devised for the protection of the depositor who was visualized as a person of small means, accumulating by dint of sacrifice a reserve for protection against old age or disaster. Few, if any restrictions are to be found in the vast majority of banks which to-day are accepting savings deposits. The sole restriction remaining in many cases, that of notice of withdrawal, is for the protection of the bank, and not the depositor. Personally, I do not believe we should be permitted to mingle savings deposits with demand deposits, and lend them for commercial purposes. I believe in segregating savings deposits from all other deposits, describing the loans and investments for such funds, and the giving of a first lien to the depositor upon these segregated assets. It has happened in the case of a number of failed banks, that commercial depositors, being in closer touch with conditions, have largely withdrawn their deposits, leaving the savings depositors to bear the greater portion of the loss. Moreover, a bank in difficulties and striving to keep going, could, and usually does, demand notice of the savings depositor while it uses its best and most available assets to meet the withdrawal of demand depositors. The people are beginning to understand this, and I think the responsibility to set their minds at rest is with us.

Just two things more, very briefly, and then I am through, and the first is to express my appreciation and gratitude for the privilege I have enjoyed the past five years of associating with the men who have been most active in this great division. The officers, past and present, the members of the Executive Committee, and the members of the various other committees. No group of men have more unselfishly devoted their best efforts to the upbuilding of the profession to which they belong. No better citizens, no more interesting companions or loyal friends have I ever been permitted to know, and I want to thus publicly acknowledge their many courtesies and kindnesses to me, and thank them for them.

And this, my last, has nothing whatever to do with banks or banking except in so far as it may be our duty to be helpful to others as we travel through this Vale of Tears. The appeal is late because I have never had

such an opportunity as this of making it to you before, but though the appeal is late, the necessity has not altogether passed. It seems very long ago, so rapidly does time pass, but you will all remember with what vociferous acclaim we accompanied the boys to the railroad station on their way to France. How we waved the flag and shouted our farewells. They often left carrying with them promise that their jobs and positions would be ready for them on their return. Many such promises were forgotten when the boys came back, and so this is what I want to ask of you. If there is a worthy and deserving ex-service man in your vicinity who is not doing so well, will you not make a conscientious effort to place his feet upon the pathway which may lead to better things, remembering always that it was his willingness to sacrifice, and the sacrifice made by those who did not return, that gave to us of this generation a new interpretation and a new understanding to the words of the immortal Lincoln: "That government of the people, by the people, for the people shall not perish from the earth."

Report of Federal Legislative Committee, Hugh H. Saxon, Chairman—McFadden Bill and Branch Banking.

Mr. Hugh H. Saxon (Chicago Ill.): Mr. Chairman and Gentlemen: The Federal Legislative Committee of the State Bank Division has co-operated actively with the Federal Legislative Committee of the American Bankers Association. Our activities were confined largely to giving aid in securing the enactment of the *McFadden-Pepper* bill in accordance with the resolutions adopted by the American Bankers Association at the Los Angeles Annual Convention. At that convention, there was a difference of opinion expressed by the membership of the State Bank Division regarding the branch bank feature of the bill known as the *Hull* amendment, but Judge Paton, General Counsel of the American Bankers Association, ruled that the mandate adopted by the general convention takes precedent over and determines the policy of all divisions and sections in determining legislative policies. Hence your committee has actively cooperated with the Federal Legislative Committee of the American Bankers Association, and takes what we feel is justifiable pride in the fact that we played a vital part in securing the enactment of the *McFadden-Pepper* bill.

At the December meeting of the Executive Committee of the State Bank Division, it was apparent that much misinformation existed among our membership on what would be the effect of the *McFadden* bill, approved at the Los Angeles Convention, regarding branch banking. After discussing the matter, we were convinced that the action taken by the General Convention of the American Bankers Association is not only in conformity with the declared principles of the State Bank Division of branch banking, but does, in fact, curb branch banking.

Moreover, the *McFadden* bill, without the *Hull* amendment, seeks primarily to equalize the charter rights and opportunities of state and national bank members of the Federal Reserve System. This is necessary to the continuance of the national banking system which, because of its compulsory membership, is the bulwark of the Federal Reserve System.

As to branch banking, the *McFadden* bill without the *Hull* amendments prohibits the establishment of any state-wide branches of state member banks of the Federal Reserve System. It prohibits both national and state member banks from establishing branches in territory contiguous to the home cities in which they are located. It prohibits a national bank from establishing branches anywhere in any state which does not now permit branch banking. It forbids a national bank to establish any branches in any city or town under 25,000 population, even in states which now permit branch banking. It forbids the entrance to the Federal Reserve System of any non-member state bank with state-wide branches or branches in contiguous territory established after the date of this act. It forbids a state bank, whether a member of the Federal Reserve System or a non-member, to convert into a national bank and retain branches beyond the city limits if such branches were established after the passage of this act. It forbids a state bank, whether member or non-member, to consolidate with a national bank and retain in the consolidation any branches outside the home city of such bank if the branches were established after the approval of the act.

In brief, it denies nation-wide branch banking, state-wide branch banking, country-wide branch banking, and branch banking anywhere in the United States by Federal authority except in a few large cities where state banks are already engaged in branch banking under state law.

As a matter of general information to our membership, it was decided to prepare a special letter to be sent to our membership in each state showing in detail just how the *McFadden* Bill would operate with reference to branch banking in that state. As a matter of record, we are inserting in this report a typical letter, the letter sent to the Kansas membership which reads as follows:

Kansas Members of the State Bank Division:

Much misinformation still appears to exist among our members concerning our attitude on branch banking and the probable effect of the passage of the *McFadden* Bill in the form in which it passed the House of Representatives but with the *Hull* amendments eliminated.

The State Bank Division has repeatedly gone on record against branch banking, and on that subject our members seem fairly unanimous. On the other hand, the discussions at the Los Angeles Convention showed a substantial difference of opinion as to how the passage of the *McFadden* Bill, with or without the *Hull* amendments, would affect branch banking.

After thorough discussion, in which all divisions participated, the American Bankers Association, in general convention, voted to support the *McFadden* Bill without the *Hull* amendments. Thus, the policy of all divisions was established.

Having listened to all the arguments at the debate and having made a careful study as to how the *McFadden* Bill without the *Hull* amendments would affect branch banking in each state, we are convinced that the action taken by the convention in Los Angeles is in conformity with the declared principles of our Division on Branch Banking.

The *McFadden* Bill seeks primarily to equalize the rights and opportunities of state and national bank members of the Federal Reserve System. This is necessary to continuance of the National Banking System which, because of its compulsory membership, is the bulwark of the Federal Reserve System.

Now, as to branch banking: The *McFadden* Bill without the *Hull* amendments forever prohibits the creation of branches outside the limits of the home city of all member banks of the Federal Reserve System, whether or not branches are permitted by state law. In your state, Kansas, where branch banking is not sanctioned by law, the *McFadden* Bill without the *Hull* amendments leaves conditions undisturbed, as they are now. Should,

however, your state legislature change your laws and make branch banking legal for your state banks, the member banks of the Federal Reserve System, whether state or national, would, in the matter of branches, be absolutely restricted to the three cities, which, according to the last decennial census, has a population of 25,000 or more; that is to say:

1. There are no cities in Kansas of 25,000 to 50,000 population.
2. Only two branches each in the two cities (Topeka and Wichita) of 50,000 to 100,000.

3. In Kansas City, the one city with over 100,000 population, the number of branches would be limited to such branches as obtained the approval of the Comptroller of the Currency; and

4. In the remaining 524 incorporated cities, towns, and villages, with population under 25,000, there could be no branches of banks in the Federal Reserve System.

In other words, the *McFadden* Bill without the *Hull* amendments limits the number of branches in Kansas to two cities outside of Kansas City, and in Kansas City the number is subject to the approval of the Comptroller. It is unlikely, therefore, that enough influence could be exerted by the bankers in these three cities to change the present law in the state in regard to branch banking.

This Division will continue to defend vigilantly the interests of the independent banker and will, as in the past, oppose every effort to extend branch banking in your state or in any other section of the country.

State bankers, no less than national bankers, recognize the necessity of preserving the Federal Reserve System. State bankers neither need nor expect legislation of special advantage to them over their national bank neighbors.

Inasmuch as the *McFadden* Bill without the *Hull* amendments would help preserve the integrity of the Federal Reserve System by equalizing the opportunity between the national and state banks and at the same time by putting definite limitation to the expansion of branch banking would in no wise conflict with our oft-expressed opposition to branch banking, I feel we should all support the action of the American Bankers Association at the Los Angeles Convention.

I am, therefore, in conformity with a resolution unanimously adopted by the Executive Committee of our Division at its Chicago meeting December 16-17, at which every member was present, writing you as a member of our Division to get in touch immediately with your Congressman, explain to him the situation in your state and ask him to support the *McFadden* Bill without the *Hull* Amendments.

Sincerely yours,

G. E. Bowerman.

(And signed by each member of the Executive Committee of the State Bank Division)

We are happy to report that this letter met with the general approval of our membership and judging from the resultant voluminous correspondence, did much to clarify the situation. Following this, several members of your committee, including Vice President Malott and Secretary Simmonds, personally visited the Capitol and called on members of the Senate and House and were helpful in securing the enactment of the *McFadden* Bill.

The *McFadden* Bill is undoubtedly the most important piece of Federal Banking Legislation since the passage of the Federal Reserve Act of 1912.

The perpetuation of the charters of the Federal Reserve Banks is in itself momentous in its importance, for the Federal Reserve Banks' System has been given American business and banking the assurance that legitimate credit needs can be met at all times. It has brought an end to money panics. It has introduced a system of elastic currency. It has provided mobility of reserves. It has expedited bank clearances through telegraphic transfer of funds throughout the country. It has reduced the time necessary for the collection of checks. It has made possible the establishment of a broad discount market and has given American business the bankers' acceptance—a seasoned instrument of credit that financed last year more than a third of our total foreign trade. It has provided the means for handling huge financial operations of the government without disturbing business. It has aided in the re-establishment of the gold standard in foreign countries. It has provided the means for speeding up business when it is slow or checking speculation when it threatens our national welfare. In short, it has provided a system of bankers' banks that, for the first time, are in a position to adequately provide the reserve accommodations that the banks require.

Your Committee is glad to report that we were helpful in cooperation with others in securing the amendment to the first paragraph of Section 9 of the Federal Reserve Act in inserting the words "Pursuant thereto" in the last sentence, so that it now reads:

The Federal Reserve Board, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a stockholder of such Federal Reserve Bank.

Your Committee also urged Congressional action giving state bank members of the Federal Reserve System the same rights to act as government depositories as are enjoyed by the national banks. Owing chiefly to the crowded calendar in the short session of Congress, we were unable to secure this recognition. We plan to urge the recognition of this right at the next session of Congress.

The year has been one of interest and activity for your Committee and we feel that much has been accomplished. We are appreciative of the splendid support and cooperation given us by the officers of our Division and the American Bankers Association.

Report of Chairman of State Legislative Committee.

Mr. L. A. Andrew (Citizens Savings Bank, Ottumwa, Iowa): Your State Legislative Committee has been working with the Committee of the A. B. A. and during the past year we have had meetings with forty-one state legislature committees. We have taken the opportunity to present to every one of these legislatures through the committee's the findings of the Division over a period of research during the last four years, which you will remember has been along the line of better banking and for stronger and better banks. These researches have been put in pamphlet form by our Deputy Manager and were in great demand in every one of these State legislatures. They were presented to the State committees and used with great success in getting through proper legislation. There is still a great field for this work. I want to say that I predict that the speech you heard to-day from Mr. Stephens in regard to supervision through regional clearing houses will have a great result throughout the country. I believe as a State bank commissioner that this is the real solution of proper supervision and I wish that every man here would give it particular study.

Report of Public Service Committee.

Mr. M. Plin Beebe (Bank of Ipswich, Ipswich, S. Dak.): Mr. President and Gentlemen: This will be real brief. I will not read my report to you verbally.

Our committee has this year published three different pamphlets or little sermonettes gotten out by our friends Hazelwood, Stephens and Malott. The covered "Better Banking," "Service Charges," and "Credit Files for Country Banks." These pamphlets have been very readily received by all the banks of the country and we have had a great many orders for them so far and some banks have even wanted them to send to all their customers.

We have also put on a drive for each bank to have a credit file on every borrower with unsecured loans of \$500 or more. We have had the unanimous co-operation of every bank superintendent in the United States in this matter and they have, I believe, passed the good word along to all their banks.

We have also made a study of the failures in the national and state banks of our country and that has also been put in the form of a paper.

Last of all we just make these recommendations:

It is the opinion of your Committee that it would be worthwhile for us to continue the campaign for less free service on the part of banks on the theory that the workman is worthy of his hire; also, to make a study of the advantages of diversity of investments, and to conduct an educational campaign along the line that it is to the bankers interest to sell bonds and other securities direct to their customers in preference to allowing bond houses to do so. Respectfully submitted.

Report of Committee on Resolutions—Installation of Country District Clearing House Associations Endorsed.

Mr. Grant McPherrin (Central State Bank, Des Moines, Iowa): Mr. Chairman and Gentlemen of the State Bank Division: Your Committee on Resolutions desires to commend the splendid campaign that has been so successfully carried on during the past few years by the State Bank Division

looking towards the securing of greater uniformity of equitable banking legislation in the several states, and more uniformly efficient State bank supervision, and making the office of bank commissioner as free from entangling partisan politics as the judiciary itself.

Also, in the interest of better banking, your Committee desires to heartily commend the campaign that is being carried on by the Clearing House Section of the American Bankers Association for the installation of country district clearing house associations, having for their purpose closer local co-operation of bankers and thus bring about better, safer and sounder banking.

We pledge the officers of the Clearing House Section our heartiest support in carrying forward this commendable program.

Your Committee also wishes to heartily commend the work of the officers of the State Bank Division for the splendid services which they have rendered our entire bank membership during the past year.

Respectfully submitted and signed

GRANT MCPHERRIN,
W. P. O'NEAL,
P. B. TIMPSON.

[The motion for adoption of the resolutions was seconded and carried.]

Report of Committee on Nominations.

Mr. Dan V. Stephens (Fremont State Bank, Fremont, Neb.): Mr. Chairman, your Committee on Nominations beg leave to report as follows:

We recommend for the office of President, Mr. M. H. Malott, President, Citizens State Bank, Abilene, Kansas.

For Vice-President, Mr. S. J. High, Peoples Bank and Trust Co., Tupelo, Mississippi.

For the three year term of the Executive Committee members we nominate Felix M. McWhirter, President of the Peoples State Bank, Indianapolis, Indiana and Mr. W. A. Hunt, President of the Citizens Bank & Trust Co., Henderson, North Carolina. For the one year term Mr. T. O. Hammond, Vice-President of the Montana Trust & Savings Bank, Helena, Montana.

[The motion to adopt the report was seconded and carried.]

CLEARING HOUSE SECTION

AMERICAN BANKERS' ASSOCIATION

Twenty-First Annual Meeting, Held at Houston, Texas, October 25 1927.

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The Clearing House: The Preserver of American Independent Banks.

By C. A. CHAPMAN, President First National Bank, Rochester, Minn.

A former president of the Clearing-house Section of the American Bankers Association once declared that "The Section is rapidly becoming what it should be—the banking laboratory of the fundamental principles and practices of the membership of the American Bankers Association."

He had in mind the use of the Clearing-house Section as a laboratory for investigation and experimentation comparable to similar organizations to be found in the various divisions of industry and commerce.

He believed that the Section should be the academy of practical banking. If that be the function of the Clearing-house Section, and all seem to concur that it is, we have a right here to make inquiry along the lines of the present subject.

The independent banking system of the United States should and does engage the satisfied and approving attention of the business world. It is composed of individual institutions having corporated structures provided for specific purposes and functions, the authority for which is derived either from the state or national governments. These individual institutions are organized in response to local needs for special service and the capital for each is advanced in the main by the officers, directors, and patrons of the respective institutions in the immediate locality.

The service provided includes segregated and departmental savings, commercial banking, all forms of credit and exchange, together with every imaginable form of fiduciary service. The capital and surplus of these institutions is in excellent ratio to the deposit liabilities and assumed obligations of the individual institutions.

The service is everywhere in the hands of carefully-selected highly-trained, and broadly-experienced men who regard banking as a profession, who keep their own affairs and personal ventures distinct and separate from those of the institutions of which they have charge. They yield constant and implicit obedience to boards of directors who in their turn give their institutions unremitting, detailed direction and supervision.

The officers and directors everywhere cooperate actively and voluntarily with the national and state departments having the supervision of banks. This supervision is carried out through large staffs of highly-skilled and experienced examiners whose professional knowledge of banking and the values and conditions in the districts which they serve eminently fit them for their onerous duties.

All these independent banks are members of the Federal Reserve System acknowledged throughout the world to be the best banker's reserve and rediscount cooperative which has ever been contrived.

In addition to governmental supervision and membership in the Federal Reserve System, all of these independent banks are also members of their respective city or district

clearing-house associations. Here is undoubtedly the supreme accomplishment of all times in the financial field, unless branch banking combines better attributes as some claim.

These clearing houses are voluntary associations built upon the broad foundation of professional solidarity, ethics, and common group interest. They are either formed out of institutions located in specific cities or out of groups of banks serving one or more counties, so that every bank in the United States is voluntarily a member of a clearing-house association.

Those associations voluntarily undertake a number of indispensable functions which may be enumerated.

First.—Each association has a credit bureau wherein is centralized all detailed credit information covering the entire field of the association. This eliminates the former practice of duplicate borrowing and shopping by borrowers from bank to bank. It also centralizes information as to undesirable and unprofitable accounts.

Second.—Each association realizes that a safe and sound bank is one which is making liberal profits, otherwise it cannot sustain unavoidable losses. Each association, therefore, conducts a continuous analysis of profits, compensation, and expense in order to eliminate inordinate costs and discover deficiencies in remuneration for service.

Third.—Each association examines into and restrains destructive, out-throat and predatory competition among its members. It discourages promotional banking and such practices as breed insecurity and hazard.

Fourth.—Each clearing house examines into taxation, fixes the hours for doing business, and intermediates among the members whenever found necessary.

Fifth.—It provides a system of examination carried out by the aid of an adequate staff of highly-trained and broadly-experienced bankers devoting their lives to the specialty of bank examination. For the use of these clearing house examiners and executive committee there are weekly statements of resources and liabilities and operations in detail furnished by each member bank together with copies of the reports of examinations of state and national bank examiners furnished with the consent of the examined banks and the supervising departments. In addition there is the central credit file and the central liability ledger consolidating all the lines of all the borrowers operating within the territory served by the member banks within the clearing house.

Sixth.—Directing the work of the clearing house examiners and determining policies and remedial measures there is the executive committee of each clearing house association composed of five or more committeemen elected by the members of the association for terms of years. It is the function of the executive committee to learn of abuses on the part of members, of disregard for the tenets of banking ethics and infractions of the rules of good banking practice or the employment of unsafe methods and to make recommendations or apply remedies. To all of this the members voluntarily assent. This executive committee has the wholehearted support and cooperation of all the members of the clearing house association who aid and assist the examiners in every way for the common good.

Seventh.—Each association combats the organization of promotional banks or the creation of institutions for which there is no public necessity and continually brings its influence and prestige to bear on banks which do not comply with the best practice and ethics. The clearing house supports its members in adversity so long as they are able to marshal good assets and display the foundations for credit. It acts to stabilize and support the member institution until it is again able to stand in its own strength.

Eighth.—Each association presents to the public a solidarity in the banking group which invites and supports the public confidence. It is able to speak collectively and authoritatively to the public for its members and the profession as a whole and to act instantly in emergency for the public benefit.

Ninth.—It maintains the necessary systems of protection and where necessary installs intercommunicating burglary-alarm systems, policing, transportation of money and securities, and, in general, presents a solid

front to the criminal world with which it makes no terms and with which it will neither settle nor compromise even on restitution.

Tenth.—It conducts continuous study through appropriate committees of all local conditions in which it participates, investigates new methods and new practices, and keeps itself abreast of the best banking knowledge applicable to the local needs.

Concluding the functions and accomplishments of this superlative system let it be said that no depositor has ever lost a dollar through failure or insolvency of a member.

You are naturally surprised to thus hear that the millennium has come in banking and that ideal conditions are universal. They are not, it is true. I have painted with the brightest pigments gathered here and there over the entire country. I have painted a horizon composed of the high peaks of the whole range of achievement. I have assembled as one composite whole, the disconnected and widely-separated accomplishments throughout American independent banking. Unfortunately there is as yet no coherence or integration. Still we ought to have them. We could possess both the mechanism and the spirit to use the mechanism if we really wanted them.

As a matter of fact, and on the contrary, we have been for six years past and now are in a trying and critical situation. In many states we have been frankly told by the legislators, and in the nation as a whole it has been flatly declared by congressmen that unless the bankers clean house and put themselves in order we shall no longer be allowed to run our own business unrestrained. Legislators declare that unless we organize and stabilize them, themselves, will take a hand in the field of invention and experimentation in finance. They have already acted upon these threats in some quarters and we have had to flounder in the immoral morass of bank guarantee with all of its false pretensions and its final complete failure wherever tried.

There has been something distinctly wrong with us in both spirit and material. In the seven years including 1920 and 1926 three thousand one hundred twenty-four banks failed out of a total of thirty thousand eighty-six. Investigations have been under way under both public and private direction to learn the causes for this catastrophe.

The American Bankers Association has itself undertaken an investigation under the direction of O. M. W. Sprague, professor of banking, Harvard School of Business, and his report will soon be forthcoming.

With the subject of general economic conditions surrounding and underlying this period of failures we shall for the moment do nothing but address ourselves to the faults which are self-contained within our own professional group.

Unfortunately my first picture covered only a little portion of the situation for there are less than 400 clearing houses in the United States and only a fraction of these employ examiners. Outside these Examiner Clearing House Associations there has been a holocaust of destruction. The total loss is believed by some authorities to exceed the total capital of the American banks as of 1919. What underlying causes exist for which we, ourselves, as bankers, are responsible? That is our chief inquiry here.

In the first place, we promoted too many banks especially in the agricultural districts. There were no clearing houses to oppose this promotional expansion. Bank equipment concerns looking for sales, promoters seeking funds to exploit, men hunting bank jobs, politicians cultivating voters, the public wanting more banks in which to duplicate, all combined to do their deadly work in the inordinate multiplication of banks.

The competitive situation thus created resulted in two great fears which in different degrees possessed all bankers. They began to fear their own customers whose business they desperately needed to make their profit and loss accounts balance. They feared greatly their competitors lest they take this business away by bidding more for it in interest rates or free service. For fear these competitors would desperately beat them to the goal they, themselves, did the dangerous thing first and loaned too much money on too little collateral.

The "great freeze" followed. There were too few clearing houses to furnish the prevention necessary to restrain this frightful situation, to eliminate the bad practices, and to discourage excessive, ill-advised loans, and unrestrained competition.

The absence of clearing house facilities resulted in rates of interest on time money running in some districts as high as eight per cent, as well as uncovered loans on second mortgages, loans on contracts for deed, on option contracts, and on almost any sort of documents or interest or value however fugitive.

When these loans began to turn "sour" the banks followed them up hopefully and redeemed from foreclosures of prior mortgages and senior judgment claims. We soon beheld the spectacle of the entire capital and surplus and in hundreds of instances a considerable part of the depositors' money represented outright by "other real estate," in bank statements.

Banking supervision got along the best it could using compulsion where law infraction existed and in addition whatever suasion it could muster, to secure replacement through voluntary assessments of the destroyed capital and to eliminate the frozen assets. Supervision worked against the meddling of political intervention constantly sought by the banks which were under pressure and it was remarkable that any measure of public confidence was retained at all. Public confidence seemed to be the most stable and secure factor in the entire situation. Very much credit is due the public for its faith and its restraint in the face of the situation, through six gruelling years.

Fortification against repetition of the experience is to be sought in a tremendous enlargement of cooperation among the bankers themselves. Scattered throughout our great professional group over the whole nation there is a positive opulence of experience, of special knowledge, of expert training, and of good advice. This wealth of learned counsel only awaits the setting up of a common treasury in which it shall be available to all. Such a treasury is the clearing house with the examiner adjunct. Shall we use it?

So convinced is the Clearing House Section of the undoubted value of the cooperative remedy that it has in recent years addressed itself primarily and chiefly to two great endeavors. Its leaders have been convinced that these alone can save the independent banking system of the United States. The first of these projects is the formation of new clearing house associations in every town having two or more banks and the formation of district clearing house associations so that every bank in the United States shall be a member of a clearing house. The second project is the institution of clearing house examination including centralized credit files and borrowers' liability records.

We are being crowded into close quarters for the immediate election of one of two alternatives. We must choose either independent banking cooperatively followed and functioning through some system of examiner clearing houses or else accept some system of branch banking or government-managed and directed banks.

In the face of this critical situation there are still some members of the banking group here and there who are so purblind, so self-willed, so suspicious of their fellow men or so outworn and obsolete as to ignore or actually oppose the inevitable evolution of American banking. It is not enough to say, "We don't need a clearing house here. There are only two banks and we agree fine," or, "Yes, we probably need a clearing house association but we had a meeting and out of the twelve, one seemed opposed." There are even some who insist that they can "go it alone."

None of these will be allowed to further play dog in the manger. Irresistible social forces are at work. The time has come, and it is now here, when we must either cooperate with each other in the day's work or be eliminated. Public opinion demands it. Legislation is even now being framed to compel it.

There is a type of individuals constitutionally unable to cooperate with its fellows. There are those engaged in banking who persist in regarding those who share the same field of endeavor with them as enemies and who regard their own institutions as fortifications from which to issue armed to the teeth for the fray and their profit accounts as merely war chests for combat. These men will have to be left out of the account. Their self-elimination is inevitable. They have destroyed themselves by hundreds and the survivors are doomed by the forces of progress. They cannot continue as intense individualists segregated from

their fellows, dependent upon their own invention and schemes and rarely conferring or studying to acquire the new methods, compelled by fast-changing conditions. In the cities conditions have compelled cooperation. Dense populations in close contact have made clearing houses absolutely indispensable. They are soon to be indispensable everywhere.

How shall we go about it to protect and retain America's independent system of banking, and to that end set up the necessary city, town, and district clearing house associations to supply existing deficiencies and give back to the American system its deserved supremacy?

To accomplish this worthy task the entire American banking fraternity will have to support the Clearing House Section in a systematic campaign of field-work in which the state representatives of the Section shall take the direction and with well-selected and thoroughly sold committeemen induce the necessary organizations of new clearing houses in towns and districts as rapidly as possible. In this work the State associations can render invaluable aid.

What form shall they take? Dan Stephens and his associates of the Fremont, Nebraska, District, are leading the van in the organization of a district clearing house association covering a group of counties. It will employ examiners in cooperation with the Nebraska State Banking Department. This association will be voluntary but it is the hope of its membership that ultimately it may be able to compel membership and discipline throughout its entire area. Its pioneering efforts as a district examiner clearing house will be watched with keen interest throughout the United States and it should not be allowed to remain alone for long in its endeavors.

It will not be difficult to secure the cooperation of the governmental agencies wherever required. The consent of member banks in the clearing house associations should be secured to the furnishing of duplicate examiner's reports from the state and national authorities and these will be useful to the clearing house executive committees.

The executive committees will find it necessary to set up definite standards as to the ratios of capital to deposits, to determine the amount of fixed assets permissible to the members including banking house furnitures and fixtures, and other real estate to limit concentration of loans and to standardize in other directions which the membership shall determine from time to time.

The plan can be initiated by associating together the necessary number of banks to afford a total of resources sufficient to support the necessary expense. This may include two or three cities or one or more counties. At the outset it may be found advisable to rely wholly upon weekly reports provided by the member banks together with copies of reports of the examinations of member banks by state and national department.

Later the examining service may be extended by employing clearing house examiners. It is believed that the simplest organization expense when spread over a sufficient number

of banks need not be annually more than 20c per thousand of resources. The complete system with the necessary examiners, office and office help may possibly call for as high as 40c. per annum per thousand of resources. Whatever the cost it will prove a genuine productive investment.

It is the plan of the Clearing House Section to formulate and recommend a model constitution and by-laws and to induce uniformity as far as possible throughout the United States. One of the important reasons for this uniformity is that it will obtain for clearing house practice recognition as "law merchant" by the courts.

It will not be found possible to secure 100% membership from all the banks in a given district. Banks which will not cooperate may at the beginning be omitted until public opinion compels them to yield. Banks which cannot keep reasonable and safe standards should not be admitted because of the assurance which the association extends on behalf of its membership to the public. County and city credit bureaus as now constituted are invaluable. They are, however, but the door-step to the clearing house and should be incorporated within it as soon as possible.

It would appear objectionable to legally incorporate such clearing houses or in any way deprive them of their voluntary character. What we need to-day is a spirit of whole-hearted and eager acquiescence. State and national supervision and its compulsions have been carried to the extreme limit of their value. If the clearing house becomes in any way an adjunct to public bank supervision, formalism and pragmatism will take possession and the true cooperative spirit of the clearing house will take flight. Public supervision can at best make only relative examinations applied to individual and separate banks.

What we need now is a comparative examination in which the conditions and details of all the banks within a given territory shall be assembled, digested, and made the basis of acceptable standards, recognized practices, and indicated correctives. The best of each will then be made available for all. The strength and support of all will be made available to each one so long as it remains deserving through good discipline, good practices, and recognized ethics.

Then antagonisms will be eliminated, friendly intervention provided, the great god, Fear, thrown down from his pedestal, the public confidence earned and deserved, the communities' credit and financial power truly mobilized, bank guarantee and other legislative nostrums relegated to the museum.

Then the foundation will be laid for a new era in which banking shall come to recognition as a learned and ethical profession. It will make its mistakes but will know how skilfully to correct them. It will have its times of stress but will be fortified against them, and with diversification and diffusion of risk, the possession of common counsel and recognized aims of skilled service adequately compensated we shall again come to be proud of our day's work, and the depleted prestige of banking will be restored.

How Co-operative Bank Advertising Cuts Cost and Builds Business

By FRED W. ELLSWORTH, Vice-President Hibernia Bank & Trust Company, New Orleans.

Modern banks, by constantly adding to and improving their functions, and by the inexorable urge of competition, are gradually but inevitably standardizing their service, so that the average customer can now be sure of adequate and competent attention regardless of the bank that he chooses.

As concrete evidence of this standardization, we find that the details of their major facilities have become common to practically all up-to-date banks. Each has its commercial department for the convenience of local and regional trade, its foreign department for international transactions, its savings department for the thrifty, its bond department for the investors, its vault department for the safe keeping of valuables, and its trust department for handling the fiduciary needs of its customers.

Now we as bankers are familiar with these trite facts, but the general public is not. Yes, although millions use the banks, those same millions are largely unaware of the wide variety of invaluable services that are theirs for the asking. The savings depositor, *as a rule*, knows nothing about the checking account and its constant convenience; the commercial depositor, *as a rule*, does not know that "for less than two cents a day he can have his valuable papers safeguarded in a fire and burglar proof vault"; the patron of the foreign department, *as a rule*, has not the faintest idea that the trust department can save him time and money and worry to-day, and assure his loved ones a dependable competence to-morrow.

And all this is *our* fault. We bankers have been so diffident about preaching the "gospel" of sound banking service

that while there are millions who do use our facilities, there are also other millions who do not, but should—and not merely for the purpose of satisfying our selfish desire for more business, but because by such contact they are contributing to their own comfort and happiness.

True, in the last decade or two, we have enlarged and improved the broadcasting of our message. Thanks to the constructive educational enterprise of the American Bankers Association, the Financial Advertisers Association, and several high-class agencies that have specialized in financial advertising, our banks now are publicly telling their story far more consistently and persistently and effectively than ever before. And their recent remarkable growth, in part at least, can be credited to this intelligent publicity.

However, despite the present maximum effort to "sell" banking service, we know that our people are *not* as thrifty as they should and could be; they use the bureau drawer and the pantry shelf far more than they do the safe deposit vault, and more than 99% of the people know little or nothing about the trust department.

What's the matter?

The World War, with its tremendous example of co-operative effort, taught our people how to save as they never had saved before.

Money in the savings banks prior to the war was approximately \$4,500,000,000; to-day the total is \$9,500,000,000. This means of course that the education in thrift by means of constant advertising produced greater results in a few years than were produced in all the century or more previously. During 1918-19 our people saved by means of Thrift Stamps and War Savings Stamps considerably more than \$1,000,000,000, and this of course was made possible by concentrated and comprehensive advertising. But even with all this development, our people have on deposit in the savings banks barely \$90.00 per person.

Banking institutions have accomplished and are accomplishing a great deal by way of educating our people along sound economic, financial, and fiduciary lines, but most of this advertising is essentially individual, and obviously for the plain purpose of building the business of the individual bank.

In various cities numerous efforts have been made by forward-looking bankers to get together on some form of advertising plan whereby the banks and trust companies, acting as a unit, could spread the gospel of intelligent, constructive thrift, and of beneficial fiduciary service.

A few of these efforts have been successful, but none of them has been continued permanently. Unfortunately in some instances there has been failure principally because of local jealousies, or of improperly drawn basic plans.

In New Orleans, however, there exists a conspicuous example of what banks can do by actually getting together and co-ordinating in a big, broad way on a definite, continuous program. This New Orleans plan is achieving the five-fold purpose of:

- (a) Building mutual good will among the banks.
- (b) Spreading in the community the gospel of sound thrift and intelligent fiduciary banking.
- (c) Eliminating programs and practically all other undesirable "complimentary" advertising.
- (d) Saving advertising expense.
- (e) Producing substantial new business for the participating institutions.

Here is the way the plan operates:

Each participating bank is represented by one of its officers on a committee known as the Associated Banks' Advertising Committee. This committee meets at lunch every Tuesday and swaps experiences had during the week with industrious advertising salesmen, discusses general policy, new plans, advertising copy, applications for so-called "complimentary" or "graft" advertising, and other essential details.

