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October 10, 1936

Two Sections—Section Two

The Commercial & Financial Chronicle

AMERICAN BANKERS' CONVENTION SECTION

GIVING PROCEEDINGS OF THE CONVENTION OF

AMERICAN BANKERS ASSOCIATION

HELD AT SAN FRANCISCO, CAL.

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AMERICAN BANKERS CONVENTION

SECTION OF THE

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The Convention and the Public Finances

As Mr. Fleming pointed out in his presidential address to the American Bankers Convention, the national bankers' gathering was held in San Francisco as long ago as 1892. It has made that city its headquarters in two notable autumn seasons since that time—in 1903, when the country was recovering from a highly disturbing financial set-back, and again in 1929, when it was visibly confronted with the prolonged financial reckoning from which we are now emerging. Mr. Fleming took a strongly hopeful view of the present financial outlook. Regarding this, he said:

"It is encouraging to note the steady progress which is being made in industrial recovery. Steel production is on the increase; construction contracts awarded reached the highest monthly total during July since June, 1931; electric power output has advanced to a new high record; car loadings have increased contra-seasonally to the highest levels since October, 1931, and factory employment and payrolls are also up. According to those and other measuring sticks, business is rapidly reviving, and we all know that ample bank and investment funds are available for business expansion."

But Mr. Fleming qualified his view of things by adding that, in addition to the unemployment complication, "we must all realize that expenditures, Federal, State and municipal, must be brought more definitely under control. Also, we have the problem of taxation which, if allowed to increase substantially, is bound to result in retarding business recovery." Conceding freely that the emergency policies of our government were necessitated by a most unusual economic situation, he had this to say:

"Making allowance for these factors, if we are to continue the present business recovery we must take steps by which the budgets of Federal, State and municipal governments will be brought more definitely under control and work as rapidly as possible towards budgetary balancing. If this can be accomplished, business will be assured that we are on firm foundations, and can go forward in the traditional spirit of American enterprise and invention to create new channels for greater employment."

He believes that "the major factor in this problem is the necessity of removing as far as possible any uncertainty surrounding the rules under which business operates," and he very positively declares that an important step in that direction "would be a review by the government of its whole relief program (which of necessity had to be developed rapidly), looking toward elimination of waste and duplication." He emphatically expressed his belief that this is not a question "which involves partisan politics, but is a fundamental concern to all people, regardless of what political party is in power."

This simple but comprehensive view appears to us to strike the keynote of the whole problem which practical bankers have to consider. On its early, honest and intelligent solution the country's longer financial future will necessarily in large measure depend, and it is well to have the matter set forth so clearly, before practical men of affairs, that judgment will not in the next few weeks be clouded by the partisan talk of a political campaign. The danger of the existing situation has been, not only that, as we sometimes feared, government relief as it has been administered on this occasion would become a political engine so powerful that no ambitious politician would be willing to relinquish the opportunity. There was the much larger danger that, with the best intentions, our responsible public officers would discover that the government and the taxpayers were caught in a net, from which even return of prosperous times would not easily extricate them.

It is impossible not to overlook entirely the imminent possibility that a program of relief, conducted often in so haphazard a fashion as that of the past few years and involving so enormous an expenditure of public money, would result in the pauperizing of a large part of our working population. Of this result as a possibility there have not been lacking sinister indications, and the longer such a system continues on its present scale, the greater will necessarily be the danger of deterioration in the standards of our people. Hardly less menacing has been the possibility of accustoming our people to the distribution to individuals of such prodigious sums, raised through taxation of the thrifty or through government loans put out to meet an accumulating public deficit. What might be the upshot, if citizens who were not contented with their lot could be herded together politically to insist upon outright drafts on the public treasury, as the activities of certain political agitators have unpleasantly suggested, even in this year of grace.

Responsible bankers in this country, along with all other thinking citizens, have a paramount duty in the matter. It is, to teach the people that, in President Cleveland's words, "the people should support the government but the government should not support the people." To the banking community, the important office belongs of showing, both to government and citizens, what would be the inevitable fiscal and fiduciary consequences of a surrender to the ideas of relations between government and people which have grown up in the past three or four years.

The reassuring fact, in the mind of all men of experience in American politics and American history, is that the industrial recovery which inevitably follows such a period, the return of what we call "good times," will usually of themselves put an end to these popular delusions. We have seen already how the organized demand for fiat money as a remedy for financial depression—an agitation which has always in our history developed after an economic breakdown, and which became an outstanding factor in our congressional oratory of 1933—has vanished from the scene at Washington, as it did in due course in the recovery after the troubled period that followed 1893 and 1873. But the present menace, which differs from that historic delusion in form if not in purpose, needs to be met by unremitting vigilance and intelligence.

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GENERAL SESSION

AMERICAN BANKERS ASSOCIATION

Sixty-Second Annual Convention, Held at San Francisco, Calif., Sept. 22-24, 1936

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A Bank's Investment Portfolio

By LINDSAY BRADFORD, President City Bank Farmers Trust Co., New York

In introducing Mr. Bradford, President Fleming gave the following outline of his career:

Mr. Bradford was graduated from Yale in 1914, after which he was connected with Hambleton & Co. He was in the Navy during the War, where he was commissioned Junior Lieutenant. Upon his discharge in 1919, Mr. Bradford entered the employ of the New York Trust Co., specializing in the handling of trust investments. By 1927 he was Assistant Vice President, when he left to become Vice-President of the Farmers Loan & Trust Co., which merged with the National City Bank in 1929. Mr. Bradford was elected a director of the City Bank Farmers Trust Co. in 1934 and in March of this year, when James H. Perkins became Chairman of the Board, Mr. Bradford became the City Bank Farmers thirteenth President.

Mr. Bradford's address follows:

"Handling a Bank's Portfolio" has always been one of the hardest jobs in a banking institution to do consistently well but as I approach the task of talking about it and trying to develop successful theories of operation, I honestly think that that is more difficult than the job itself. And if investment of a bank's funds in the security market has always been a problem in the past, the difficulties have certainly been multiplied many times over at the present time by vitue of the increased percentage of our assets thus invested. The extent of this increased problem becomes only too obvious when we picture that in 1914 only 17% of the assets of all the banks were in investments and that figure has steadily grown to 23% of all member banks in 1930 and in the spring of this year reached the approximate current figure of 41%. Indications are that your difficulties in continuing to invest this large percentage of your assets may continue and at least my difficulties in talking about them will be over shortly.

When the value of the portfolio consisted of an amount equal substantially to the capital, surplus and undivided profits plus, roughly, a similar amount of deposits, the problem fell within such limits that it was possible to point out a reasonable and logical procedure to follow. Now, however, with 40% of our resources exposed to the price variations inevitable in a public market, we are treading unknown paths and it becomes incumbent upon us to develop a course of conduct which will not only guide us through the current phase but which will contain inherent safeguards so that possible developments over the next few years will not result harmfully to our banking system.

The problem is great indeed, and it is not a question that any of us can ignore because we all face it by the very nature of the banking business. And that the question needs exploring is only too clear when we contemplate the different points of view followed by banks the country over and the excellent results achieved in some cases and the pitiful disasters resulting in others. Is the task of handling a bank's portfolio so complex that it is impossible to establish some fundamental principles which will prove profitable for a bank to follow in normal times and prove a factor of safety in periods such as we have recently passed through?

When I speak of a bank's portfolio, I have first in mind the securities in which the capital, surplus and undivided profits are invested in the sense that these theoretically represent a bank's secondary reserve. I say "theoretically" because in too many instances during our recent histrory, their existence proved to be the proverbial snare and delusion. To whatever extent, however, the portfolio is expanded in size beyond the limits of the capital, surplus and undivided profits, and of course this is the situation today, to a very large degree the same principles of management should prevail.

In our consideration of the matter it seems to me wise to go back to the fundamental reason for the existence of capital funds of the bank and by the use of the term, I mean the capital, surplus and undivided profits. These funds are essentially a guaranty fund to the depositors of the bank. They stand between the depositors and the losses resulting from bad loans or other functions of the banking business. If this is a correct estimate of the basic reason for their existence, it seems to me that it follows automatically that the emphasis in their handling should be on the side of the utmost conservatism. The first thing we should have in mind in their use is the ability promptly to convert them into cash at, or within a few percent, of the amount invested in them. Needless to say, variations in degree in this philosophy must inevitably occur due to the necessity of banks housing themselves and hence having a certain amount of fixed assets. But I think all of us would agree in the conclusion that assets not promptly convertible should be at a minimum. While it can be advanced with considerable plausibility that varying conditions under which a bank operates justify a different approach to portfolio management, to wit, a bank with a large amount of demand deposits versus a bank with a large amount of time deposits, nevertheless, I personally, would feel that the basic community

responsibility undertaken by a bank in its acceptance of deposits puts the burden of proof upon those who would stray far from the more conservative principles.

In the past, there has been a definite divergence of policy among banks as to how their portfolios should be administered and of the various policies that were followed, there were several that would appear to stand out as somewhat typical of banking thought on this question. One philosophy was along the lines that the capital funds and such other resources of a bank as were used in the portfolio should be expected to yield a profit to the institution and I mean a profit over and above the current rate of interest on the securities in which the funds were invested, to wit, a speculative profit. The advocates of this system conceived it a part of wisdom to purchase bonds with a primary motive—that the prices should go up—either selecting speculative bonds which would be favorably affected by rising security prices in general, or second or third grade bonds of companies which apparently were on the up-grade and where the improvement in their individual cases would give a better credit rating to their securities, and hence they would sell higher in the market. Another school of though was represented by those who considered it expedient to seek from their portfolio investments more than the going rate of return for money and who, therefore, were prone to purchase 6 and 7% obligations in a money market where the prime credits were yielding perhaps 4½ to 5%. Most of us probably have forgotten the time when that existed. It may well be said here that the impelling motive was frequently to invest their own funds at sufficiently high rates to make a differential over and above the amount of interest they were paying on deposits and while the motive may have been understandable, the adoption of an unsound principal to achieve it is likely to result unfortunately in the long run and as experience has shown, misfortune has frequently been the outcome. Even the commendable principle of diversification fails to safeguard the banker whose desire is to get consistently more than the going rate. The unanimity of the decline and defaults in second and third grade bonds during a depression is amazing to behold.