One of the members of the committee acts as chairman and another secretary, each of whom serves during "good behavior." The secretary makes a complete record of each meeting and sends to each member a copy, which ultimately is lodged with the Advertising Department of each of the respective banks.

The arrangement between the banks is quite informal and can be discontinued at any time, except insofar as the several banks are jointly obligated on contracts. And nothing in the arrangement interferes with or in any way affects the advertising policies of the respective participating institutions, or the individuality of their advertising. Nor does the arrangement prevent any of the banks from conducting whatever independent advertising it may desire to carry, whether it be on behalf of its Savings Department, its Trust Department, or any other department or feature of its service.

The joint advertising in the New Orleans dailies appears according to a definite schedule, and one advertisement is published every business day in the year. Each advertisement occupies space of approximately 450 lines, or three columns in width by about ten inches in depth.

The arrangements for the preparation of copy are very simple; the Advertising Department of each bank in turn takes charge of the preparation of the copy for two months at a time.

The qualifications of the various trade, religious, fraternal, and other periodicals published in the New Orleans territory are very carefully investigated by the committee, and when by unanimous action it is decided to use any one of these papers, a joint contract is made similar to that which obtains with regard to the newspapers. Whenever, after a thorough analysis, it is determined that any particular paper does not offer sufficient advertising value, the banks agree not to advertise in it.

It is a well-known fact among all buyers of advertising that the woods are full of "fake" and "graft" advertising propositions of all kinds.

It is equally well known that many well-meaning people interested in entirely worthy enterprises of a public or semi-public or charitable nature, are so short-sighted as to offer space in programs, year books, church bulletins, school and club papers, fraternal publications, catalogs, etc., ad infinitum, ad nauseum, endeavoring thereby to shoulder off the cost of such publications on to easy, good-natured, but unbusinesslike advertisers.

One of the functions of the New Orleans Associated Banks' Advertising Committee is to eliminate this undesirable practice, and those who realize how firmly embedded these gentle forms of "graft" have become in the business world, can understand that it has been no easy job. Every application for this form of "advertising" is required to be made in writing, and submitted to some member of the committee, who, in turn, presents it for consideration at the next meeting, where in due course it usually is swiftly but painlessly decapitated. And it can be added that the number of these applications has materially decreased since the committee began to function.

The actual cost of the joint advertising campaign in the New Orleans newspapers approximates \$1,000 per month, or \$12,000 per year. Each bank pays a proportion of this total based approximately on the proportion that its deposits bear to the total deposits of all the banks. Bills are rendered by the several newspapers in total, and one of the banks acts as a clearing house, makes the necessary analyses and then submits the bills to the several banks.

By this means, the New Orleans banks are telling to the New Orleans public the story of continuous, intelligent thrift, and the story of competent and confidential fiduciary service in a big, broadminded way, continuously, logically and effectively. Moreover, the banks are thus getting larger space in the newspapers at a considerable saving in individual cost.

Obviously, because the advertisements are not keyed, and are all necessarily general in their nature, it is impossible to trace specific results from this advertising, but the New Orleans banks are well satisfied with apparent results.

The fiduciary business of a trust company naturally is hard to measure, but it is interesting to note that since the

New Orleans banks began their joint advertising campaign back in 1919 the amount of fiduciary business handled by the New Orleans banks has more than trebled.

By the same token, during the same period, the savings deposits in the New Orleans banks have more than doubled.

Of course it is idle to assume that all of this increase in business has been due to the cooperative advertising carried on by the local banks, but it cannot be denied that during the time that this cooperative effort has been in force New Orleans banks have enjoyed a far greater growth than ever before in the history of the city—and New Orleans is more than 200 years old.

Most of this increase can be credited to the growth of the city and its environs, and to the development of its port activities, but New Orleans banks are so well satisfied with this community endeavor that they propose to continue it indefinitely.

Furthermore, in advertising to the people of their city and State in the cooperative method described, the New Orleans banks believe that, while serving themselves, they are also performing a worth-while public service in a larger, broader and more altruistic sense—a service that will produce future dividends in a prosperous, substantial and intelligent citizenship.

Declining Income and Rising Banking Costs

By JOHN S. LOVE, Superintendent of Banks, Jackson, Miss.

Declining income and rising banking cost are causing the thinking banker considerable concern.

These are the incorrigible twins, which have the country banker in particular wondering how he will be able to provide funds for the next annual dividend to be paid shareholders.

The diminishing income is serious enough without the accompanying specter of rising cost of operation. The unholy combination brings us face to face with a situation which is serious in the extreme.

Upon the satisfactory solution of the problem largely depends the future of many of our banking institutions, particularly the country banks.

Let us examine the question in the light of actual facts and figures:

Statistics on bank earnings published by the Federal Reserve Board and Bank Commissioners of several States run counter to the somewhat popular notion of large net earnings in times of prosperity.

The figures of the Federal Reserve Board indicate that while the gross earnings of banks in the System increased during the last half of 1926, the net earnings diminished.

During the first half of 1926, the net profits of the member banks of the System averaged 9.34%, but in the last half of the year their net profits, notwithstanding the larger gross earnings, decreased to the rate of 6.52%.

In my own State of Mississippi, during the last five years, there was an increase of 20.2% in the gross earnings of the 312 State banks, but during the same period the net earnings of these same banks increased only 21.6%. In other words, though the volume of business materially increased, net earnings did not rise in the same proportion.

The cause is not hard to find; it is the old story of many leaks, each in itself of relatively small consequence, but of alarming proportion when viewed in the aggregate. It would appear that the decline in net earnings of members of the Federal Reserve System is due to the increase in interest paid to depositors, as well as increase in salaries and other operating expenses.

The decline in net earnings in the State banks operating in Mississippi is due largely to the same cause, together with the added increase in taxes paid by these banks.

During the five-year period mentioned there was an increase of 10.5% in taxes paid; an increase of 26% in salaries and other expenses; an increase of 80% in interest paid on deposits; all of which materially affected net earnings, notwithstanding there was a 66 2/3% decrease in interest paid on Bills Payable.

While those figures are significant, and fix some measure of responsibility for decline in net earnings of banks, still we must look elsewhere for the principal cause. To my mind the increased cost of operation, or the increased cost of doing business, if you please, is primarily responsible for the decrease in banks' net earnings.

The reason for the increased cost of doing business is due largely to unprofitable accounts carried by the banks; more especially does this apply to the smaller, or country, banks.

Recently an analysis of the individual depositors' accounts has been made of many of the Mississippi banks, and in every instance this analysis revealed the astonishing fact that 70% of all accounts carried on individual ledger are unprofitable. In other words 70 depositors out of every 100 do not maintain a sufficient balance to offset the expense of handling their accounts.

Recent analysis of the individual accounts of one of the best banks in Mississippi revealed these very interesting facts:

The number of accounts carried on the individual ledger was 6,228; with total deposits of \$4,277,212.78.

Of these accounts, 5,421 carried an aggregate balance of \$150,998.96.

While 807 accounts carried deposits totaling \$4,126,213.80.

In other words, only 807 of these 6,228 accounts carried on the individual ledger of that bank were profitable. Certainly, this is a most serious problem for this bank to solve!

No doubt a similar analysis of accounts carried in individual ledgers of probably 75% of our banks in this country would show similar facts. Therefore, all banks should be vitally interested in finding a satisfactory remedy for the perplexing situation.

It is clear that a bank must either educate its depositors to the point of whether they will maintain better balances, so that the bank can serve them without loss, or else it must be put on a service charge applicable to all accounts carrying an inadequate balance, and use this fee to offset the expense incurred by the bank in handling these unprofitable accounts.

Is this practical? Can this be done without injury or harm to the bank? Can the public be made to understand and appreciate the banks' position? And to cooperate with the officers of the Bank in solving this problem?

To all these questions, my unequivocal answer is "Yes." The plan of charging a small amount against the unprofitable accounts for banking services rendered the depositor is certainly practical. Other businesses engaged in public service adopted this expedient long ago. If you find it convenient to move your office telephone from one corner to the other, the Telephone Company will add a service charge to your bill without further ceremony, yet the Bank is expected to do all your book-keeping, and render other services without receiving enough return on the deposit to cover book-keeping cost.

The public has no more right to expect his grocer to sell him goods at less than cost than he has to expect the banker to carry his accounts at a loss to the bank.

Those banks in Mississippi that have adopted the plan of service charge are satisfied with the results; no material loss in deposits; to the contrary, the depositor is glad when he understands the proposition to pay a small charge in order that the bank may be willing to continue the service.

The greatest difficulty, of course, lies in getting the general public to understand and appreciate the banks' position. Since banks to-day are regarded with less suspicion than at any time in the Nation's history, it would appear that the

time has come for the banker to take the public fully into his confidence, and through judicious dissemination of actual facts, convince the man on the street of the equity of his position.

Three elements have combined to cause a marked reduction in net earnings of banks:

- First: Reduced income.
- Second: Increased expenses.
- Third: Losses.

For a discussion of the problem of reduced income, it would be difficult to find a more succinct and careful analysis than that set out in a recent editorial in the "Southern Banker." I quote from the editorial, as follows:

"The trend of interest is downward. Exchange has almost wholly been abolished. The only source of revenue that remains to country banks is their interest and discount. Competition for good loans is thereby enhanced. Good roads and automobiles extend this competition. Borrowers with prime security are paying lower rates for their money in this country than ever before.

"Earnings for the mass of the country banks dwindle under this process. If the rates on loans are reduced to meet competition, earnings suffer. If competition captures the cream of local business, the home bank is forced to take second and third class loans, or leave its funds unemployed. If doubtful security is accepted for the sake of higher rates, losses are inevitable. Banks that regulate their interest rates by the grade of security offered from the borrower, which is proper, have found that their losses are from loans bearing high rates.

"If too much attention is paid to high rates under the urge of impoverished earnings, the losses are more serious than from the deficit resulting from the small but usual income from prime loans."

Thus we see that the former sources of revenue have been cut off. At the same time, the cost of doing business has been on the rise. All of us are vitally conscious of the fact that taxes never grow less. If one taxing authority inaugurates an era of economy, another starts a spasm of spending. Despite the perennial political prophecy of lower taxes, the total amounts paid to various collecting agencies have steadily increased.

Clerical help is underpaid, especially when salaries of office workers are compared with the average wage received by those engaged in skilled trades, where the apprenticeship is shorter and the requirements of good character and pleasing personality are not nearly so severe as in the banking business.

Again, reserve requirements are stricter for all banks. Members of the Federal Reserve System receive no interest on their balances; exchange charges have been practically eliminated. So it is that every change made seems to pound down bank earnings a little further.

Certainly it is not good for the banks for the present trend to continue. I go further and declare it is not good for the public either. As the editor of the "Southern Banker" so aptly states in the editorial previously referred to:

"The public wants good banks, and the public is willing to pay the price for what it wants. The banks themselves can give the public greater safety and good service by grasping sure and certain remedies that are ready at hand."

I have already indicated that in my judgment the remedy lies in adding a reasonable service charge for handling unprofitable accounts, and transacting miscellaneous business of a non-lucrative nature.

Thus far we have viewed the problem from two angles, namely, increased interest paid to depositors, and increased expenditures incident to operation.

We now come to consider the final element in the problem: that is, losses—a subject close to the heart of every

Bank Commissioner. When the general public thinks of bank losses, official defalcations and dishonesty naturally come to mind.

True enough, this is one cause of loss, but only in isolated cases. Close and careful supervision will reduce this evil to a minimum.

Another; mismanagement, which is too frequently revealed to leave us much self-satisfaction. Here again, however, the way out lies through education and a weeding out of the inefficient and those temperamentally unfit for banking business.

Many losses are attributable, primarily, to:

Commercial banks furnishing capital to customers instead of credit. No loan secured by stocks should be acceptable to, or passed by, any bank, unless the stock of the Company has a commercial value, or unless the Company has been in operation long enough to prove its standing.

Another source of constant difficulty comes from the fact that too many banks are furnishing credit to special lines in excess amounts. These lines, unfortunately, are often found among the bank's own directors. No Director can competently serve on the Bank's board where that bank is carrying for him a large line not fully secured, or self-liquidating.

Finally, it is my deliberate opinion that many losses may be traced to that atmosphere of

Easy Credit. This is bad training for the public mind. All too frequently the facilities of a bank, and the friendship of a banker are both abused.

The officers of a bank are often responsible for the false notion of easy credit. No wise banker will allow himself to be placed in such an awkward position. Yet, in the country bank, the active officer must be a versatile man, and the problem of attracting business and at the same time passing judiciously and wisely on credits is most difficult.

No bank which serves gratuitously as book-keeper and public accountant for the community can expect to secure any return on the vast majority of its accounts. Such services prohibit him giving the bank the required attention. Is it fair that a bank should allow its own strength and vitality to be sapped in such a fashion?

It is most laudable that a strong, virile, red-blooded man should go to the Charity Hospital and open his veins and give some of his blood in order to save a stricken human being, but no doctor worthy of the name would drain away so much of this life-giving fluid as to seriously and permanently injure the giver.

By the same token, no sensible depositor, no reasonable man, can expect a banking institution to spend its energies and drain away its strength in such fashion as to destroy its ability to come to the aid of worthwhile business enterprises, and prevent it from serving as a financial bulwark in periods of stress and strain—the very purpose for which it is organized.

It is a truism to say that banks exist to render service. This idea has been so emphasized by bankers themselves in a thoroughly laudable effort to win the good will, and the confidence of the public; so much so that the bank's obligation to its stockholders has been lost sight of, and its solemn responsibility to represent, both by precept and example, the soundest principles of good business has been overworked.

A bank should be so operated as to furnish a practical illustration of the finest and best of modern methods and Twentieth Century efficiency. As the structure which houses it generally symbolizes strength, stability, and permanence, in the eyes of the public, so the practices of the institution itself should furnish a criterion by which all other business enterprises in the community may be judged.

Creation of Kansas State Banking Board

Remarks of Gov. B. S. PAULEN

Mr. President, Ladies and Gentlemen: I am not going to talk to you more than five minutes. The hour is getting very late. I appreciate that magnificent introduction, Mr. President, although I am sure we all know it was very extravagant language, even for a Kentuckian.

Several of my friends asked me how it happened that I was elected governor of the State of Kansas while I was actively engaged in the banking business. I think perhaps the main reason the people of my State honored me by that office was because my predecessor made a football of the

banking department. It was full of politics. I do not want to confess anything to you in this Democratic State of Texas that I would not say in Kansas; I am free to admit to you that I am a Republican, perhaps a partisan Republican, but I have never believed that politics should enter into the Banking Department of Kansas or any other State, and I made a promise to the people of my State that if I was elected their Governor, I would divorce the Banking Department from politics. I have endeavored to do that. We secured the passage of a law which provided for a banking board. The legislature of Kansas is, as you know, strongly Republican. Several of the partisan Republicans insisted that there should be a partisan board. I told them that I did not want them to say it should be a partisan board or a non-partisan board, but simply create a board of a certain number of members and I would appoint a Banking Board to work in conjunction with the Bank Commissioner of Kansas, and I would guarantee to them that within one year after that bill became a law, the people of the State, regardless of politics, would be free to admit that the Banking Department of Kansas was not a political machine.

The bill was passed. It was my pleasure to appoint on that board four members. I appointed two men who were supposed to be Democrats and two men whom I knew to be Republicans. The Banking Board was organized, with the Bank Commissioner as the fifth member, and they have functioned well.

During my campaign for a second term, I am positive that the result of that one action had more to do with my majority than any other one thing. Naturally, I am more interested in banking than any other profession on occupation. I have been engaged in the banking business in my State for a number of years, and I was actively a country banker when I was nominated for Governor of Kansas. Having served as President of the Kansas Bankers' Association, I was dubbed by my opponent as a plutocrat who did not understand the needs of an agricultural State like Kansas. Yet I had lived in that State for fifty-odd years, and I knew something about the wants and the needs of the people of that State.

I believe, men and women, that the bankers not only of Kansas, but all over this nation of ours, do not pay enough attention, not alone to politics in their own localities but to the different things that come up in their communities. We are too afraid that if we take a stand on one side or the other we might lose an account here and there. I believe that is the wrong attitude to take. The bankers in any community can mold the opinion of that community easier, quicker, and more surely than any other profession in that community, and, men and women, I think it is your duty as bankers to take a positive stand for everything that will be for the betterment of your community.

I do not have any sympathy with the man or the woman who is not willing to give his time and his talents and his money, if necessary, to make the place he calls home the best place in the world. It is your duty as an individual, as a citizen, as a broker, to be on the right side of every civic movement in your community. I do not believe you will lose customers by taking a positive stand.

The bank with which I am connected has long enjoyed the confidence of the people of the community, for they know that regardless of any project mentioned in Wilson County, the very first question asked is, "What position will the Wilson County Bank take?" I believe that as bankers we should get our institutions in that kind of position. I do not mean political—not always, but I do mean that the bank with which you are connected should be a positive force in the community in which you operate, and if you cannot mold the influence of your community or help to do it, then I do not believe you are operating the kind of bank you are capable of operating.

We are proud of the fact that we are bankers, and I was glad to go over my State and tell the people of my State that I was a country banker.

I sometimes wonder if those of us who are engaged in that profession are proud of the fact that we are in the banking business. If you are not, men and women, my advice would be to you to sell out your bank and get in some business you like, because I know you cannot make a success of any business unless you are thoroughly in love with the business in which you are engaged.

Personally, I think the banking profession is the greatest profession in the world, and I am proud of the fact that I am in that profession. As long as I am a banker I want to do everything I possibly can to encourage the bankers of my State and of the nation to be more efficient, to wield more influence in their communities, to stand for the things you know you should stand for, and it is not a hard question for any of us to decide, it is a very easy matter to know whether we are on the right side or the wrong side of things. If you will endeavor to do that, I am sure that the bank with which you are connected will be an institution worthy of the name.

I regret that I did not have a prepared speech for this occasion, but I did not know I was going to be called upon to talk until late this afternoon. Personally I do not believe in talking about something you do not know very much about, so I am not going to talk to you on any particular subject except banking in general.

Men and women, I hope when you go back to your respective homes after this wonderful meeting in this delightful city of Houston, you will go home with the idea that your institution is going to be the dominant factor in determining whether or not the place you call home shall be bigger and better than it ever was before.

COMMITTEE AND OFFICERS' REPORTS—CLEARING HOUSE SECTION

Address of John R. Downing President Clearing-House Section, Vice-President Citizens Union National Bank, Louisville, Kentucky.

At a risk of having it said of us that we are taking ourselves too seriously, we of the Clearing House Section, charged with the duty of carrying on this year, have probably barely escaped that opprobrium by taking in earnest the duties devolved on us.

We have toiled assiduously at our task and are delighted to report at this time the result of our labors, without embellishment, rather preferring that they speak for themselves, fully imbued with the conviction that the Clearing House Section of the American Bankers Association was not and is not merely a loosely formed organization of independent clearing houses, but rather a laboratory to which are referred the multifarious problems that arise from time to time in banking, as well as the unsolved questions of procedure which we have with us from year to year.

Shortly after the adjournment of the Los Angeles Convention a meeting of the officers of the Section was called at headquarters in New York, where we adopted a plan of procedure and selected as our slogan: "Better and Safer Banking."

Briefly, the result of that session was the adoption of a platform of procedure:

1. To extend the scope of Clearing house organizations, adding to their number and making more effective those already organized.

2. To install credit bureaus.
3. To evolve an ideal set of rules and regulations to govern clearing houses.
4. To insist upon the importance of analyzing bank accounts of all kinds.
5. To recommend an assessment of an equitable service charge against unprofitable accounts.
6. To bring about the uniform use of standardized checks, drafts, vouchers, etc.
7. To recommend a uniform negotiable warehouse contract and a warehouse receipt which could be accepted at its face value.
8. Prepare a revised edition of financial statement forms of all kinds.
- 8a. and to especially cooperate with the National Association of General Contractors on a uniform statement for contractors of all kinds.
9. To make a national survey of payroll problems.
10. To study the question of escrow and custody charges.
11. To have prepared a comprehensive analysis of distribution of banks' gross earnings in relation to overhead and other charges, with the eventual hope in mind of recommending a form of budget for banks of all sizes.
12. To bring about better examinations from within by lending aid and encouragement to organizations of auditors and comptrollers.
13. Last, but not least—the extension of clearing house examiner systems not only in the larger cities, but in the smaller communities, through organization by districts, with an examiner in charge and responsible for a particular section or district.

It is pleasing, indeed, to note that at the spring meeting of the Executive Council of the American Bankers Association this last plank in our platform was unanimously approved.

How well we have done and how closely we have applied ourselves to this program I am now about to relate.

The Committee on New Clearing House Association, under the leadership of Chairman H. Y. Lemon, prepared an interesting and appealing brochure on "Why a Clearing House Association" clearly setting forth the advantages accruing to banks from clearing house association work, an how to organize and successfully operate an association. The states were divided into four major districts, each with a general chairman who, with the cooperation of our state representatives, waged a successful campaign for the installation of new clearing house associations, both city and county type. As a result, seventeen new associations were organized, bringing the total number of associations in operation, for the first time in banking history, over the "Four Hundred Mark"—or, to be exact, 406, with many more in process of formation.

Our Committee on Credit Bureaus, W. F. Augustine, Chairman, likewise made a study and survey of city and county credit bureau work, designed to head off "Mr. Duplicate Borrower." Their report, which sets forth clearly the most successful types of credit bureaus, with detailed explanation for organization and operation, has already stimulated interest in credit bureaus, resulting in the installation of this valuable clearing house feature in numerous county bankers associations and local clearing houses.

Perhaps no feature of our work has elicited such a widespread interest. Active organizations are reported in practically every state of the Union. The number is being added to almost daily, and in many cities and communities where they have been unable to organize a regular examiner system they have availed themselves of this opportunity to bring about better cooperation with reference to extension of credit. May I not quote from the report of the Committee, submitted at Hot Springs, just one paragraph:

"In a certain county where a credit bureau was installed this year the following interesting and amazing facts were brought out:

844 customers borrowing from 2 banks
263 customers borrowing from 3 banks
51 customers borrowing from 4 banks
15 customers borrowing from 5 banks
5 customers borrowing from 6 banks
1 customer borrowing from 7 banks
1 customer borrowing from 9 banks

"How a customer could successfully borrow from nine banks at the same time is a mystery, and should qualify him as an expert in financial ledgerdom. We will venture no explanation of this feat, but we do know that such situations are causing bankers everywhere to sit up and take notice and to be active in taking steps to safeguard banking against this evil through the instrumentality of a credit bureau."

A. G. Giggerstaff, Chairman of the Committee on Clearing House Rules and Practices, reports that his committee spent several months in making a survey and study of the articles of association, and rules and regulations used by clearing houses throughout the country, and from this study and the consensus of opinion of leading bankers and clearing house managers from all sections of the country, selected the best and most successful practices in general use, and from this data, prepared and issued in pamphlet form what is known as Standard Articles of Association, Rules and Regulations for Clearing House Associations. This pamphlet was sent to all clearing house associations as well as to those planning to organize, and has met with enthusiastic approval and has already resulted in bringing about greater uniformity of regulations and efficiency of service.

No activity of the Section has enlisted a more lively interest than the pamphlet issued by our Committee on Analysis of Accounts, of which O. Howard Wolfe is Chairman. This booklet was prepared to meet a widespread demand for information and suggestions as to cost accounting, particularly meeting the needs of smaller banks which in recent years have been confronted with the necessity for analysis, due to constantly increasing overhead and other costs. The enormous demand for this booklet indicates that the "Rule of Thumb" day in banking is gone. Banking economies demand that profit and loss elements be definitely determined and allocated in order that remedial steps may be taken to stop leaks and losses. As a result of analysis of checking accounts, made by thousands of bankers, equitable service charges have been made by the banks in over one thousand cities and towns, as well as by hundreds of county bankers associations. In this work, the important step is to educate the banks' customers that the plan is reasonable, fair and just. To assist in this feature, the Clearing House Section issued a folder setting forth in an interesting manner a "Conversation Between a Depositor and a Banker Regarding Service Charges on Unprofitable Accounts." Over 150,000 copies of this pamphlet alone have been ordered by banks for distribution among their customers.

Our Committee on Standardization of Checks, under the leadership of Chairman Dunbar, has conducted a vigorous campaign for the universal adoption of the sizes and uniform face arrangement agreed upon at the National Conference on this subject, instituted by the Clearing-House Section last year. The response and cooperation from government officials, Federal Reserve banks, check manufacturers and hundreds of clearing houses and the larger industrial concerns are indeed gratifying. The universal use of standard checks is a matter of enlightened self interest through the enormous saving effected in cost of checks and the saving of time in transit departments.

Bankers everywhere will be interested in the fact that Standard Warehouse Contract Terms and Conditions have been revised after exhaustive study by the American Warehousemen's Association in collaboration with the Clearing House Section and other interested industries, including representatives of the shippers appointed by the National Industrial League, meeting under the auspices of the United States Department of Commerce, to provide a mutually satisfactory and uniform form of contract that complies with the requirements of law. The Uniform Warehouse Receipts Act, now a law in forty-four states, was shaped and fostered by the American Bankers Association and the American Association of Warehousemen, and it is altogether fitting that these organizations should have collaborated in evolving a standard form that adequately carries out this intent as expressed in the law they formulated. The Standard Negotiable Warehouse Receipt is the authoritative form adopted by the American Bankers Association and the American Warehousemen's Association, and has the approval and endorsement of the United States Department of Commerce. With Uniform Contract Terms and Conditions on Warehouse Receipts, the use of these receipts as credit instruments is greatly facilitated. Through the use of Standard Warehouse Receipts, it will be possible for the banker to know that there has been presented to him an "honest-to-goodness" negotiable receipt—something that heretofore could be determined only by careful scrutiny. In the interest of uniformity and economy, we commend the universal use of these Standard Terms and Conditions on Warehouse Receipts.

The Committee charged with the responsibility of revising the credit forms of the American Bankers Association, under the chairmanship of Judge Thomas B. Paton, with untiring energy examined a large number of

bank credit forms and after a great deal of study and correspondence, have reported uniform standard credit forms for corporation, partnerships, individuals and farmers. These forms have been officially approved by the officers of the Clearing House Section and recommended for general use, thus making another forward step in simplification and efficiency.

During the past year, the Clearing House Section of the American Bankers Association, and the Associated General Contractors of America, have been collaborating to prepare a Standard Financial Statement and Experience Questionnaire for contractors, which would be at once comprehensive in scope and simple in form. After numerous conferences, we are glad to report that these forms have been formally approved by the Clearing House Section and the Associated General Contractors, and recommended for general use by bankers and contractors. An examination of the Standard Financial Statement and Experience Questionnaire reveals many advantages resulting from their use, among which we may mention that the standard forms are simple, comprehensive and uniform, and enable contractors themselves to keep a constant check on their financial condition. Their use will be helpful in eliminating some of the hazards of contractors loans. Copies of the Contractors Financial Statement were mailed to all clearing house banks and the numerous letters of appreciation which we have received indicate their popularity and helpfulness.

Our Committee on Payroll Problems, conducted an extensive questionnaire survey particularly among bankers in industrial centers, and secured the advice of prominent industrial leaders as to the solution of payroll problems which are giving bankers and industrial leaders deep concern on account of the increasing hazards that surround the transmitting of payrolls from the bank of the customer. We find that bankers favor the substitution of check for cash in paying wage earners. It means more work for the bank, but diminishes the hazards of life and money. The records show that payroll bandits during the first six months of this year got over two million dollars in loot and caused the death of a score of messengers. A full report of the findings of the Committee was recently published in the American Bankers Association Journal.

The preparing of a proper budget applicable to banks of all sizes has proved such a stupendous problem that our Committee has asked for the privilege of further time, with the expectation of making a full report at the next spring meeting of the Executive Council.

Under the aegis of the Clearing House Section a Committee on Bank Auditing was appointed, of which Mr. O. Howard Wolfe is Chairman and Mr. R. H. Brunkhorst Vice Chairman. Functioning under this Committee is the Associated Conference of Bank Auditors and Comptrollers—a real, live, active body, with a definite object in view. The session will be held on Wednesday, Oct. 26 1927, at 2 P. M.

Effective work was done by our Committee on Clearing House Examinations, under the leadership of Chairman D. C. Williamson. The Clearing House Examiner System is now in successful operation in thirty-three cities, Atlanta and Dallas having recently installed the system. It has demonstrated its efficacy in promoting better and safer banking to a degree that prompts its extension to county districts, embracing one or more counties. In our humble opinion, putting and keeping our banking houses in order is the key to the preservation of our cherished system of independent banking. It is up to bankers to make and keep our banks safe and sound. Bank failures are public calamities and all agree that banks must be made safe by some feasible means. Experience has taught the lesson that the best safeguards of sound banking are intelligence, plus financial integrity, supplemented by careful supervision. Now, supervision that prevents bank failures is infinitely more valuable to stockholders, depositors and the general public than any political scheme of so-called state guarantee or liquidation after failure. The one is preventive in its nature, the other merely a post mortem process, which may reveal what the bank died of, but will not restore it to life.

It is becoming more and more evident that the extension of clearing house association work, including credit bureau features and the system of voluntary clearing house examinations, is the chief factor in the solution of the problem of safeguarding bank deposits. The plan has been in operation twenty-one years. The experience of thirty-three cities and groups of cities where it has been in operation demonstrates the fact that it has proven itself the best possible safeguard yet devised for keeping banks in prime condition and for giving the public the best available assurance that the banker's published statement is reasonably correct.

The work of the clearing house examiner is continuous, not periodical—qualitative, as well as quantitative, and admirably supplements the work of national and state examiner. A former Comptroller of the Currency has characterized the clearing house examiner system as "infinitely superior to either state or federal examinations," in keeping banks in prime condition, and this is no reflection on either state or federal examinations, also plan and procedure are quite different and entirely free from political interference. The plan is sound, economical, effective, and equally applicable to cities, counties and districts consisting of a group of counties.

The officers of the Clearing House Section earnestly advocate the general installation of the clearing house examiner system in counties and districts consisting of a closely related group of counties. We have been co-operating with bankers in several such groups of counties where there is a lively interest in this step and are hopeful that we will soon be able to report a real honest-to-goodness country district clearing house examiner system in successful operation.

Probably the nearest approach to this consummation is the First Nebraska Bankers Credit Clearing House Association, which includes the banks of Dodge, Saunders, Washington, Douglas and Sarpy Counties, in the extreme southeastern section of the State of Nebraska.

A representative of every state bank in these counties assembled at Fremont, Nebraska, on Oct. 4, and perfected an organization. It is fully expected that with the consent of the Comptroller of Currency every national bank in these counties will also shortly be included.

The Banking Department of the State of Nebraska has assigned to this district a special examiner who will have entire charge of this particular group of banks and will devote his entire time to their supervision.

The possibilities of this arrangement are enormous, and we earnestly expect the example set by these forward looking Nebraska bankers will be emulated throughout the entire United States.

In the office of this Examiner there will be, of course, assembled all the credit information applicable to the banks of the district. It will be his duty not only to criticize, but to aid and assist in the collection of undesirable loans and investments, and their elimination from the portfolio of those banks of which he has charge, which successful conclusion will mean the swan song of more than one duplicate borrower. Economies of operation can be installed, and under his constant supervision, the crooked banker whether officer or employee, should vanish from the picture.

Too much praise can not be said of Dan V. Stephens, President of the Fremont State Bank, who not only conceived the plan, but brought it to successful fruition. He has done a splendid job, and the officers of the Clearing House Section doff their hats to acclaim him.

The pride that is so evident in presenting this report is, I can assure you, in nowise personal. I would have you know that there is small credit due me. Rather have I been an order-taker from that most wonderful of executives, Frank Simmonds, Deputy Manager of the American Bankers Association, and Secretary of this Section. It has been my great pleasure to work with and under him, and I want here to pay a tribute most justly deserved. His characteristics are loyalty, genuineness, fairsightedness, constructive ability, untiring energy and, with it all, he has a personality that not only attracts but holds the respect and regard of all those who come in contact with him.

The Executive Manager, Fred Shepherd, has found time, with his multiple duties, not only to guide and direct our activities, but to aid and assist in the carrying out of our policies.

Fellow officers and members of our Executive Committee have met every call with a hearty response, and the success of our year's work is due to their unselfish work along with that of the members of the various committees and state representatives.

Especial acknowledgement is also due to each and every division and section of the Association—particularly the State Banking Division and the State Secretaries Section, from whom we have received encouraging assistance, and who have supplied water on our wheel in the dissemination of our plans and in the distribution of our ideas.

Report of Committee on Clearing House Examinations, D. C. Williamson, Examiner Montgomery (Ala.) Clearing House Association, Chairman.

The Committee on Clearing House Examinations said:

"Preserving our independent system of banking by keeping it sound can be accomplished most effectively through the medium of Clearing House association work, including credit bureau features and voluntary clearing house examinations. The plan has been in operation twenty-one years and the experience of thirty-three cities demonstrates that it has proven itself the best safeguard for keeping banks in prime condition and for giving the public the best available assurance. The Examiner System has recently been installed in Dallas, Texas, Atlanta, Georgia, Newark, New Jersey, also in the five counties of Dodge, Douglas, Sarpy, Saunders and Washington, surrounding Fremont, Neb., under the name of 'The First Nebraska Bankers' Credit Clearing House Association.'

The time has arrived for the extension of this work to country districts. Hence, we earnestly recommend a general campaign of education along this line. The plan contemplates: First, determination of the limitations of the district or region with a head office located at a central point, seeing to it that the district is neither too large nor too small, having in mind always the natural drift of trade within the district. Second, setting up a preliminary organization of banks in that particular district, selecting a committee to draw up articles of association and rules and regulations, which will provide for officers and executive committees, etc. Third, appointment of a committee to visit the nearest city where the clearing house examiner system is in operation, in order to familiarize themselves with the details of operation. Fourth, following the preliminary organization a permanent one should be brought into being and a qualified manager such as the system may require employed to cooperate with national and State examiners under the direction of the clearing house committee. Fifth, determination of the number of banks entitled to membership, setting forth such a rule that would embrace all those actually qualified. Sixth, cooperation with the office of the Comptroller of the Currency for national banks and also with the State Banking Commissioner for State banks.