Both of these policies seem to me essentially and fundamentally wrong. So far as the speculative approach to the problem is concerned, I am convinced that it is improbable that any of us can speculate successfully, consistently, for it is inconceivable that any of us are going to have the sustained intuition and judgment to speculate only in the years in which the speculation will pay. The bank, in theory, is a going institution of indefinite life and it is only by developing consistent policies that the management is going to carry on successfully through the ups and downs of a complicated economic existence. Hence, unless we all maintain that we are geniuses enough to indulge in the ownership of second grade securities only at exactly the right time, this whole philosophy must break down as none of us would subscribe to the theory that it is suitable for a bank to be managed so that it makes large speculative profits one year and hopes to be out of the bond market and not take large losses the next. But the most important reason for condemning the theory of speculative profits from the bond portfolio is similar to that which causes the breakdown of the policy followed by those who endeavored to invest their money consistently at a higher rate than that prevailing for conservative securities. Namely, the very time when capital funds may be needed for their primary function of serving as a guaranty to the depositors against loss would, in all probability, be exactly the moment when due to a crisis, speculative bonds would be at a substantial discount and high coupon bonds of second grade credits would in many cases have defaulted. Therefore, their convertability at, or within a reasonable percentage of, what had been paid for them would be likely to prove an illusion indeed. What satisfaction was it to have made unusual and excessive profits in speculative or second grade bonds in the 1920's or to have received 6 or 7% return from second grade credits when in the time of stress and strain of recent years, the pursuance of these same policies resulted in a depreciated bond account running from 30 to 50%? When the test came, the pursuit of these policies proved disastrous. At the very time when we most needed our capital funds intact to carry out our obligations to our depositors, one of the justifiable indictments against us was that in many cases the funds were not there. Some of us had violated the very essence of their handling, namely, their prompt convertability. How many bank failures would have been avoided in our recent troubles had there been no depreciation in bond portfolios I would not venture to estimate, but that the number is substantial I am sure and I am even more certain that many worries and harassments on the part of the executives of many banks which did not fail would have been avoided had more conservative policies obtained. Apropos of this, the actual figures on losses and depreciation on investments for the years 1930 to 1933, inclusive according to the annual report of the Federal Reserve Board, totaled something over a billion dollars. I know of nothing more discouraging for a board of directors of a bank or perhaps even more irksome for the officers who have to recommend it to the board of directors, than to take a substantial amount of the year's earnings and apply it in writing down the portfolio to the market, a necessary procedure which—even disregarding recent banking history—has been far too usual. It is not long ago that the Comptroller of the Currency issued some regulations containing prohibitions for the bankers of the country against investing their funds in certain classes of securities, securities somewhat in the category of those upon which I have just commented. The thought which instigated his ruling persumably arose, although I hastily say I have no specific information on the subject, from the fact that his examination still showed a too widespread indulgence in the purchase of these presently prohibited bonds. It appears to me regretable that the Comptroller had cause to think that this ruling was necessary. To me, it would be much the same thing as the president of a bank instructing his vice-presidents not to make any bad loans.

But there is another type of portfolio management which, while not subject to so much criticism as the methods I have previously mentioned, has nevertheless sufficient speculative aspects to it to make it unacceptable to many of us according to best banking standards. As it is the method which most of us have followed in greater or less degree, I think it bears the closest scrutiny as to its desirability. I refer to the general theory of a long term bond policy as versus a short term and in general, to the practice of endeavoring to reap trading profits by virtue of successful forecasting of the interest rate. I said earlier that the different conditions under which banks operate inevitably give some leeway in carrying out in a practicaly way a theoretical perfection of portfolio management. And I think it is in connection with a long term bond policy with the accompanying maturity risk that such variation would have its greatest play. Most of us were in the banking business in the early 1920's when Norfolk & Western 4s of 1996 sold at 67. Obviously, other competent credits were selling on the same basis. When we picture this bond today selling at 19% above par, we get a dramatic example in only a decade and a half of the possibilities of price variations in even the highest standing credits, and hence, the extent of a maturity risk as such. While I believe that a maturity risk, namely a speculation in the interest rate, is a lesser evil in portfolio management than a credit risk—to wit, buying anything except the highest grade security—I believe even the maturity risk should be reduced to a minimum. Of course, one of the fatal hazards of such a risk is that the very time when the commercial demand for credit or some other reason, might necessitate liquidation of some of our portfolio to provide the necessary funds, would presumably be the time when a long term credit would have tended toward a depreciated price because of the probable response to the money market. Thus, it seems clear that a commercial bank with commercial demands at certain times of the year and excess loanable funds at other times, should certainly avoid the luctuations of a long term credit. With such excess loanable funds it seems equally reasonable that an institution with a relatively stable portfolio in size can have a reasonable percentage of such portfolio in long term credits where the necessity of a quick liquidation would be less likely to arise, and this is the important element, and at such periods in our bond market fluctuations that the investment appears to be available on a suitable return basis. Obviously, I have no quarrel with the purchase of high grade long term bonds at the 70% level but my skepticism as to the wisdom of embarking on a long term bond policy in a portfolio is based on the fact that such an approach to the problem may as often result in buying a similar security at 115 and still owning it when it is selling at 70. And such depreciation, it seems to me, it is not suitable for a bank to run the risk of incurring when the real function of a bank is to safeguard its depositors by maintaining a non-fluctuating capital and surplus.

I have here, "except that it is all right for it to fluctuate on the up side," still another method of operation that I am sure all of us have pursued with indifferent success during the last few years, has been that of trading in short term Government securities. I say "indifferent success" because in many cases we have sold out and taken the profit only to repurchase at a higher level. If I seem to speak somewhat authoritatively here, it is perhaps due to some desultory experiences along this line in our own institution. Our judgment has not proved infallible, as regards our ability to gauge accurately money conditions and marketing conditions even six months or a year ahead. I have known cases where bankers have divested themselves of their entire short term Government portfolio, and I hasten to say this is not a personal experience, with the determination to leave the money idle indefinitely unless the opportunity arrived to invest the funds again at a lower level of prices. These bankers comforted themselves with the fact that the 2% premium obtained could be considered a 1% income for the next two years. They have sat happily basking in their brilliance for perhaps the first month after their sale of the bonds but it is more of a strain than most of us can bear to see our money earning nothing for any extended period of time. And even if they perchase had the patience of Job, the constant prickings of their executive committees generally have had a tendency to shake their faith in their acumen and in their economic wisdom. It almost always results in going back into the market again at about the same or higher levels.

In the past, the methods of buying bonds for the portfolio have differed enormously among various institutions. In many cases, skilled and experienced security men have been employed to supervise actively the portfolio management, and obviously this seems to be—by the very nature of things—entirely desirable. In hundreds of other cases, however, the buying of bonds has been done by individuals who had but little knowledge of bonds in general or the usual methods of evaluation, and who made but little pretense of such knowledge or ability. It has always been of interest to me that a banker who in making a straight commercial loan of $5,000 would be most punctilious in his examination of the proposed borrower and the purposes for which he wanted the funds and the exact method he contemplated using in paying the loan back, would in the next few minutes make an investment of $10,000 or $15,000 in a security which he had perhaps not heard of until informed of it over the telephone and about which he would know little or nothing. The inconsistency of such performances in the use of depositors' money cannot be defended. If the size and earning power of any particular institution makes impossible the employment of a man skilled in this phase of banking, or if entirely disinterested and sound advice on the subject is not available from some other source, I would suggest that such institution limit its portfolio to Government bonds and small variations in quality therefrom.

While I have talked thus far along the lines of general principles, I am nevertheless conscious of the fact that the present situation of bank portfolios the country over presents a current problem of huge proportions and one that is entirely new to American banking. I refer, of course, to the fact that whereas in our portfolios in the past we have been accustomed to having perhaps 20% of our assets in investments, the average investment holdings of banks today approximate 40%. The reasons for this are obvious to such a knowledgeable audience as yourselves. There is a lack of commercial paper and demand for commercial loans, and this situation has tended to make the banks resort to the other most obvious profitable use for their deposits, namely the security market. It has been the fact that up until recently at least the most available form of investment was in Government securities due to the large amount available as a result of the substantial borrowing done over the last few years in financing the Government deficit. Whether this lack of commercial loan demand with its resultant increase in our portfolios is a permanent change in our banking situation, I would not venture to say. At least it exists a present. The facts of the large surpluses built up by our corporations, the existence of the present quick means of transportation, and the actuality of improved methods of manufacture, resulting in less necessity for large inventories and consequently, less necessity for borrowing, at least must make us keep the question before us. If it should eventuate over the next few years that this is a continuing condition, the difficulties of running a bank from the portfolio point of view would be substantially enhanced and I would expect greater managerial emphasis on this end of banking to exhibit itself. To indicate the potentialities of the situation—if a bank with a $1,000,000 of capital funds and $10,000,000 of deposits now has 40% of its assets, or $4,400,000 in the security markets, only a 5% variation in price would deplete the capital funds by more than 20%. I recite this to emphasize the grave consequence of a very small variation in the level of the bond market and hence, a greater seriousness of the problem we are facing as the size of the portfolio grows. And the new perplexities are by no means confined to the additional percentage of our assets in use in our portfolio but more serious ones exist in the new rules under which we are playing the game. Of course, in the past, the probable course of the money market has not always been entirely clear but the thinking banker has had various data on the supply and demand of credit upon which he could rely to form a sane conclusion as to what the trend of the money market was likely to be within any reasonable time. At least his margin of error was not likely to be great enough as to have grave consequences if wrong. But at the present time with the machinery now existing, I submit that all of us can make what we think are wise decisions for the handling of our portfolios and have our conclusions thrown completely awry due to a decision by those in authority who, for some reason of which we may well be ignorant, may take actions which materially affect the money market. With these additional elements to face, namely the increased size of our portfolios plus the controlled aspects of our credit market superseding to some extent the natural play of economic forces, I think it becomes more essential than ever to follow a policy which limits to a very large degree the risk of serious variation in the value of the portfolio.