"We have gone into this far enough to be in a position to assure those interested that the idea meets with the hearty approval of the Comptroller's office and that State banking commissioners interviewed have evinced the liveliest interest and have promised whole-hearted support.

"Plans are under way toward installation of the district clearing house examiner system in Nebraska, Minnesota, Utah, Iowa, Illinois and other States. This plan for county district examination was unanimously approved by the Executive Council of the American Bankers' Association, which places the entire Association behind the movement."

The members of the Committee are: D. C. Williamson, Chairman; C. W. Allendoerfer, C. H. Barton, R. F. McNally, C. H. Meyer and M. A. Wilson.

Report of Committee on Credit Bureaus, W. F. Augustine, National Shawmut Bank, Boston, Chairman.

The report of the Committee on Credit Bureaus said in part:

"With the advent of good roads and rapid transportation, the 'duplicate borrower' threatens the basis of good banking. There has developed among clearing houses and county bankers associations widespread interest in working out an effective system for interchange of credit information which has resulted in the development of city and county credit bureaus. The credit bureau is the most effective and economical system for safeguarding the banks of a city or county against the over-extended borrower. Reports from all sections reveal that duplicate borrowing has been the cause of substantial losses to banks and in some instances the primary cause for failures. In a certain county the following interesting and amazing facts were brought out: 844 customers borrowing from 2 banks; 263 customers borrowing from 3 banks; 51 customers borrowing from 4 banks; 15 customers borrowing from 5 banks; 5 customers borrowing from 6 banks; 1 customer borrowing from 7 banks; 1 customer borrowing from 9 banks.

"How a customer could borrow from nine banks at the same time is a mystery and should qualify him as an expert in financial legerdemain. Such situations are causing bankers everywhere to be active in steps to safeguard banking against this evil through the instrumentality of a credit bureau. For several years the Section has advocated the credit bureau idea. Demonstrated value of the pioneer credit bureau has given the movement enormous momentum the past year. There are 95 credit bureaus in operation—52 county and 43 city bureaus. Forty-seven were installed during the year, of which 37 were county and 10 city. Many other cities

and counties as well as the entire States of Delaware and New Mexico are now seriously considering installing credit bureaus.

"Your Committee felt impelled to make a careful survey and study of credit bureaus in operation. It is its belief that greater value and standing will be given to county bankers' associations by incorporating in them the simple mechanism of a county credit bureau. Objections to a county credit bureau are to be expected. They are: Fear that competitors might take advantage of the information; reluctance of banks to divulge information because confidence may be violated; the cost, and banks located near county lines would have no check on duplications. These may be answered as follows: Information concerning a certain borrower is given only to banks loaning to him or which have been requested to do so, and then only as to the total borrowings and number of loaning banks; banks are justly entitled to know the entire obligations of their borrowers and a truthful financial statement would reveal them anyway; regarding the cost, the expense is very small, the clearing house manager or a part time secretary handling the business in the bureau now operating, one manager of a bureau with twelve members spending less than an hour a day on this work; a bureau need not be confined to banks in a specific county, but may include those in any given area. Your Committee earnestly urges a continual campaign in promoting the installation of credit bureaus, in the belief that it is a valuable public service, in the interest of better and safer banking."

This committee consists of W. F. Augustine, Chairman; Allan Rabourn, W. E. Carter, C. A. Chapman, F. T. Shearman and B. L. Trabue.

Report of Committee on New Clearing House Associations, H. Y. Lemon, Vice-President Commerce Trust Co., Kansas City, Mo., Chairman.

The Committee on New Clearing House Associations reported as follows:

"Your Committee on the extension of Clearing House service, believing we should have the closest cooperation of State bankers' associations, asked the officers of each State Association to appoint a committee to work with us. Already a majority of the States have responded by creating such a committee.

"During the year, seventeen new clearing house associations were organized, as follows: Michigan City, Ind.; Kinston, N. C.; Evanston, Ill.; Manhattan, Kan.; Racine, Wis.; Mexico, Mo.; Staunton, Va.; Liberal, Kan.; Anderson, Ind.; Moneta, Cal.; Charlotte, N. C.; Bluefield, W. Va.; Arkansas City, Kas.; Deer Lodge, Mont.; Utica, N. Y.; Carrollton, Mo.; Lafayette, Ind.

This makes a total of four hundred and six Clearing House associations in operation. The outlook for the installation of many new Clearing House associations in the immediate future is excellent. In our opinion the Clearing House associations today constitute the chief line of defense against bad banking practices, and are the principal factor in bringing about reforms in banking laws, improvement in banking methods and promotion of sound banking practices. They represent efficiency, power and enlightened self-interest. It behooves all bankers to be alert in extending the scope of their work and usefulness as a first aid in the development of better banking."

The committee consists of H. Y. Lemon, chairman, N. S. Calhoun, C. A. Chapman, F. H. Colburn, J. R. Leavell.

Report of Committee on Analysis of Accounts, O. Howard Wolfe, Cashier Philadelphia-Girard National Bank, Philadelphia, Chairman.

The report of the Committee on Analysis of Accounts said:

"The Committee has followed a definite plan. Analysis for its own sake was not the primary object. Our thought has been that if we could persuade banks to analyze their accounts, they would then fully understand the situation and be prepared to take the next step, namely, that of putting losing accounts upon a profitable basis without further work on our part. We purposely did not urge service charges at the beginning, though it has been clear in everything we have done that this is apparently the best solution of the small and losing account problem. That our plan of activities was sound is proven by the fact that the whole movement is now going forward under its own steam.

"We began by introducing the matter of analysis before the meeting of the State Secretaries Section at the Chicago Convention. The members of that Section at once took hold of the idea, and the subject was presented at nearly all of the State meetings which have taken place during the last two or three years. Leading articles of 'Losing Accounts' have appeared in practically every banking journal in the country. Many other business publications have also covered the subject in a way that has been very helpful in spreading the information.

Having been convinced through analysis that steps must be taken to put losing accounts upon a profitable basis, state associations, clearing houses and banks individually have adopted the service charge so widely that we no longer have or need a complete record. It is safe to say that the adoption of these charges has reached the point that we may consider the plan universal."

This committee is O. Howard Wolfe, chairman, W. F. Augustine, Dale Graham.

Report of Committee on Resolutions.

MR. O. HOWARD WOLFE: Mr. President, your Committee has felt that it could do nothing better than to summarize the excellent addresses we have listened to this evening, including the address of our President, which we have tried to do.

"Appreciative of the fact that clearing house associations constitute the chief line of defense against questionable banking practices, and that they are the chief factor in bringing about reforms in banking laws, improvements in banking methods, and the promotion of sound banking practices and that the Clearing House Section of the American Bankers' Association represents a cross section of commercial banking activities, we heartily commend the President and other officers of the Clearing House Section on the constructive work done during the past year. Your Committee believes that banking in the future will be no better than the

extent to which it adopts principles and policies proven by experience to be sound and efficient, and such we believe are those advocated by the Clearing House Section of the American Bankers' Association.

"Through clearing house work is created a quickened spirit of co-operation and a uniformity of action which makes for safe and sound banking. It represents efficiency and power, and its value is no longer a matter of opinion, for the results speak eloquently for themselves.

"Your Committee by resolution wishes to commend and endorse especially the following activities of the Clearing House Section:

Campaign for Extension of Clearing House Associations

"Conducting a vigorous systematic campaign of education for the extension of clearing house associations, recommending them in every community where there are three or more banks.

"Making a comparative study of articles of association and rules and regulations governing clearing house associations, and evolving from this study a summary of standard clearing house practices which has been helpful to all such associations.

"The preparation and distribution of the brochure on analysis of checking accounts, which supplies a simple and inexpensive plan covering cost accounting, especially meeting the needs of smaller banks, enabling them to determine accurately banking costs and place banking services on a profitable basis through equitable service charges where necessary.

"The campaign that has been carried on for the universal adoption of standard-sized checks and uniform face arrangement.

"The development and adoption in cooperation with the Associated General Contractors of America of a standard form of contractor's financial statement which is simple and comprehensive.

"The study and preparation of uniform financial statement forms for corporation, firms, individuals and farmers, simplifying and standardizing them without omitting any salient features of those now in use.

"The campaign of education which the Clearing House Section has consistently and successfully carried on for the development of and installation of credit bureaus and the maintenance of clearing house examiner systems in towns, cities, counties and districts composed of groups of counties.

Adoption of Uniform Negotiable Warehouse Receipts

"The cooperation of the Section with the United States Department of Commerce and the National Association of General Contractors in developing and adopting uniform negotiable warehouse contracts and receipts

Study of Pay Roll Problems

"The survey and study made of payroll problems and the resultant report which has been helpful in protecting payrolls, preventing holdup and insuring the speedy arrest and commitment of guilty parties.

Distribution of Banks Expenses in Proportion to Earnings

"Also, we feel that the study which the Section is now making of the distribution of bank's expenses in proportion to gross earnings, and other banking problems, are of outstanding importance.

"Numerous other activities carried on by our Section appeal strongly to your Committee. We wish especially to commend the masterly manner in which President John R. Downing has directed the work of the Clearing House Section and rendered an invaluable service in developing the underlying principles of better and safer banking. We wish also to express our appreciation of the able and efficient efforts of our secretary, Frank W. Simmonds, who has done much to further the work of the Section and to make it a vital force in all commercial banking activities of the American Bankers' Association. In fact, the Clearing House Section is what it should be—a research laboratory for commercial banking."

[The motion to adopt the report was seconded and carried.]

Report of Committee on Nominations—Installation of Officers.

Mr. Carl W. Allendoerfer: Mr. President, we take pleasure in presenting the following names:

President, Mr. Howard Wolfe; Vice President, Mr. Wm. F. Augustine. For members of the Executive Committee for terms of three years each: Mr. C. H. Chapman, Rochester, Minnesota; Mr. Fred Ellsworth, New Orleans, Louisiana.

(Signed) S. E. Trimble
M. E. Holderness
C. W. Allendoerfer

I move that these gentlemen be chosen as the officers of this Section for the ensuing year.

[The motion was seconded and carried.]

STATE SECRETARIES SECTION

AMERICAN BANKERS' ASSOCIATION

Annual Meeting, Held at Houston, Texas, October 24 1927.

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"The Young Banker Behind the Grills—What Can We Do for Him?"—Discussion Led by Robt. E. Wait, Secretary Arkansas Bankers Association.

I really believe, ladies and gentlemen, that is one of the big problems before the State association—what are you going to do for the bank clerks. Numerically the bank clerks greatly outnumber the executives in banks. I rather expect in the average State the number of bank clerks in that State is equal to the number of bank executives and directors. The State associations so far have been directing their attention almost entirely to work beneficial for the bank, the executive and the director. This question throws a challenge down to the State associations as to what we are going to do or have done for the bank clerk behind the grill. Of course the policy of the bank as formulated is by the executives and directors, but every banker knows that the success of his policy depends a great deal on how well and how efficiently it is carried out by the man or woman behind the grill. The man or the woman at the teller's window can nullify all the policy of the bank executive who desires more business, by simply the attitude he assumes at the front window.

The bank bookkeeper back there, in making a mistake in the statement which is sent out, can nullify all the work of the directors and executives in trying to show the bank is efficiently managed and well run. Many of the banks individually are doing a great deal for their bank clerks. They have bank boosters clubs among the individuals back of the grill. They have hot suppers for them occasionally so as to speed them, to encourage them in their work. They often offer prizes for their additional accounts in business which they bring into the bank.

The American Bankers Association has done and is doing a wonderful thing for the men and women behind the grills by pushing the American Institute of Banking, giving them an opportunity to inform themselves and study along banking lines, because they have realized that we must realize they are feeders for bank executives. There being no particular schools for banking in the country, if we are going to fill up the line of executives efficiently and intelligently the feeders are the men and women behind the grill. Therefore, the American Institute of Banking has been a wonderful thing in making bank executives come up from the ranks.

I have said that the bank is doing these things for its individual clerks. I have said that the American Bankers Association is doing this thing through the American Institute of Banking, but the challenge comes through this question, what are we as State associations doing or going to do for the young man and the young woman who stays back there behind the grill when you and I, as bank executives, come to the American Bankers Association convention and to our State association meetings and to our group and county meetings. The question, men, is a big one. The success of the bank depends on the answer to that question. The success of your State association work in the future depends very largely on that question and the answer to it.

We just have a little State association in the State of Arkansas. We have 456 banks, and, as I have said, I suspect that the number of bank clerks behind the grill equals the number of executives and directors in our State. We have gotten this idea and we are experimenting with it. We can't say as yet it is a thorough success, but we are encouraged. We believe that in addition to having the opportunity of learning something about banking through the A. I. B., and particularly because of the fact that the officials and the organization of the A. I. B. does not encourage the formation of State chapters of the A. I. B. It still must work in little units, county or individual, in the towns leaving that young man and that young woman way out there at the crossroads still unable, except by the long distance method of correspondence, to encourage himself and perfect himself in banking through the other institutions and colleges.

We believe the young man and woman back of the grill in Arkansas should have the same opportunity for inspiration and learning as the executives and the directors have through the Arkansas Bankers Association.

Therefore, several years ago our association gave careful thought. They thought we ought to organize a section of the Arkansas Bankers Association—mind you, not a section to divide our body as the organization of the ordinary sections do divide our bodies, such as the National Bank Section, the Trust Company Section and the State Bank Section and so forth, but an organization, a section, if you please that would not divide but that would add. So a number of years ago there was organized in our State what we know as the Junior Bankers' Section

of the Arkansas Bankers Association. It has all the elements of the parent association. Its life depends upon the consent of the council of the State association.

At first blush, and when that was first attempted the senior bankers looked with just a little bit of doubt on that organization, the same way that years ago they looked with doubt upon the organization of the A. I. B. Some of our older bankers and some very wise bankers got the idea it would organize, so to speak, a union among the bank clerks of the State of Arkansas. Therefore they very wisely wrote into the provisions of the by-laws or constitution of the new section the provision it could function only and so long as the council of the parent association might give consent.

The strange thing now is that all opposition or questions of doubt in the minds of senior bankers have been dispelled, and the strange thing is that the hardest individual to sell the association of the section to is the bank clerk himself.

That Junior Bankers' Section of our State association has a president; it has a vice-president, secretary and treasurer and its own council, the number of councilmen in the Junior Section being the same as the State association. The councilmen for the Junior Section are elected at the group meetings of the parent association, so that the parent association has the power and the privilege of selecting the young man over here in this group who shall head up the council of the Junior Bankers Section.

Now that Junior Bankers Section is sponsoring and fathering the movement to spread the A. I. B. educational courses all over the State, to establish chapters, to establish little study groups, and, in addition to that, it has its meetings each year. It is very much like our State convention. They call it the Annual State Educational Conference of the Junior Bankers' Section, where this young man coming out from a small town, with never an opportunity before to show what he could do comes there as president or chairman of the Junior Bankers' Section and presides just as the senior bankers preside at our State association; where their committees have an opportunity of functioning, and where their council meets once a year.

I want to say to you that the finest program I ever heard put over was their last conference at Hot Springs, a one-day meeting, and I was very sorry it was not a two-day meeting, when those young men and women, for their own inspiration and without any guidance and direction, except a little bit of help, put over one of the finest educational conference programs I ever saw. I look upon those young people now as feeders for the Arkansas Bankers Association. I sometimes call them fertilizers for the bank, because without youth and pep and inspiration, our banks are sure to go on the wall of indifference. We look upon them as the hope, and we believe every young man and woman is entitled to the inspiration of an opportunity just as the senior bankers have, going away once a year and attending his or her own meeting. These young people can go away once a year with the consent of the senior bankers and attend their meeting. That has been done right along, until now they are sending and giving permission and urging these young people to go annually to the inspiration conference.

I say we are not successful. We don't think the thing has meant a full success yet, but I believe we are working along a line that may mean much not only for our State association but may give an idea to all the other secretaries of something they may do individually and collectively for the young man and the young woman behind the grill.

Financing the State Banking Association—Discussion Led by Henry S. Johnson, Secretary South Carolina Bankers Association.

Secretary Wait: This letter expresses the regret of Mr. Johnson of South Carolina for his inability to be here owing to a serious and long illness, but the letter has some searching questions that the secretaries might well consider. Therefore, I have asked our chairman to let Mr. Johnson's letter be read. His subject is "Financing the State Banking Association Work."

He says: "In my study of association finances, I find that there is hardly a single association in the United States, with a full time secretary, which association is being financed solely by membership dues. The question arises as to the real function of a State association and if there is work enough to keep a secretary busy without his having to edit a magazine, sell insurance and handle other side lines.

"Again we might ask of the magazine, insurance, etc., are really necessary or serve the member banks. Is it not true that a great part of the

material in the State magazine is merely a reprint from the A. B. A. and other bank journals? Does the member bank get value received for his advertisements in the State magazine, or does he regard it as a contribution? Are our associations being financed directly or indirectly? If the banker pays the bills, wouldn't he rather pay one check for membership dues?

"What is the fair basis for dues? We in South Carolina have a committee studying the question, and my opinion is that they will determine the financial needs of the association and raise such amount direct from membership dues, based on capital, surplus and total resources.

"The subject to be discussed by Haynes McFadden has a direct bearing on the question of association finances. I hold that the primary function of a State association is to help its member banks make a legitimate profit; other functions may be added, but the making of a legitimate profit is fundamental.

"If we, who are largely responsible for the association policy, concern ourselves more with putting modern banking in effect among our membership, we will have given them a fair financial return on their investment. We will have no occasion to apologize for the size of dues, and our membership drafts will be cheerfully honored."

Secretary Wait: I think it is the opinion of Mr. Johnson that the proper financing of association work would be to find out the cost of the work they want to do, and then let the banks contribute to that work a portion of the capital surplus and undivided profit.

Should There Be a Limit to the Variety of Association Activity?—Discussion Led by Haynes McFadden, Secretary Georgia Bankers Association.

Association activities should not be limited in variety at the expense of association usefulness. Usefulness is the purpose and destiny of every successful organization of bankers and it is easy to multiply activities until the man power of association headquarters is spread out too thin to be effective in anything. When that point is reached it is time to call a halt on variety and to concentrate upon efficiency.

By means of a capable committee chairman the variety of useful purposes that an association can serve is almost unlimited. This scope can be achieved without unduly taxing the day's work of the secretary who in the very nature of the case must be endowed with sufficient executive ability to interest his members in performing the greater part of all duties that can be assigned to committees and committee chairmen. For further consideration of this subject the function of a bankers association should be divided under three heads.

Primary functions. These include everything directly beneficial to the member bank and to the profession of banking. At the moment I would classify the organization of county association for the enforcement of the service charge and similar rules as the most important primary function in the interest of the membership. This is the only method as yet devised that at once accomplishes the double purpose of improving methods of banking and the earning power of the member bank through the motive of association headquarters. This is also probably the best illustration of the degree to which the assistance of the member banks can be most extensively used to lengthen the shadows of the secretary. Other important primary functions include the protection of member banks from criminal operations, advising member banks on points of law through the association's attorney and all standard committee work. Under that head typical classifications are legislation, Federal Reserve relations, education in thrift and savings, developing proper channels to accommodate farm loans and all other committee work customarily employed to bring direct benefits to the membership.

Secondary functions. Under this head should be classified those activities which contribute principally to the public good and by means of which banks prosper in the same ratio that general prosperity prevails. Agriculture, good roads, co-operation with State chambers of commerce, with the United States Chamber of Commerce and every civic enterprise in which a bankers' association can take a proper interest, constitute the secondary functions in which the usefulness of a bankers' association is practically unlimited.

Miscellaneous functions. It is almost entirely in this field that a careful watch has to be kept in order to hold the activities of an association within proper bounds. It is my opinion that no association should become a department store and engage in the sale of typewriters, adding machines, stationery, deposit slips, blank checks and other supplies. The danger in the extension of such activities is two-fold. In the first place it sets up between the association and its members and relationship of merchant and customer. This atmosphere easily invades and detracts from the ethical mission and from the professional dignity that a bankers' association should maintain within its members. In the second place supplies whose source of distribution affords a commission to the association are not usually of the best quality. Distributors who furnish the best of everything usually employ their own organization for sales and distribution and cannot offer an over riding commission to the bankers' association. When such a commission is involved there is always a troublesome question of whether this commission should accrue to the association or should be passed on to the member bank. In any event the possibilities of commercial dispute are too numerous to recommend the department store idea for general adoption by bankers' associations. There is one conspicuous exception to this rule and there maybe other exceptions. The one conspicuous exception is the operation of an insurance agency as a part of the association work. In many States the interest of the member bank is best served by the operation of an insurance agency and when this condition exists insurance is automatically transformed from a miscellaneous function to a primary function. Many country banks do business in a town where no regular insurance agency exists and such banks have no source from which to obtain advice on contracts, coverage, etc., except through the bankers' association of their State. This is a complicated subject requiring the study of experts and expert advice is of primary importance in the buying of insurance by a bank.

The commercial aspects of other business transactions between the bankers' association and its members are absent in the purchase and sale of insurance because insurance rates are standardized and are on the same level whether placed through the association or through an outside agency.

By these observations I hope I have made clear my first statement which is also my last, that association activities should not be limited in variety at the expense of association usefulness.

President Smith: Does any other secretary want to discuss this subject with Mr. McFadden for the benefit of the secretaries here? If not, we will go ahead with the next subject.

[No further discussion entered into.]

Protective Work—Discussion Led by Frank Warner, Secretary of the Iowa Bankers Association.

Mr. Chairman, Ladies and Gentlemen: The Chairman has said that this is one of the most important subjects on the program. I want again also to observe that it could be one of the most hackneyed subjects. It is a problem that seemingly is always with us. We would like to get away from it if it were possible. It is a question that involves two very important things, the protection of life and property.

There are some secretaries who have done some wonderful work in the advancement of law enforcement in their respective States. As I understand it, this discussion is a round table. I am sure we shall be glad to hear from some of the men who have been the leaders in their respective States, and that those leaders are not confined to any particular set of States. There has been in a number of States a movement under way which has been referred to as the vigilance committee movement. In contradistinction to the State police, the State constabulary. One may be said to be supported by the State as a State institution; the other may be said to be a voluntary State constabulary. Illinois has been one of the States that has adopted this plan, and I am sure we shall be glad to hear from Mr. Graettinger as to one or two of the outstanding achievements. No one can cover the subjects of his particular State, but if the secretaries will confine themselves to one or two particular achievements in their States, I am sure we will find it of interest.

Martin, will you tell us one or two of the outstanding examples, perhaps, that have occurred in the State of Illinois?

Mr. M. A. Graettinger (Illinois): There have been a number of cases in Illinois. I might go along in a little rambling way and cover the thing in this fashion. In 1924 our State was infested with bank robbers and burglars. We had seventy-three attacks in that year with a loss to the banks and the insurance companies of perhaps \$350,000. We then conceived the idea that there was one way to eliminate and to minimize these attacks and we followed the idea of Iowa in establishing what is known as Vigilantes; we call them town guards. They are appointed as deputies under the sheriff, and act entirely in accordance with the law. The bankers finance their equipment, and co-operate with the sheriff in seeing that they function.

Three months following 1924, we were still being severely attacked. We began operations the first of April, 1925, and since that time the bank robberies have decreased very materially. In the last fifteen months they have run down to \$30,000. This year we have had only about twelve attacks, most of them burglaries, with hardly any loss, and the total loss to the State has been about \$12,500 so far.

We do not depend upon this town guard organization entirely. We have a staff of men in the office who make investigation after a robbery is committed and follow the clues, co-operate in the prosecution, and see that the cases are worked up against the men where there is evidence, that they are convicted and confined in the penitentiary. These guards have done wonderful work in apprehending and helping to apprehend.

Just a little over a week ago, we had an attack on a bank in the Southwestern part of the State where three men held up a bank. They did not belong to any particular gang, but they did hold up this bank. They were pursued. This particular county was not organized. There are some yet in the State that are not. But these men fled into an organized county, were immediately surrounded, were captured the next day, were brought to the county seat of the county in which they operated. Our man talked with them and induced them to plead guilty, and they were indicted and sentenced that afternoon, and they were in the penitentiary twenty-four hours after they committed the act.

I want to say that it is a matter of following these men.

Shortly after we began operation we got word of a gang that had been operating in the State, through a confession of one of the members, which gave us a clue as to quite a large number of men, twenty-five or thirty men in the State who had been operating against banks, and practically every one of them is in the penitentiary at the present time.

One gang you might be interested in was a gang of three men who went into a bank as bank examiners. They held up the bank, or rather got the banker to throw all his securities and money on the table. They checked up with him for two or three hours until finally he was the only one left in the bank and then they tied him up and went away with \$180,000. The bank was wrecked, of course. Nobody had any clue. But in this confession we got hold of one man, and he has since been convicted. He was found to be a jail breaker and a bank robber who broke jail in Missouri. One confederate was later arrested because he went to the penitentiary dressed as a Catholic priest to gain entrance to the penitentiary and by the use of explosives endeavored to get his compatriot out, but he was not permitted to enter and was arrested. He is also in the penitentiary at the present time. With respect to the third man, the information came through the underworld. He is a Chicago man apparently in the jewelry business. He was arrested and is in prison. We have them where I think they are staying away from our banks.

The protection afforded by these Vigilantes is a wonderful thing. It has aroused public sentiment, and it is public sentiment that is stopping these men and is creating posess whenever an attack occurs. Every man gets out and goes after these men, and generally they are arrested. Very seldom does any man get away at the present time. I think we have stopped bank robberies at the present time in Illinois because of the organized force entirely within the law that has been created and the energy with which we follow these men if they do get away after a robbery.

Mr. Warner: It is well to realize that probably the business of law enforcement is the biggest in the world. We are a stockholder in the business from the time we are given life on the earth until we pass on. The business of law enforcement, as I understand it, from the inception of the Vigilance idea, is to get more people to take part in

law enforcement. It has a number of parts to it that have been developed in the respective States. So much in the past have we selected men to enforce the laws, pitifully underpaid and pitifully equipped to do the work with which they are charged. We criticize them tremendously when they fall down. If I catch the spirit of the Vigilance Committee, it is my understanding that we are to select better men, better qualified men, they are to be ultimately paid better, and so these other things which come about through the Vigilance Committee scheme, to be brought out by the respective speakers, are a part of this whole law enforcement plan to get better law enforcement.

Mr. Graettinger has told you something of the creation of the Vigilantes in his State. The creation of such Vigilantes in other States have adopted this plan are similar to that of Illinois. I am sure Senator Holmes, President of the Indiana Bankers Association, can tell us something of another part of the Vigilance Committee movement, that is the creation of a State Criminal Bureau, the creation of a State Identification Bureau, possibly to be allied with other State bureaus, when they shall have all passed such laws and also to be associated finally with a national bureau to be created, it is planned and hoped, at some time by Congress.

Mr. Holmes, will you tell us briefly something of what you have done in Indiana?

Mr. Holmes (Indiana): I wonder if I might ask the indulgence of the group sufficiently to suggest that instead of myself speaking, we ask the man who had more to do with it than anybody else in Indiana, namely the former chairman of the Protective Committee of the Indiana Bankers Association, who is to succeed me very shortly, namely, Mr. Brown.

Mr. A. C. Brown (Indiana): Senator Holmes had a great deal to do with this because he was a member of the Legislative Body that enacted our laws just recently.

I think Frank Warner is a little too modest. He is talking about what the other States have done. In Indiana we call it the Indiana Plan, but after all it is the Iowa Plan. We got our inspiration at a meeting provided by the Illinois Bankers Association some few years ago when they had under consideration a plan to minimize the bank holdups in the State of Illinois, and the exhibits that they had were all Iowa exhibits, and I think that Iowa can still stand at the head of the list and can tell us all just how it ought to be done. I doubt if Indiana has anything to offer that will assist in any way.

Mr. Warner: Mr. Brown, will you kindly confine yourself to the subject under discussion?

Mr. Brown: I will tell you what we have done in Indiana. After two years of organization in our State, we are thoroughly convinced that the Vigilante movement provides just the background for the clearing house in which people are interesting themselves—in the problems that we have had up to this time, that is the matter of the minimizing of crime.

I have always said that it is within the power of the people of any community to keep crime at a minimum if they want to take an interest in it. This Vigilante movement is doing away with a lot of the apathy that has prevailed up to this time in practically every banking community in the State of Indiana.

It was said before the session of the last legislature that the Indiana Bankers Association did not dare ask for any legislation in their name because if they asked for it they would say they had an axe to grind and they wouldn't care to assist in putting it over.

We did, through the wonderful influence and assistance of our efficient secretary, Miss McDaniel (and I am sorry she is not here to tell you first hand just how she did it) some good work. I doubt if there is anybody in the State of Indiana that could have lobbied in just the way she lobbied to put over our State Bureau Criminal Identification Bill which now has tied in the officials of Indiana to our problems, and we are glad, although it is not always so, that they are taking credit for enforcing the law in the apprehension of bank robbers as the State never has thought it necessary to take cognizance of it before.

The State Bureau has only been in operation since the first of July. As to its details I wish Senator Holmes would tell you more about that. I am just going to touch on it and say in addition to that State Bureau of Criminal Identification, we also got passed the Habitual Criminal Act which went in force on the first of July, and just last week our first man was sent up for life under the Habitual Criminal Act, and it was found he was connected with two bank robberies in Indiana and several other robberies in connection with the holding up of filling stations, and he has gone up for life.

The State is taking the credit, and we are darned glad they are, of putting over that proposition and sending this fellow up. We have got the recognition of the State that this is a good thing, and they are going to be more anxious than we to make a record. As I say, the whole background is the Iowa Vigilante Plan which stands prodding our own officers to observe the law themselves and to catch these fellows, and when they get them, instead of sending them up on a small charge, for generally that is the way it is done on the smallest count that we can get, we take advantage of the Habitual Criminal Act and send these fellows up for life. We had our first last week and we hope to have a lot more in the future.

Mr. Warner: Mr. Brown has touched upon the State Criminal Bureau. That subject alone is one that would invite tremendous interest if one had time to elaborate on it here.

Another feature of the Vigilance Committee movement, as I catch it, is to have stricter penalties for bank robberies. I believe that the State of Oklahoma has a unique statute for bank holdup. General will you tell us in just about one minute, something about how you have strengthened the penalty statutes for bank robberies in your State.

Mr. Eugene P. Gum (Oklahoma): We have a statute in Oklahoma which provides that for the robbery of a bank, where firearms are used, the penalty may be assessed to the convicted prisoner of anything from twenty years to life, the electric chair in Oklahoma. About six months ago we had an example of that which we hoped would be very helpful in cutting down the crime wave in Oklahoma. A fellow by the name of Dave Brown robbed a bank in Oklahoma, he was captured and tried before Judge Swindahl, and got the chair. He is sentenced to die now on the fifth of November. He was sentenced to die sometime this month, but the Governor extended that time until the fifth of November, at which time we execute five others. We hope when that occasion is cele-

brated we will get a lot of publicity that will help us in our suppression of crime in Oklahoma.

Mr. Warner: Another feature of the Vigilance Committee organization consists of State schools of instruction. We have short courses for business men, for doctors, for bankers, for lawyers, and nearly every other profession. I am wondering if there is any State here that has had in its State short courses for its law enforcing officials.

May I without manifesting any semblance of conceit say that in Iowa we have had two annual short courses for our law enforcing officials. We will have the third annual one next month. It is attended by the sheriffs and the police chiefs and officers and county attorneys, called either by the Attorney General or the Governor, discussing all sorts of law enforcement questions, how to observe evidence, how to make out papers, how to make an arrest, how to serve a warrant, and so forth.

Another feature of the Vigilance Committee plan I believe might be discussed by Minnesota. They call them up there, county rangers.

Mr. Fellows: Our ranger plan is based entirely on the Iowa plan. We do not have a large number of counties organized. Out of 87 counties we have at the present time 50 thoroughly equipped counties. Those counties are principally in Southern Minnesota and in Southeastern Minnesota which is, of course, the avenue through which these men come up from States, like Iowa and Illinois and these other States. We have not been as successful as we would like to be in this plan. It is due to the fact that we have had very little bank crime. We knock very hard on wood whenever we make that statement. During the last two years we have had but two robberies, and only two unsuccessful burglaries, with a total loss of only \$30,000; under those circumstances, it is almost impossible to get our bankers enthused over the subject of the organization of county rangers. We do feel, however, that that is one of the reasons that we have not had more trouble in Minnesota, because these men feel that we are organized.

I might state that there are two other reasons. One is our life sentence. In Minnesota we have two statutes, forty years for bank robbery, or a life sentence.

During the first four months of last year, nine men were sent up for life for bank robbery. We think that is the second reason for our freedom from crime, and we think that the third cause is the fact that we have a protective department that is enabled to perform the very difficult job of going into the city of Chicago and picking up some of the men who are harbored there unbeknown to our friend Martin Graettinger. We are going to try to extend our ranger system, however, further.

Mr. Warner: I believe another feature of this system is to hold State shoots of these law enforcement officials. Several States, I believe, are holding these. The State of Kansas is one of these States. Mr. Bowman, Assistant Secretary of the Kansas Bankers Association, will you please tell us in just a minute about the annual State shoot in Kansas?

Mr. Fred Bowman: We don't particularly care to materially increase the marksmanship of the men, as we do not rely on the gun side so much as you may gain the impression. I am sure that is true in the other States. The gun play is the small part of all this.

Not to go into the subject, because the time has already passed, let me say that we hold a shoot in Kansas primarily to give the Vigilantes something of interest to them, something which they look forward to, because we do not pay them sufficiently in any way to recompense them for the service they render. We have county elimination shoots in Kansas.

We have 70 counties organized with Vigilantes, about 75% of our State, 3,500 men, and we have a county elimination shoot in the summer and select four high men in each of those counties. There is quite a lot of interest. Along with it we have a bank holiday in most of the counties, and in the afternoon a picnic. The four men who win the county elimination shoot are sent to the State shoot, and this year we have some 300 men from 65 counties out of our 70. They are very much interested, and they go back home and interest the boys.