If only because of the lack of other available paper, it is inevitable that the larger proportion of all our holdings should be in governments. They do give a minus yield but as we all know the premiums are represented by the rights to subscribe to the new securities, but there is going to come a time, I assume, when those rights will have no value. With the shortest term government bonds giving a minus yield, it would be an extreme policy indeed to advocate having only the shortest term governments, thus actually costing us money every year to be in business. With the longer term corporation credits of the highest rating selling on a basis to yield slightly over 3%, and because of their maturity having potentialities of variation in price in a greater or less degree, the question arises whether the yield is worth the risk. I make no effort whatever to prophesy the extent of the risk or the time element involved. For the reasons that I have indicated, it seems to me we must have a philosophy of management which we can follow with confidence over a period of time rather than a philosophy of expediency which would involve an effort to estimate the duration of our money market or the likely time element involved in possible Federal Reserve actions tending toward control. For the reasons that I have indicated, it seems to me that we must have a philosophy of management which we can follow with confidence over a period of time, rather than a philosophy of expediency which would involve today an effort to estimate the duration of our money market or the likely time element involved, and possibility Federal Reserve actions tending toward control. In getting better than a minus return, therefore, and in refusing to undertake the risks inherent in a long maturity, it seems to me that a permanent policy of serial maturities is the only answer to our problem with our present inflated portfolios, and probably the suitable answer even if changes in our banking situation tend to result in returning to a more normal relationship between loans and investments and the size of our portfolios is cut down.

While the insurance companies do not like to invest their money at 2½ or 3% today, they well remember that they had a market in 1921, to select another extreme, when they were buying the best long term credits on a 5 to 6% basis. I indicate this only to show that they have to look at their problem from the point of view of investing their money at the going rate at the time the funds are available and averaging the return and estimating the performance over a long period of time. While appreciating entirely that the conditions we face from the point of view of our demand deposits differentiate us entirely from the insurance companies, I nevertheless believe that in handling the bank portfolio we must develop the same investment trend of thought as the insurance company buyer has. I have never been one, but I assume he must have this trend of thought. If the average going rate for money in the prime credits from 1 to 10 years today is 1½%, and we have adopted the serial plan of investment, I think our point of view must be that we will accept that return in the hope that as our early maturities are paid off, we will be reinvesting at that time at a higher rate and our average return which looks so discouraging today, will thus be increased.

I should like to be able to suggest some simple rules to be followed in portfolio management which would cover every contingency. However, the question is far too broad and complicated even to attempt to do this but I do think if those of us who are charged with this important duty have in mind certain basic principles it will tend to keep us nearer the middle of the road than we have been in the past. Among such basic philosophies I would advocate with confidence:

1. Confine the portfolio to high grade credits.
2. Limit the maturity risk. In other words, own any long-term bonds that you do own at as nearly the bottom of the market as possible, and never own very many.
3. Be satisfied with the going rate of return on high grade credits.
4. Do not put emphasis on increased earnings from capital gains in the portfolio. (Taken with pleasure, however, if inadvertently secured.)
5. Confine the portfolio to securities promptly marketable.
6. Invest the portfolio so that it tends to mature serially over a limited period.

One of the inevitable accompaniments of any such conservative policy as I have endeavored to promulgate is a lower rate of return than many bankers have in the past been willing to take from their portfolio management, and hence, lower bank earnings during periods such as the present, of low money rates. But from the point of view that I think it is proper to gauge the problem, this does not give me concern. The steel industry, as such, has had losing years. There have been times in our history when not enough automobiles were sold in this country to yield a profit to the manufacturers, as a class, and the ups and downs of railroad earnings are proverbial. I do not see why ability always to operate profitably should be inherent in the banking business and I do not think it is, if proper safeguards are taken in conducting the business. Most of us will have to admit that the bankers of this country have in recent years lost considerable of their traditional standing. Whereas in the past, the banker has been respected for his probity and his wisdom and his unselfish interest in community affairs, events occurring in the last few years have had a tendency to change his standing, although in my opinion in the majority of the cases, unjustly. I am not here to attempt to say now justified this changed feeling is or how much it has been inflamed by outside agencies, but if we look at the record of bank failures which have taken place, it seems to me that as a body we have something to answer for to the community. Evidently there was a certain percentage among us who failed to appreciate fully the fiduciary capacity we occupy toward our depositors. Perchance we thought too much during the past 15 years of making money for our institutions, forgetting that our first obligation is to the depositors. If we did fail to appreciate that the safety of deposits was of more importance than dividends for the shareholders, this is all the more reason for caution at present. Therefore, we need not be concerned or troubled by carrying out a portfolio management policy where our first consideration is the safety of the funds which have been deposited in our care. A policy of greater conservation, greater liquidity, will result in better service to the community, fewer financial disasters and, therefore, greater prosperity for the banks over a period of years. The banks will better carry out their important share in our economic life and the banker will again take his rightful place in the esteem of the community.

Make Haste Slowly

By LEROY A. LINCOLN, President Metropolitan Life Insurance Co., New York, N. Y.

I am delighted to be here and to have this opportunity to address you. It is a particular joy to me, on this occasion, that my very good friend, Mr. Fleming, has the honor to preside over your deliberations. I welcome this occasion also because it gives me an opportunity to allude to some points of view which the business of life insurance and that of banking have in common. Both are conceived to further and protect the economic status of the American people. By encouraging thrift on a huge scale and by directing the accumulated savings of the people into productive channels, they maintain economic activity and are basic instrumentalities for the prosperity of the country and for raising the standard of living of the people. There is every reason why we in two allied lines of business should exchange views and dedicate our activities toward the same goal—the public good.

Welfare of all our people is the great objective toward which all business must be directed if it is to justify its existence at all. The relationship of banking and of insurance to the public welfare is, perhaps, a bit more intimate and direct than is the case in many other fields of business. Nevertheless, all business is public service and can prosper, in the long run, only as the public prospers. It is desirable, therefore, every so often to take stock of conditions which affect the public welfare. Such a review is particularly pertinent at this time after the six or seven difficult years which the country has experienced. I would like to take advantage of this occasion to show what light certain conditions in the life insurance business can throw on the general situation, and to discuss with you some things which we in the life insurance business, from our very numerous contacts with the public, have observed. In our company, for example, there are 27,500,000 policy holders located throughout the United States and Canada. They include persons of every economic level and social stratum. Close to 50,000 agents and other employees of our company are necessarily in very intimate touch with a large cross-section of the urban public. Our contacts are so many as to warrant us in attempting to weight and interpret some of the prevailing conditions in the light of our business relations.

Of first importance, it is gratifying to bring testimony that the general health of the people seems to be in a very satisfactory condition. I am able to report at this time that, in spite of depression conditions long continued, the physical state of our people, as measured by the death rate, has never been better. What is particularly impressive is that this phenomenon is not limited to any one stratum of society or to any one section. It affects the entire Nation. At the present time the average length of life is well over 60 years for the American people, and over two years have been added to the life expectation, at birth, since 1929. Students of the subject find no evidence to indicate any permanently adverse effect of the depression on the physical stamina of the American people. This is no small matter when we consider how essential health is to every other human activity.

Substantial gains in the economic well-being of the people are reflected in the records of the life insurance business. In our company, as well as in the life companies as a whole, we can see very definite evidences of recovery. In every department of the Metropolitan we have recently registered new highs in the amount of insurance in force, which now aggregates close to $21,000,000,000. In the companies as a whole, the face value of the insurance on the lives of the American people is again rising, and is now about $103,000,000,000. Ten billions of this amount represent group insurance on large numbers of employees—an eloquent expression of enlightened industrial relations. Among policy holders whose premiums are paid weekly or monthly, practically all of whom are in the families of wage earners, we find a larger volume of new writings and a strong disposition and ability to preserve and increase their insurance equities.

There are other evidences from the insurance record that the American people are today on a much better economic foundation than they have been for a number of years. The premium income of the life companies is reaching new highs. Demands for policy loans and cash surrenders have been declining for some time. In our company, for example, the actual demand for policy loans in relation to the amounts subject to such demand has lately been down to levels comparable with those of nearly 10 years ago. If one may judge from the experience of the life insurance companies, the American people have turned the corner economically, a conclusion which is confirmed in other lines of business, including your own. Many indicators in the life insurance business today would seem to demonstrate that the American people have come through these troublesome times with a continuing determination and an increasing ability to take care of themselves and their families.

Another fact which is demonstrated by the experience of the life insurance business is that the American people, perhaps more than any other, have learned, through their own initiative and over a long period of years, to provide for the financial protection of their families. In no other country in the world are there such evidences of voluntary provision to cover the various contingencies and hazards of life to which families are normally subjected. In greater or less degree millions of families in our country have made, and are still making, such provision in their own individual plans for protection—provision which, in the aggregate, constitutes a huge and quite voluntary back-log for any program of social security. There are today 63,000,000 people in this country whose lives are insured for the protection of themselves and of their dependents, a factor of tremendous importance to be borne in mind when considering current legislation designed to provide compulsory security against other hazards, under governmental sponsorship.