You might gain the idea that we lean pretty heavily on the use of arms, but we have other plans for Vigilantes work that received most of our attention, and the gun play is a very small part. We have the State shoot to give that class of fellows something in which they will be interested, and that is the use of arms just as a fatter of diversion primarily.

Mr. Warner: Mrs. Brown, Secretary of the Michigan Bankers Association, I believe is starting this new law enforcement plan in the State of Michigan. Will you tell us just in a word something as to how it is done in Michigan?

Mrs. Helen M. Brown (Michigan): The same organizer who organized Indiana, we had. We took our lead from Iowa. Out of 83 counties, 80 adopted the county federation plan and the Vigilantes system. We have about 15 of our counties equipped. We are almost too young in the movement to be able to tell you anything. There have been some results. I presume it is a matter of psychology. Since March 15 there has not been a branch bank in Detroit that has been attacked. We have, however, had two bank robberies, one an unsuccessful one, and the other got off with about \$10,000. They were negroes who had never read anything about our Vigilantes system.

There is a great deal in the fact that these robbers don't know what is in Michigan. That is why they have not been there. They don't know what they will get when they come there.

Mr. Warner: I rather feel that those who have taken up this work believe that the Vigilance Committee movement is a preventive organization to prevent these attacks, but coupled with it must go an organization which will vigorously and relentlessly and fearlessly ferret out bank robbers successfully making their attacks and see that they are put out of the way for the longest possible term. That is what makes the system complete.

Much could be said explaining and elaborating upon this, and it is to be regretted that there is not time here to do so. I should like to call briefly on one more secretary. I understand that in that State they have done something just a little different, and if they have I know we shall be glad to hear it.

Mr. Macfadden, of North Dakota, will you please tell us in a word what you may be doing in the great State of North Dakota?

Mr. Macfadden: There isn't very much that I can say on this subject just now. We have found that the Vigilantes system, which some of you are able to work out very successfully, resulted in some cases in driving these men up into our States where we have found it absolutely

impossible to do the things that you can do. So we have undertaken a movement to interest public officials. We say to them, "Gentlemen, this is your job. We don't believe that the bankers of the State should be charged with the responsibility of preventing or punishing crime. We believe this belongs to the public officials." We are meeting with good success. We are doing that because it is absolutely impossible for us from several points of view to do what you have done. I am sure you realize what the situation is in some of the Western States. We can't do what can be done in some of the older, better settled, and better equipped States from a financial standpoint. So we are trying to put it up to the public officials. We are not opposed to the Vigilantes system, but we believe that a system should be worked out that can be applied to our part of the country and to States of our kind, and that can be done only by interesting and putting the responsibility up to the public officials.

Bank Taxation—Discussion Led by F. P. Fellows, Secretary Minnesota Bankers Association.

In preparation for this talk I sent to all the States a questionnaire. The replies which I received indicate that there are quite a number of States that are not familiar with our tax situation, and therefore it occurred to me that with your indulgence I would take a part of my time to give a complete outline of this subject.

Needless to say, on a subject that is so broad we have time to deal with little else but generalities. Mr. Cooke will deliver a talk on this subject before the National Bank Division tomorrow afternoon, and I think it would be well for all of the secretaries and officers of the association to hear him.

I would also call your attention to the fact that the situation has been well outlined in several articles of the A. B. A. Journal in the last two years, so that there are all manner of sources of information on it.

A review of the tax cases would be altogether too long. It is interesting to note that since the National Bank Act of '63 the question of taxation of banks has been continuously before the courts of this country and also continuously before the United States Supreme Court. You are all familiar with the case of the Merchants National Bank of Richmond which was handed down in the summer of 1921. Up to that time it was considered that competing moneyed capital mentioned in Section 5219 of the revised statutes applied only to moneyed capital which was engaged in the banking business. The Richmond decision broadened that definition to any competing moneyed capital.

As a result of that decision and the North Dakota decision which was along the same lines, Section 5219 was amended to read that the national banks were not to be taxed higher than moneyed capital in the hands of individual citizens coming into competition with the national banks, and it was then qualified by a definition stating that investments in the hands of individual citizens not engaged in the banking business but representing purely private investments were not to be considered competing moneyed capital.

The Minnesota and Wisconsin cases handed down in March of this year were substantially the same as the Richmond case in competing moneyed capital, but the Supreme Court case in the Wisconsin case of the amendment to Section 5219 in March of 1923 merely expressed in words the decisions of the Supreme Court up to that time.

Therefore, we have a situation existing today which is practically identically the same as it was prior to the amendment of 1923.

That, I believe, gives the principal points in the Minnesota and Wisconsin cases handed down last March.

All the States are interested in this proposition and all of the officers and secretaries should, of course, be familiar with it.

There are three systems of taxation: One is the uniform general property tax, prevailing in most of the States of the Union; another is the income tax adopted by three or four of the States, and the other is the classified system of taxation. Those States which have the general property tax seem in this questionnaire to indicate that they are not interested in this question of 5219. I believe that if they will go into the subject thoroughly they will find that they are vitally interested in that proposition.

As to the solutions of the problem, I have just listed them briefly. The first one would be an amendment to 5219 which would permit the States to tax national banks provided the tax was no greater than that levied upon State banks. You will all recall the fight in 1922 which led up to this amendment of 1923, the tax commissioners of some fifteen or sixteen States strenuously advocated such an amendment. Fortunately that amendment was defeated. Only two members of the House Banking Committee favored the amendment, and the bill went through with the provisions that I have cited.

I do not speak officially for our State, yet I believe that if I tell you that in 1922 when this amendment was pending before Congress, we took a vote of our members and out of 1,032 banks, 1,007, or all but twenty-five, were strenuously opposed to any such amendment to 5219, the reason, briefly, being that 5219 is now our protection, the protection of all banks against excessive taxation on the part of the States.

Some of you who are in States that have had no political troubles believe, perhaps, that you do not need the protection of that system. I dislike to refer to the experiences in the Northwest, particularly when our friend Macfadden is here from North Dakota, but if you will look back in the history of his State, you remember the Bank of North Dakota building an elevator and similar enterprises which we just barely escaped, and you will find that there is a chance of legislatures of States using the banks. The 1922 hearings indicate that. You will find these tax commissioners stated at that time that there was no more stable, no more profitable business in the country than the banking business, and, therefore, it could stand a greater degree of taxing than any other business. That you will find in the hearings of 1922.

With the return of earnings upon the part of the banks which we are all looking for, particularly in our section of the country, there will again be the situation where banks may be taxed. As I said before, there were fifteen commissioners of the State Tax Association who appeared in advocacy of an amendment permitting national banks to be taxed the same as State banks.

To me it does not seem that there is any greater strength today for the amendment of 5219 than there was at that time. Therefore, it

seems practically out of the question to amend the United States statutes to permit national banks to be taxed as State banks are, or to classify them.

The other solution is the income tax now in force in New York, Massachusetts, Wisconsin, not applying, however, to banks in North Dakota. They have the income tax generally.

The difficulty with the income tax I find is that in many States the constitutions prohibit an income tax, that means in all States if the legislature passes a proposed constitutional amendment two or three years before it can be passed, and I call your attention to the fact that not only in our State but in the State of Indiana and several other States the people have refused to favor a constitutional amendment levying the tax, due probably to the fact that in most cases the proposals have not been a new tax, but a tax which can be imposed in addition to other taxes. We in Minnesota I think would be opposed to any income tax amendment unless it is in lieu of other taxes.

Then the third proposition is to tax all competing intangibles as you tax banks. In our State of Minnesota that would mean that you would raise the intangible tax rate from 3 mills to practically 20 mills, speaking of 20 mills on the actual value; that would, of course, drive capital out of our State, and no State is willing to take that risk, and yet bills to that effect were proposed at the last session of our legislature and were avoided only by the voluntary agreement of all but seven national banks in our State to pay the taxes for 27 and 28, permitting an interim commission to make an investigation of this subject and report at the next session of the legislature.

Such a proposition of putting all intangibles on the personal property tax basis is not feasible when you consider, taking our State as an example, that considering intangibles, bank stock is 5% of the total intangibles in the State, while at the present time bank shares pay 47% of all the taxes on intangibles. Bank shares are 3% of all personal property in our State, while bank shares pay 9% of all the personal property tax in our State. Of all the taxes in the State, including gross earnings, taxes and several other types of taxes that we have, bank taxes would be a fraction of 1%. Therefore, it does not seem to us justifiable to attempt to penalize intangibles, you might say, by raising them to the bank rate.

That leaves your proposition, to tax bank shares at what would be a fair tax on intangibles. As I said, our tax upon money and credits, in Minnesota is 3 mills today. We have figured that a \$5,000,000 money and credits tax would produce the same amount of revenue as produced from the intangibles tax today and would permit the taxation of bank shares without any discrimination.

That, briefly, is the outline of the tax situation, not only in Minnesota, but I think generally throughout the country. That bank taxes are too high is, of course, a subject for dispute. Some bankers evidently advocate the paying of taxes whether they are high or not on the question of public policy.

I have a letter from the Oregon secretary in which he states that bank taxes in that State are 41% of the net incomes of banks, and Mr. Mylander has some information along that line in his State.

As to the question of assessment methods, I will ask one or two of the men to make a few brief remarks on that. In Minnesota, fortunately, we have not been troubled with a variety of assessments. Our banks are taxed at 33 1/3% of the value of the capital, surplus and undivided profits, and we have had no difficulty in connection with the assessments.

Mr. Chairman, that is a brief outline, as I see it, of the tax situation, and it seems to me it would be best to throw the matter open for general discussion, except that I would like to ask Mr. Zimmerman of Pennsylvania to give us the ideas of his State on the question of the amendment to 5219, and whether it is likely to be approved by his State.

Mr. Zimmerman: Some few weeks ago a letter came to my office from Mr. Sartori of California, saying that certain bankers in California were interested in promoting an amendment to Section 5219, and asking whether we of Pennsylvania felt that the solution provided for in the resolution would be acceptable. Our experience under Section 5219 has been most gratifying. It has been gratifying because our lawmakers have consistently been wise enough to recognize the force of the section in respect to all taxation levied against banks, so that to-day in Pennsylvania, as has always been the case so far back as I can remember, the rate of taxation against national bank shares is 4 mills, the same rate as applies against intangibles in the hands of individuals. We have a slight variation in Pennsylvania as against the trust company, because when the trust companies were chartered their powers were broader, particularly in respect to the privilege of ownership of shares of stock, so that the trust companies in Pennsylvania are paying 5 mills, but not a single officer of a trust company, so far as I have heard, has allowed his voice to be heard as against the rate of 5 mills, largely because we feel that having adhered so closely to the original basis of taxation as laid down in Section 5219, our situation is very satisfactory and the greatest protection that we can possibly have as against greater taxes or discriminatory taxes as affecting banks is that which is afforded under the protection of 5219.

President Smith: I suppose every secretary here received that resolution from Mr. Sartori. We received it in Kentucky, and we are very much in favor of leaving it just like it is.

Mr. Fellows (Minnesota): I thought perhaps Mr. Mylander could tell us something of his experience in his recent suit.

Mr. Mylander (Ohio): Our suit in Ohio has just reached first base. The complaint has been filed, and the answer, and the hearings will start next week. I think you all received a copy of our complaint. You know on what we are basing our suit. We are injecting one new element into it that has not been injected in any of the other States, in the complaint against the preferential treatment which is given to building and loan companies in our State, which results in the building and loan companies which have one-third of the assets that our banks have, paying about 1-16th the amount of taxes that the banks pay, and certain other features which are peculiar to our tax laws that are probably a little bit different from any of the rest. We in Ohio are taxed on all property, both real and personal, and its true value in money, and at the same rate; \$1,000 in the bank and \$1,000 worth of real estate pays exactly the same tax in theory; it doesn't work out that way in practice, of course. The intangible property, except bank stock, all escapes taxation. Our banks are paying one-eighth of the entire personal property tax in the State of Ohio, while the bank stock probably amounts to about one-fiftieth of the entire intangible wealth of the State.

I want to say in regard to the California resolution that we feel in Ohio that the only protection that we have against a further increase in our bank taxes is 5219 as it now stands, and we should certainly regret very much to see any change made in that particular section.

Mr. Fellows: Our time has expired, but might I beg your indulgence for a minute from Mr. Graettinger as to how they handle this matter of local assessments.

Mr. Graettinger: In Illinois the constitution provides that all property shall be assessed on an equal basis, both real estate, personal property, and all kinds of property. As a matter of fact, real estate is assessed perhaps on a basis of 25 to 33 1-3%. Bank stock has been assessed on a basis of from 60 to 100%. The association, for the benefit of its members, prepared a form on which by counties the banks were to prepare their schedules for the assessor and in order to equalize the assessment against other property, he recommended that they put it in at 50%. Many counties adopted that plan and succeeded in convincing their boards of review and assessors that that was an equal assessment as against other property, and saved themselves considerable money.

There are certain counties, though, wherein the boards of review have refused to do that, and in certain cases I have learned recently that banks are going to contest and file suits, and I think while no action has yet been taken, the association will enter into the proposition and help these suits for the purpose of arriving at a basis by court decision to prove that the bank assessments have been too high. We have tried a number of times to have our constitution amended so that the legislature could adopt laws more modern than this particular method in use now, but in each case the amendment was not approved, not because there was a majority against it, but because it requires a majority of all the votes cast at the election to pass it, and we did not have sufficient votes.

Mr. Gum (Oklahoma): Like Mr. Mylander, we got a suit filed down in Oklahoma, and we got in about ten feet of second base and some pinch-hitter knocked a foul and we had to send him back. The facts of the case are we won our first suit in the district court, getting an equalization of the bank tax with other properties, cutting it from 100% to 50%. When we got that case to the Supreme Court, it was reserved and sent back, largely on account of some errors in preparation of the suit. We are now refiled that suit and rehearing it in the district court in just a few days, and expect to appeal it not only to the State Supreme Court, but, if, necessary, to the Supreme Court of the United States in order that we may have a precedent on the question. All properties are assessed 100% in Oklahoma as far as the statutes are concerned, but as far as the facts are concerned the banks are assessed 100% on their moneyed capital, while all other properties are assessed from 45 to 50% on an average.

We have the opinion of Judge Paton and other prominent attorneys that when we reach the Supreme Court of the United States with that case, they don't understand how the Supreme Court can avoid giving us the same ruling that they gave the famous Sioux City Bridge Company when they carried their suit on the same question to the Supreme Court and Judge Taft rendering the decision said: While it is true the State of Nebraska has a statute requiring that all property be assessed at 100%, and this bridge was assessed at 100%, it is also true that the 14th section of the Constitution of the United States provides that all property in a given area shall be assessed alike; therefore, as the evidence shows that banks are assessed at 100% and all other properties in Nebraska are assessed at 50%, it is either necessary for me to violate the statutes of the State of Nebraska or violate the Constitution of the United States. I therefore choose to violate the statutes of the State of Nebraska, reverse this decision, and ask the taxing authorities to rebate to the Bridge Company 45% of its taxes.

It is on the basis of that decision that we are going to the Supreme Court of Oklahoma, the case being handled by the Oklahoma Bankers Association for a test for all of our banks. We feel very sanguine that we are going to win it.

I haven't very much patience with banks, though we have some in our State that are attempting to do so, that try to get under the wire by taking advantage of those provisions, Section 5219, permitting them to get their ad valorem taxation on the basis of intangible property. I don't think any bank expects to get by or should expect to get by on a 3 or 4 mill tax. They ought to pay their equal share of taxation, but not a greater burden.

Discussion on County Organizations and Credit Bureaus—Led by M. A. Graettinger, Chicago, Secretary Illinois Bankers Association.

Time allowed for introducing the subject of county organizations and discussions on credit bureaus, rural clearing houses and activities does not permit more than headlining. The first two sub-divisions are entirely dependent upon the third; therefore, I ask permission to replace the order and put the last first, and simply call attention to the report of your Committee on County Organization as a basis for discussion.

County credit bureaus are in successful operation in a number of counties in several States. The results in those organized counties speak for themselves. The need for them has been proven. The only question that enters my mind now is why, after such complete demonstration, do not all of our counties take hold of this plan and protect themselves against the unsafe, duplicate borrower.

Rural Clearing Houses.—This matter has been discussed for a number of years (my own interest in the matter dating back to 1908 at which time I addressed the Wisconsin Bankers Convention on the subject.) We in Illinois are preparing to get behind this movement with vigor. Our Committee is now at work making a survey of the State and collecting data that will be embodied in a report that should be comprehensive in its recommendations and be ready by the first of the year. As to the advantages and benefits of district clearing houses, there can be no doubt—the big problem, as we see it, is arranging the territory in such a way that the maximum of service can be provided through the clearing house with a minimum of expense and, secondly, the selling of the idea to the member banks. It is our hope that possibly these clearing house districts will become the groups or representative geographical divisions of the State Association. Better, safer and more profitable banking is sure to follow the organization of rural district clearing houses. Competitive practices will be controlled and, with

the establishment of these organizations, the policies and profits of banking will no longer be controlled by the one hold-out.

With this introduction, I will leave the matter open for discussion.

Mr. Graettinger's remarks above were based on the report of the Committee on County Organizations and Credit Bureaus, which we annex.

In order that some perspective could be obtained upon which to base a report, your committee submitted a questionnaire to the Secretaries of the various State Associations represented in this division of the A. B. A., copy of which is attached and made a part of this report.

Thirty-four responses were received, twelve of which advised that they do not have any county organization activity of any kind. Eleven are partially organized and eleven are organized in over 50% of their counties. Of these Illinois, Wisconsin, Iowa, Indiana and Michigan report between 90% and 100% organized. Michigan having started the movement quite recently is not in position to report any results or benefits.

As to the activity of the various county units, most of the Secretaries responding from those States having organized counties advised considerable activity, in some instances claiming as high as 100%. A careful check-up of the answers to the other questions asked would indicate, however, that the question in regard to activity was either not as plain as it should have been or that the ideas as to what constitute activity differ considerably. Your committee does not feel that any State in the country can be given credit for either 100% county organization or 100% activity. In fact, the impression created by the answers to the questionnaire is that there is still a big job ahead even in the State that is best organized, both as to the actual and real completion of organization and the development of activity within the county organizations.

The movement appears to have started in North Dakota about eighteen years ago, followed by Illinois in 1911 and Nebraska in 1912, a stimulus being given to the movement during the war in order to coordinate the efforts of the bankers to handle Government war-time securities; during the past few years there has been quite added stimulation, by State Associations to develop these organizations.

Nineteen of the States reporting are operating under a standard constitution and by-laws.

Thirteen of the States permit all banks to participate in the activity of the county organization regardless of their interest or membership in the State Association. Eight require membership in the State Association as a qualification for membership in the county organization, while in one State the question never arose.

In practically all of the States the usual official family is elected at an annual meeting. While there appears to be no rule as to rotation in office, the idea seems to prevail in six States, does not obtain in six and in ten it seems to work out one way one year and the next year another. In the majority of the counties that are organized, the secretary is not a permanent officer. In two States only is this office made a permanent one. In one of these States there are fifty counties with permanent secretaries receiving a standard salary of \$50 a year. In another twenty-three counties have permanent secretaries with salaries ranging from \$15 to \$50 a year. And it is quite apparent in both of these States the general interest and activity is much greater than in the States which do not elect a permanent salaried secretary.

Practically all of these counties have small dues or levy modest assessments as occasion requires.

There seems to be no uniform practice in regard to the holding of meetings. Quite a few meet quarterly and although the report indicates that the majority do, yet that only applies to the states reporting and not to the majority of counties. The majority of counties seem to meet semi-annually, while in a few instances, and these are apparently growing, monthly meetings are being held.

In most instances there is no contact whatever between the State Association and the county units. However, those states which report the greatest progress have a direct contact and also guide the activities of the counties.

Six states are now offering some recognition to the county organizations for co-operation in promoting Association activities; three by giving public honorable mention to the meritorious counties, two provide Loving Cups and one a certificate of merit.

Sixteen states have recommended the Credit Bureau plan for the prevention of duplicate borrowing to the consideration of its county organizations. The majority of these sixteen have from one to five counties organized. One State, Virginia, advises that practically all counties are now organized. Wisconsin has five in process of organization and thirty-seven approved, while Illinois has seventeen in actual operation.

Fourteen of the states have no community Town Guard or Vigilante plan. Four states have between seventy-five and eighty counties completely organized under this plan and four other states have a few of the counties organized. The information is not sufficient to determine just how many armed guards have been authorized in the states which have organized this plan.

Most of the states organized for protection post reward cards and six of the states hold state shoots for their guard units.

Only two states have made any progress in co-operative purchasing of supplies, but these have so recently made efforts along this line that they have nothing as yet to report.

In five states some of the counties have adopted the idea of co-operative advertising.

Seventeen states are recommending the adoption of the stop-loss or service charge on small checking accounts. In some of these states considerable progress has been made in having the counties adopt resolutions endorsing the plan, although Minnesota, Utah and North Dakota report that the plan has been adopted in practically every county and is in operation. Six states report that practically all of their counties are charging for miscellaneous bank services; six to some extent, while five have not accomplished anything.

In practically every state co-operation in the development of agriculture is a very active item on the program.

Only in four states have the county units any representative whatever in the State Association; three through group officers or nominating committees and one by being recognized in the appointment of committees in the State Association.

The above resume of the returns from the questionnaire can only furnish a background. Comments and remarks accompanying the return of these questionnaires told a much more complete story. It is quite evident from the combination of the answers to the questions and the remarks that have been offered that those states which made a county unit an essential part

of the State Association providing direct recognition and representation in the State Association, requiring a certain amount of discipline and direction by the State Association, including the modest salary to the county unit permanent secretaries, have accomplished the greatest results in the actual developments in activities and loyalty and it is also very evident that in these states the recommendations of the State Association are given most serious attention by member banks and are put into actual practice to a much greater extent than in the states where there is no tie-in or direction.

The conclusions that your committee has reached through this survey are: First, that subsidiary units either by counties or small groups of counties directly tying-in with and supervised by the State Association is to be recommended as providing for a more accessible means of developing membership loyalty, cooperation and the actual putting into effect of the policies and plans that have been worked out by the State Association Committees.

Second, that even in those states that showed the best results considerable work is yet to be done and in some instances it seems that some slight changes might be advisable, and we would call attention particularly to the lack of organized interest even in the best organized states in counties containing a small number of banks and it is recommended that in such instances, several counties be grouped together to form one unit.

Third, That in order to accomplish anything, organization is necessary and practical results can be obtained only by direction and supervision through local organizations or groups. This direction and supervision can be held by the State Association only and the interest of the local subsidiary organization can be stimulated and controlled by making them permanent, integral units of the State Association, organized with permanent salaried secretaries and given direct contact with and representation in the parent body.

Respectfully submitted,

Forb² McDaniel
Haynes McFadden
M. A. Graettinger, *Chairman*

Following the presentation of the subject by Mr. Graettinger, discussion ensued as follows:

Mr. Haynes McFadden (Georgia): We have over 100 counties organized in Georgia, chiefly on the service charge and the reduction of interest rates, charging of exchange for cashing out-of-town checks, and similar rules that are intended to improve the earnings of the country banks. On the credit bureau idea we have made very little progress, I am sorry to say. There is a very deep-seated prejudice in Georgia among the banks against the exchanging of credit information. They have been betrayed so often that they are like a scared child that dreads the fire. They have not very willingly gone into the operation of credit bureaus, although we have several very successful credit bureaus in operation. My own personal opinion is that the losses avoided through the operation of a credit bureau are much more important to a bank than the earnings that can be made by the enforcement of a service charge and similar rules.

As soon as the state is wholly or practically solid in its organization along the lines of county bankers' associations to enforce rules that mean additional earning power, it is our definite purpose to follow right in behind that with the educational work that is necessary to induce our banks to operate credit bureaus all over the state, because the sorry loans that they get, the duplicates that they get (and we do know that they have them), are very much more hurtful to a bank's earnings than the proceeds from the service charge and other similar rules will amount to. I think too much emphasis cannot be laid on this subject by our organization and in every state in the Union.

Mr. Graettinger: Mr. Fred Bowman, can you tell us anything about county organizations in Kansas and your thoughts on the subject?

Mr. Fred Bowman (Kansas): You state that there are eleven states that are 90% or better organized. I don't know whether our state of Kansas was included in your report or not, but if we do not have an active county association, we have a set-up in every county. In our sparsely settled territory, which is along the Colorado line, we have county units. You may not have that problem in most of your states, but we do in Western Kansas where there are only one or two banks in a few of our counties. We use a county unit there. We have a set-up, if not an active organization, in every county I think in Kansas. Through that we are able to carry on all of our activities, and I believe it might have been well if we allowed more than twenty minutes for this part of our discussion, for the reason that through the county association about every activity a state association has and those things which we encourage from the American Bankers Association program can be best carried out. That is our experience in Kansas. We either go through the county bankers association secretary, or, if it is too much to unload on him, we ask for a committee in that county and we lay the burden upon them to carry out the program that we suggest to them.

Mr. Graettinger: The thoughts, then, expressed on county organization, are that it is a very valuable unit to state association work in that the activities of the association can be disseminated and promulgated and brought to the attention of the membership best through county organizations, and that is our experience in Illinois.

Mr. Bowman: I should like just to suggest that we are considering the advisability of a little remuneration for a permanent county secretary, which we think is perhaps the biggest step forward along that line.

Mr. Graettinger: Turning to the subject of credit bureaus, I think Mr. Coapman, of Wisconsin, can give us a little additional information and discuss the subject.

Mr. W. G. Coapman (Wisconsin): We have about a half dozen either going or ready to go. We have found that in three of the counties there were 13% of all borrowers duplicators and in one county 6%. One county in Illinois reported to us, when we were looking for information, that there were 45% in that district. It varies according to conditions. We find that this is taking hold very rapidly this year, especially in the counties that have completed their protective work and now want to go forward to something else. Our argument has been that if they are protecting the bank against the robber through the Vigilante movement, also by installing better equipment, and so on, there is another form of protection that they ought to take up, and that is against the borrower through a credit bureau.

Our plan is almost identical with that of Illinois, and the counties that have taken on the work say they would not under any circumstances drop it. In one county they have chosen as their manager the city treasurer at the county seat, and in one county a young lady assistant cashier is the manager; in another the president of a bank is voluntary manager without any remuneration whatever, but they are paying them fifty to seventy-five

cents an hour for active work, and the cost is not at all excessive. They run from five banks in one county up to fifteen or twenty in the largest county. While thirty-five or so have approved, that means that the county association at its meeting has approved it, and then to put it into effect they must have the banks through their boards of directors likewise approve. The resolution adopted by the bank, with us as with Illinois, pledges each bank not to take advantage of the other members in case of duplications. That is put on the minutes of the directors' meeting and a certified copy sent back to the secretary of the county before they organize, and I think that will prevent any breach of faith that you seem to be fearful of in your State.

Mr. Graettinger: Further discussing this subject, I will call on Mr. Mylander, who I think has started some of the work of credit bureau organizations in Ohio.

Mr. C. H. Mylander (Ohio): The credit bureau movement in Ohio is rather new. It has been talked about for a year or two, with no definite action being taken until we got Mr. Graettinger's famous credit bureau team at our State convention this year. I want to say to any of you who are thinking of starting credit bureau propaganda, that you cannot do better than to get Karr and Jones of Marshall County, Illinois, to address either your State convention or your group meetings.

We have one county now which is functioning, two other counties which have still one reluctant bank to convince, and about six or seven others that have taken the first steps and are going. I just learned, since I reached here, of one other county that has taken action in the last week.

We feel that in the rural counties of Ohio where there is no metropolitan center, no city of more than 5,000 people, the county credit bureau is the best possible activity for the county bankers association; in other words, we feel that the county credit bureau should come before the service charge, and that the service charge will follow the county credit bureau idea, and that is what we are working toward in our State.

Mr. Graettinger: Summing up the credit bureau discussion, I think that the organization of a credit bureau leads more to a better understanding among the bankers of a county than any other plan that may be put into effect. Their discussion of credits and loans, duplicate loans, brings about an understanding that later results in getting together on many other different projects.

The cost is not very heavy. It is very small, indeed, for the benefits and dividends gotten out of it.

There is one more subject, that of rural clearing houses. I don't know that any secretary has had any experience along that line, but we have in our midst a gentleman who I think has made a study of that subject and has talked on it, and if Mr. Chapman, of Minnesota, will give us about two minutes of his time telling us about what he thinks of the rural clearing house, I should be glad to have him do it.

Mr. C. A. Chapman (First National Bank, Rochester, Minn.): I didn't expect to occupy any of your time; I rather expected to hear your ideas. This subject is to be presented on two other programs during this convention. This afternoon Mr. Dan Stephens of Fremont, Nebraska, in the State Bank Division is to present the idea of a four county district examiner clearing house, utilizing a State examiner designated for the purpose, conducting examinations which, with weekly reports from the member banks, will constitute the material used by the advisory council for setting up policies and standards and perfecting the situation in the four counties.

On Tuesday evening I am to address the Clearing House Section on the main program on practically the same idea, but looking toward its ultimate form when such a district of two, three, or four counties will have its own examiners, in no way connected with the political system, and who will be subject to the control and direction of the advisory board of the Clearing House Association, the whole plan to get its experience largely from the great metropolitan examiner clearing houses, the whole purpose being to make a common treasury of the knowledge and experience of the individual members and to establish through a professional public opinion within the district and the setting up of standards a complete stabilization and standardization of banking practice and the recognition of banking ethics within the particular group.

Mr. Graettinger: Mr. Chairman, I think that takes up our time on this subject.

How Can Banks Make More Money?—Discussion Led by Wall G. Coapman, Secretary Wisconsin Bankers Association.

Numerous answers to the main question have been offered. Happily, as making for brevity in this talk preliminary to a general discussion, two very practical solutions are suggested, namely, levy of a service charge and reduction of interest rates.

The adoption by banks in recent years of practices long established by other lines of business has led to the discovery of some things not known before. Analysis of banking functions, installation of cost systems, etc., brought to light many formerly "unknown quantities" which entered into the equation. Out of these there has emerged the service charge.

(a) Service Charge

The purpose of a service charge is to offset losses and reduce costs. It is intended to go no further. Profit is secondary, certainly as at present applied.

Service charges may be classified three-fold: (1) A charge on the unprofitable checking account; (2) Charges for special service performed by the bank; (3) Charges for services performed by employees of the bank.

(1) The charge on the unprofitable checking account is mentioned first because it first gained country-wide notice as a means to stop one big leak in bank operation. No matter how many times depositors or how large the total of their deposits may be, it is the checking accounts that are chargeable with the big proportion of overhead. There is much greater deposit activity than in former years, especially so in open accounts, but their growth has not kept pace with the increase in depositors. The small account has come to the fore.

Taking the country as a whole, it can safely be stated that 60% of the commercial accounts of the average bank run less than \$50.00 each, and that this 60% carries not to exceed 5% of the total deposits. A North Dakota bank in announcing the adoption of a 50c charge on \$50 balances, stated that "8% of our deposits comprise 59% of our depositors and this 8% wrote 50% of the checks; or, 8% of our business caused 50% of our work"—month of July, 1927. A Wisconsin bank

having about \$500,000 total deposits, time and demand, discovered that 20% of its open account balances were less than \$1; 17% ran from \$1 to \$10; 25% from \$10 to \$50, and 38% ran \$50 and over; 62% of the accounts had but 3% of the deposits.

Many percentages on cost have been worked out by bankers and bank specialists, with which you are more or less familiar, but they all go to show that the servicing of a multitude of small accounts more than counter-balances any possible profit accruing from them. In advertisements preliminary to enforcing a charge, St. Louis banks advised the public that, after allowing 15% reserve and 200 entries at 10c each, a bank lost \$11.50 per year on a \$200 balance. A bank in San Antonio after close figuring worked out three basic elements entering into analysis of an account. They are (1) "size cost," 9c per \$1,000 per month on amount of balance to carry the account on the books; (2) "account cost," 52c per account per month; (3) "activity cost," 2c per item. Using these cost figures, including float and other reasonable computations, it was demonstrated that a \$2,000 account earned net \$1.83 per month.

Clearing house associations, State bankers associations and their county subdivisions have pretty generally come to see merit in a service charge as a corrective. Fear of loss of deposits is about the only reason why the idea has not spread even more rapidly. But that fear is unwarranted. Proper explanation almost always clears up any questions depositors propound, and that holds true in communities where one or two banks "go it alone." A 1926 survey of 250 banks in Wisconsin that had adopted the charge brought out the fact that the average loss of deposits was 5%, and of accounts, 6%. Many showed losses below 1%, some no loss at all.

It is best to make few exceptions in application of the rule. Churches, lodges and welfare organizations may properly be excepted, also inactive accounts requiring not more than four entries per month, but figuring on compensating balances by way of savings or certificates gets a bank into deep water. Transfers to savings of accounts that cannot be maintained at a point to avoid the charge, or transfers from savings or certificates to raise the average in the account is the usual way out.

The amount of charge varies. In Wisconsin 29 county bankers associations now enforce a charge, and one other will do so in January. A minority of banks in 22 counties do the same. About half of all the banks in the State levy a charge. Among the charges on monthly averages are 50c on \$25, 50c on \$50, 50c on \$100, \$1 on \$100. One county charges 50c per month whenever the actual balance drops below \$25, and another charges 75c. A few banks require a minimum opening balance of \$50. Although these charges bring in some revenue at the outset, the building up of balances operates to cut down the income as the overhead decreases.

(2) Under the classification of *special banking service* may be included a variety of items such as exchanges on drafts, both sight and counter, charges for safe keeping of bonds, imprinting of checks, credit reports, collection of coupons, N. S. F. checks, out of town checks, and minimum interest on small loans. All these entail expense to the bank by way of supplies, postage, clerk hire and general overhead. The sooner banks make a reasonable charge for them instead of continuing under the mistaken idea that they pay their way automatically, the better. And the public appreciates that for which it pays.

The Georgia Bankers Association has recently made a State-wide campaign for adoption of several of the more important charges. The South Dakota Association has prepared a comprehensive schedule which every bank is asked to adopt and display where customers may see and read it. Many other associations of bankers are working along this line through the county organizations, which are particularly well fitted to put the schedule into effect.

(3) *Services performed by employees* consist of drawing papers, clerking sales, acting as notary, etc. Such types of service entail a considerable expenditure of time and some of them, unless expertly handled, are likely to involve the bank in legal difficulties. The following statement, appended to a public notice of the schedule has been used in some counties and is suggested as an effective means to avoid liability:

"The Public is hereby notified—When any officer or employee of the bank is called upon to perform any service under Schedule 2 (Employees' services) as outlined on this card, such officer or employee may only perform such service in his individual capacity and is not acting for the bank, but is individually employed by and acting for the person for whom such service is rendered and the bank assumes no obligation or liability for negligence, errors or mistakes made by the individuals so acting."

(b) Reduction of Interest Rates

Necessity is the mother of things other than invention. The upward trend of expenses plus the downward trend of investment returns is opening the eyes of bankers to another leak to be plugged. The day of high-grade bonds bearing high rates is past, for some time at least. Rates on city balances certainly are not on the rise. And banks cannot hope to increase their loan rate to offset this drop in income. They must either reduce their current expenses or cut down the item of "interest paid," and the former are about as low as maintenance of efficiency will allow.

It is astounding to what lengths banks will sometimes go, under the stress of competition for assets, in payment of interest. Now and then we find a bank in our State bidding 5% on county funds, although most of them are getting over the craze. Rates on city and county funds are coming down, from our observation, and in some quarters even State money at 2½% goes begging. But these funds are not nearly so great a problem to deal with as are certificates and savings.

The old fear that deposits will shrink has to be overcome, as it has been in the case of the service charge. And even if they do, profit may increase.

A few simple examples, similar to those used by our Commissioner of Banking in selling the 3% idea to county bankers' associations, illustrate this.

A Bank with \$500,000 Time Deposits Reserve Figured at 12%

(1) Pay 4%, charge 6%—	(2) Pay 3%, charge 6%—
\$500,000 deposit @ 4%-----\$20,000	\$500,000 deposit @ 3%-----\$15,000
60,000 reserve 12%.	60,000 reserve 12%.
\$440,000 loaned @ 6%-----26,400	\$440,000 loaned @ 6%-----26,400
Earned-----\$6,400	Earned-----\$11,400

Suppose upon reduction to 3% the deposits shrink 40%. As shown in table (3) the bank is still ahead of the game if it maintains a 6% rate

on loans, and 12% reserve required of State banks—(20% required of approved depositories) in Wisconsin.

Example (4) shows this same bank could lose 30% of its deposits, raise its reserve 8 points and come within \$100 of making as much as it did at 4%.

Again, example (5), the bank could afford to lose 20% of its deposits, maintain 15% reserve, cut its loan rate to 5½% and beat the old 4% arrangement by \$300.

(3) 40% Loss in Deposits—	(4) 30% Loss in Deposits— (Res. 20%)—
\$300,000 deposits @ 3%----\$9,000	\$350,000 deposits @ 3%----\$10,500
36,000 reserve 12%.	70,000 reserve 20%.
\$264,000 loaned @ 6%-----15,840	\$280,000 loaned @ 6%-----16,800
Earned-----\$6,840	Earned-----\$6,300
(5) 20% Loss in Deposits, 15% Reserve, 5½% Loan Rate—	
\$400,000 deposit @ 3%-----	\$12,000
60,000 reserve 15%	
\$340,000 loaned at 5½%-----	18,700
Earned-----	\$6,700

In the above tables no credit has been taken for interest on reserve. That would make even a better showing. But enough has been proved to demonstrate without a doubt that it takes a lot of shrinkage to defeat the earnings made through a reduction to 3%.

Reports from 150 Wisconsin banks in 1924 disclosed the following figures:

	3% Banks.	4% Banks.
Percentage of income paid in interest (Sav. & C. D.)--	32.04	43.23
Percentage of income paid in salaries-----	22.78	20.98
Percentage of income saved as net profits-----	19.23	14.69

Another point to bear in mind is that any preference as to a bank rate should go to the borrower, who is creative, rather than to the mere certificate or savings depositor. The argument that a bank must pay big interest to attract deposits is fallacious. No community in need of a bank has to be thus baited. The public is coming to look askance upon banks that pay more for money than the public knows it is worth.

High rates on deposits carry in their train investments at abnormal rates, and acceptance of poor paper that often results in assets that are frozen or worse. Conservative banking demands only a fair rate on deposits and a reasonable rate on loans made to good risks.

All signs point to adoption of a sensible viewpoint in our section. Ten counties are wholly on a 3% basis. Many banks in other counties have recently dropped, so that now about 40% of all the banks are in this class. Many more want to make the break. Banking Commissioner Sehwenker has taken a positive stand on this interest issue, has addressed a number of county bankers' associations, at their request has written letters to many banks, and a noticeable response has come from his aid and encouragement. I believe that close cooperation between bankers' associations and the banking departments of the States will overcome many existing difficulties and evils, and if it can be accomplished in Wisconsin and some other States, it can be done universally.

Mr. Fellows, you made quite a bit of progress in Minnesota. Will you tell us about it?

Mr. F. P. Fellows (Minnesota): Of the 87 counties in our State, all of which are organized, we have a schedule of charges for miscellaneous services, such as drawing of papers and things of that kind, in 50 counties. It is very generally observed in those 50 counties. Then we have 30-odd counties which have adopted a service charge on checking accounts. In addition to that, we have 46 towns and cities outside of those counties which have adopted it as a whole, which are making a charge on checking accounts. We are making considerable progress.

I might mention that we have one bank in the northern part of the State which last year made \$3,500 from all of its miscellaneous services, or 7% on its capital stock.

Mr. Coapman: Can somebody else match that? I am going to call on Mr. McFadden once more. I mentioned his campaign. Just in a word, tell us how far you got in that Statewide campaign.

Mr. Haynes McFadden (Georgia): The maximum that any bank in Georgia has realized from these miscellaneous charges has been 35% per annum on its capital. Its capital was \$16,000, and it is realizing \$400 a month from these miscellaneous charges. The average for the whole State is 7 2/3%, as far as we have been able to figure it. We should have another footing on that pretty soon, but when we had a representative number of these county associations in existence for three to six months, we took this average, and the average at that time was 7 2/3%. That is almost paying a dividend, gentlemen. It is wonderful. It transforms a bank from eking out a bare existence, in a number of cases, to a basis of prosperity. You cannot afford to neglect it. The banker who does is going to perish, I think.

Mr. Coapman: I referred to the report of one of our committee, of which Mr. Brown, of North Carolina, is Chairman, on service charges. He has covered pretty nearly every State in the Union in his report. Can you boil it down in a few words for the benefit of us, and we will read the details later?

Mr. Paul P. Brown (North Carolina): I have a number of additional copies of the report of the Committee on Operation, Cost and Income, which really is simply the committee to handle the subject of analyses of accounts and service charges. It contains the statement of the conditions regarding the service charge in 35 of the States from which we received reports.

Following the example of Illinois, we made a classification in North Carolina, or rather a summary, after we had the banks classify their checking accounts, and as a result we found our situation was so startling that the service charge is spreading very rapidly over the State. The amazing thing to those of us who are making a study of the service charge from the reports from the various places is that in every instance the banks themselves are delighted with the operation of the charge, and instead of losing business, a number of them find that their deposits have considerably increased and the number of checks have been reduced by the installation of the service charge.

We found in the analysis in our own State that 70.74% of the total number of accounts on the books of our banks carried balances of less than \$100 and that they represented only 3¾% of the total amount of deposits. That situation has been verified in reports from a number of other States, so that it does not apply only to North Carolina; it is the

situation in Indiana, it is the situation in Louisiana, it is the situation in a number of other States from whom our Committee has received these reports.

If these are any of the officers of State associations who would like to have copies of this report after the meeting, I will be mighty glad to give them to you.

Mr. Coapman: We drew up a few simple sets of figures to show what a bank could afford to lose by dropping its rate on deposits. Our commissioner has been using some figures lately, and we just amended them. He took a bank of \$500,000 time deposits, and 12% reserve, which is the reserve for the State banks other than those that are reserve banks. Suppose it pays 4½ and charges 6%; it would make \$6,400. That bank could afford to lose 30% of its deposits, raise its reserve to twenty-eight points, and come within \$100 of making as much as it did when it made 4%. It could afford to lose 20% of its deposits, maintain a 15% reserve, cut its loan rate to 5½% instead of 6, and beat that old 4% arrangement by \$300. In other words, many times when a bank sees its deposits shrinking a trifle, it thinks the plan has failed. It is the other way, around; the deposits may shrink some, but the earnings increase, and that is the main thing you are looking for.

Is there anyone who can say anything on this interest rate question? Isn't there a law in some State limiting the rate paid on time deposits?

Mr. W. C. MacFadden (North Dakota): We have tried to get our interest rates on time deposits down, and we found it pretty difficult. Now we are throwing out a suggestion to our members that I think is of some value. We are trying to have them cut down their certificates of deposit and substitute for them savings accounts. They are taking to that very nicely. There are so many different ways of figuring interest on a savings account that you cannot take advantage of in the certificate of deposit. We are meeting with good success in that way. While the banks are advertising 4%, in reality they are paying only 3 in many instances. I think that is really worth while.

Mr. Coapman: With respect to credit bureaus, some of your States have standardized forms. California is one of those that is outstanding in the number of forms it has, and others have had a number of sets drawn up through committees. We believe that in connection with the credit bureau, as well as in the case of individual banks, they ought to standardize on certain of their forms, particularly notes, so that they will know not only that they are dealing with the same man, but at the same time know they have got the right sort of note. The proper form goes hand in hand with the organization of the credit bureau and the elimination of the unprofitable duplicator.

Mr. C. F. Zimmerman (Pennsylvania): I should like to refer to our situation in Pennsylvania. We have just recently appointed a committee on rates of interest on savings deposits. It is a rather vexed question in Pennsylvania, because of the great variety of rates that are being paid. One of our members on that committee made an investigation as to the amount of interest that would be paid by a number of banks located in various sections of the State on the same account, and I have in my hand here an extract from his letter:

"The amounts of interest received from the seven cities to whom the sample account was sent are shown on the memorandum I am enclosing herewith. The lowest amount being 57 cents and the highest \$6.65. At a later date, a certain association using the same account as a sample, sent it to a considerably larger number of cities and towns, and their result showed the lowest amount 79 cents, and the amount paid in Pittsburgh, which is also the city that figured 57 cents in the first instance, and the highest \$8.52, the \$8.52 indicating that this is more nearly the amount generally paid by the country banks."

In this connection the committee has decided to distribute to all of the members of the Pennsylvania Bankers' Association the pamphlet that has recently been issued by the Savings Bank Division of the American Bankers' Association on the right way, or rather the different ways, of figuring interest on savings, and we think that we will make considerable progress if we can get our banks to figure according to the rate of interest they pay, using the proper methods.

Mr. Coapman: Our association drew up a rule two or three years ago, and I see that at the Virginia bankers' convention this summer the committee made certain recommendations as to how to figure interest also. Our own legislative committee for the next two years is going to put in a lot of time looking to the revision of our banking laws, and one member of that committee has been assigned the job of looking into the question of interest on public funds. That is quite a proposition in itself, but it is a live one in our State, as I know it is in all the other States. How much the money is worth, and what to do about it, is an important question.

Secretary Robert E. Wait (Arkansas): Mr. Coapman asked a question, if there was not a State that has passed a law limiting the rate of interest on deposits. The State of Arkansas at the last session of the legislature passed such a law providing that no bank or association of persons should pay more than 4% on any class of deposits. Strange to say, that law was contested in the courts by a banker. We were very much surprised to have a banker start the contest. He started it on the ground that it was class legislation, and limited him to the payment of 4% or under, whereas other concerns such as building and loan associations or the private lender might pay more. He won his point in the lower court and it has now been taken to the Supreme Court.

Mr. W. C. MacFadden (North Dakota): The rate is limited to 5% in North Dakota.

Mr. E. P. Gum (Oklahoma): Two years ago we introduced a law in our State legislature; in fact two bills, one to reduce the rate of interest on the general fund, State money, and the other on the sinking fund. We got the sinking fund reduced 1%. It was 4%, reduced to 3. The general fund, which was 3%, we lacked three votes of being able to reduce in the Senate to the 2% that we asked for in the bill. We are still hopeful that some future legislature will see our viewpoint on that and reduce it to 2%. That is on public money.

The Low Down on This Public Education Business— Discussion Led by C. F. Zimmerman, Member Public Education Commission A.B.A., Secretary Penn- sylvania Bankers Association.

The American Bankers Association during the comparatively few years of its existence has sponsored many noteworthy projects in line with the welfare of its members and the economic progress of our people. Such

a movement is that of Public Education begun in 1921 at a time when all sections of the country were feeling the stress of radicalism following the World War.

Briefly stated, this movement represents the sense of obligations shared by many bankers of giving the rising generation of school children a knowledge of the elemental uses and purposes of the bank as related to the individual as a self-sustaining member of society. Also, it seeks to broaden the viewpoint of the people in general concerning those simple principles and habits of daily life, that weigh so largely in the balance, on one side or the other of which the economic success or economic failure of the average person is determined. It is believed that despite the growth of savings deposits in every section of our land, a very large percentage of people still fail to grasp the vital importance to themselves, of the everyday service and facilities offered by our banking institutions.

The method at first chosen by which this work should be done was that of connecting the banker with the schools of the local community, having him address the scholars on subjects related to banking and elementary economics. The plan was promptly approved by bankers everywhere, many hundreds of whom were then and still are receiving urgent invitations to address their local schools on economic and vocational subjects. Formal speaking programs were formulated and with the help of the school authorities, much has already been accomplished. Life-lessons have been brought home to countless persons whose domestic life had been thrown out of gear by the headless financial conditions prevailing during the war period.

As the work of Public Education stands today, it may frankly be admitted that except in widely scattered and in comparatively few communities, the banker is no longer giving consistent attention to the public speaking program. In proportion as the soberness of the people has returned as they have had to face anew their economic problems, the senior banker has become less conscious of the urgency of the situation. It is true, he continues to believe thoroughly in the importance of having the youth taught the right sort of economic principles, but he feels that there is no sufficient reason why he should undertake to do this teaching himself.

The foregoing observation is based upon a rather intimate acquaintance with plans developed and results achieved in those States where real effort has been put behind the Public Education program. It is frankly stated here in the hope that while there should be every encouragement given towards assisting more bankers to establish personal contacts with the public schools, there may nevertheless be found a more definite, more direct and more dependable means of getting our important message across to the school children.

Perhaps a brief reference to the fixed program adopted in Pennsylvania will be of interest. The Pennsylvania Bankers Association now appropriates three thousand dollars each year to this work. We have made a reprint in booklet form of the series of talks on Banking and Elementary Economics for the eighth grade. A carefully chosen key-banker is appointed in each county of the State. It is his duty to establish a personal contact with the County Superintendent of Schools, under whose direction the importance of the work is presented before the annual County Teachers' Institute and a copy of the booklet placed in the hands of each teacher. Teachers are asked to read one of the talks to the scholars on each of four successive Friday afternoons and to have the pupils write essays on each talk after it is read. Rural schools are especially interested in the subject matter and reports clearly indicate that the teachers themselves value the talks very highly. Year by year we are reaching more than eight thousand Pennsylvania school teachers and year by year the willingness of the school authorities to co-operate with our committee increases. An indication of the sort of help we are receiving is found in the fact that the November issue of the Pennsylvania Journal (reaching upwards of twenty thousand teachers) will contain an article by our Committee Chairman Paul B. Detwiler, with reference to the work we are endeavoring to promote. During the previous school year approximately three-fourths of the counties of Pennsylvania were covered. This year the work is being still further expanded so that we expect to enlist the active assistance of at least ten thousand teachers in carrying this "message of Garcia."

Need of Simple Methods

My study of the methods used in other State associations where an earnest attempt has been made to promote the Public Education plan, leads me to conclude that in most cases the banker fails to respond because too much is asked of him. It is difficult for him to maintain his enthusiasm for a speaking program in which he is frequently called upon to go over the same ground. There is a rather fixed boundary line to the variety of worth while subjects for talks to school children in the field of simple banking and economic principles, so that while new material may be called for, it is quite impossible—or has been thus far—to supply such new subject-matter as would prove to be effective. The plain truth contained in the talks must be taught over and over again and since they are being reviewed not oftener than once or twice each year, no difficulty will be found in their repetition. The primary objective therefore, is to enlist the help of the banker as the contact point in his county, asking him to do only the specific work of keeping in touch with the school authorities in order that the talks should be presented to the pupils from year to year. That we are succeeding in Pennsylvania is clearly shown in the fact that the work is being done and that the same key-bankers are glad to serve regularly in their respective counties.

Every banker has it brought home to him time and time again that a large proportion of our population has no understanding of the meaning of the banking business aside from the deposit and withdrawal of money. These folks have never been told about the help the bank can give them with their financial problems of whatever kind. They have no acquaintance with the fact that community progress—and therefore the progress of those who live in the community—centers in the service given by the bank to the people. Surely, for the average person, there is no more urgent practical necessity than that these facts should be clearly understood so that the assistance of the bank may be availed of as occasion requires. This is the information—and there is no other information—continued in the series of talks to school children and there is no way of estimating the value of such instruction as a factor in the later success of the youngster receiving it.

No other agency is so splendidly adapted to promote a thorough co-operative program of public education in economics as in the State Bank.

ers Association when aided by the public school authorities. A reading of the talks themselves will persuade any inquiring mind that there is nothing visionary or impractical in the plan, and it is my belief that those associations that have thus far failed to take this plan seriously, are missing a golden opportunity for rendering a public service of outstanding importance.

I haven't any subsequent thoughts to advance except that I do feel very seriously the importance of selling this idea in some shape or form in all the States of the Union.

In Pennsylvania we have succeeded in selling it to the bankers, I should say, 100%, and that includes some of the heads of the largest banks in our largest cities. I really feel there is no other agency of our work that is popularizing the association in its motives and in the higher usefulness of the bank than the work we are doing along the lines of Public Education.

Every year the work, as I have said, is solidifying itself; we are getting concrete results, we are having committees that stick. We have no adverse reactions and to me this is perhaps the greatest service that we are rendering to the public in any branch of our association work.

President Smith: Mr. Colburn of California, have you done any work on public education?

Mr. F. H. Colburn (California): With your permission I would like to concede my time to Russel Smith of California who is Chairman of the Committee of Education of the California Bankers Association, and has been for two years. His experience during the time he was with the American Institute of Banking was valuable to him, and until I heard this discussion by Mr. Zimmerman I thought California was stepping some.

Mr. Russel Smith: Thank you, Mr. Colburn.

Mr. Chairman, Ladies and Gentlemen: Our plan in California has been possible because the association has been willing to appropriate the sum of \$3,000 annually to support the work of the Committee on Public Education. We expended that money, or rather about one-half of that money in the employment of a field agent. We sent a man through the State and his job was to organize the bankers in the various counties into county committees and to arrange meetings between those bankers and the school authorities to get the recommendations of the school authorities, starting with the Superintendent of Schools of the State and going on down to the teachers themselves, and then to keep in touch with the work and follow through the school term. We did that for two years and this year we are going along without spending that money, because we believe we have built up an organization now that will carry on. We found it fairly easy to sell the school authorities. The superintendent of schools who now, by the way is the Superintendent of Banks in California, and as Superintendent of Banks now gives the bankers his recommendations in a form that almost makes it compulsory on the part of the bankers to listen with attention. As I say, he gave us his recommendation while superintendent of schools for four or five years, and we had no trouble with his recommendation in enlisting the support of other school authorities.

The more difficult part of the job was to sell the bankers, not so much to sell them the idea because it wasn't hard to sell bankers with vision the idea of Public Education, the good that lies behind Public Education for the bankers themselves, but it was hard to encourage them to get out and actually take an active part in it. We found many bankers who were willing to give us their moral support, but not so many who were willing or who felt they were qualified to go into the schools and act as teachers.

Fortunately, we have a well organized group of chapters of the American Institute of Banking in California, and those chapters have been feeding to the country banks in California men who are taking the active burden of the school work on our Public Education campaign.

We are devoting a lot of time to training these men so they will be qualified as teachers, because one of the mistakes that has been made so often in public education has been to attempt to lecture the school children and we find we must talk to school children and adopt the teaching method.

The Commission on Public Education has some plans that will materialize very soon which we expect will make it very much easier for bankers to present these subjects to school children.

I know that I have had contacts with some Secretaries of some State Associations, and I firmly believe there isn't anything that you gentlemen can do that will enlist for you and your associations the interest of the young men in your association than this Public Education campaign, because as you bring the younger men of the banks into this work and get them interested in it, they become enthused and they will carry on from year to year, and you will find yourselves drawing from your younger men in your banks, men who have helped you carry on other activities in your association.

President Smith: I understand Mr. Wait, Secretary of the Arkansas Bankers Association, did some good work on this education plan. I would like to hear a few words from Bob Wait.

Secretary Wait: I can't say anything for myself, but I would like to tell you of simply a new slant we are trying. The Arkansas Association has always taken this matter seriously. I am sorry to say we haven't gotten very far with it. It is hard to interest our bankers; they are very timid. Fortunately we have as Chairman of our Committee on Public Education a young man, now a senior banker, but who came up through the A. I. B., and this year he is trying a new plan. The committee is made up of seven bankers, one from each group. Now he is taking this to the banker, and instead of expecting the banker to do it for himself, he visits the home town of each member of this committee, and he makes ocular and audible demonstrations of what it is to make one of these talks in the school. He brings the bankers of the town and the nearby communities to witness that demonstration. He finds it arouses a great deal of interest, and after he has made the demonstration the bankers tell him, "We didn't understand it that way before. It looks easy and we believe we can do it." We hope by the time he gets all over the State through his seven committeemen he will make a dent in the proposition so others may have courage to follow his example.

Mr. C. F. Zimmerman (Pennsylvania): I should like to say further on the subject that such successes as we have had in this line in Pennsylvania has been due to the fact that we have followed out consistently the policy of getting in close touch with our State authorities on education, such success as we have had along the line of our Agricultural Committee work has been identically following that same method. There

are established agencies that can be enlisted to assist in the thing that we bankers are interested in, and a great deal, we have found, depends upon wise and tactful approach and the handling of these questions with assistance of established agencies.

Visitor: What do they do over in Iowa with the extension course? Mr. Warner told us about it not long ago.

President Smith: I would like to hear Mr. Warner myself. I think his was on educating the officials and not the public generally. This school was on teaching the officials how to make the arrest.

Mr. Frank Warner: We have another one, but I will concede any time. President Smith: We would be glad to hear from you on this.

Mr. Frank Warner (Iowa): I would rather hear somebody else discuss this.

President Smith: Mr. Huddleston, have you done anything in this work in Tennessee?

Mr. H. G. Huddleston (Tennessee): We have done a lot of work but have gotten no results.

President Smith: I didn't know the secretaries did so much work; now I hear they are all bragging about it. Has anybody else done any work on this subject? I would like to get a lot of information on it. I think it is the thing we ought to put over if we can.

Mr. Paul P. Brown (North Carolina): We haven't had the success Mr. Zimmerman has had at all in North Carolina, but our greatest success with the educational program has been when we put American Institute of Banking men on the committee. We have eight active chapters in North Carolina; ten members on the committee, and we had nine active men out of the eight chapters; one group had no chapters whatever near its vicinity and we put on a bright young man as the tenth member. The truth of the matter is he got more talks delivered in his district than the others, simply because he was interested in the A. I. B. work, although he had no opportunity to be in a chapter. But we have used as members of the committee and as chairman of the committee for the past four or five years active men in Institute work. I think when we secretaries can interest Institute men to handle the Public Education work, we can get better results very often.

Mr. C. H. Mylander (Ohio): We have been trying the various plans in Public Education in Ohio without much success. We had a meeting of our Educational Committee about a week ago. Out of that meeting came the suggestion that rather than inform the bankers to go to the school and deliver a talk, we urge all of the banks in Ohio during the coming year to invite the schools to visit the bank, after banking hours and deliver the talk in the banking lobby rather than in the school room. I am wondering if that has been tried any place else and, if so, what happened?

President Smith: Mr. Mylander, I don't know myself. Do you know anything about it, Mr. Zimmerman?

Mr. C. F. Zimmerman (Pennsylvania): I can only say this: I think in the preferences and perhaps prejudices that exist within a community, it is hardly a program that would appeal to the generality of the public. You have to be careful not to create divisions or to awaken the lines of self-interest in the development of this program and very largely for that reason we felt that the thing to do was to get the banker out of it and let the teacher do the work.

Mr. W. G. Coapman (Wisconsin): In our State we have an Educational Committee but it does not devote all of its work to this one type. One man on the committee, however, is assigned this Public Education work, and he corresponds direct with the county association, secretary and president. Every county association, practically all of them, has adopted our standard form of by-laws, and in those by-laws is provided a county committee. One of its duties specifically stated is to work along the Public Education lines. On this new year's work we have 25 counties going, and last year we had several hundred speakers. Our State commissioner of education each year sends out a letter to the teachers asking them to invite the bankers in. One whole county has put this Public Education work into its curriculum and within two weeks has ordered 250 sets of outlines. So we worked right through one member of a State committee down the line, getting the county officers to select a man in each banking town, in each bank, to carry on, and the last two years the work has increased remarkably. It was very slow at first, but we worked through the bankers into the schools. As I say, in one county they have come back the other way and put the thing in the curriculum for all the schools that come under the county superintendent, largely rural.

Mr. H. G. Huddleston (Tennessee): For the encouragement of a lot of these fellows who felt like they weren't getting anywhere with this program, you will find much more results are being accomplished than they realize. We have been discouraged for several years about the results we had gotten, and at the last State convention I recommended discontinuing this educational program. Everybody opposed the discontinuance. We heard from 50 or 100 bankers who had done something on this work, but never reported. That is a condition you really counsel more than you realize. If you once try to discontinue it you will hear a howl.

President Smith: We are neighbors over there. Maybe we can put it over; maybe we can have something to report next year.

Report of Nominating Committee—Newly Elected Officers.

Mr. W. G. Coapman (Wisconsin): "We, the undersigned members of the Nominating Committee of the Secretaries Section, appointed by President Smith to make recommendations for officers and for members of the Board of Control for the ensuing year, beg leave to submit the following:

For President, W. A. Philpott of Texas.
For 1st Vice-President, Frank Warner of Iowa.
For 2nd Vice-President, M. A. Graettinger of Illinois.
For Board of Control:
Messrs. Philpott, Warner and Graettinger, also Past President Smith, and, over his protest, Paul Brown of North Carolina.

Respectfully submitted
(Signed) W. G. Coapman, Chairman
Frederick H. Colburn
Paul P. Brown.

[The motion to adopt the report was seconded and carried.]
Mr. Frederick H. Colburn (California): It is understood the Secretary is appointed in another manner, so we do not take any action on that.

TRUST COMPANY DIVISION

AMERICAN BANKERS' ASSOCIATION

Thirty-first Annual Meeting, Held at Houston, Texas, October 26 1927.

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The Investment Trust

By EDGAR LAWRENCE SMITH, President Investment Managers Company, New York City.

No institutions are more favorably situated to exercise sane control over the development of useful investment trusts in this country than are the trust companies here represented.

A trust company comes in contact with the investment trust at the time of its organization, when its organizers may still be advised and guided. Most investment trusts require the services of a trust company as trustee or custodian for their holdings of securities. As trustee, or as registrar or transfer agent, the name of a trust company is likely to appear upon the circular issued by an investment trust to the public. And it is incumbent upon trust companies to make sure, so far as they are able, that their names do not appear upon circulars describing investment trusts whose activities are likely to prove of doubtful service to investors.

It is not to be expected that the responsible officers of all trust companies will reach similar conclusions as to the type of investment trust that is to be preferred above other types. No rigid formulas can be supplied, no measuring rods nor acid tests which will automatically separate the useful investment trusts from those of less worth. Each one of us, then, must give sufficient thought to the subject to establish his own standards of comparison.

This is a difficult task if we focus our attention upon the multiplying details of the new offerings which seem to appear in endless procession day after day. On the other hand, if we ignore the details and examine the situation broadly, we may regain confidence in our ability to form sound judgments, by finding ourselves, after all, upon more or less familiar ground. Perhaps we may find that it is the use of the term "investment trust" that is new and that many of the essential functions of organizations using this title have long had their counterparts in American financial organization. Whenever funds, assembled from a large number of investors, are not employed directly in the financial structure of an operating company, the intermediate structure is likely to present some of the aspects of an investment trust.

Such an intermediate structure is to be found in public utility holding companies, which in a sense are investment trusts designed to serve specific purposes. These purposes are economically sound and justify the creation of the holding companies. But some of the practices which have grown out of the opportunities for financial manipulation presented by the structure of the typical holding company cannot receive unqualified endorsement. They suggest one point of view from which we may be called upon to scrutinize the structure of some of our newly organized investment trusts.

The holding company is only one of a large number of in-

stitutions which for many years have stood between the investor and the field of investment in which his funds are actively employed. Varying widely in structure and purpose, all of them render some service to the investor as a justification for their existence. For example, the Alexander Fund has been faithfully serving investors in Philadelphia as a true investment trust for a period of twenty years, yet only in the last year or two has it been called an investment trust. For over sixteen years a similar fund has been managed for the benefit of the employees of a large electrical equipment corporation. Insurance companies have lately been styled investment trusts, as have the security companies attached to some of our banking institutions.

Then we have had institutions such as the Mortgage Bond Co. of New York, following a precedent established by the United States Mortgage Co., which commenced business under a charter granted in 1871. This charter in turn was based upon an earlier European model. These companies engaged in the business of making mortgage loans and depositing them with a trustee as collateral for bonds issued to the public.

Other organizations may be mentioned without exhausting the list of institutions long familiar to us which have some attributes in common with the investment trust—as, for example, the Asset Realization Co. and the American International Corporation. All of these have come to public notice, some favorably, some less so. But in the background there have been in quiet operation for a long time, in Massachusetts and elsewhere, personal property trusts which conform more closely to the idea that is coming to be recognized as the true picture of the investment trust.

It is apparent, then, that the words "investment trust" need not give us the impression that in considering an organization operating under this title we must abandon the common sense standards which have in the past enabled us to distinguish between sound and unsound undertakings. Financial and investment requirements have not changed over night. Much less has human nature changed. A new organization calling for public support, no matter by what name it may be called, must have within it the essentials which we have been accustomed to demand in other organizations similarly seeking such support.

Technical knowledge of the economics underlying investment may be broadening under the impulse of research. And this changing knowledge may call for new organizations, better adapted than the old to apply its principles, under proper safeguards, to the funds of investors. But these new organizations cannot be relieved of the responsibility of conforming to certain fundamental criteria based not upon new

or complicated theories, but upon sound common sense and an understanding of the opportunities which a loosely drawn financial structure offer to unscrupulous or ill-advised promoters.

What, then, are some of these criteria, and how may we apply them in appraising an investment trust?

First of all, an investment trust must serve a purpose useful to the investor.

In reading the prospectus of a trust, it is well to form an opinion on this point at the outset. To many, it will appear that the most useful purpose an investment trust can serve is to create an organization through which men of wide experience in the investment world, supported by a strong technical organization, may apply sound principles of investment management to the funds of numerous investors, upon terms that will adequately compensate them for this management, yet will leave to the investor not only a fair return on the capital he has provided, but in addition a reasonable share in the profits of management.

In studying an investment trust, then, we should first try to determine whether the organizers are principally concerned with providing sound investment management upon reasonable terms, or whether evidence is to be found that this is a secondary consideration, and that the organizers are in reality taking advantage of the present enthusiasm for the words "investment trust" with the object of making quick and disproportionate profits for themselves at the expense or at the undue hazard of the investor.

Having decided that the purpose of the trust is useful, it is appropriate to consider next whether its management is competent to achieve this purpose. Is the management such that we would be willing to entrust our own funds to its care? This means that we must be confident not alone of its competence, but also of its sincerity and integrity. Perhaps it will come about here as it has in Great Britain. After many sad experiences, the British, in appraising the merit of an investment trust, have learned to rely mainly upon the character and ability of the men behind it. Character, ability, common sense and conservatism on the part of the managers, combined with a broad knowledge of the field in which they operate, are essential to the successful conduct of an investment trust, as they are essential to the successful conduct of any other business or profession.

And here we have a difficulty, one of the great difficulties of the present situation. The investment trust has become popular. Security houses throughout the country are besieged by investors who wish to put some of their money into an investment trust. It naturally occurs to almost every one of these houses to organize an investment trust of its own. But dealers in securities are not necessarily the ablest conservators of capital. Countless trusts are being formed by persons whose intent is sincere, but who have not had wide experience nor taken the time to study the experience of others in the management of investment portfolios. We cannot judge any of these too hastily, because from among them may grow many useful trusts. It is inevitable, however, that a fair proportion of the investment trusts organized with the best intent, but with an insufficient background of financial experience, will in the normal course pass into oblivion.

In saying this, we need draw no distinction between investment trusts and other forms of organized effort, for every year a great many corporations disappear which were organized with high hopes of success. That this is so, is no reflection upon the character of the individuals who promoted them nor upon the institution of corporate organization. It is merely unavoidable in human affairs. It is the way of nature. But so far as each one of us is able, when called upon to investigate a particular investment trust, it seems important that we should become satisfied as to the character of the management and as to whether it has the experience and conservatism to serve investors to their advantage and without hazard. The steps to be taken in this respect are similar to those of the usual credit investigation.

After satisfying ourselves with regard to the character of those who sponsor an investment trust, we may next consider the field of investment in which it proposes to operate, and this is to be considered in its relation to the experience

and capacity of the men who are charged with its management. An investment trust should operate in a field wide enough to provide ample diversification and to permit the shifting of funds from one industry or class of securities to another, so that, when one industry or class of security furnishes a less favorable opportunity for investment than another, funds may be transferred from the less favorable to the more favorable.