We find ourselves quite in accord with the avowed purpose of responsible authority, whether Federal or State, in the direction of effecting a measure of social security for the American people. In early anticipation of probable public interest in these questions, our company was among those pioneers who first investigated governmental programs abroad and such private programs as existed in this country. We have followed the movement in the field of social insurance over a long period of years in order to understand the results of the experiments of other countries in this field. Our operations in the pension field have served to focus attention on the desirability of suitable financial protection for the aged. In these and other ways we have sought to be helpful to those who have been interested in the broad field of social insurance.

Any long-range consideration of this subject brings to one's mind the old English maxim, "Make haste slowly." I have no doubt that these words, or their equivalent, were used in the proverbs of many ancient as well as modern peoples in order to emphasize, in apparently contradictory terms, one of the basic rules of successful accomplishment. How shall we apply this maxim to these present-day questions? May we not, with considerable propriety, consider the applicability of this old adage to the current movement for advances along the whole broad line of what has come to be called social betterment? Probably few people deny the suitability of some measure of protection for the whole population as to those inescapable hazards against which it is not feasible for the majority of the people to protect themselves by the exercise of their own initiative through established instrumentalities of their own choosing. It may not be inappropriate to remind ourselves, in this connection, of somewhat collateral steps in the common interest which have been taken as civilization has developed. For instance, one may cite police protection, public health administration, and laws in behalf of the weaker members of society. All these, in their last analysis, find their inspiration in motives similar to those which we are discussing.

If we are to give enlightened consideration to some of these current problems, let us examine the measured progress which was made respecting somewhat parallel questions during the past few decades. Examples are abundant. Naturally, I turn to our own business of life insurance to illustrate that real progress is made slowly. I doubt if any social conception has proved itself more worthy of widespread acceptance or has made a greater contribution to social progress than this of protection through life insurance. In the light of what can now be accomplished through this medium, one might suppose that the principle of family and other insurance protection would have received early and universal acceptance. However, sound as is the principle in the abstract, desirable as it would be if every bread-winner were adequately insured, progress toward the general use of life insurance has not been as rapid as one might now suppose. Perhaps one reason was that the economic complexion of the country was not suited to the propagation of the life insurance idea in the early days when, for instance, some 80% of the population was scattered in agricultural pursuits and when our transport and communication facilities were so under-developed.

For whatever reason, the public was at first slow to realize the sense of security which life insurance could give; slow to accustom itself to the denial of some passing comfort or enjoyment in order to be able to set aside the premiums required to assure for dependents some continuance of even the necessaries of life in case of the death of the bread-winner. Early forms of life insurance were simple and the technique of salesmanship developed slowly. Gradully, as the idea achieved wider understanding and popularity, efficiency in salesmanship increased and policy forms became more and more adaptable to wider needs.

One benefit after another was added, as experience demonstrated its soundness and adaptability to changing conditions. Policies became more desirable because they were more serviceable. Then, some 25 years ago, plans for wholesale distribution through the system of group life insurance, and later of group health and accident insurance and group annuities, made possible a yet wider contribution of the business to social progress. The public became more and more accustomed to the idea that life insurance had a definite place in every family budget.

The volume of life insurance in force in the United States has grown slowly and surely, not in "fits and starts." For many years the increase has averaged between 8% and 9% per year. The amount in force per capita, for the entire population was $100 in 1900, just under $400 in 1920, and is now about $800. The contribution of our business toward social progress, slow as it might seem, is all the more stable and all the less liable to sudden reverses, by virtue of the very fact that it was not hastily achieved. Splendid as has been the progress of life insurance, still greater usefulness must surely lie ahead. Each level of attainment widens the vision toward other levels beyond.

Take another example of the gradual gain in public favor of what now seems an incontrovertible proposal. I refer to child labor, against which great progress has been made in a campaign prolonged for fully a generation. Not only the ratio to the whole population, but even the actual number, of children up to 16 in all of the various industries, trades, &c., combined, has been declining according to every census since 1900. By 1930 the number was actually below 700,000, or fewer than there had been among the smaller population as far back as two generations ago. Excluding agriculture, the number of children in gainful occupations was 700,000 back in 1900, and by 1930 was down to a bare 200,000. In 1930 the ratio of children over 10 years of age employed in the manufacturing and mining group, to the total of all persons over 10 years of age who were gainfully employed in this group, was just one-tenth of the corresponding percentage in 1900. In 30 years the percentage had declined from 1% to one-tenth of 1%. The 1930 census shows 70% of all young people five to 20 years of age as attending school, in contrast with less than 60% in 1910 and barely half in 1900.

Great progress has been made in providing better working conditions. One need only contrast the light, airy, clean and sanitary factories and workshops which are the rule today with those we can recall as existing only a generation ago when little attention was paid to comfort and working conditions. These improved conditions were provided not only because it was right, but because it was profitable to do so. In most States today the backward employer is compelled by law to comply with at least a minimum standard of safety and sanitation, while a large number of employers materially excel the legal standards in various entirely voluntary ways.

Consider that part of the increased "social dividend" of our productive economy represented by increased leisure, as measured in the reduction of the standard full-time working week through comparatively recent years. This is a trend that has been going on quietly since long before there were any comprehensive statistics with which to measure its progress. The latest Federal Government surveys show reductions in the standard work-week since 15 to 20 years ago of from two to as many as 12 hours a week, in a group of important industries.

Consider also the increased "social dividend" in another and more striking form—the increased volume and wider dispersion of physical goods throughout the whole population. Elaborate statistical data are not required to demonstrate the great advances that have been made in the standards of comfort enjoyed by the majority of our people. There are said to be two passenger automobiles for every 11 persons in this country. Housing has greatly improved in comfort and the number of mechanical devices which lessen labor and provide greater opportunities for leisure have increased many-fold. Average "real wages" in this country, or the purchasing power in terms of goods and services commanded by money wages, had, before the depression, expanded a full third since 1900. The actual volume of mineral, agricultural and manufactured product per capita, available for consumption, has expanded correspondingly. Of course, the depression interrupted much of the up-trend in our social and economic well-being, but the item of compensation for services has nevertheless maintained, throughout the depression, that same two-thirds share in the total national income which is enjoyed in 1929.

Better standards of living are attributable to mechanical invention and improved technique in manufacture, but not to them alone. A greater percentage of our men and women are in industrial, commercial or other gainful occupations. For both reasons more goods and more services can be produced and afforded for consumption and enjoyment by the public.

There has been much expansion in the services rendered by the various units of government in this country. While holding to the theory that government should perform only those functions which cannot be otherwise satisfactorily fulfilled, we must agree that much of government's expansion of services can be justified and, in respect to many of such services, we would not take a backward step. Nevertheless, since government is not organized to engage in production, in the ordinary sense, each addition to a government payroll not only takes out of the production of goods and out of private service, every person employed by the government, but also places upon the remaining producers and workers the responsibility of supporting a greater number of non-producers. Expansion in government services has come gradually, and the mounting cost of government has had to be met by slow and painful adjustment in the citizen's personal budget.

Since 25 years ago public employees have nearly doubled, whereas gainful workers generally have increased by only about one-half. In 1910 the percentage of employees of our various governments to total gainful workers was 4.8%, while in 1936 it is 6.4%.

Even more startling is the growth of government expenditures. I am still referring to governments in the aggregate—Federal, State and local—not to any particular arm of government.

So much of our taxation today is indirect and invisible that we may not always appreciate the full weight of all our governmental expenditures—Federal, State and local. The following tabulation, partly estimated, is furnished to me:

Fiscal Years	Tax Collections	Government Expenditures	P. C. Tax Collections to "National Income"	P. C. Govt. Expenditures to "National Income"
1890	$875,000,000	$855,000,000	7.2	7.1
1903	1,382,000,000	1,570,000,000	6.1	7.0
1913	2,187,000,000	2,919,000,000	5.9	7.9
1919 (war)	7,465,000,000	23,000,000,000	10.6	33.0
1925	7,884,000,000	11,126,000,000	9.3	13.1
1930	10,266,000,000	13,428,000,000	14.1	18.4
1936	10,000,000,000	17,300,000,000	16.7	28.8

The huge increase of all such expenditures in the last quarter century, accompanied at times by declining revenues, has occasioned such prodigious increases in governmental debts as to emphasize the importance of making haste slowly in placing new obligations on the people. Because of the borrowing, the increase in the burden of this heavy government expenditure has not so far been fully appreciated. But the day of reckoning comes ultimately. There must necessarily be a limit to the percentage of the citizens' earnings which can be taken by government.

When we reach that maximum, what reserve capacity shall we have left for later emergency? Whence will come the ability to pay even the interest on the debt, if the cost of the running expenses of government shall already have reached the limit which its citizens can bear?

Nevertheless, we are faced today with many schemes to add permanent charges to governmental budgets—charges that in the natural course of events will inevitably grow rather than diminish. We must all sympathize with, and support, reasonable forms of public aid to needy old people. But before we impose an unbearable and permanent burden on the future national income, it behooves us to think soberly not only for the sake of those who must pay the tax, but for the sake of those very individuals who should be its beneficiaries. Is there not a danger that, by too lavish generosity now, we may add a future burden of taxation which may entirely destroy our ability to take reasonably good care even of those who may be in direst need?