Our present subject does not include a discussion of the principles underlying sound investment management, but a quotation from an annual report of the Carnegie Corporation will perhaps suggest that frequent changes in the holdings of any fund which is kept under constant, informed supervision, are essential. It reads as follows:

The funds of a great endowment can be kept intact only by a systematic revision month by month of all the securities of the endowment and by a continuous process of sale and exchange as circumstances may affect the financial soundness of this or that security.

The essential service of an investment trust is to make available to investors generally the type of investment management suggested by this quotation.

Moreover, if the field within which an investment trust is to operate is unduly restricted, the very success of trusts which may have adopted the same field, coupled with the interest their activities may arouse among other investors, will tend to raise the price of securities in the restricted field to a point where they cease to be attractive or even sound investments. In other words, by restricting their field too narrowly, they become defenseless against the unfavorable market situation which will inevitably result from their own success. Such a dilemma is already apparent in several groups of securities in the American market, and parallels a similar dilemma which arose at a time when British enthusiasm for investment trusts exceeded all reason. This period commenced in 1889.

In appraising the soundness of an investment trust, then, one cannot neglect to consider the effect upon the security market of its own activities, should they attain to any great proportions. This applies not alone to investment trusts operating in a limited field, but also to those instrumentalities which are devoid of any pretense at management and represent interests in an unchanging list of securities. These are the fixed list, bankers' share or trustee share units. If, under the skilled advertising methods sometimes employed in distributing these instruments, ever greater sums are collected for investment in a fixed list of stocks, it is not hard to see how the floating supply of some, if not of a majority of stocks in the fixed list will become so depleted that further purchases can be made only by paying exorbitant prices. This is the more likely to happen in that the same securities appear in the fixed lists of several organizations conducting national campaigns for the distribution of their units. There is no denying that a participation in a fixed list of securities is the easiest thing to sell. We can therefore await with lively curiosity the cumulative effect of the activities of this group upon the market for certain popular securities.

Let us, however, return to the serious consideration of the investment trust, which is designed to apply management to the funds of numerous investors. After ascertaining that the trust has a wide enough field in which to operate effectively, strangely enough it may be desirable to learn whether or not this field has any limits. Some have argued that there should be no limits to the field in which a given investment trust may operate, and no restrictions upon its management, if that management can qualify under the high standards which have been suggested as essential. And a very fair case can be made for this view.

Yet an investor is entitled to know that the field in which an investment trust operates bears some relation to the extent of the knowledge and experience of its managers, and to the size, character and effectiveness of the technical organization which they command in the management of the trust. If the field is world-wide, one must know that the trust operating in this vast arena has an organization conversant with the security markets of the world, and that the men supervising the management are competent to act wisely upon the advice of this organization. There are ad-

vantages to be gained by transferring funds at intervals from the investment markets of Europe to those of the United States or of the Far East. But this cannot be wisely undertaken by an organization which is not effectively operating throughout the world.

Similarly, within whatever field an investment trust operates, it is desirable to know that it has an effective organization competent to serve investors within the field it has chosen.

Finally, we come to the question of whether or not the structure of the trust is sound. This is so often given precedence in the discussion of investment trusts that what we have suggested as the more vital considerations are neglected. After becoming satisfied with regard to the factors which we have already discussed, one might be tempted to take it for granted that the structure of the trust under consideration would be sound, because men who deserve to be entrusted with the responsibility of managing the funds of **others are not likely** to lend their names knowingly to an organization whose structure does not provide proper safeguards for the investor. Such men do not wish to profit at the expense of others, much less to manage the funds of others upon the contingent basis of sharing disproportionately in the earnings or profits remaining after a conservative return has been paid on the capital provided. Such a basis has in the past encouraged speculative practices that have not always proved successful. If they themselves have not provided a substantial fund as a protection to investors, they will require only adequate compensation for services rendered.

They may differ as to the manner in which they should receive this compensation, but on the whole one would not expect their charges to be exorbitant.

We might, then, say to ourselves: "We are satisfied with the management—let us give them free rein to invest as they will and to charge for their services as they see fit." But the history of finance in general and of the investment trust in particular suggests the prudence of adopting a somewhat less Utopian attitude. It was not investors in trusts with obscure directorate who alone suffered severely in 1891-1892 in Great Britain. Therefore, even though the character of management will always remain of first importance in the appraisal of an investment trust, its structure, as well as the restrictions imposed upon its management, must also be carefully considered.

So many variants have appeared in the financial structures of our newly organized investment trusts, that an attempt to establish classifications upon which to base generalities of approval or disapproval is more apt to confuse than to clarify. Each structure must be considered upon its own merits. Yet certain generalities are possible.

Our consideration of the financial structure of a trust must always start with the sum of money which an investor puts into the trust, and our effort must be to determine what value he receives, or is likely to receive, in return for his investment.

With regard to those instrumentalities which we have referred to as fixed list, bankers' or trustee share corporations it is possible to find the total market value of the securities which compose their units. This value should be compared with the price at which units are being offered to investors. A reasonable spread is, of course, necessary, to cover marketing expenses. But it is highly desirable to make sure that this spread is reasonable by taking the trouble to find out. Having discovered the actual spread, and having formed an opinion as to the general level of prices for the securities which appear in the fixed list, we shall have a basis for reaching our own conclusions as to the wisdom of investing in the particular units which we may be studying.

In considering trusts which have adopted the typical structure of the corporation by issuing bonds, preferred and common shares, with varying rights of participating in surplus earnings, we will find ourselves in a more familiar though not necessarily a simpler field of investigation. There is no need to suggest to this audience that while these customary instruments can be and are used to establish a just apportionment of earnings and assets among their re-

spective holders, yet at times and in other connections the justice of the apportionment has not always been self-evident. In considering this type of trust, one must know what contingent contracts may be held by the organizers—what options, if any, they have retained on unissued junior or deferred shares, what rights they have, and what discretion they may exercise in the creation of new securities. In most cases where such options and rights exist, they are clearly defined. But even so it is not always easy to compute their eventual effect upon the division of earnings between investors and organizers, and to decide whether the division is just.

Difficulties which may be encountered in attempting to analyze the offerings of investment trusts from this viewpoint should not, however, be charged to the investment trust as an institution, for they constantly appear in equal or even greater degree, to confound those who attempt to appraise sound or unsound structures in every form of corporate security offering.

It is perhaps these very difficulties which have led to the organization of another class of investment trust in which the attempt is made to define the investor's interest in unequivocal terms. An investor in this type of trust receives a certificate of beneficial interest, upon which is set forth the amount subscribed and the proportionate part of the trust fund to which this subscription entitles him. Each subscriber creates in effect a separate voluntary revocable trust, to the extent of the amount of his subscription. Under this structure, a separate account is kept of the earnings of the fund applicable to each separate certificate issued, and these earnings are reported annually to each subscriber.

An investor in a trust of this type may repossess himself of his proportionate part of the assets of the trust fund by presenting his certificate for redemption, and is assured under the terms of the trust indenture of receiving the current market value of these assets, subject only to specified charges. All the securities and all the assets of the total fund thus established are held in custody by a trustee and an entirely separate organization is authorized to manage the investment and reinvestment of this fund, receiving for this service a stipulated and limited fee.

In these trusts there is no difficulty in determining exactly what the investor's interests are.

I will not go further in describing the details of an investment trust of this class, for many of you no doubt recognize that it is the class to which the funds operated by my own company would naturally fall, and it is reasonable to suppose that I have a strong bias in favor of this type of trust.

There are several reasons why an investment trust offering its services to the public should, in the indenture or other instruments governing the trust, clearly define the field in which it is to operate, and through the introduction of specific restrictions indicate to the investor that it is well aware of the pitfalls and hazards which in the past have at times engulfed even well-intentioned investment trusts. Some of the restrictions are quite obviously desirable. With regard to others, differences of opinion are sure to arise.

It is obvious, for instance, that an investment trust should, through proper restrictions, ensure a reasonable diversification in the investments which it may hold at any one time. This is accomplished by establishing limits to the percentage of the total assets which may be invested in any one security.

It is not so generally recognized that a limit should be placed upon the percentage which it is permitted to invest in any one industry. But again history presents the picture of well-informed financiers placing too great a proportion of the funds for which they are responsible in an industry concerning which they have possibly too intimate a knowledge, to the exclusion of a general knowledge of economic conditions which later overwhelm this particular industry.

Similarly, in those trusts which operate in many countries, a limit should be placed upon the proportion of the fund which may be invested in any one country. Enthusiasm for South American investment in 1889 and 1890, based upon apparently sound premises, caused the downfall of some of the more important British trusts operating at that time.

The size of a company in which investment is permitted is worthy of consideration. A company with a relatively large volume of securities outstanding is likely to have more earnest financial support if it should ever require such assistance. Furthermore, a broader market for its securities is presented at all times. It is justly argued that some of the greatest profits have resulted from investments made in small companies, and this is true. But the mortality among small companies is heavier than in the larger units. At present in particular, the tendency is for the larger units, able to install costly labor saving equipment, to furnish smaller units with a type of competition that is very hard for the small unit to meet.

An investment trust of the conservative type will contain restrictions against investing in newly floated issues which have not established their market.

History again suggests that an investment trust dedicated to the service of investors should contain restrictions to preclude any possibility that its sponsors may in time of stress be tempted to use the trust as a repository for securities which would otherwise find no market. And yet, if an investment trust is organized by a group of successful promoters or underwriters, and it is used to assist them in their business, it may prove to be extremely profitable for the subscribers to its shares. Particularly will this be true in fair weather, when promotion profits are high and are obtained with a minimum of risk, and underwritings are universally successful. But again we must turn for guidance to the history of the investment trust in periods of financial strain, in periods when the sponsors of such a trust may be confronted by the alternative of allowing the trust to take over some of their unmarketable securities or of announcing their own insolvency. That is the kind of period which we must have in mind when we consider the merits of a trust sponsored and controlled by houses or groups active in the promotion of new financial structures and in the underwriting of securities. History suggests that a definite risk exists if such sponsors retain unrestricted freedom to deal with the trust on their own account. On the other hand, the risk involved may be adequately offset by the opportunities for profit which such a trust offers to investors who could not participate in underwritings except through the instrumentality of a trust. The possible profits may offset the risk and where highly responsible financial organizations sponsor such trusts, no doubt they do. But of this each one of us must be his own judge.

The danger lies, perhaps, not so much in the nature of the business as in too wide an application of the term "investment trust," which may lure an investor who is in reality seeking the safety of a true investment trust into a more hazardous situation. Perhaps we shall gradually develop a new terminology in which the use of the words "investment trust" will denote an organization dedicated solely to the investors' interests, while we may use the title "promotion

trust" or "underwriting trust" to define the somewhat different point of view of organizations conducting the types of business suggested. Some of the trusts which would fall into the promotion or underwriting category have clearly indicated in their corporate names the character of the relationship which exists between the trust and its sponsoring investment house. Such clarity can only be approved and encouraged.

In conclusion, I should like to say that I am of the firm belief that certain functions of great service to the investors of the United States can be performed better through the instrumentality of a soundly conceived investment trust under responsible and competent management than they can be performed in any other way. I regard it, however, as a most fortunate circumstance, auguring well for the future, that the trust companies here represented are directing their attention to the rapid growth of the investment trust idea in this country, for this growth is too rapid to be entirely healthy. As I have said, the trust companies of the country are in a singularly favorable position to influence the character of the future development of the investment trust as an institution for the protection rather than for the exploitation of investors. It will take time for us all to reach our own conclusions concerning the many conflicting ideas which are being put forward by the advocates of one or another type of investment trust. But let us not be stampeded into endorsing any plan before we have reached such conclusions.

There is no necessity for your institution to accept the trusteeship for any investment trust or otherwise to encourage its organization, until you are sufficiently familiar with the investment trust field to rely upon your own judgment as to whether a particular trust for which you are asked to act is likely to bring credit or embarrassment to your company.

A great many investment trusts have been organized in the last six months. Many more are in course of organization. The pressure to organize them is great, because in the present condition of the security markets investors who have for years managed their own funds with some success find themselves utterly unable to decide what is the best thing to do. They are turning in relief to the investment trust, shifting the responsibility of difficult decisions to someone they believe to be better equipped to make these decisions than they are. The question remains: Are all of the new investment trusts so equipped, or are many of them taking advantage of the investor's perplexity without themselves having any better grounds for assurance?

There is no doubt that there will be organized in the United States a large number of useful investment trusts, but I believe you will agree with me that the general situation will be safeguarded if they are not all encouraged to organize this year.

The Pooling of Trust Investments

By L. H. ROSEBERRY, Vice-President Security Trust & Savings Bank, Los Angeles.

The proposition of pooling trust investments is one which has undoubtedly intrigued the thought of most of us, at one time or another. It was given definite expression in a paper before the Mid-Continental Trust Conference in September by Mr. Joseph Chapman, President of L. S. Donaldson Company, of Minneapolis.

Any constructive suggestion which relates to possible improvements in trust company service should, in my judgment, be given due consideration and discussion, even if it implies changes in corporate fiduciary practice so radical as to frighten those of us who are conservatively minded, either by nature or by the training which goes with our profession. Trust companies are quasi-public institutions, and because of the very nature and magnitude of the trusts which are bestowed upon them, owe it to society to adopt every sound and proven method which will increase their efficiency or better their service.

On the other hand I do not believe that the public expects us to experiment with anything which has an element of danger in it. I believe I am safe in the assumption that those who seek the services of trust companies do so primarily because of the reputation of such companies for conservatism and chariness with regard to anything experimental.

Of course it may be said that nothing can ever be proven without experimentation, yet sometimes careful analysis will reveal faults in a proposition so grave as to make experimentation unwise. Careful analysis, then, is what we owe the suggestion that trust companies be permitted to pool their investments.

We are all familiar with the fact that it has been an axiom of trust company administration, almost from time immemorial, that individual trusts shall be kept separate and distinct from each other, without co-mingling of assets.

This has been the common law in effect for several hundred years, later confirmed by statute in most if not all of the States of the Union. One of the firmest and most fundamental principles underlying trusts since their inception centuries ago, was the recognition of and strict adherence to this principle of maintaining the sanctity of identity as between individual trusts. The idea has in fact become so firmly inculcated in the minds of the public and trust officers generally that any effort to change the existing practice should not only be given the gravest thought and study, but would have to be preceded by cautious investigation to feel out the attitude of the public, and then (if adopted) be followed by carefully planned publicity calculated to revamp the now popular ideas concerning the administration of trust assets.

In other words, if we should assume for the moment that it would be found advisable to adopt the policy of pooling trust investments, in whole or in part, issuing participation certificates to the various trusts for their proportionate contributions to the pool, the practical difficulty of overcoming the previous law and traditions to the contrary, revising and amending the statutes of the various states, and completely revamping public opinion, would be a formidable task which it would take years to accomplish, if in fact it could ever be accomplished successfully. There is a grave danger, too, that any attempt on the part of the trust companies to bring about such a radical change in practice might at once arouse that suspicion or shade of doubt in the public mind which trust companies have so religiously and successfully guarded against thus far.

The idea of pooling trust investments undoubtedly originates from the investment trust, which has had some vogue in Great Britain and, more recently, in this country. The theory of the investment trust, of course, is that it permits small individual investors to enjoy the safeguards or the profits of widely diversified securities. The investment trust was devised primarily for the handling of stocks, which by their nature are subject to fluctuation. Proponents of the investment trust idea assume that there shall be losses on some of the securities in the portfolio, but frankly state that they expect such losses to be outweighed by exceptional profits on other investments in the portfolio. Here we have two premises, that of possible losses, and that of occasional speculative profits, that are repugnant to good trust company policy. One of the fundamental principles of trust company management is that there shall be no losses, and because of the nature of the securities which must be selected to maintain this ideal, it follows that only occasionally will there be any speculative profits, nor must any such be expected.

The investment trust is a device for dealing in stocks, many if not most of which are frankly speculative. Trust companies, generally speaking, deal not in stocks but in bonds and mortgages, and purposely select securities which have the minimum of fluctuation in order to secure the maximum of safety. The theory of the investment trust is that fluctuations will be ironed out by diversification and the law of averages. The theory behind trust company investment is that there shall be no material fluctuation. The two ideas are fundamentally different and always will be, in my opinion, because the objects to be accomplished, and the necessary method of accomplishing them, will always be different. The investment trust idea presumes that the bulk of the securities will be stocks. The statutes of most states dictate that trust funds shall be placed in public bonds or secured obligations of various kinds, instead of in stocks. While in some states stocks are "legals," the trust companies in such states are cautious about investing trust funds in them. If we are to adopt the investment trust plan, it seems to me that we must admit that stocks are better investments than bonds, when diversified, and then go about changing the common law, statutes that have become hoary with age, and public opinion that has been developed after years of education and persuasion.

I have said that the ideal trust policy does not admit of losses. This is of course the ideal, and ideals are not always realized to perfection. However, you will recall that a survey made by the Committee on Research of the Trust Company Division, American Bankers' Association, in December, 1923, under its Questionnaire Number Four, and which covered a period of twenty years, developed that there had been no losses actually suffered by the beneficiaries of any trust administered by American trust companies during that time. Such small losses as are experienced are at once absorbed by the trust companies themselves. In so far as there are no losses, the plan of pooling investments to prevent losses would seem to be wholly a moot and not a practical question. The laws, practices, procedure and methods of trust companies are being rapidly perfected to further minimize any chances of losses to trust funds administered by trust companies.

The idea of pooling trust investments is another form of introducing the practice of permitting the trustee to purchase, with funds, beneficial certificates or shares in investment trusts; in other words, to create a new classification of securities or investments for trust funds. It is doubtful whether the history of investment trusts will justify legalizing certificates or shares in these trusts for trust company investment. Much stress has been laid on successful investment trusts to Great Britain, and proponents of the idea that they should be made legal for trust company investment in this country intimate that such trusts would be managed on the same conservative basis as the successful ones in Great Britain. We must not forget, however, that many of these British trusts have failed through lack of proper investment conditions or because of improper or incapable management. Apparently the investment trust gives rise to many temptations and the human equation is uppermost, which is objectionable from the standpoint of a trustee. One can easily understand that the man who is charged with selecting securities to go into the investment trust portfolio can very readily fall into the careless habit of assuming that any losses will be unnoticeable when thrown into the general average, and in fact this has been the history of many such investment trusts here and abroad. Trust company investment experts know that each trust must stand upon its own feet, and select their investments accordingly.

There is another point here that I should mention in connection with the possible adaptability of investment trusts to trust company practice. One of the most frequent criticisms of the investment trust plan is that the management often refuses to publish a statement showing their holdings. It is probably true that skilful management of these investment trusts involves a degree of secrecy with regard to holdings, for fear of creating unfavorable psychological effect upon the market if such holdings become known, particularly when held in large blocks. Yet any idea of withholding information from beneficiaries as to the contents of portfolios in which they have beneficial interests is repugnant to trust company policy, and would at once bring down criticism from the public which it would be difficult to overcome.

There are, I believe, two types of investment trusts in general use. One is the so-called "mobile trust," which is frankly speculative in nature, dealing largely in fluctuating stocks, trading freely, going in and out of the market at presumably favorable times. I think we may dismiss any thought of adopting the "mobile plan" in so far as trust investments are concerned. Arguments against it, some of which have already been touched upon in this paper, are too obvious. The whole theory is opposed to sound trust company administration.

The other plan is known as the "static investment trust," and apparently it leans more toward conservatism. Under this plan presumably sound diversified securities are purchased and put into the portfolio, and then held "for better or for worse" for all time to come. It is stipulated that nothing in the portfolio shall be sold out, whether it goes

sour or not, the investors relying upon diversification to produce a good average return. Obviously each participant in the trust must own one or more complete salable units of each of the securities held, so that if he desires to cash in he may do so by withdrawing and selling those units, at the market.

If trust companies had to choose between the "mobile" and the "static" form, undoubtedly they would adopt the latter, and yet it is impossible to conceive by what machinery this form of trust could be made available to the general run of trusts handled by trust companies. Obviously it would be feasible only for the large trusts which had sufficient funds to purchase a complete salable unit of each security held in the portfolio, and such large trusts are able to obtain the chief, if not only advantage offered by the "static" plan, namely, diversification, by making up their own individual diversified portfolios, without mixing up with other trusts in a pool.

No matter what form of investment trust is offered, mechanical and administrative difficulties of throwing funds or securities from different trusts into the pool at different times and in different amounts, to be withdrawn at different times and in different amounts, seem to be almost insuperable from a bookkeeping standpoint. It is difficult to see how a trust could be settled or how cash could be raised for a trust which had its assets tied up in a pool, without selling some of the securities held in the pool. Certainly it would be necessary to liquidate a sufficient portion of the portfolio to raise the cash equivalent of the beneficial interest under liquidation, and it would seem to be impossible to do so in such a manner as to make an equitable adjustment with other trusts in the pool. The theory of the investment trust is that each participant has an undivided proportionate interest in the entire portfolio, and yet unless the trust to be liquidated chanced to be exactly equal in value to so many integral units of each of the securities held in the portfolio, which is highly improbable, it would be necessary for the trustee arbitrarily to assign to the trust a sufficient number of whole shares in certain of the securities to make up its value, and to do that would necessarily affect the rights of other members of the pool. The only alternative, apparently, would be for the trust company to itself carry a certain portion of the beneficial certificates, selling to or buying from individual trusts as the need arose. But there are many reasons why it would seem to be unwise for the trustee to participate in such a pool, which for lack of space must be left to later discussion. Equally important objections seem to apply to the proposition of having the various trust companies co-operate in forming a separate investment organization for the purpose.

There are other grave practical difficulties which would have to be overcome. It is well known that different earning rates are sometimes advisable for different trusts, and in many cases trusts have assigned to them specially selected securities in order to protect them against high income taxation. In fact nearly every trust requires some special kind of treatment, and it would seem to be necessary to have a dozen or more different kinds of pools, varying in earning rate and taxability, maturity dates, etc., to suit the

various kinds of trusts in hand, and if one should carry out this classification far enough to make it possible to serve the best interests of each and every individual trust administered, we would soon be back to the point from which we started, namely, a separate portfolio for each individual trust.

Another serious difficulty is that many trusts, both living and testamentary, prescribe the exact method of making investments, limiting the type of securities for trust funds, or giving specific property in the trust to certain designated beneficiaries at different periods or at final termination of the trust. In such cases there would be no possibility of joining in a trust investment pool. Such a pool would be largely confined to cash and possibly selected securities coming into the trust.

While it is true that in California trustees are allowed to issue participation certificates against a single mortgage (and in some other states trustees are allowed to pool one or more mortgages and issue participation certificates against them), this practice is limited only to investments of a prescribed character wholly within the control of the trustee, and has not yet been sufficiently seasoned to be called successful. This practice is probably as far as the legislatures will at present go, or trust companies recommend. It has some disadvantages now. At the termination of any trust it is necessary for the trustee itself to take up participation certificates in such mortgages at par and accrued interest until they can sell them to another trust. If any mortgage against which such participation certificates were issued should be foreclosed, it would become a difficult problem to work out the ownership of the property taken on the foreclosure and its ultimate disposition. The practicabilities here have been considered but not met or satisfactorily solved in many cases.

These are some of the objections and difficulties which appear to stand in the way of the application of the investment trust plan to trust investments, and yet the enormous growth of trust business during the last decade prompts one to view each new problem which arises from its broadest aspects, for in spite of well established laws and customs it is conceivable that the scientific study now being given this class of business may develop benefits to society which would justify a change in traditions and laws relating to trusts.

Further discussion of the plan of pooling trust investments should be invited and may offer some constructive suggestions and thoughts for improving present methods of investing trust funds, but I doubt whether the time is now ripe to either change the numerous laws to enable its accomplishment, to win seasoned and expert trust men to its favor, or to convert the public mind to the idea. I can see little good that can actually result to the trusts or the trustees through such a plan. I can see a great deal of difficulty and many legal and practical obstacles. If the subject is of sufficient interest to warrant further consideration the Committee of Research, Trust Company Division, American Bankers' Association, would be glad to circulate a questionnaire upon it among the principal trust companies of America, summarize the replies, and draw the justifiable conclusions therefrom.

How the Insurance Underwriter Desires to Co-operate

Discussion led by GEORGE E. LACKEY.

Mr. George E. Lackey (Massachusetts Mutual Life Insurance Co., Oklahoma City, Okla.): *Mr. Chairman, Mr. Preston and Gentlemen:* I am greatly honored to be asked to talk to you a few minutes along co-operative lines between life insurance companies and trust companies. Just who I am, I don't know, any more than to say to you that I got so inspired over this great subject that I had to jump over the fence and get into it.

I spent six years in a court of equity and graduated in

law and got so inspired I had to get over on the other side of creating estates. That has been my work for thirteen years with one of the companies.

Before getting into this subject I can't pass without paying special tribute to your worthy man to my right, Mr. Mershon. I happened to have the pleasure of hearing him in Memphis the week before last at the National Convention of Life Underwriters where we had a room this size packed to the walls, and with people standing up. He

started in on his address giving your viewpoint and your co-operative spirit with us. It was so gracefully received and so enthusiastically received that when the red light, which we used as a danger signal, was thrown on him, the men who were all sitting on the edge of the chairs hissed at the chairman and said "Go to it."

I have never seen a message received more enthusiastically than the words of Mr. Mershon brought to us field men hungry for thoughts so we can go out and do the great work we are trying to do.

We had a further experiment in Memphis that night, the like of which has never been known. The big auditorium, as many of you people undoubtedly know, seats about 15,000 people. Those Memphis life underwriters through a co-operative advertising plan with the banks of that city were able to bring out a vast number of the citizens of Memphis who were not particularly interested in trust company work or life insurance work to hear Mr. Mershon and also to hear life insurance talk. It was the greatest experiment I have ever known of in American life insurance and it was a success.

Before going into this co-operative scheme that we are talking about, it is the first time I have ever had the opportunity to express my thanks publicly to the pioneers of this great trust company service. I don't know they are particularly, but I want to say to you it has made me many thousands of dollars and it is going to make me many more.

My only warning to you men in that side of the work is don't get too enthusiastic about our side. Not only did I jump the fence but I brought with me a county judge who had been in probate work for sixteen years in a good county, into this field of mine. I also recently have brought an acting trust officer of a mighty good trust company in with me, so you can get enthusiastic about the subject.

Gentlemen, here is where we are trying to get to and here is where our great day of accounting takes place. Let's see the best and easiest way to get there and feel that when we do get there we have discharged well and faithfully the obligation that rests with us. Here is the one we are going to have to sit with and account to, and the mechanics of the proposition are the things that I want to talk to you about, how, when we get to this day of reckoning, which we are all having every day, we are going to ease our conscience and say we have done the very best we could to make this plan a co-operative one.

There is very little use of me to talk to you about life insurance fundamentals because all of you know what it is all about. Life insurance is a great social plan which merges the individual into the mass and places beyond the frail man standing alone the immeasurable strength of men standing together. We are creators of property. That is our primary function.

I am in a young State now, the State of Oklahoma where the primary purpose is the creation of wealth. We are living today with a generation of men who came there thirty-eight years ago and who are still making money. We are training them now through such great men as Judge Standeven and many others to think of the conservation of that great wealth. That is our problem, we on one side of the fence creating properties and you on the other side conserving them, and our great purpose is a mutual one, to better serve these people who are on the outside. Sometimes I feel like they need guardians.

It is really appalling to see the men, who are successful in the creation of wealth, know so little about the conservation of wealth and think so little about it, but that is a fact. We don't have the privilege that we would like to have of talking to them about these plans because of the time they take.

You may say, "Where is the life insurance business going?" I think I can use the stock argument that we all talk about, which will show you how far short of the goal we are today. You know the stock argument or objection that we use when we talk about estates being distributed on general administrative plans; we talk about all life in-

surance estates being dissipated in seven years. I disagree with that argument. I don't think that is dissipation. I think that is consumption. When I tell you that only about three per cent of the economic value of human life is insured, you will agree with me that it is not dissipation when a widow takes life insurance and lives on it for seven years. It is simply consumption. We have a lot of unfinished work to do when we have insured only about 3.6% of the value, economically, of human life.

The co-operative scheme is primarily to prevent estate depreciation. It is simply startling to see how estates depreciate because of general administration. They range anywhere from 80 to 60%, and we want to prevent that through our methods.

You men I know are all interested in life insurance trusts; you are interested in life insurance as property and I will tell you how we are working it out. From my suggestions I hope you will get some suggestions that you can take home with you and use with your life underwriters to work it out also.

I don't think it is a practical idea for the average life underwriter to try to get into all of these various phases of administration of estates.

I have been dodging the issue by allying myself with good trust companies, with good accountants, with good lawyers, with good tax people. I let them do my heavy work. I go out and bring these people in.

Here is the reaction that we get. We are not only trusteeing life insurance, but we are bringing in more general states to these trust people than we are life insurance estates.

I don't know how well departmentized your institutions are. I heard your honored President tell of the growth of his institution over in Tennessee, but there is a great army of anxious, willing workers in the life insurance fraternity who will work for you if you lend them a co-operative plan and work with them and tell them how to work.

This thing impresses me in this way: I had an English friend who was talking about trust company service and life insurance companies. He said that was old wine in new bottles. When we go out to talk about wills and those features, we arrest a man's attention immediately. His pride of possession makes him sit up and take notice. We should bring him to you, and we do bring him to you, and through that method work out a co-operative plan which gets back to this good woman—that we have all got to face and work with and administer to.

I have heard some criticism not only in my own company's legal department, but in others, indirectly, of the lack of uniformity in trust agreements. May I hand you this as a friendly suggestion. There is a means by which you can familiarize yourselves with the requirements of all of the leading life insurance companies. There are publications that have corresponded with the legal departments of the great companies and have asked what their requirements are, and if you will set up such a file in your office when you trustee a bunch of life insurance policies, you can read and understand what that particular company wants, comply with that request, and the companies will warm up to you and think that you are on the job and know how to draw trust agreements, because you are using their language.

I would also suggest to you, gentlemen, that you put your own house in order. I don't know how many of you have trusteeed properties and made all these arrangements that you are proud of, that you are willing to show to your customer when he comes in, but it would be my suggestion that you think in those terms and be proud of the estate, because that is indirect selling.

When you talk to a man about what you have done for your boy and girl, he is thinking about his, but you don't have to tell him so. I heard life underwriters object to the plans that we are fostering, and we are hoping it will work out to a greater degree of success, and I believe it is prompted by this. I have been training men in life

insurance work for about twelve years. We have been telling those men how to sell optional methods of settlement or income contracts. That has been the big selling idea in modern life insurance. We have just gotten those men trained along those lines. Now here comes another big subject, so let's work with them patiently and earnestly and show them that we want to co-operate. I believe if you can get them started in on these trusts, the results you will receive will be wonderful.

We find this kind of condition, sometimes. We find that the fraternal and the United States Government policies cannot be trusted. That is a complication which I hope will be removed some day. I happened to be an army officer; I was an insurance officer in one of the divisions. We all know the limitations of the Government life insurance. Maybe we can get that corrected.

I don't like to talk about this, but I would suggest to you that you stay out of the life insurance business. I think that is a thing that we are trying to specialize in and trying to co-operate with you on.

As I said before, just have these men in the field ally themselves with your institutions or some other good institution, with attorneys, with tax experts, with good accountants, and this thing will work out to great advantage.

In closing and thanking you for the privilege of talking to you for a few minutes on this subject which is vital to all of us, may I just beg of you that you so live that when your summons comes to administer to my boy and to the stalwart boys and the beautiful girls in the communities in which you live, I may say to my boy trustingly, "I can't be here to be your daddy now, but Mr. Jones of the Blank Company will be your daddy, he will buy your bicycles, your swimming suits, he will buy the daughter's graduating dresses, and all these things that we daddies have to do." I know by looking at you that you will take that responsibility and you will handle it without fear of criticism.

President Fox: The program calls for a discussion on these topics, and if it is your pleasure to indulge in it I will be glad to hear from you.

Remarks of Mr. Guy McLaughlin

Mr. Guy MacLaughlin (The Franklin Life Insurance Company, Houston, Texas): Gentlemen, it is a distinct pleasure to be privileged to speak to a group of bankers. A few years ago an underwriter had to have a jimmy to get into a group of bankers. Nowadays they are inviting us into their foyers and feeding us with luncheons. We are becoming *persona grata* with the bankers.

It so happens that I am chairman of the Committee on Education of the National Association of Life Underwriters. I took occasion in my report to stress the fact that education was needed in life insurance home offices to the proposition that the functions of life underwriters and trust company officers were complimentary and not competitive. Our lines are distinct and different. That is one thought I wish to give to you.

Another thought is in a telegram from the President of our Association, instructing me to say to you that we have a contribution as the National Association of Life Underwriters to the bankers in having secured a ruling from the Comptroller of the Currency, removing some inhibition upon your bank and trust company officers in the matter of taking life insurance in your officers and employees in favor of the bank. You may now go as far in that important activity as you see fit. You have the same privileges that the ordinary industrial officials have with regard to insuring your officers and employees. That is a proposition, a ruling, that was secured by the Association of Life Underwriters for the benefit of you bankers, giving you more freedom.

In conclusion, may I point out that the first reaction of primitive man to his surroundings was banking and insurance. He chased the deer off a bluff by some trick, had it break its neck, gorged himself on the carcass, dragged the balance of the meat into a cave, wrapped himself in the hide, which was banking, and then rolled a rock across the mouth of the cave for protection against the unforeseen, which was insurance. Therefore, from primitive times we have been sketched and phrased as co-operators, and I am hoping that from now on we can go along, hand in hand, for you will recognize that life insurance and banking are of the marks and measures of civilization.

COMMITTEE OFFICERS' REPORTS—TRUST COMPANY DIVISION

Annual Address of President Edward J. Fox, President Easton Trust Company, Easton, Pa.