Without reference to any particular scheme among many that are suggested, and without reference to their possible ultimate cost, but simply for the purpose of illustrating what may be the immediate burden, I present a few illustrations based on population estimates of 1934 of the cost for that year (excluding administration) of a monthly pension to all persons 65 years of age and over; and then to those 60 years of age and over, and then to those 55 years of age and over. No attempt is made to estimate and deduct any present old-age maintenance costs that might be eliminated by such schemes.

	$50 *Monthly*	$100 *Monthly*	$200 *Monthly*
Age 65 and all ages above	$4,422,000,000	$8,844,000,000	$17,688,000,000
Age 60 and all ages above	6,864,000,000	13,728,000,000	27,456,000,000
Age 55 and all ages above	10,074,000,000	20,148,000,000	40,296,000,000

These figures take no account of the general trend in our country toward a larger proportion of old persons. The declining birth rate and the improvement in mortality are operating very definitely to increase the proportion of persons at the older ages. For instance, our computations indicate that, by 1950, the proportion of persons 65 years of age and over will have increased from its present 6% to 9% of the population, or to about 12,000,000 people. Ultimately, we may expect to have from 20,000,000 to 25,000,000 of persons 65 years of age and over. Therefore, financial figures that I have just given—enormous as they may seem—are really understatements of the future annual load which such plans would necessarily impose. The promlem is to set up a scheme which would satisfy the present claims of prospective beneficiaries of a pension program and which would not at the same time break the backs of those who must carry the burden and end in bitter disappointment for the beneficiaries themselves.

It behooves us to remember that, when certain groups are singled out as special beneficiaries of the public treasury, not only do their own demands increase as time goes on, but there is a natural tendency toward the formation of new groups demanding to be included among those to whom public funds are to be distributed. The danger in any democratic system of government is that these various groups of special beneficiaries may organize, become politically powerful, and, without appreciation of the ultimate possibilities for their own group, to say nothing of the public, may compel the expansion of such obligations far beyond the power of the Nation to assume without destructive influence upon our whole economy. Even to provide a monthly mension to those age 65 and over, in amounts which have been suggested in some quarters, would require more money per year than all of our governmental bodies—Federal, State and local—are estimated to be spending for all purposes combined in 1936. In fact, this increased expenditure, added to our present burden, would be equivalent to more than half the total present national income of the American people. It is an inescapable fact that a reduction in pension age would greatly increase the yearly cost. As the above table shows, to reduce the pension age from 65 to 60 multiplies the first year's cost as of 1934 by more than one and a half times, while a reduction of the age from 65 to 55 multiplies the cost by nearly two and a half times.

I have not presumed to lay before you and abstruse principles, nor anything particularly new in either fact or principle. Instead, I have chosen to dwell upon a homely truth, well tested over generations and centuries of the world's progress. That old adage, and the historical illustrations which I have chosen from our own economic and social history, are well known. I have merely tried to marshal some of the examples familiar to all of us. I would not discourage the development of any suitable effort to aid those who may be unable to care for themselves, but rather I feel bound to emphasize the fact that, unless we proceed cautiously, we may, by a mistaken sense of generous helpfulness, diminish our capacity to take care of those who are the real objects of our solicitude. Nothing could be more harmful than to build up a false sense of security. Nothing could be more unfortunate than to tax the young of today so heavily to meet the burdens of today and tomorrow as to destroy the potential capacity to care for them when they, in turn, may be among the needy.

It is not safe to assume that a permanent solution of these problems that are besetting us today can be had merely by resort to the use of the taxing power of government. The answer lies, as has been said on all sides, in restoring opportunity to work to those who would work. To this end the national intelligence—not government alone, nor business alone, but the sober thought of the whole body politic—must be directed with sympathetic understanding on the part of everyone that the solution involves a mutual responsibility. I know of no group better able than your own, because of your close contact with the people throughout the nation, to encourage constructive thought and action along those lines among all of your customers.

The field of social adjustment is the most complicated in the whole realm of human effort. The construction of our most complex machinery, the running of the most complicated business, is mere child's play compared with problems involving the interplay of huge numbers of human beings, to the end that the greatest good shall accrue to the greatest number. Here we are confronted with such imponderables as motives, feelings and instancts. In the field of social improvement, complicated as it is with these psychological and emotional elements, we are virtually novices.

If we are wise we shall attempt large-scale solution of the maladjustments arising from the complexities of our society only after thorough study of the situation. Our beginnings must be small and considered. We must not plunge headlong into rash commitments. We cannot bring a millennium into full bloom by statutory enactment. There has never been, there never will be, a millennium. Neither we nor our children, nor our children's children, will see a millennium, never a situation when the whole population will say: "Enough; no more is desired!" And so, in conclusion, I say we must move cautiously lest we prejudice the whole future of social betterment and lest the failure of our efforts along these lines leave us abashed and discouraged. If we would make sure progress and build safely for our future society, we must be certain, at each step, that we are on sure ground and headed in the right direction. Let us make haste slowly.

The Banker's Part in Trust Service

By Gilbert T. Stephenson, Vice-President Equitable Trust Co., Wilmington, Del.

Under the American system of trust business as presently constituted the future of trust service lies as much in the hands of the banker as of the trust man himself. Under that system, too, the future of banking is interwoven with that of trust business. So, the American banker has a part both in trust business and in trust service which he cannot avoid and which, therefore, he should improve. What is his part? How can he make the most of it?

Let me distinguish at once between trust business and trust service. By trust business I mean what we are doing for pay in our trust departments—settling estates, administering trusts, and performing agencies. By trust service I mean what we are doing for our trust customers and beneficiaries—the services we are rendering them.

At the Memphis conference on banking service last March I spoke on the bank's responsibility for its trust department, with special reference to earnings. I am still in full accord with the opening statement of the recent report of the Committee on Trust Policies of the Trust Division of the American Bankers Association, that the most pressing business problem of bankers and trust men with respect to trust business—the one that calls for prompt and constructive action—is that of placing trust business on a paying basis and keeping it there. At the same time, I am not unmindful of the fact, to which President Callaway alluded in presenting this report to the public, that in directing attention, as we shall be doing persistently for some time to come, to the need for putting and keeping trust business on a paying basis, we must beware of over-emphasizing profits at the possible expense of service.

Trust Earnings and Trust Service—Today, without drawing attention from the still unsolved business problem of trust earnings, I wish to direct attention to the banker's part in trust service. By so doing I hope to help somewhat in maintaining a proper balance of emphasis between trust business and trust service. However, before leaving the subject of earnings, let me say that profitableness of trust business is an essential element of trust service, that a trust institution cannot continue to render good service unless it makes a reasonable profit on its trust business.

The Banker's Relation to Trust Service

Coming now to the subject of trust service, let me inquire, first, wherein does the banker as such have any part in trust service? Is it not true that banking and trust business are different businesses and that bankers and trust men are members of different callings? Yes, that is true; but it is true also that for nearly 100 years, in organization, in law, and in the public mind, banking and trust business have been associated enterprises. For the same length of time bankers and trust men have been associated with each other in carrying on these enterprises.

In Organization—Today there is scarcely a trust institution in the United States that is not associated in some way with banking. A majority of our 3,000 trust institutions are departments of banks. Most of our trust companies have banking departments. Nearly all of the trust companies that are engaged in trust business exclusively are associated in some way with a bank. In some cases the trust company is wholly owned by a bank. In other cases, the bank is wholly owned by a trust company. In still other cases, the banks of a community have cooperated in establishing a trust company. If we eliminate all the trust institutions that are associated with banking in any way, we have very few left.

In Law—The law also recognizes the association between banking and trust business. In most States the laws relating to banks and trust companies are codified together. In at least one State (Arizona) a trust company is defined as a bank exercising trust powers. Under the Revenue Act of 1936 (Section 104), a corporation exercising trust powers under governmental supervision is included in the definition of a bank.

In the Public Mind—In the public mind, even more than in the law, banking and trust business and bankers and trust men are associated. People speak of "the bank" as executor, trustee or guardian even though the institution to which they refer is a trust company. Almost universally trust men are referred to as bankers. Whether in praise or in blame, the trust man shares the reputation of the banker.

The Banker's Distinctive Part—Whatever part the banker has in trust service arises from these two facts:

(1) that he is connected with a corporation, one department of which is engaged in trust business; and

(2) that in most cases he, rather than the trust man, is the executive head of the corporation.

Of the 64 officers and members of committees of the Trust Division of the American Bankers Association, only five are presidents of the banks or trust companies with which they are connected. I mention this only for the purpose of directing attention to the facts that the determination of the policies, as distinguished from the practices, of trust institutions still is largely in the hands of the banker and that, for the most part, the trust man is an administrative officer charged with the execution of policies in the adoption of which the banker had an influential, if not a dominant, part. It stands to reasn that no person can have such an influential part in the formulation of the policies of a business without having a correspondingly influential part in the services rendered in connection with that business.

What, then, is the banker's distinctive part in trust service? What can the banker do that the trust man cannot do? For what part of trust service does the trust man require the help of the banker? I shall name and discuss five distinctive parts in trust service in which the banker must play a major role. They are:

(1) taking the mystery out of trust service;
(2) making trust service more generally accessible to the people;
(3) making trust service more generally available to the people;
(4) providing special training for trust service; and
(5) maintaining the standards of trust service.

Taking the Mystery Out of Trust Service

During the past three years a great deal has been done to take the mystery out of banking. The handbook, "Constructive Customer Relations," and the constructive customer relations clinics already have gone a long way towards simplifying and clarifying banking in the public mind. Up to the present time constructive customer relations with respect to trust business have not had a corresponding amount of emphasis, and the mystery of trust service remains. However, there is soon to be issued a supplementary book in the field of customer relations designed to do for trust business what the original book did for banking.