It is gratifying to note that as we assemble in the annual meeting of the Trust Company Division, there is a continued and growing recognition of the value of trust company service. Not only is there an increase in the number of trust companies, but national banks, in greater numbers, are exercising the fiduciary function now conferred upon them by law. This indicates that there is a demand for trust service by the public, and it is more and more important that we render the best possible service.

It is interesting to recall from what small beginnings the modern trust company has grown. A writer in a recent number of the "Century Magazine" draws attention to a mistake which Benjamin Franklin, the great Apostle of Thrift, made in the creation of a trust. He provided in his will that two thousand pounds, a trust fund, should be divided and paid to the cities of Boston and Philadelphia, and that this fund should be loaned to young married artisans. Dr. Franklin calculated that by the end of a century there would be a great fortune, but unfortunately, his calculations were not correct and his expectations have never been realized. What would the eminent philosopher think, were he alive to-day, of the vast accumulations of wealth which are now in the custody and care of the fiduciaries of this country?

The trust companies of America, irrespective of the national banks, have nineteen billions of dollars in their care. I have received since this address was prepared a telegram from Mr. Platten of the United States Mortgage & Trust Company, which gives us the latest figures on this point.

"Following the completion of the compilation of figures for this company's twenty-fifth annual contribution to the trust companies of the country, it is a great satisfaction to report a new high level of resources or a grand total of \$20,480,000,000, an increase of \$1,145,000,000 over 1926, with deposits in excess of \$16,800,000,000, an increase of \$840,000,000 compared with a year ago. The above totals are considerably more than double those of ten years ago.

"Six States having in excess of \$1,000,000,000 each of resources, namely New York, Pennsylvania, Illinois, Ohio, California, and New Jersey, with an aggregate of approximately \$15,000,000,000, account for nearly 75% of the country's grand total.

"The great State of Texas, in which the representatives of the country's banking interests are now assembled, reported trust company resources of over \$110,000,000, a substantial gain over the previous year.

"New York State continues well in the lead, having this year passed the six billion mark and showing an increase of \$850,000,000.

"Pennsylvania continued its splendid growth, reporting more than \$2,500,000,000, a gain of \$270,000,000 over 1926.

"New Jersey and Ohio strengthened their positions with handsome gains of \$200,000,000 and \$150,000,000, respectively.

"A study of the complete figures indicates a most encouraging situation and warrants every confidence in the future of our trust companies."

The Federal Trade Commission, in its recent report, stated that all trusts, including religious and benevolent organizations, educational institutions and foundations, Community Chests and public trusts, amount to fifteen billions of dollars. These trusts are the legitimate offspring of the trust idea which began with the creation of the first trust company chartered in New York City more than one hundred years ago.

The care and custody of these funds, invested, as they are, largely in securities of this country, imposes a tremendous responsibility upon the trust companies of our country. During the recent months, when securities have reached the highest market prices in their history, there have been a number of timely warnings against over-extension of industry or business. It might not be amiss in the midst of our great prosperity to give thought to these warnings.

We must not forget, what we all know, that proper investment in sound securities keeps the life-blood of business flowing properly. Speculative investments may eventually result in disaster and should be discouraged. Great national and industrial wealth results in great wealth for the individual and this in turn brings upon us, the corporate fiduciary, the task of protecting and conserving that wealth entrusted to us for safekeeping and management, both during the life of the owner and after his death. Problems confronting the institutions which we have the honor to represent are increasing, but I believe that they are being solved by them with greater efficiency and greater devotion to duty than ever before and that the confidence placed in trust companies of the United States to-day as shown by an ever-increasing clientele is due to the splendid service being rendered.

The nature and form of trusts is constantly changing and developing. One of the most recent developments is the investment trust. We are to hear to-day a discussion of this form of trust—new for this country—but one that has been employed in Great Britain for a long time. In the past five months ninety-five of these trusts have been created, with assets of four hundred million dollars. I can conceive how these trusts, if properly conducted and managed, may be desirable, but there is danger in the possibility that they may be improperly managed and may include securities which are not proper investments for trust funds. Our problem should be so to safeguard this form of investment that it does not fall into the hands of either incompetent or dishonest promoters.

The year just closed has been a busy one in our Division. I will summarize briefly some of the activities which have engaged our attention. Scarcely any of them are new. They are a further development of work which we have set out to do, and all branches of which show progress.

One of the first activities undertaken when the Division was reorganized some years ago, was that of publicity and advertising. The personnel of the Committee on Publicity during the past eleven years has been almost without change. The accumulated experience and knowledge of this committee has made it an invaluable one in the development of trust business. Under the masterly management of Mr. Sisson, its Chairman, and working steadily month by month, without ostentation, this committee has produced advertising material which will have much to do with the rapid development of trust business throughout the United States. Exhibits of the work are available here to-day. A permanent record of the work of the committee during the past seven years may be seen in the newly published book "Fiduciary Advertising." I commend its use to every corporate fiduciary in the United States and I believe it will greatly assist in securing new business and at a minimum cost.

To those of us who are familiar with the admirable way in which the services of trust companies were advertised in the leading magazines of the country during the National Publicity Campaign, 1920-1925, it is a source of keen regret that sufficient financial support by trust companies generally throughout the country was not accorded to the committee in its efforts to continue the campaign. We see constantly how other branches of business recognize the value of impersonal or group advertising. We are not making use of our opportunity.

During the past year, under the able direction of Judge Hennings, Chairman of our Committee on Insurance Trusts, the work of co-operation between insurance companies and trust companies has proceeded in an orderly and effective manner. This is undoubtedly one of the most important developments in trust service to-day. The people of America should be thoroughly informed as to the value of insurance and trust service combined. The work is developing steadily, but the field has scarcely been touched, except in our larger cities. This branch of service affords a wonderful opportunity for trust companies.

One of the difficult problems confronting the corporate fiduciary is the determination of proper charges for services rendered. The fear in the minds of the general public that the naming of a trust company to administer an estate is a more expensive method than the appointment of an individual, is one of the obstacles which we constantly encounter.

In a thoughtful article by Mr. W. J. Kommers of Spokane, published in "Trust Companies Magazine," Mr. Kommers points out, by a clever advertisement, which, he says, is the result of fifteen years' experimentation, that the nominal charge for trust service is one of the points which should be emphasized in trust advertising.

Our Committee on Costs and Charges has been giving serious and careful attention to this important phase of our work. At a conference of this committee a full discussion of fees has resulted in a further investigation, the results of which, when released, will aid trust companies very materially. In most businesses to-day, charges are based upon cost. It is comparatively easy for a manufacturer of a commodity to ascertain what the cost of manufacturing is and to place his selling price sufficiently above the cost price to receive a proper percentage of profit. In rendering trust service, however, and particularly with the intricacies which enter into the administration of estates and trusts, it is very difficult to ascertain their exact cost and estimate a fair and proper charge under all circumstances. Since the last annual convention, our Committee on Costs and Charges, under the able guidance of Mr. Arthur V. Morton, has been making definite progress toward ascertaining scientifically the cost of accepting, administering and closing various forms of trust services.

During the past year, forty-seven State Legislatures have convened. We are fortunate in being able to report that no drastic legislation has been placed on the statute books of any State. There have been some attempts made to pass legislation curtailing the freedom of corporate fiduciaries in seeking or administering trust business, but such bills have either been withdrawn or modified so that they did not prove harmful.

The Chairman of the Committee on Protective Laws handling State legislative matters has filed a report which reveals how alert and efficient this committee has been during the past year. I would be doing an injustice, did I fail to note in this connection that our able and efficient Deputy Manager, Mr. Mershon, has constantly been on the qui vive for legislation in any part of the country which threatened our interest, and wherever it has appeared he has invariably gone to the scene of action and placed himself in communication with the local representatives of trust companies and has usually been able to frustrate these attempts.

Under the guidance of Mr. Osgood and his committee, the troublesome question of taxation has been handled in the best possible manner and progress has been made in connection with the changes it desires to accomplish. The program of work of that committee calls for much effort during the coming months in assisting the many agencies now co-operating in an endeavor to effect the repeal of the Federal income tax.

Colonel Fries, an honored and beloved ex-President of this Division, and the able Chairman of our Committee on Legislation, has been working on several important phases of Federal legislation, in close co-operation with the General Counsel of the Association, whose advice has been most helpful. A test case on one section of the Revenue Act is now being instituted through this committee, with the financial assistance of members of the Division. Able counsel have been retained and we hope for a favorable determination of this suit.

Our relations with the legal profession are on a much better basis than that which prevailed some time ago. Any attempts which were made to curtail the activities of trust companies were the result of improper appreciation of the character of the service which trust companies are rendering to the public. With a better understanding of the methods employed by trust companies in the administration of trusts, and with the dissipation of the idea that there is any real or intended antagonism, the spirit of co-operation between the bar and the fiduciary is now happily established in most jurisdictions. Mr. Griswold, Chairman of our Committee on Co-operation with the Bar, and who was a successful lawyer before entering the trust field, has been guiding with a great deal of success, the work of that committee.

Mr. Roseberry of Los Angeles, the efficient Chairman of our Committee on Research, has been diligently gathering together very important information relating to trust companies and the administration of trusts. During the past year this committee has been greatly handicapped in the prosecution of its work and because of the lack of sufficient funds. It is hoped

that at this meeting the request for funds adequate properly to prosecute the investigations of this committee will be granted.

Since the enactment of the McFadden bill, giving permanent form to our Federal Reserve System and making other changes in the banking law coincident with the passage of the bill, our Committee on Relations with the Federal Reserve System is finding the need for its services less important. Before it was determined that the System could be maintained, this committee directed by Mr. McLucas, carried on a nation-wide campaign, keeping before the 1,600 eligible non-member trust companies the benefits to be secured by affiliation with the System and urging membership. It is believed that this has had a definite place in shaping favorably public opinion toward the System and its operation.

The committee has suggested that there is no longer any necessity for maintaining its existence, but I am not convinced that this is true. At a convention of the representatives of the various banking departments of the several States held in Richmond recently, a very able paper was read by the Hon. Peter G. Cameron, Secretary of Banking in Pennsylvania, in which he pointed out that apparently there had been, since the passage of the McFadden bill, a disposition to discriminate against trust companies organized under State charters and to accord special privileges to national banks. Whether this accusation is or is not well founded, I suggest that it would be well for our committee to be continued for the purpose of safeguarding the interests of trust companies which are members of the Federal Reserve System. They should be, in all respects, on a parity with the national banks.

The Committee on Review and Survey of Trust Securities, under Mr. Wilson; the Committee on Staff Relations, under Mr. Kingsberry, and the Committee on Community Trusts, under Mr. Littleton, have made progress and have submitted reports on their activities.

The organization of corporate fiduciary associations in connection with State banking associations throughout the country has been progressing during the past year. These new centres of activity will be helpful in enabling trust companies to discuss locally the problems arising in the operation of their business and the introduction of new ways and means for improvement for the benefit of all. The Mid-Winter and Regional Conferences inaugurated by the Trust Company Division some years ago, have been held during the past year with increasing attendance, and much greater interest. During the year just closed, two conferences were held on the Pacific Coast and two in the mid-continent section.

In the Pacific Coast District a conference was held in Los Angeles on Sept. 30, Oct. 1 and 2 1926, just prior to the meeting of the American Bankers Association, and another conference in Portland, Ore., in August 1927. In the Mid-Continent District, conferences were held jointly with the National Bank Division in Omaha on Dec. 6 and 7 1926 and in the Twin Cities of Minneapolis and St. Paul, Sept. 1, 2 and 3 1927. Papers of great value were presented at these meetings and the discussions which took place proved to be most profitable to all attending. At the Mid-Winter Conference, held in New York in February, nearly six hundred registrations were made, representing all parts of the United States. The papers and discussions at that conference were of high character and most instructive. This annual meeting has an increasing value each year and the interest in it is constantly growing.

The annual banquet held in conjunction with the Mid-Winter Conference has grown to be one of the most important financial gatherings in the United States. Twelve hundred attended this function this year. The dinner list contained the names of many of the most distinguished men in the financial world.

I have attempted to cover briefly the principal activities undertaken and carried on by the Division. The potential trust company business of the country is so enormous that if it were offered in its entirety to trust companies and banks having power to receive it, there would not be facilities to meet the demand. With the constant reiteration of our offer to serve and the increasingly imposing record of trusts well served, it is reasonable to believe that in the coming year there will be comparatively few people ignorant of the benefits to be derived in naming a corporate fiduciary and this in turn will result in popularizing still more this form of public service.

I cannot close without expressing my great appreciation to Mr. McLucas, Vice-President; to Judge Herve, Chairman of the Executive Committee, and to the various Chairmen and committees of the Division, who have given such splendid co-operation during the year that has just closed. It is an old story but none the less comes to me with added force that Mr. Mershon, our Secretary, is invaluable to this Division of the Association. He is constantly looking for any points of danger that may threaten the interests of trust companies and is at all times most helpful, not only to the officers of the Division, but to any member who desires to avail himself of his extended and accumulated knowledge in the field of trust company work. I cannot sufficiently express my personal gratitude to him for his constant assistance to me in the discharge of my official duty.

In the year that has passed, the Grim Reaper has not left untouched our Division. A number of men active in the work of the Association have passed on. The most notable one is Festus J. Wade, President of the Mercantile Trust Co. of St. Louis and a former President of the Trust Company Division of the American Bankers Association. His loss will be keenly felt in the banking world.

Report of Committee on Resolutions—Danger in Naming Other than Trust Company as Depository for Corporate Bonds.

Mr. John C. Mechem (Chicago): Mr. Chairman, Ladies and Gentlemen of the Division: There has been a development of recent years which is not only a serious thing to our trust company business but constitutes, I think, an even wider danger. I refer to the growing practice in the issue of corporate bonds of naming as the depository for interest, sinking fund and principal payments an agent other than a trust company. That practice, as you know, has been growing to quite a considerable extent in recent years. As I say, if it continues to grow, it will take away a great deal of profitable business from trust companies, but it has even a wider aspect than that. When those funds are deposited, it is of utmost importance, it is not, to the security holders, to the investing public, that those funds be held safe and secure for the purpose for which they were intended, in short that they be impressed with a trust for the benefit of the holders of the securities. That can best be done by a disinterested trust company subject to all of the regulation and the supervision to which trust companies are to-day subject.

In the hands of other agencies, as for example the investment banker who has put out the issue, those funds are not so safe.

It is true, of course, that there are many investment banking houses in whose hands those funds are inviolate, but it is also true that there have been and are investment houses in whose hands those funds are not so safe. We have seen examples of that of late in connection with some issues of real estate bonds.

Therefore I say that it is of the greatest importance to the investing public as a whole, to the investment bankers and to banks and trust companies that this tendency be discouraged, and that those funds be placed where they belong, in the hands of a disinterested and competent trust company impressed with a trust for the security holders.

Your Executive Committee has considered this matter of sufficient importance to appoint a committee consisting of Mr. House, Mr. Stephenson, and myself, to prepare a resolution on this subject, and with your permission I will read it.

"Whereas, It is of primary importance to investment houses, banks, trust companies and also to the general public, that interest, sinking fund and principal payments on corporate obligations be surrounded with every safeguard, so that investors may be assured that such payments will be applied, to the purpose for which they are intended, and

"Whereas, Such security can best be obtained by having such payments made to a disinterested corporate trustee which is subject to public supervision, and in whose hands such payments will be held as a trust fund for the benefit of the holders of the securities on which such payments are made, and

"Whereas, the practice is growing of making such payments to agencies other than such disinterested corporate trustee,

"Whereas, As a result thereof, such payments are being made to agencies of varying degrees of financial responsibility, and

"Whereas, in the opinion of the Trust Company Division of the American Bankers Association, such practice is not only contrary to the fundamental principle of trusteeship, but constitutes a very real danger to the safety and sanctity of such funds, and

"Whereas, In the opinion of this Division the continuance of such practice will lead to a loss of confidence by the investment public in the safety of corporate obligations and thus result in a menace to our entire financial structure; now, therefore, be it

"Resolved, That this Division hereby puts itself on record as being unalterably opposed to such practice and be it

"Resolved, That the Secretary of this Division transmit a certified copy of this resolution to the President of the Investment Bankers Association of

America with the request that this matter be brought to the attention of the members of such Association, for appropriate action, along the lines of the action which such Association has so wisely taken in the matter of construction funds, and be it

"Resolved, That the members of this Association recommend to their corporate customers, which may be about to issue securities, that such corporations in their own interest and with a view to the safety and market standing of their securities insist that all such payments be made to a disinterested and responsible corporate trustee, and be it further

"Resolved, That the Secretary of this Division transmit a certified copy of this resolution to the Chairman of the Resolutions Committee of The American Bankers Association, with the request that such resolution be embodied in the resolutions of such Association."

[The motion to adopt the resolution was seconded and carried.]

Report of Committee on Nominations.

Mr. John H. Stalker: Mr. President, Ladies and Gentlemen: Your Committee on Nominations, consisting of Judge Standeven of Tulsa, Mr. Pruden of Newark and myself, makes the unanimous report which I beg leave to submit, as follows:

President, W. S. McLucas, Chairman of the board of directors, Commerce Trust Co., Kansas City, Mo.

Vice-President, James H. Perkins, President Farmers Loan & Trust Co., New York City.

I might state that in view of the misfortune which this Division has suffered in the prospective loss of Mr. Mershon's services, the Chairman of our Executive Committee at the meeting yesterday specially requested and urged that the Vice-President for this year be a man located in New York City.

For members of the Executive Committee, Thomas C. Hennings, Vice-President, Mercantile Trust Co., St. Louis, Mo.

W. M. Baldwin, Vice-President, Union Trust Co., Cleveland, Ohio.

Frank Taylor, Vice-President, Illinois Merchants Trust Co., Chicago, Ill.

Henry L. Servoss, Vice-President United States Mortgage & Trust Co., New York.

Leo S. Chandler, Vice-President, California Bank, Los Angeles, Calif.

[A motion to adopt the report was seconded and carried.]

SAVINGS BANK DIVISION

AMERICAN BANKERS' ASSOCIATION

Twenty-Sixth Annual Meeting, Held at Houston, Texas, October 24 1927.

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Fundamentals in Savings Banking

By STEPHEN I. MILLER, National Educational Director, American Institute of Banking.

Accounting and statistics have become fundamental cornerstones of modern business. Cost finding, business administration and price determination constitute the trinity of industrial progress. A farmer without a knowledge of agricultural costs does not know what crops to plant and cannot anticipate his capital needs; a manufacturer cannot hope to price his products without a knowledge of the expense of producing them; no merchant can economically control his inventory when the costs of merchandising are ignored. Railroad rates are protected upon the knowledge of costs, and reviews by the Inter-State Commerce Commission are based upon carefully prepared data; all budgets rest upon a background of anticipated expenses. Over-production, cut-throat competition, business failures, and industrial depressions are largely the result of ignoring this primary principle of intelligent business.

The fact that many, if not most, business men do not know their costs would be about what one might expect after some experience in the business field. However, when one is brought face to face with the lamentable fact that many bankers do not know the costs of banking, it must be recognized that there remains a long road to travel before business assumes a scientific basis. When the post-mortem of the 3,000 bank failures of the past few years is completed, competition, without due regard for banking costs, will be written in letters large enough for every man to read.

Not only does intelligent price determination depend upon a knowledge of costs, but the economic administration of any business is in large part dependent upon comparative cost findings. Corn may be raised for 35, 40 and 50 cents per bushel by three different farmers; the ton-mile cost of handling a given classification of commodity may vary 50% as between two railroads; the expense of handling a checking or a savings account may represent a considerable margin as between different banks. One of the most important factors in modern business enterprise has been the reduction of costs due to the study of comparative accounts in similar lines of industry. The average business man may go on for years oblivious to the sweeping economies that might be uncovered by a careful analysis of his cost findings, or that might be suggested by the observation made of other businesses working under somewhat similar conditions. Even average costs, derived from the study of many competing units, constitute a mine of information for the alert executive. Banking offers no exception to the rule and the bankers of the United States might profitably cooperate in the equipment necessary to reveal the best and most economical practices in their profession.

In my office not more than ten days ago came a young man born on a farm, educated at Cornell. He wasn't a theoretical man; he was a farmer's son. He had spent six years in a small country bank. He was about to take his degree known as the Ph.D. or doctor at Cornell in agricul-

tural finance. He is now attempting to write his thesis. He has a thesis that has already been accepted, but he wants to write a better one. For that reason he is withholding the one he has, and he wants to develop in the United States a thesis upon the general theme of the administration of the country bank. Yet that man will find it probably very difficult to secure the \$1,500 necessary this year (and that isn't a vast amount of money, I think you will agree) or the so-called fellowship necessary to carry on that work.

It is a peculiar thing that we begin at the points where we do begin. We begin at discussing results instead of going back and creating the substructure. I would like to say to the Executive Manager of the American Bankers Association (I intend to do it) that that great organization might well afford to take up such men as the man I have in mind and endow him, if you please, to the extent of \$1,500 in order that we might carry on a year's work in research on the administration of the small country bank. That is the kind of thing that brings a real return. It is basic, and it strikes at the very heart of the subject that is being discussed everywhere in this building to-day, namely, the causes for bank failures.

Even average costs are worth something because if we know what the average cost of carrying a checking account is, if we know what the average cost is of carrying a savings account, we are in position to administer our checking accounts and our savings accounts in a much more intelligent way. It is a strange thing that sometimes the bankers and, above all, the depositing public, have not caught on to the fact that if the bank is going to carry a lot of unprofitable accounts, they are going to carry them at the expense of the people who are carrying profitable accounts in that bank. It is a strange thing that I might have \$5,000 in the bank and keep it there, which might be considered a profitable account, and still I have no interest whatever in the fact that that particular banker has 66 2/3% of his accounts, possibly more, of an unprofitable nature which passes back upon my shoulders, the profitable depositor, largely the burden for carrying the entire load. It is a strange thing, the argument that I hear about the so-called unprofitable account.

In banking, cost finding concerns itself with a determination of the outlay in either interest or service as over against the income to be derived from loans, investments and services. Further, such costs may be expressed in terms of individual accounts or of the different departments of a bank. There is nothing new in the application of cost finding. The department store is interested in knowing the expense involved in carrying the account of a customer as compared to the income received; this is also true of a railroad, of a lumber mill, and of practically every other business. It is true that profitable accounts are often taxed

with the burden of carrying unprofitable ones. This means that the holders of profitable accounts are willing to pay more for their products, services, or loans in order that an unprofitable business may be maintained. A little arithmetic makes it clear that good customers pay the losses involved in poor accounts; and if the business fails then the cost involved in liquidation must be borne by the thrifty customers in that line of industry. Sometimes it is said that it pays to take on an account even though it does not entirely carry itself. This argument is based upon the reasoning that as long as it pays something toward the overhead it should not be discontinued. This is only true when the no-profit account adds little or nothing to the total expense of carrying on the business. This may be illustrated in a brief and simple case. If the railroad fare from New York City to Philadelphia be \$3.50 and the coaches necessary to render reasonable service were at times half filled, then the vacant seats might be filled with 50-cent passengers, resulting in added net profit to the railroad company, notwithstanding the fact that the 50-cent fare as a general uniform rate would be disastrous. The explanation of this paradox which has caused shippers and railroads much trouble is to be found in the heavy constant and fixed expenses of the railroad business. It costs as much to run a train half filled from New York to Philadelphia as it does when every seat is occupied. However, such a ratio of fixed to variable expenses does not occur in many fields of business endeavor. One thing is certain, it does not pertain to the banking business. The test of a good account is, with few exceptions, to be found in the account itself. The argument of nursing an infant industry is generally fallacious; to put an extra burden upon that which is able to walk alone in order to provide crutches for the disabled is excellent philanthropy but absurd economics. The conclusion is inevitable. Cost finding is the basis for segregating good and unprofitable business, and the no-profit account must be made profitable or must be eliminated. Philanthropy is an excellent cause resting upon well-merited social principles; mixed with business it destroys itself, frequently destroys thrift, and jeopardizes equity.

Not only does cost accounting determine the profitability of the particular account, but also makes it possible to evaluate the economic importance of an entire department or line of business. In a store, does the glove or shoe department pay the better? What type of freight, merchandise, or service is the most profitable? In a bank is it the commercial, savings or trust department that should be most promoted? No man is apt to get far in these questions without a careful analysis of cost figures. In a given community the bank is in a position to obtain savings, commercial and trust accounts. Which one justifies the greatest effort, the greatest initial expenditure? **There isn't a bank executive in the United States who is not called upon to define his policies in the light of the answer given to this question.** The farmer wants to know whether he should raise more sheep, buy more cows, or plant more corn; the management of the gas plant wants to know whether the sale of ranges, gas or coke should be promoted; the railroad desires to expand its service—shall it be passenger, freight or express?

As far as the bank is concerned, the determination of department costs is fairly simple. It is also true that the factors that enter into these costs are just as stable as in most other businesses. Having obtained the cost of maintaining a savings department, the investment return is as open as a book. The banker can reach a broader market than the farmer or the merchant. As a matter of fact, the market for capital is the broadest of all markets and the adjustment of the capital supply to the capital demand is probably more nearly in equilibrium than that of any other commodity. The banker cannot complain about the elusive factors and unstable conditions of his business. Some bankers feel that cost competition is more intensive in banking than in other business lines. This conclusion is also doubtful, but it must be recognized that competition is a very substantial factor, even in banking.

Banks are subject to several kinds of competition.

1. In the first place, there may be competition in service. It should be remembered that two businesses can maintain

the same price level and still compete violently in giving away many services. This brings us close to the problem of the service charge. However, there is this distinction relative to the unusually small checking balance. When no charges are made regardless of the checking balance, the better accounts are discriminated against. It is not unlike the discrimination which takes place when cash customers in a grocery store pay the same prices as time customers. There is one more comment about the service charge, which is, that the opposition to it is not so much the desire to serve the community as the fear of diminishing the total deposits. This is an attitude that one frequently meets, namely, the desire to increase business regardless of the unit cost. Here is an instance where diminishing volume of business would be accompanied by a lower unit cost.

2. In the second place, banks may compete for the product which they deal in, namely, deposits. This is accomplished by an interest rate on long time accounts. Banks can enter into a bidding contest for savings the same as steamships or railroads may bid for passengers and freight. The only difference is that in one case the competition takes place by increasing the rate, and in the other by lowering it. Either business offers the same opportunities for disregarding sound business principles and for prostituting professional standards. Competition for deposits may take the form of too many banks in a given community. A large percentage of the three thousand bank failures during the past six years resulted from the establishment of banks in places where they were not needed. Every business must have a minimum turnover before it can be successfully conducted. Needless to say, banking, when it fulfills its responsibilities, rests upon sane, conservative business policy. There is no place for eliminating competition in the banking field.

3. In the third place, banks may compete for loans. This can be done by variations in the loan rate or by the acceptance of undue risks. Should it once more be brought to the attention of bankers that, for the most part, they are not loaning their own capital but rather the funds of other people? However, the competition in making loans is minimized where the investment opportunity is standardized by security rates. It must always be borne in mind that the market price for what the banker has for sale, that is, credit, depends upon supply and demand. The banker has to do with the market equation, one side of which consists of the entire capital supply, and the other side is being made up of the demands for these funds. He also has to reckon with the long run fact that interest tends to decline rather than to increase. This is an inverted ratio to the law of rents.

For more than twenty-five years the costs of doing business have increased. Banking costs offer no exception to the rule. It is probably safe to say that in twenty-five years banking costs have doubled, and the many items have tripled. One of the best authorities on banking costs in the United States has this to say: "Deposits are no longer the principal source of profit, or even of income to the average small bank. At least 90% of the general overhead and other expenses incident to bank management is traceable to the handling of deposit accounts. The expense of operating these accounts during the past twenty-five years has more than doubled. The income, on the other hand, is the same, or less than it was twenty-five years ago."

In years past many banks built up a strong surplus which makes it possible for them to live "on their own fat." Such banks are in a position to dictate the terms of competition. This makes it difficult for the newer institutions to compete, since the net return upon deposits is too small to build up a strong surplus and undivided profit account. This may be illustrated: Let us assume that Bank X has a surplus and profit amounting to \$3,000,000. It has deposits of \$15,000,000 and pays 4% interest. The \$3,000,000 surplus and profit account was built up over a long period of years when overhead expenses were low and interest on investments relatively high. We will further assume that this bank employs twelve clerks and three active officers. The \$3,000,000, invested in first mortgages and sound bonds yielding 5% interest, will yield \$150,000 a year. If each of the twelve clerks receives \$3,000 and each of the three officers receives \$10,000 a year, the total expenses for salaries will be \$66,000,

leaving the ample sum of \$84,000 to take care of the rest of the overhead. Probably, salaries have been figured too high, for, as a rule, they do not amount to more than 20% of the gross earnings. The result is that these figures may be looked upon as conservative. Bank X is now in a position to loan the \$15,000,000 of deposits at 4%, and still be able to pay 4% to the depositor. In other words, the deposits do not pay their way. However, the bank is in excellent shape due to the large surplus and profit account. Needless to say, it would be difficult for any bank that had been established during the past few years to compete with Bank X. Probably such banks may be found in large numbers throughout the entire United States. They have become intra-marginal due to surplus and profits; if a mutual savings bank, the depositors receive a high interest return, rather than a good profit; if a savings bank, in the general sense of the term, the stockholders sacrifice a return in order that the depositors may have the benefit of a high interest rate.

Over in one State in the eastern part of the United States they are paying 4% interest to long-time depositors. I presume in that particular State they find it, from a point of view of arithmetic, considerably difficult to pay 4% to the deposits and invest the funds in such a way as to bring any return at all, probably leaving them in the red. Here is how it works in bank after bank, and I want to ask you whether this is fair competition or not, whether you want to leave the banking business upon this kind of a basis, and whether, if you do leave it upon this kind of basis, you are not running straight on to some kind of control in the future.

Enough has been said to make certain that one of the chief problems in banking to-day is competition. And, we may add, that oftentimes it is the unintelligent kind. Strange to say, as high-grade a man as the banker is, he does not, as a rule, analyze his costs of doing business. It is not enough simply to analyze the cost of carrying individual accounts; the entire business of the bank should be analyzed in order to determine if the deposits are paying for themselves. This is the first step in the establishment of a reasonable interest rate. This is the same problem that we meet out in the Pacific Northwest, where many lumber mills, without knowing their costs, establish prices that are ruinous to the entire industry. Without fear of contradiction, it may be emphasized that at this very point we find the cause for overproducing and underbidding. Here is the reason for more education in the entire field of business.

There is but one way to meet the problem of cut-throat competition, and that is by co-operation. Business and the public reap no benefits from ruinous competition. It is the road that leads to over-supply, depressions, chaos and unemployment. The problem is entirely in the hands of the business man. The solution rests in enough co-operation to avoid the evils of unreasonable elimination, but not so much as to discount administrative progress and offend public and professional ethics. It is at this point that the new type of business man is being evolved; it is the reason for the emergence of a new profession; it is the chief benefit to be derived from meetings of this kind. Therefore, get together or suffer the economic consequences.

School Savings

By W. ESPEY ALBIG, Deputy Manager American Bankers Association.

School Savings is a misnomer. Years ago it was the term given to the funds which school children deposited in school savings banks. That name persists, although the idea and the philosophy back of school savings regards the actual savings of the child as one of the least important factors. In fact, if one were to ask me if the name "School Savings" were correct, I should answer as Hirma Null did, after his flyer in New York during the recent war. Said Bill Forsythe, "I hear, Hiram, that you made \$40,000 in coal during your stay in New York."

"Approximately true, Bill."

"What do you mean by 'approximately,' Hiram?"

"I mean, Bill, that it wasn't \$40,000, but \$4,000, and that I didn't make it, but lost it, and that it wasn't in coal, but in ice."

Unfortunately, too, in a way is that name, since some ordinarily well informed persons, including a few educators, have regarded school savings simply as a method used by banks to exploit school children or to teach banking in the public schools. School Savings is simply an adjunct of thrift in its larger sense, or, better yet, of income management, which is slowly winning its way into the public schools as the capstone of other courses introduced since the founding of our free public school system.

Analogies are said to be misleading, but let us point out a few relative to our subject. The cynic, who said that the poor cooking in Europe was the cause of the discovery of America, was not far wrong in his conclusion.

The Mohammedans, defeated by Charles Martel on the immortal field of Tours in their attempt to capture Europe from the West, eventually tried an eastern gateway and drove north against Constantinople, captured that ancient city, which was the heart of the trade routes to the East, and brought to an abrupt halt the commerce of Europe with the Far East.

At that time the science of cooking, as we understand it, was unknown. Refrigeration had not been discovered. Food variety was scant, and its preparation difficult. In the absence of knowledge of cooking and refrigeration, spices were essential to make the food palatable. With the closing of the trade routes to the spice countries, the demand for spices grew to be overwhelming. As a result, in part at

least, of the activity resultant upon that demand, America was discovered.

Few sciences have made more rapid development in the last twenty years than the so-called domestic science. A number of years ago there came a general realization of the fact that cooking in the home was not keeping pace with the discoveries in domestic science. Since good health follows good cooking, that subject was introduced into the forward-looking schools. It has now become all but universal. The situation as to manual training, domestic art and vocational training of all kinds is somewhat similar.

Men now living remember the efforts of Samuel Langley, Secretary of the Smithsonian Institution, to make a heavier-than-air machine fly. He went broken hearted to his grave by reason of his failure. The fault was not his. Years later his plane, powered by an internal combustion engine, made a successful flight. He was a highly skilled worker in a field which demanded the technical co-operation of other activities to make his work successful.

Years ago, when the housewives of the world found indigo, a vegetable product obtained in the East, varying greatly as to quality and price, they demanded a product of uniform excellence and stabilized price. A German chemical firm worked for more than a score of years to produce a synthetic indigo, only to find the discovery of no commercial value because of the high price required for the product. The development of coal tar products gave the chemists the base necessary, and now the housewives of India, the home of indigo, import the synthetic product for their own use.