Simplifying Trust Terminology—First of all, there is a formidable trust terminology to be simplified. Those of us who are in the midst of the work have no idea how awesome to the public are such everyday terms as executor, administrator, trustee, revocable, irrevocable, funded, unfunded, not to mention such foreign terms as cestui que trust, corpus, and administrator cum testamento annexo de bonis non. I am fully aware that every business or profession must have its technical terminology. But trust men and bankers should be careful, when they are talking with or writing to people, not to use technical terms any more than is absolutely necessary. When it is necessary to use a technical term, they should be careful to explain its meaning without waiting to be questioned about it. Is it not just as easy to say beneficiary as it is to say cestui que trust; trust under will, as testamentary trust; principal, as corpus; administrator under a will as to the unsettled part of the estate, as administrator cum testamento annexo de bonis non? Greater care on our part in reducing the use of technical words and phrases and greater thoughtfulness in explaining simply the technical terms that we cannot avoid using will do a great deal towards removing the mystery from trust service.

"The American System of Trust Business"—For a long time we have needed a small, untechnical book on trust business for the use of the banker who meets the public. Now at last an attempt has been made to supply this need. The Trust Division has publiched a little book, "The American System of Trust Business," which attempts to state in simple language the facts that the banker should possess before he undertakes to discuss trust services with the man on the street.

Official Pamphlets—However, at best this little book is but one arrow in the quiver of those who would remove the mystery from trust service. It is hardly to be expected that it ever will have a wide circulation among the general public. Something else is needed for the man on the street. That is a handy, simple, untechnical, easily understandable, and more or less standardized statement descriptive of trust services rendered by trust institutions generally.

For the suggestion I have to make now I have a good precedent. My suggestion is that American trust institutions begin to get ready to issue official pamphlets. My precedent is the practice of the English trust corporations. (I see that we have here one representative of the English banking fraternity and I hope that he is in the audience this morning.) Lest anyone question the propriety of looking to English trust corporations for a precedent, let me say that in 30 years they have made more progress in developing personal trust business, especially executorships, than the American trust institutions have made in 100 years. I have the latest official pamphlets of six leading English trust corporations. In content they are more or less standardized. Each of them contains:

(1) the facts about the company that the public has a right to know;
(2) a simple description of the trust services offered by the company;
(3) the schedules of fees for those services, and
(4) the authorized paragraphs for naming the company in different fiduciary capacities.

Retaining the same general format so as to be recognizable at all times as the official pamphlet of a particular company, the trust corporation keeps it up to date by issuing new editions from time to time. Whenever a new service is offered or a new shcedule of fees is adopted, a new edition of the pamphlet is issued.

Although the services of most American trust institutions are sufficiently standardized already to permit the issue of official pamphlets, I doubt if the fees of many trust institutions are sufficiently standardized for that purpose. However, I am fully convinced that, as soon as trust institutions are ready for it and the sooner the better, they should issue official pamphlets. They will go a long way not only towards taking the mystery out of trust service, but also toward standardizing adequate fees for trust service.

The Banker's Part—The bankers' part in taking the mystery out of trust service is attributable to the fact that so frequently he is the point of contact with the public, that he is the first person connected with a bank or trust company with whom the man on the street discusses trust service, and that from him the man on the street gets his first impression of the mysteriousness or the naturalness of trust service. However, the banker cannot make trust service sound simple or natural to the man on the street unless it is simple and natural to the banker himself.

Making Trust Service More Generally Accessivle to the People

We who live and work in the larger cities take for granted that trust service already is accessible to the American people generally; whereas, the surprising fact is that even now there are large, numerous, and in some places populous areas in which people who need trust service are not within reach of any trust instituion.

The Survey of the Trust Field—Two years ago the Trust Division named a special committee to make a survey of the trust field. The survey shows that over two-thirds of the American trust institutions are located in 15 northeastern and three Pacific Coast States; that these 18 States have only one-half the population of the country; that more than one-half and, outside these 18 States, fully three-fourths the area of the country is outside a radius of 25 miles of any trust institution; and that there are 105 cities with a population of 15,000 each or over in which there is not a trust institution. So, a great deal still remains to be done to bring trust service within reach of all the American people.

The Plans Suggested—Already two plans for making trust service more generally accessible to the people have been adopted and put into successful operation and a third plan has been suggested recently and received with favor in trust circles. Under one plan a trust company has established a number of fully manned and equipped trust departments with a centrally located head office and has located these trust departments so strategically as to make trust service accessible to most of the 3,000,000 people of the State. Under another plan a bank has established numerous local trust offices and several district trust offices, with a head office, and in this way has made trust service accessible to most the 6,000,000 people of another State.

A third plan has been suggested by A. Key Foster, of Birmingham, Ala., whereby well established trust institutions, with unquestioned resources and standing, would make a working arrangement with local banks in smaller communities located within the same State, under which the trust institution would serve as executor or trustee and the local bank would serve as agent for the executor or trustee in managing local property and in rendering personal services. Still other plans for cooperation between trust institutions and local banks, some of them involving co-fiduciary relationships, have been suggested, and some of them have been tried out in a small way.

By employing one or another of these plans, it may be practically workable and economically justifiable, as certainly it is socially desirable, to make trust service as accessible for all practical purposes to people living on the farms and in the villages as it is accessible already to those of us living in the larger cities.

The Banker's Part—Since a general and far-reaching policy is involved, the adoption and execution of any of these plans depend fully as much upon the banker as upon the trust man. No bank or trust company is justified in establishing a trust department or a trust office or in making a working arrangement with a local bank merely for the sake of offering trust service. In offering trust service under any plan a bank or trust company must be governed by sound business principles and policies, passing upon which is more the function of the banker as head of the whole institution than of the trust man as head of the trust department.

Making Trust Service More Generally Available to the People

The accessibility of trust service, as I have used the term, refers to the goegraphical location of trust institutions; the availability of trust service, which I shall discuss next, refers to its adaptability to the requirements of people of all walks of life. I have in mind especially the availability of trust service for people of small estates.

Problems of the Small Account—Large or small applied to an estate is a variable term. Anywhere in the United States an estate of less than $10,000 would be regarded as a small estate; and in the centers of population an estate of less than $25,000 would be so regarded. Whichever amount is accepted, the small estate offers three problems. The first one arises out of the preponderance of small accounts compared with large ones; the second, out of investing the funds of small accounts; and the third, out of the cost of administering small accounts.

Preponderance of Small Accounts—The preponderence of small accounts in the trust departments of American banks and trust companies is surprising. Averages are so misleading. The average size of the personal trust accounts in the trust departments of National banks is $71,322, which is a sizable account anywhere. I have no reason to believe that the average size of the personal trust accounts in the trust departments of State-chartered banks and trust companies would be much less. A very few large accounts bring up the average to these impressive figures. But when the totals are broken down and the accounts are classified by size, it is found that by far the most of these accounts are very small. Recently I have made a study of several groups of accounts with the following results:

No. of Accts.	Kind of Accounts	Total of Accounts	Avge. of Accts.	P. C. Under $1,000	P. C. Under $5,000	P. C. Under $10,000	P. C. Under $25,000
105	Miscellaneous	$5,516,959	$52,545	16	35	46	63
339	Living trusts	20,000,000	59,000	12	29	40	60
100	Executorships	11,500,000	115,000	11	32	43	64
56	Guardianships	400,000	7,160	45	86	86	93
600		$37,416,959					

In each of these four groups of accounts a few large accounts bring up the average. In the 105 miscellaneous accounts it is one account of over $1,000,000; in the 339 living trust accounts, it is six accounts totaling nearly $7,500,000; in the 100 executorships, it is three estates totaling $5,000,000; and in the 56 guardianships, it is one account of $236,000.

These 600 trust accounts may be accepted as a fair cross section as to size of the accounts in the trust departments of all our trust institutions. Unless we are prepared and willing to accept accounts of $25,000 and less, we must deprive of trust service by banks or trust companies fully two-thirds of the American people who have estates to be settled and trusteeships and guardianships to be administered.

Investing Funds of Small Accounts—Diversification is now a generally accepted principle of trust investment. But satisfactory diversification simply cannot be had in small trust accounts invested independently. A group of 29 trust investment men have given their opinions of the minimum amount with which satisfactory diversification may be accomplished and their figures range all the way from $10,000 to $100,000 and average about $37,000. None of them thinks that he can obtain diversification with a trust fund of $10,000 or less. So, if the funds of small accounts are to be invested properly, some satisfactory method of diversification must be found other than through independent investment.

Cost of Administering Small Accounts—The third problem of making trust service more generally available is the cost of administering small accounts. Normally the costs of setting up the account, keeping the books, making the required accountings, investing the funds, and servicing the trust property are proportionately much greater for small accounts than for large ones. So far trust departments have found themselves faced with the unhappy alternative of either accepting and administering small accounts at a loss or else making the charge prohibitive and thereby depriving of trust service many of those who need it most.

Solution of These Problems Through Common Trust Funds—The problems of the small trust accounts have had the special attention of trust men the past six years. During 1929 and 1930 several trust institutions began the collective investment of the funds of small accounts. By this I mean the massing of the funds of numerous accounts and investing the common fund as a unit with each account having a participation proportionate to the amount of its investment. Through the common trust fund, which is the proper name for it now, diversification of investments and reduction of cost of administration are achieved. By comparison, the common trust funds made a very creditable showing throughout the depression.