Following the introduction of technical education in the public schools, there came to be vocational guidance. These had a measure of success, but as the airplane was unsuccessful prior to the introduction of the internal combustion engine, as the manufacture of synthetic indigo could not become a profitable business until the development of coal tar, so the introduction of technical and vocational courses have not been completely successful because they lacked the factor which enables the person receiving that instruction to apply properly his information in practical living.

The shores of life in the United States are covered with wrecks caused by lack of knowledge of income management. The shortened hours of labor, the high wages, the sales

pressure, have made more imperative the education of the people in the matter of thrift and income management.

The first attempt at the mechanics of school savings was through a method utilized in France. Installations were secured in a few places in the United States, not because of any specific demand, but simply because it was used abroad. The results were not encouraging. Its need was not realized and its methods not suited to American practices. The tedium of operation which fitted well when dealing with an uneducated group was not to be borne with equanimity by pupils in the American schools. But from this humble beginning, there developed the system, which, as of June 30 1927, has been introduced in over 12,000 schools, has almost four million of participants, deposited during the year past, almost 24 million dollars, and had at the end of the year, net savings for the year of nine and one-half million dollars, and bank balances of over 39 million dollars. A wonderful picture, indeed.

As a background for this present situation, when more than half of our people live in urban communities, where the children have no adequate knowledge of the meaning and use of money through actual earnings, there is the scene of a few years ago, when the majority of the people lived in rural communities, and when knowledge of the meaning and use of money was absorbed by the child from its infancy.

It is a far cry to the time when practically all articles used in the home were manufactured there. The neighboring stream turned the wheels of the grist mill and the saw mill; the loom turned out fabrics from flax and wool grown on the farm. Every community supported its own tannery. The storekeeper combined his service with that of banker. The local squire was the high judge of the community. Actual money was in small quantity and represented in most cases simply the profit of a year's work. The purchase of every article was subject to consideration in the light of the whole family's needs. Power machinery brought the factory system, and made an end of the home as a self-contained unit.

Good wages, sustained employment, and installment buying have speeded our industrial plants to a production unparalleled. The elimination of all home industry has sent the various members of the family into different occupations, and has eliminated the family council from a consideration of a basic budget for operating the home. Eight million girls leave home every morning for industry. Salesmanship has been carried to the highest perfection. In urban centers, the brain is almost dazzled with the whirlwind of impressions starting from the electric signboards at night.

In the face of this change in American life, there has been no commensurate development in training the children in the meaning and use of money. The present system might well be called the "trial and error" method, and those whose trial becomes an error are frequently found among the misfits and the unfortunates of life.

Fifty years ago, the ordinary child, upon reaching eighteen years of age, had a pretty exact knowledge of how it was necessary to spend his income so as to secure its utilization for his best interest. To-day, at eighteen years of age, the youth, in many cases, has not begun to earn an income, and is spending upon emotional reactions funds which are contributed by his parents, the value of which, in terms of work, he has no knowledge, and scant consideration.

Some of you remember the rigors of camp life in the recent war before the soldiers were sent to Europe. Intensive training of every kind was given for weeks before the soldiers embarked for the battlefields, and additional training was afforded before they faced the enemy. All this was necessary because normal life in America is not geared for the practices in war.

A study of the Revolutionary War shows that in many cases men were recruited for a single campaign and then discharged. They took their squirrel rifles and met on even terms the best soldiers of Europe because their frontier mode of living had inured them to hardship and to danger and had skilled them in warfare.

Yet, with all the complexity of living which has grown apace with our industrial and commercial development, our children are turned out of school with scarcely more knowledge of the tools with which they achieve personal success than was true at the earliest period of our national history.

Bankers, economists and social workers saw the result of this lack of education. As a result, desiring to improve the situation, but without an analysis in many cases of the underlying factors, they have supported the first movement which gave promise of remedying the situation. The agency utilized was school savings. Thrift came to be taught in many schools. In a number of States, the teaching of thrift by legal enactment was required in the public schools. Thrift is a general term and can be applied to any number of activities.

The teaching of thrift, however, does not solve the complex problem of making a living, and too frequently has been associated simply with saving or stinginess or miserliness. The saving of cord from packages, the retrieving of used newspapers and magazines, the wearing of patched shoes, the absence of the fortnightly haircut, and various other almost mean economies, have been urged under the name of thriftiness. Happily, however, school savings was rescued early from this category, and has had a tremendous growth in the last ten years. As more educators have turned their attention to the cause of this phenomenal development, they have discovered that its underlying cause was a desire for knowledge of income management. The child desired a convenient place for deposit, where the money would be his. As his deposits increase, he enlarges his horizon of earnings and makes a wiser selection of the object for which he saves.

Thrift has been a huge tent, or, better yet, a Noah's Ark, in which were gathered all the creatures of the imagination. School savings, developed under the guise of thrift, has already left the home tent, has defined its aims, has refused to be included in the general term of thrift, and has already to its credit the recognition on the part of pupils of the sacredness of property, of the elimination of charity from many poor homes, the formulation of life programs, and, better than all else, the saving of domestic happiness.

Possibly no two groups of persons are more familiar with the result of incompatible marriages than school teachers and bankers. The school teachers find it in children neglected as to education, loving care, and sometimes as to clothing. The banker finds it in unfulfilled commitments. Any survey which may be conducted will show that the cause of the domestic discord is in many cases a lack of understanding on the part of the husband or wife, or both, of the part money plays in human relationships. Benjamin Franklin stated that once the financial position of his home became easier, his wife had a better temper and slept better at night.

Already, in the States of California, Connecticut, Illinois, Indiana, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Washington and Wisconsin, school savings have assumed really large proportions. In seven of these States gross deposits for the year passed the million mark. In Pennsylvania it was in excess of four million dollars, and in New York it exceeds three millions. In many of the districts of these States the parents and children are advised at the opening of the school year that the object of school savings banking is to give the children a knowledge of the value of money and judgment in its use.

The whole matter, as it concerns patriotic Americans, simmers down to this simple proposition: Are we satisfied in this democracy to follow simply the European countries into the shadows—old age pensions and unemployment doles—or do we rather prefer to continue the work for our people's personal independence, achieved through a knowledge of income management, which in its essence is simply the culminating subject making possible the widest utilization of the instruction now given in the public schools at a tremendous cost in taxes.

The training contemplated under the term of school savings is no panacea. It will not make adepts in the inept. It will not make experts of the mediocre. In no case can it materially improve the condition of those persons unequipped naturally as to mentality. It does give promise, however, of acquainting normal children with the simple problems involved in income management, at a time when their habits have not become fixed.

Recently a friend told me of a story he had read, called "Poor on Ten Thousand a Year." The story concerned a man who had a salary of \$300 a month. He and his wife lived modestly, economically, and very happily, and had \$4,000 in savings in the bank. Every year it was increased,

and their budget included a fishing trip each summer, at a cost of \$200. They were prosperous and contented.

Eventually he was promoted to the head of a very important department at a salary of \$10,000 a year. They moved into a finer house, in the finest part of the town, and formed acquaintanceships among the people there. As a result, they must join the country club. They sold their old car and bought a more expensive one. As a result, under the new mode of life, the expenses became so great that the fishing trip had to be abandoned, and the \$4,000 deposited in the bank was used up. Contentment gave way to anxiety and almost to panic. One day the department manager determined to talk the matter over with the president of the company. He in turn revealed some of his troubles to the department head. He was in receipt of a very large income but not large enough. In his effort to secure greater income, he was carrying a long line of stocks on margin, and the market was going the wrong way. His wife had her heart set on a summer in Europe. This required also her limousine and chauffeur. The president was worried sick with trying to make both ends meet.

As the department manager walked home late that night, he stopped at a fruit stand on the way, where an old woman with a shawl over her head, assisted by her little boy, was locking up for the night. "Mother," said the little fellow, "here are a lot of apples that are getting rotten spots in them. Shall I put them in the garbage can?" His mother replied, "No, Jim, don't throw them away; we will give them to the poor to-morrow."

As the man continued his way home, he said, "I wonder who the poor really are."

In the final analysis, the poor are the people who allow their expenses to equal or exceed their incomes, irrespective of the plane of life on which they live. They are the people who have had no instruction, or have not profited by any instruction received, in the meaning and use of money.

America has been so rich in natural resources that emphasis has been placed upon the making of a fortune quickly, rather

than upon the science of investment. As a result, few persons know anything about the wise investment of money.

What is the reaction of the school to the teaching of school savings? In those States where installations have been most frequent, opposition has practically ceased. Any opposition is found in those States where installations are infrequent or of a poor quality.

Early in the eighteenth century, when the merchant vessels of Great Britain were hampered in their sailing by reason of inaccurate chronometers, and a vessel sailing from Plymouth or Liverpool had difficulty in finding her position at sea or her home port again, Parliament offered prizes, aggregating about \$100,000, to the person or persons who could manufacture a chronometer which would keep time with accuracy. John Harrison won the prizes after many years of work. Experts say that his success was due rather to refinements of manufacture than to the development of new principles.

So it is with income management, known generally as school savings. The materials are at hand: Reorganization in some places, refinement of method in many cases may be necessary. The utilization of psychology to the same degree as has been done in salesmanship will bring equally good results in income management.

As the project is coming to be better understood, manuals and textbooks are beginning to appear. Bankers associations, service organizations, women's clubs, are fostering it. The important thing, now, however, is that those schools, which, through lack of interest, too great inertia, misunderstanding of meaning, or for any other purpose, have refused or neglected to install school savings, shall do so at the earliest practicable time, so that the children, who yearly are crowding from the schools into industry, shall not be handicapped at the very beginning of their careers by lack of information which, if possessed, would be basic to their professional or business careers, and which is the only certain guaranty to personal success and consequent content and happiness.

Gold Brick Financing

By HARRY W. RIEHL, General Manager, Better Business Bureau, St. Louis, Mo.

There is encompassed within the subject that you have assigned me a line of reasoning which offers the opportunity for security crooks to steal a monumental sum of money from the American public each year, but which, at the same time, places in the hands of legitimate financial institutions the opportunity to protect these same victims from this terrific annual loss.

To me the subject of "Gold Brick Financing" presents the opportunity of developing for your consideration these two phases of modern day financial piracy.

I see first the dominant theory of gold brick financing—that financing, unworthy of the name, that takes from the American public in excess of one billion dollars per year. This theory is expressed in the simple phrase "types of fraud." Highly organized effort is utilized by stock crooks to get this enormous sum of money each year. It has been shown that these crooks go to school, that they swap "sucker lists," learn the very rudiments of gold brick financing through the study and the application of the various "types of fraud" which they employ.

But perhaps I should take this opportunity of further impressing upon you the hugeness of this system because after all this system is so carefully hidden and so adroitly executed that even those of us who are engaged day after day in the field of legitimate financing oftentimes find that we are prone to minimize its importance and become blinded to its fearful consequences.

"Sucker lists" are a part of the stock in trade of the modern day stock jobber. The "suckers" are now listed under the new subriquet of "lily." The gathering of these sucker lists is a regular business and names, as "lillies," are bought and sold like cattle, at so much per head. For fear that you may think I am talking to the gallery, I have brought you the proof.

I have here some actual "sucker list" cards. They carry the name of the individual lily, his address and telephone

number, some of the stocks he has bought in the past and other interesting data.

But what is more interesting, there appears on many of these cards a succinct pencil notation which clearly indicates how these shrewd individuals take advantage of our financial condition, our mental attitude, or our individual temperaments. They are the cryptic comment of the "dynamiters," as these phone men are called. They are the guides which simplify the working of the self-same cards by the next crew.

One reads "hit this chap for a thousand shares—he owns a Packard." Another says "soak this bird for a hundred shares—he's a sweet mooch." Another laconically states, "handle this guy with kid gloves—he's been burnt before." Visual evidence that they study us, analyze our weaknesses and capitalize upon their innate ability to touch us where we are soft.

And here's still another bit of evidence. It is a photostatic enlargement of an actual "sucker list." While this is an actual sucker list secured in a bucket shop in St. Louis in a raid conducted by representatives of the Better Business Bureau and the Detective Bureau of our city—yet it is typical of hundreds of others floating around the country and being used in practically every city in the United States.

I tell you gentlemen that this business of "plucking the lillies" is more vital and more real than we realize.

Stock promoters proceed on the old theory of "once a sucker always a sucker." They believe that if an individual ever bit on anyone of these "Types of frauds," so well known to the stock promoter, that he has the necessary qualities of avarice, cupidity, or whatever you may want to call it, to produce for them again if the proper kind of persuasive literature or suave salesmanship is applied to that same susceptible soft spot that caused him to lose his money in the first place.

It is this theory that gives rise to that type of fraud known as "reloading." Reloading is nothing in the world but

taking advantage of the fact that the victim is already in the toils of the stock promoter and that he will spend more of his money in an attempt to get out. They well know that the same crap-shooting instinct, that same desire to get "something for nothing" which caught him in the first place, if properly nurtured can be caused to produce additional money through the application of another one of these types of fraud. I have actual cases in my files in St. Louis to show that original victims of a stock fraud have been "reloaded" as high as eight and nine times.

"Gold Brick Financing" simply follows the "type of fraud" method of getting the money. Most of the schemes used are basic. It makes no difference whether they come to us in a calico or a silk dress. When divested of their exterior raiment they can almost invariably be reduced to one of the basic types of frauds.

Take a pie and sandwich vending machine scheme that swept the country a few years ago. It is merely an adaptation of the old "blind pool" scheme.

And then there's a good illustration in our friend Ponzi. He simply took the old pyramiding scheme with which we are all more or less familiar, dressed it up in an intriguing garment of foreign currency and proceeded to extract several millions of dollars from those frugal New Englanders. And, to top it all, as soon as he was released on bail in New England, he immediately proceeded to Florida and operated the identical "type of fraud" in the sale of Florida real estate.

The Endless Chain System of Selling is another good example. It is nothing in the world but a glorified edition of the old "blind pool" type of fraud, yet it took hundreds of thousands of dollars from American investors because they failed to recognize the basic type of fraud.

But I promised President Morehouse of your Division that I would give you a few of my actual experiences with gold brick financing. This field is large however, and in telling some of these experiences I must sacrifice many others equally interesting. For instance, here is a partial list of the "types of fraud" well known to all Better Business Bureau executives. They are: bucket shops, boiler rooms, blind pools, tipster sheets, mergers, fractional share scheme, switching, reloading, one call system, the telephone razz, the tap system, puts and calls, stockholder's committees, dynamiting.

Each one of them furnishes an opportunity for the delineation of many experiences both interesting, romantic and educational to those interested in stemming this tremendous flow of honest money into the coffers of the financial charlatan.

Lack of time requires me to limit myself to what I am pleased to term the "financial triumvirate" of the stock promoting field. I call it the financial triumvirate because there are three types of fraud involved and the three types are practically inseparable. Where you find one of them you will invariably find the other two. These three types of fraud are; the bucket shop, the sucker list, and the phone room.

The bucket shop as you know is a place where investors are inveigled into placing marginal deposits on the purchase of securities under the implied or expressed representation that the particular stock touted is about to rise and with the understanding upon the part of the customer that the stock will actually be purchased for his account. They differ from the legitimate broker, in that the latter always purchases the stock ordered by his client without regard to the possible rise or fall of the market.

Very seldom is the new investor with the bucket shop asked to buy anything but listed securities of the well known type. This is the bucket shop's most elementary lesson in sales psychology. He knows that reputable investment bankers and a carefully policed Stock Exchange has given an element of stability to listed stocks that his "pet stock" does not enjoy. He knows that somehow his company will absorb some of that stability, that feeling of security, which is associated with a recognized security when offered to a prospective client.

After the first or second sale is made the "switching" process starts. Switching is a distinct type of fraud, the ultimate objective of which is to "switch" the investor out of his well known security into the worthless "pet" stock of the bucket shop operator.

In the meantime, the stock upon which the deposit or margin has been made is seldom if ever used in the purchase of the ordered stock. The bucket shop operator gambles with the investor's money and it is this fact that gives rise to the axiomatic principle that "the client of a bucket shop loses coming and going."

The reason is simple. If the stock market goes down, the investors margin is wiped out—and he loses. If the market goes up, the bucket shop operator, having failed to purchase the security for the customer's account, is unable to produce the stock or the money, is caught "short," and usually takes the bankruptcy or receivership route—and the investor loses again.

So much for Bucket Shops. The Sucker List I have explained and now for the Phone Room or "Boiler Room" as it is known in stock jobbing parlance.

This presents a most interesting study in human psychology. The phone room is . . . But an actual experience is more illustrative.

Those of you who have had newspaper experience know that reporters have a "nose for news." They have the ability to see in what appears to us to be a very trite statement in a newspaper or an apparently uninteresting even, the possibilities of a very interesting news story.

Post Office Inspectors, Department of Justice men, and men who are trained in the Better Business Bureau work have an analogous proclivity. We get a "feeling for fraud." It is this feeling that causes us to discern the ear marks of these types of fraud. Some people call it intuition, others a "hunch," but to us it is simply the faculty to associate certain earmarks a potential or actual fraud.

It happened to be in one of our large office buildings one day, and while going through the corridor of that building, I noticed an interesting thing on the door of one of the corner rooms. A name there attracted my attention. Now stock promoters are psychologists of the first water. You never heard a promoter use such a name as "Blatz." This is a harsh guttural Gothic name likely to jar the delicate sensibilities of victims when talking to them over the phone. If he should call you on the phone and say, "This is Blatz talking," there would be a certain sales resistance built up. And so the stock promoter deals in French and Latin names, soft smooth names that soothe the ear and thwart our suspicions. He delves into the category of "camouflage" and "rendezvous." He might find the name of his company in some telephone or city directory and very often the company has nothing in common with the names of the individuals who comprise the institution. So the soft, pleasingly smooth name I noticed on the office building door appealed to me, perhaps, as a possible case to look into.

Below the name was listed twelve cities in which this institution was presumed to have offices. I made a thorough search of our files and yet the company could not be found. Neither could I find branch offices of this firm in any of the cities listed. And so my "hunch" was panning out. I went across the street into another office building, and I asked a friend of mine, who is an attorney, with offices on the same floor as the concern whose name had caught my eye if I could sit there for a few minutes. He told me that I could. There was a very interesting and unusual condition in the office opposite. Every window was closed. It was in the middle of August and you gentlemen who live in this territory know how hot it gets in August. The blinds were drawn from the top of the windows to the center and from the center of the windows to the sills there were hung heavy, green curtains. I asked my friend if I could come back the next day. He said, "You are up to something. I do not know what it is, but I guess it is all right." I said, "You see those green curtains," He said, "Yes, I do." "Well," I replied, "I believe there is something interesting behind them." I told him to let me come back for a couple of days. He consented and so I came back the next day and the next.

On the third day, while sitting in his office and looking out of the corner of my eye, I discovered what I had anticipated. One of the chaps in that office had become warm, as individuals are apt to do in the summer time, and raised the window. The gentle breezes wafted off the Mississippi River, coming into that building parted those curtains and

in looking through those curtains I saw just exactly what I had expected.

There, in a little room, not larger than 15 feet by 30 feet there were crowded fifteen men at little desks. They were dressed in their undershirts, having over their heads what we radio fans call a head set and before them the inevitable sucker list cards. That is a phone room, or as the stock jobbers would say, a "boiler room."

I won't go into further details except to tell you that the result of our investigation showed that those promoters came down from Chicago to unload on St. Louis and its environs a goodly portion of a worthless bond issue of a million and a half dollars issued on a defunct railroad over in Indiana.

* * * *

The second phase of the subject "Gold Brick Financing" is more hopeful. To me gold brick financing, which, as we have seen, is nothing but extracting money from the gullible investor through the employment of various "types of fraud," also contains the potentiality of offering the exact protection that will protect these self same victims from this highly organized system.

The Better Business Bureaus scattered throughout the country proceed on that premise. The slogan is "Get the Facts," "Before you Invest—Investigate," and "Know Your Broker or Banker." Backing up these slogans is a tremendous volume of publicity and educational matter that has as its purpose the educating of the public to a recognition of the type of fraud, or, to the realization, through innate suspicion, that the scheme presented is such as to warrant an investigation through their banker, broker or any other business institution in whom they happen to have the necessary confidence.

When I say "Gold Brick" to you I immediately conjure in your mind the thought of a slick scheme, an attempt to get money by unfair means. "Gold Brick" has become generic. It envisions a "type of fraud" rather than a particular individual or a specific company.

If I asked you how, where or when you learned that the term "gold brick" was a warning against schemesters, I dare say that you would not remember. But the source of information is unimportant. The big point is that somehow, somewhere there was planted in your mind a warning to be careful of anything that savored of the gold brick.

Insofar as that type of fraud is concerned you are protected. You do not need a Better Business Bureau to in-

form you of that particular fraud. You will not need the Post Office Department or the Prosecuting Attorney to prosecute the criminal after the deed is done. You have been enabled through education—education that told you about the type of fraud—to protect yourself against that class of schemes. The name of the individual presenting the scheme is immaterial. The name of the company he presents is of no moment.

It is the knowledge of the "type of fraud" that has saved your hard earned dollars.

I believe that the theory is sound and that it presents the real practical solution of diverting into the legitimate channels of trade these millions of dollars that find their way into the pockets of the unscrupulous. Money thus diverted goes into the purchase of necessary commodities, into the establishment of savings accounts, into worthwhile investments, and other stable projects and commodities that build communities and assure prosperity.

To the person who has been educated to a complete knowledge of the "free lot" scheme, that scheme offers no opportunity for exploitation. When the "suit club" is fully explained to its potential victims, it offers them no terrors.

Crooks cannot sell people who ridicule them or who listen to their stories with suspicion. It is this principle that has caused American Business—retail, wholesale, manufacturing and financial—to establish these Better Business bureaus throughout the country. The legitimate merchant, manufacturer, banker and broker is removing from his own household those things that might destroy confidence in his own institution. He relinquishes some of the old customs, not always because they are fraudulent or designed to deceive the customer, but because they have a tendency to create apprehension in the mind of the consumer. He knows that where there is apprehension, doubt or suspicion—the sales resistance increases and that his business suffers.

It has been well said that "suspicion is the consumer's natural defense against exploitation." When this innate quality of suspicion, inherent in every human being, is provided with the necessary definiteness through education; when it is directed against the foes of honest financing; then the same knowledge of gold brick financing, of "types of fraud" financing, that enables the stock jobber to get his billion dollars a year from the American public, can be used to protect their victims against this annual loss.

COMMITTEE AND OFFICERS' REPORTS—SAVINGS BANK DIVISION

The Trend of Banking—Address of President W. R. Morehouse, Vice-President Security Trust & Savings Bank, Los Angeles.

The day for the bank of limited service is passing. Departmental banking, with its wide variety of services, is rapidly gaining in popularity. Instead of transacting certain business in one bank and other business at another bank, the bank customer is finding it to his convenience to transact all of his business under one roof.

Although in its infancy, departmental banking is a mighty healthy youngster, and I predict that it is only a matter of a few more years when nearly all banks will be conducting a departmental business.

The passage of the McFadden bill has done much to advance departmental banking, especially among national bank members of the Federal Reserve System, who have since established savings and trust departments.

With a greater variety of services to offer the public, banks will discontinue the practice of sending their customers to other financial institutions for a service which the banks themselves should render. Instead, banks will find it to their advantage to take care of all of their customers' needs, at least within reason.

One of the signs of the times is for banks to render complete financial service.

Ultimately, nearly all banks in the United States will be departmental banks, rendering a similar service.

Bank Mergers.

Bank mergers are becoming quite common. Not only are some of our larger banks consolidating, but some of our smaller banks are also joining forces.

No doubt some bankers will see in these mergers grave consequences while other bankers will regard the trend toward consolidation as a good sign. With the latter the monopolistic feature will be completely overshadowed by the added strength which mergers will give to the merged banks. In addition to greater financial strength, some will hold that these mergers will promote greater efficiency within the consolidated banks. So while the tendency to merge may not have the endorsement of all, it will have many supporters.

Relief From Numerous Bank Failures.

Another sign of the times points to a less number of bank failures in the future. Having tried the bank guaranty of deposits plan with disastrous results in certain cases, our bankers are looking elsewhere for a remedy. In the main, they are agreed that failure in many cases is due to an undercapitalization of the banks involved. To remedy this, a higher capitalization is urged, with the minimum in the United States fixed at not less than \$25,000. An adequate capitalization of banks can be anticipated in the near future.

Bank Robberies.

Another sign of the times points to a reduction in the number of bank robberies. Alarmed over the daring of bank robbers and the frequency with which they rob banks our bankers have united for definite action. More drastic laws are being enacted which make bank robbery extremely unattractive and an offense punishable by long imprisonment with little hope of probation.

In some sections vigilante committees have been organized for the purpose of actually combating crime by giving battle to the bank robber, on the basis of "shoot to kill." Other sections have offered a reward of \$1,500 for the capture of each bank robber, with an additional reward of \$1,000 if the robber is brought in dead. If I understand human nature, the additional reward will have the effect of bringing in more dead robbers than live ones.

Regardless of our individual views as to the best way to solve the bank robber problem, one thing is certain, our bankers are gradually making it "hotter and hotter" for the robber.

Group Meetings.

One of the most promising signs of the times is to find our bankers meeting in community groups for a consideration of the financial problems of their respective communities. It is not uncommon to find representatives of different banks freely laying their own banking problems before the members of these groups and asking for suggestions. Also, at these meetings there is an exchange of experiences in the use of business-building mediums. Agreements are also reached for eliminating unwise competition and too much free service.

Instead of antagonistic and ruinous competition, we find that friendly co-operation and fair competition prevails among the banks represented at these group meetings. A sign of the times which promises much for the future of banking is seen in the holding of such conferences.

Advice to Investors.

Alarmed by the irreparable loss to depositors through unsound investments, our bankers are devoting a great deal of attention to ways and means for checking the activities of high-pressure promoters. Never before in the history of banking in the United States have bankers co-operated to such a great extent in meeting the attack of these wild-cat promoters on bank depositors.

Not only have the various schemes of unscrupulous promoters been given nation-wide publicity through the press, but in co-operation with other business organizations like the Better Business Bureaus, definite steps have been taken to rid our land of all schemes used to defraud the depositor.

Many banks are already giving advice to those contemplating investments. Some banks have gone a step further and in addition to giving advice have

established investment departments where depositors may purchase safe securities.

One of the most encouraging signs of the times is that in the future the bank depositor is to receive sound advice on investment matters. He is to have placed at his disposal the facts about investments—a service of inestimable value. Think what it will mean to legitimate business to have the billion dollars lost annually in unsound promotions and half-baked ventures made available for legitimate enterprises.

I can recall that five years ago if you gave any advice at all, it was the sort of advice that we didn't care to give aloud. We preferred to whisper it rather than shout out loud. If the customer was deaf, he didn't get any of it. To-day we have become more and more bold on this subject and we find that our banks are not only freely giving advice on the matter of investment, but some of them have installed investment departments. If you have never had one, I want to say to you it is one of the most profitable departments in the banking business. I don't want to stress this from the standpoint of the profit of the bank. That is the wrong way to present it. We should present it from the standpoint of what it will do for the investor because it will certainly do more for the investor than it will do for the banker. We are not only giving advice but we are selling to our customers the same kind of security we buy for our own account and in this way we are saving our customers a lot of grief as well as saving their accumulation. We will have a very interesting talk on it in this morning's session, so I shall pass that by.

Less Careless Use of Term "Banker."

Another of the signs of the times points to a concerted movement on the part of bankers to discourage the promiscuous use of the term "banker." To-day the one-horse pawn broker calls himself a banker, the fly-by-night real estate dealer who happens to sell a few pieces of property calls himself a banker, and the man who sells a mortgage occasionally calls himself a banker. This abuse has become so widespread that it is ridiculous. Persons are calling themselves bankers who know practically nothing about the banking business.

One of the signs of the times is that a spade will be called a spade, a pawn broker will be called a pawn broker, and only a banker will be called a banker.

Thrift.

One of the signs of the times gives assurance of closer attention to a new phase of thrift, namely, the exercise of thrift through the wise spending of money. For example, a subject which has received universal consideration this past year is that of "Installment Buying."

Bankers everywhere are giving the subject close attention. Now that this plan of financing is being greatly abused in thousands of cases through the purchase of luxuries and non-essentials, it raises the question of what is wise spending. Thrift has always been largely a matter of systematic saving—but now in addition to saving, it is also a matter of wise spending.

The reckless abuse of the installment plan has caused our bankers to urge a closer attention to wise spending as a means of saving. One of the signs of the times points to a closer attention to the spending of income.

Education.

One of the most promising signs of the times is seen in the fact that our banks are devoting a lot of time to the education of their customers in everyday banking. This movement is certain to serve a good purpose. A large majority of persons who break the rules of our banks or who experience difficulty in transacting their banking business according to the banker's demands, do so because either they do not know what their bank requires of them, or they do not know the correct way to do the things demanded of them. Recognizing this fact, our bankers are devoting more and more of their time in imparting to their customers a better understanding of what is good banking.

Another tendency is for banks to take a deeper interest in educating their employees. The whole-hearted support which our banks are giving to the American Institute of Banking and to the Educational Foundation is a good example. Never before has it been in such a strong position as it is to-day, all of which leads to the conclusion that the bank employee of the future is to have a greater opportunity to inform himself on the banking business, and also that the customer outside the banking business is to have a better opportunity to inform himself about the banking business and when the customer knows how, he will no longer dread going into a bank and transacting business as it is true in so many cases to-day. At no previous time in the history of banking have banking officials taken so deep an interest in the education of their employees as they are taking to-day.

All of which leads to the conclusion that one of the signs of the times is that bank employees are to have a greater opportunity for gaining a thorough knowledge of banking in the future than they have had to date.

The signs of the times point to a period of intensive education, not only behind the bank counter but in front of it as well.

Banking and the American Youngster.

Another tendency on the part of banks is to show a higher regard for the part the American boy and girl play in banking. The boy or girl of the future is not to be regarded as a nuisance in our bank lobbies as is the case to-day in many banks. Bankers are pushing school savings as never before as a means of acquainting the American youngster not only with thrift and the value of money, but also as a means of acquainting him with our banks and with banking methods and practices. They are helping our farmer boys with their pig raising clubs and their corn growing clubs. Bankers are holding oratorical contests, essay contests and letter writing contests as means of interesting youngsters in banking. In fact, one of the signs of the times is for banks to extend a helping hand to the American youth instead of regarding him as too inconsequential to command their attention. In this country we have 4,000,000 school savings accounts, all of them children, all of them with savings deposits something like \$29,000,000 and in most banks these young depositors are being encouraged to come to the banks themselves and transact the business. There are two phases to that.

It is not only a means for greater thrift in these young lives, but it is a matter of information as to how to understand the banking business and when they grow up to young manhood and womanhood they won't have to become acquainted with banking practices and they will go on from the school savings account into the adult account.

Better Days Ahead.

Briefly summed up, the signs of the times give assurance that banking is approaching a period of great improvement. Never before have there been so many constructive banking movements under way at one time. Not only are these forces constructive, but they are sound. They make for stronger banks—

For more efficiently operated banks,
For banks offering a wider service,
For better understanding of banking behind the counter—outside the counter,
For closer alliance with the American youngster,
For greater thrift through wise spending,
For greater thrift through systematic saving,
For greater respect for the banking profession.

If I read the signs of the times correctly, there is every reason to believe that banking in the United States is on the verge of a great advance—that in the future our banks will be greatly strengthened and their service im-

proved, as the natural result of the many constructive movements under way to-day.

Report of Nominating Committee—Newly Elected Officers.

Mr. A. C. Robinson: The Nominating Committee consisting of Mr. Howard Moran, Mr. H. H. Reinhard and myself were requested to make the nominations for President, Vice-President and three members of the Executive Committee, the latter to serve to 1930. We nominate—

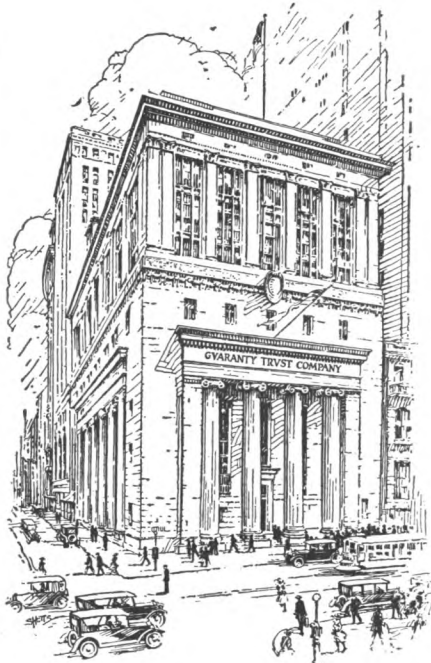
For President, George L. Woodward, Treasurer of the South Norwalk Savings Bank, South Norwalk, Connecticut.

For Vice-President, Taylor R. Durham, Vice-President of the Chattanooga Savings Bank and Trust Co., Chattanooga, Tennessee.

For members of the Executive Committee—
Arlan W. Converse, Vice-President and Cashier of the First Trust and Savings Bank, Chicago.

Henry R. Kinsey, Comptroller, Williamsburgh Savings Bank, Brooklyn, New York, and Louis Betz, Treasurer of the State Savings Bank, St. Paul, Minnesota.

[The selections were unanimously approved.]



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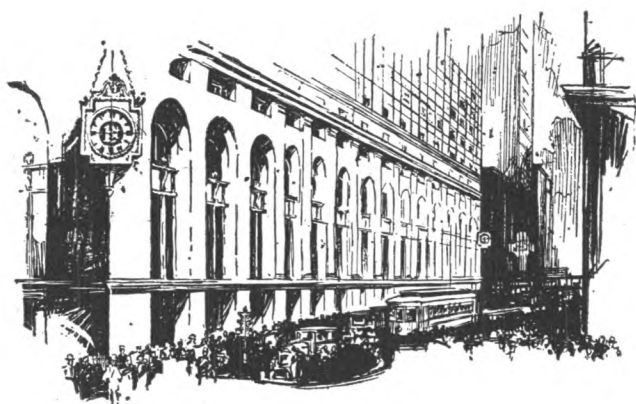
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