These common trust funds, however, soon encountered certain tax and accounting problems that seriously threatened their continuance. The Trust Division, awakened to the necessity of solving the problems of the small account, named a special committee on common trust funds. This committee made a study of such funds here and abroad—including funds in long and successful operation in New Zealand, Australia, Canada, Denmark, Norway, and Japan—and came to the definite conclusion that the common trust fund is basically sound and that it is the best, if not the only feasible, way of investing the funds of small accounts. Whereupon the Trust Division, with the approval of the Executive Council and with the spirited support and co-operation of the Association's Committees on Taxation and Federal Legislation, urged the adoption of a section of the Federal Revenue Act of 1936 designed to solve these tax and accounting problems. The Congress, sensing the social as well as the economic issue involved, added a section (Section 169) to the Revenue Act which meets the desires of the Trust Division and of the Association in every particular. In the broad field of trust service the common trust fund opens the door of opportunity to the person of small means by making trust service as available to him as it is to the person of large means. At this stage of development of the common trust fund its ultimate social significance is still beyong the grasp of our comprehension.

The Banker's Part—In the final analysis the solution of the problems of administering small accounts and thereby making trust service more generally available to the people rests largely upon the banker. A bank or trust company should exercise the same care and discrimination in accepting a small account as it should exercise in accepting a large account—never accepting any account merely because it is large or small, but accepting it, whether large or small, only if trust service is needed and if good trust service can be rendered by that institution. Nor should a bank or trust company establish a common trust fund unless it actually needs one. It should not establish one unless it is manned and equipped properly to administer the fund. It should not establish one unless it is prepared and resolved to give the fund vigilant and intelligent supervision, not once in a while, but all the time.

The point I wish to make and to emphasize is that, while the common trust fund is an invaluable aid in the administration of small accounts, it is not an automatic device. Certainly during the formative period of the collective investment of trust funds, the establishment and maintenance of common trust funds deserve, in fact they require, the best thought and attention of the banker as well as of the trust man.

Providing Special Training for Trust Service

Up to the present time the apprenticeship method of training for trust service prevails. Trust officers still come mainly from three sources—the law office, the banking department, and the trust department itself. Some are taken over from the active practice of the law; some are transferred from the banking department; and some grow up in the trust department. All of them learn the science as well as the art of trust service in the school of experience. Every profession goes through the stage of training through apprenticeship on to the stage of organized, systematic, special training. It has not been so long since young lawyers read law in the office of the older lawyer and the young doctor drove the horse-and-buggy for the old doctor. Let no one discount the value of this method if training, but just the same it is not an adequate method of training under present conditions. Today preparation for trust service is in the transition period between apprenticeship and formal schooling.

Pioneer Work of the American Institute of Banking—Special training for trust service began Oct. 22, 1901, when the first lecture on trust business was delivered by Orrin R. Judd to the Manhattan (New York) Chapter of the American Institute of Banking. During the past nine years more than 10,000 students, regularly employed in banks and trust companies, have taken systematic courses in trust business offered by the American Institute of Banking. During the school year 1935-36, 39 Chapters offered courses in trust business in which 1,553 students were enrolled. These American Institute of Banking courses, however, are designed primarily for the needs of the younger men and women in banks and trust companies.

Work of the Graduate School of Banking—The special training of officers of trust departments began only last year, with the opening of the Graduate School of Banking at Rutgers University as an activity of the American Bankers Association. The opening of this school was a step of real moment in the history of both banking and adult education. When the history of American banking is written, one of the chapters should record Rutgers University as the place where and June, 1935, as the time when American banking emerged from the realm of the arts into the realm of the sciences. At Rutgers in 1935 there was done for banking what was done at the University of Pennsylvania in 1765 for medicine when the first college of medicine was established and what was done at Harvard in 1817 for law when the first college of law was established. A few colleges and universities have offered courses in banking and trust business, but last year at Rutgers we witnessed the opening of the first college of banking, including trust business.

At the present time 400 bankers and trust men are taking the three years' course in the Graduate School of Banking. Next year there will be 200 more. Beginning in 1937, about 200 men will be graduated annually and returned to the banks and trust companies of this country, about one-third of whom will have had special training for trust service. These men will take back into their institutions and into their communities a reserve of knowledge—one kind of of reserve of which there can be no excess—an inquiring mind, and a professional attitude towards banking and trust service. In time they will be a leavening influence throughout the entire banking and trust fields.

The Banker's Part—What is the banker's part in providing this special training for trust service? It is a very practical part. He may select one or two of his most promising trust officers to take the courses in trust business. He may make it financially possible for them to attend the Graduate School of Banking. He may give them time to attend other than during their vacation period. You may take my word for it that the time they are attending the school is not a vacation; it is hard work night and day. He may help and encourage them in doing their extension work and in preparing their thesis. He may make them feel that he regards their special training for trust service an integral part of their work for the institution.

Maintaining the Standards of Trust Service

During the past three years trust men have been paying special attention to the standards of trust service.

Business Standards—First, they formulated and adopted a statement of principles of trust institutions. This statement sets forth the business standards of trust service and applies to banks and trust companies as corporations. And may I pause just a moment to pay a tribute of admiration and of deep affectoin to the memory of one of the great sons of San Francisco, Maury Sims, in the union of whose big heart and clear head was conceived the Statement of Principles of Trust Institutions. Let honor go where honor is due. He is entitled to go down in banking and trust history as the father of the Statement of Principles of Trust Institutions.

Personal Standards—Now trust men are giving attention to the personal standards of trust service. These standards apply to trust men as individuals. A trust man has certain personal, ethical obligations which are in addition to and different from the guiding principles of the trust institutions in which he is employed. Already a special committee of the Trust Division is at work on a statement of the ethical obligations of trust men. It is time, I think, that such a statement should be adopted and published for the guidance of trust men. We trust men need a set of recognized and accepted standards by which to measure our ideals and our practices. Furthermore, the best results will be obtained from self-imposed and self-enforced standards of service.

So, let us trust men take the initiative in the formulation of our own statement of personal standards, as we did in the formulation of our statemet of business standards.

The Banker's Part—The binding force of any set of standards, whether written or unwritten, will depend as much upon the attitude of the banker as upon that of the trust men. The banker has it largely within his own power to give life to or make a dead letter of any set of standards affecting trust men that ever can be formulated. He can give life to any statement of obligations of the trust men by understanding himself that there are certain business and personal standards peculiar to trust service and, therefore, different from those of banking, and by giving the trust man his moral support in living up to those distinctive standards. He can make a dead letter of any such statement failing to understand it himself and by expecting or requiring of the trust man the doing of things that are contrary to the spirit, if not to the letter, of the statement.

In still another way the banker may influence for the better the standards, both business and personal, of trust service. That is by conducting his banking department at all times and in all its relationships in a way that is wholly creditable to a trust institution. Where standards of service are concerned, the public does not distinguish and it should not have to distinguish between the banking department and the trust department or a bank or trust company. The atmosphere of trust service, redolent of the business qualities of soundness of judgment, foresight, and conservatism as well as the personal qualities of patience, tact, sympathy, and human understanding, should permeate the entire institution. In the words of President Fleming:

> It is absolutely essential to the sound future growth of the trust business that banks be so conducted that, when a dual relationship exists, there shall not be the slightest question as to which obligation takes precedence. We must always realize the high trust placed in us when we agree to act in a fiduciary capacity, and our interest in the commercial departments of our banks should never be allowed to conflict with the high duty of our trusteeship.

Mr. President, that statement from you is two sentences, in a personal letter that you wrote to me the other day and to my mind that statement is classic of the relationship that ought to exist between our banking departments and our trust departments with respect to trust service.

Because the banker has such power to influence the standards of trust service, I hope that, if a statement of ethical obligations of trust men is adopted by the American Bankers Association, it will be presented to, considered, and adopted or rejected by the boards of directors of banks and trust companies before trust men as individuals are asked to subscribe to it.

It will be remembered that the Statement of Principles of Trust Institutions was adopted by the Executive Council and thereupon became and still is morally binding upon every trust institution that is a member of the American Bankers Association. I am confident now that the Association will adopt and the individual bankers will support any well-thought-out statement of ethical obligations of trust men as loyally as they have supported the statement of principles. Once adopted, that statement will be morally binding upon every trust man whose institution is a member of the American Bankers Association.

The Partnership Between the Banker and the Trust Man

By this time I hope that I have made it clear that I regard the banker and the trust man as partners who are essential to each other under the American system of trust business. As partners, each maintains his individuality while they are engaged in associated enterprises.

In Trust Business—At Memphis I tried to make it clear that they are partners in trust business—partners in duties, partners in responsibilities, partners in liabilities, partners in profits, and partners in losses.

Trust Service—Today I have tried to make it equally clear that they are partners in trust service—partners in taking the mystery out of trust service, partners in making trust service accessible and available more generally to the American people, partners in providing special training for trust service, and partners in maintaining the standards of trust service.

May this partnership continue, not for the sake of trust business alone but for the sake of trust service as well, to the end that every American citizen who really needs trust service may have it at its best.

On the growing democracies of trust service I am basing my hope for the future of trust business. Won't you bankers come along with us trust men in giving the American people the quality of trust service that they are entitled to get? It will be good business for us and, believe men, it will be great service for them.

A Proposal for Taxation Reform—Other Topics Discussed

By the President of the A. B. A., Robert V. Fleming, President Riggs National Bank, Washington, D. C.

As we open the sixty-second annual convention of the American Bankers Association, I am sure I speak for all those present in expressing to the bankers of San Francisco deep appreciation for their cordial invitation to hold this important meeting in their beautiful city. No city in America enjoys a greater reputation for friendliness and hospitality than San Francisco which, for years, has been one of the leading shipping and industrial centers of the world. Forty-four years ago—in September, 1892—our Association held its eighteennth annual convention in San Francisco, which was the first time we held our meeting in this most hospitable city. We met here again in 1903, and still again in 1929.

The members of the General Convention Committee have spared no effort in providing for our comfort and entertainment, and they, together with the bankers in various other parts of California and the West, where we have been entertained en route here, have seen to it that our trip to San Francisco will be an enduring and happy memory.

On behalf of the membership of the American Bankers Association, and especially the delegates assembled here, I desire to express to Mr. McIntosh, Chairman, and Mr. Brigham, Vice-Chairman, and the members of their committees, deep appreciation for the splendid efforts which have been put forth to make this convention an outstanding success and our stay here an interesting and enjoyable experience.

By custom and tradition, it is my duty to give you an accounting of my stewardship and a general summary of the activities of your Association since you paid me the honor of placing in my hands the responsibility of directing its affairs. In carrying out this trust I have endeavored to perform faithfully the duties of this high office strictly in accordance with our constitution and by-laws, and, with the advice and counsel of my associate officers, the Administrative Committee and the Executive Council, to fulfill the mandates set down in resolutions adopted by the Association as well as the various positions on economic and banking subjects taken by the legally constituted committees and commissions of our Association.

I also have endeavored to cooperate fully with the Presidents of the four divisions of the Association by lending them every support and assistance. On the other hand, these able gentlemen, who have discharged so faithfully and efficiently the duties of their offices, have given me fine, helpful support on all occasions, and, therefore, I desire to take this opportunity to express my deep appreciation to them.

I have had a strong conviction for some time that if our Association was to be effective to the maximum degree in serving its members and the public interest, it was necessary that the leadership of the Association undertake to unite the entire membership, including the four divisions, into one team, all working towards a common goal—the improvement of our banking system and the betterment of the service rendered by our banks to the people of the country, and the promotion of a better understanding on the part of the public of the true functions of banking and a realization of the vital part it plays in the economic life of every individual.

On several occasions during recent years, when really critical situations of common interest confronted banks in the field of legislation affecting banking, the American Bankers Association was able to bring about a large measure of coordination among various influential banking groups and organizations. This enabled them to present a more united front on such major questions, in place of the cross purposes among bankers that legislators had complained about in the past. This proved of great value in arriving at a workable solution of the problems involved, both in the interest of banks and of the public. It demonstrated the essential need, for the Nation as well as for banking, of the maintenance of a unified leadership for our profession as a whole, without precluding action along lines of special or group interests wherever called for under particular circumstances.

Of course, this unity is dependent to a large degree upon a strong and well-informed membership, and I cannot praise too highly the work of our Membership Committee during the past year under the chairmanship of E. N. Van Horne. With the cooperation of Mr. Van Horne and the members of his committee, during this administrative year we secured a net increase of 423 members. While new members admitted to membership exceeded the total net increase, after giving effect to those members who resigned because of consolidations and liquidations and those dropped for delinquent dues, at the close of the fiscal year, Aug. 31, 1936, we had 12,488 members, whose resources represented roundly 91% of those of the banks in the continental United States.

In a great Association such as ours it is necessary that there be a careful supervision and control of finances, and that the budget be adhered to as strictly as possible. During the year we have carefully adhered to the budget set up by our Finance Committee and approved by the Administrative Committee and Executive Council. In these changing times, when matters of moment respecting legislation have come up requiring committee action, and educational work has been undertaken, the costs of which cannot be estimated in advance, we have not hesitated to effectively, yet prudently, make use of the reserve funds of the Association.

In the interest of sound banking, we have paid particular regard to the question of over-chartering of banks by the creation of new banks or the establishment of competitive branches in communities where there is no economic necessity for their existence. To that end, we published a most comprehensive report prepared by our Economic Policy Commission, on the subject of over-chartering of banks, which was sent to our entire membership, the heads of government, leading educational institutions and others interested in the maintenance of a sound banking structure in this country. The circulation of this exhaustive study by this important Commission is bound to be a strong influence in preventing a recurrence of the over-chartering evils which contributed so much to the difficulties which the business of banking has suffered during the recent depression.

Other studies are in progress by this commission, such as a survey of the shrinkage in the field of pure commercial credit through the economic changes in the Nation's business methods and of the increase in noncommercial loans and investments made by commercial banks, especially in Federal Government issues.

We have been keenly alive to the resolutions adopted at the last convention of our Association regarding the competition with our chartered banking institutions represented in the operation of the Postal Savings System and the government's lending agencies. A study of these two subjects was entrusted to the Committee on Banking Studies, whose membership consists of two or more representatives from each Federal Reserve District who, at the same time, are representative of every size, type and classification of bank in our membership. This work has been most ably and energetically carried on under the leadership of First Vice-President Smith, who at my request continued in the chairmanship of this important committee.

With regard to the competition of the Postal Savings System, it was our belief that the proper approach to this subject was to first secure a background of accurate information in order that we might build a sound case. To that end a questionnaire was sent to 9,533 banks which could accept savings deposits and were located in towns having Postal Savings facilities. It is gratifying to report that 9,067 replies were received, representing a response of 95.1%.

The information secured through this medium clearly established the sentiment of the banks in territories where Postal Savings depositaries were located and fortifies us with the proper basis of facts necessary in presenting our case of the administrative heads of government and to Congress for an elimination of the competitive rate paid by the System which is being felt so acutely by many banks in our membership. The report of the Committee on Banking Studies will be printed shortly and made available to the members of the Association, and with the background of facts which we now have I believe we will be able to secure remedial legislation which will constitute a long step forward in overcoming this phase of competition with our chartered banks, and yet at the same time will not be prejudicial to the best public interest.

The Committee on Banking Studies has done equally important and effective work in connection with its survey of the competition offered our chartered banks by the government's lending agencies. In fairness, we must all realize that in national emergencies such as that created by the widespread fears aroused in the hearts of our people several years ago, it was necessary for the government to create some of these agencies, but as confidence has returned and ample funds now are available through our chartered institutions to meet the financial needs of the people, these functions should be resumed by the banks wherever it is consistent with sound banking policy.

Therefore, this survey has been undertaken by the Committee on Banking Studies in order that accurate, up-to-date information on methods of operation of these government agencies may be furnished the members of our Association, to the end that wherever sound banking policy will permit, these activities may be taken over by the chartered banks of the Nation. We have had splendid cooperation from the heads of government in this work, and bulletins have been released by the committee setting forth reliable and authoritative data. This will be followed by more detailed reports to the Secretaries of State Associations for the purpose of acquainting the members of the State Associations, as well as our own members, with the facilities and operations of these agencies of the government.

In order that our members may be furnished currently accurate information on this subject, as a basis for determining wherein they can undertake soundly the functions performed by these agencies, it is necessary that this survey be continued and the data kept abreast of the changes which are made from time to time in the methods of operation and the policies pursued by these agencies. In this connection we have had definite assurances from the heads of government that they are anxious to discontinue these agencies as soon as adequate service can be rendered by our chartered institutions to enable them to withdraw from this field.

During the year the Bank Management Commission has completed two fine pieces of research and made them available to our members. One has to do with practices of banks in analyzing their accounts and in fixing fair and legitimate service charges. A uniform plan of account analysis has been suggested by the commission. It has surveyed also the field of personal income loan plans and formulated methods for instaling such departments.

Our Agricultural Commission has gone thoroughly into the subject of farm inventories and credit statements and published a study on factors affecting farm credit. It has made also an outstanding study on soil erosion and issued a booklet on "Protecting Investment Values in Land."

Time will not permit me to give you a resume of the activities of the four divisions of the Association in this report, but they have made constructive contributions to the betterment of banking. The reports of the Presidents of the respective divisions will be printed in the book of convention reports, and I am sure all of our members will find them profitable reading and worthy of earnest consideration.

One of the most constructive pieces of work ever undertaken by the American Bankers Association was the establishment of the Graduate School of Banking. Last June at Rutgers University the second term of the Graduate School was completed with an enrollment doubling that of the first year. I know of no undertaking which will be more productive of high ethical standards of bank management and a thorough understanding of the fundamental principles of banking and economics than that being carried on in the Graduate School of Banking under the able direction of Dr. Harold Stonier, Educational Director of the American Institute of Banking. The highest praise should go to those conducting this school and to the members of the faculty who have given so generously of their time and ability towards the success of this pioneering effort in the field of education.

During the year a number of research projects have been undertaken by various State and other associations of bankers which we heartily endorse. Committees have been appointed to gather and disseminate data under the supervision of bankers familiar with banking conditions in the respective areas who are in a position to make recommendations, based upon their intimate knowledge of these conditions, for corrective legislative measures. I am advised that at the present time the associations of some 38 States, containing 84% of the banking resources of the country, have formally voted to undertake research projects of this character. This is a work which cannot be completed within a short space of time, but requires continuous study to bring to light evidences of conditions which need correction from time to time for the purpose of avoiding recourrences of unhappy situations such as have developed in the past. I commend this activity to the consideration of all those who as yet have not taken steps of a similar character.

When I was inducted into office at New Orleans last November I gave a pledge that I would use my best efforts to take the mystery out of banking wherever it existed in the public mind, and to this end I laid before the Administrative Committee a comprehensive program of regional conferences on banking service which would take the services of our Association to the membership and provide a means whereby the bankers of the Nation would have the opportunity to study their problems, the laws and regulations under which they operate and, in common counsel, devise the best methods of operation, at the same time fostering a better understanding on the part of the public of the true functions of banks. This program was approved by the Administrative Committee, and three conferences were held in Philadelphia, Memphis and Chicago, respectively.

These conferences were attended by over 4,000 bankers from 40 States in the Union, and it is interesting to observe that in the main those who attended were the operating executives of their institutions. No entertainment was provided, as these were strictly business sessions, divided into general meetings covering broad subjects, and supplemented by clinics or forums on the more detailed phases of subjects of vital and specific importance and interest. Debates from the floor were encouraged and general discussions stimulated, and the sessions were open to the representatives of the press, as we were desirous that the public should receive through the press an accurate portrayal of the serious efforts being put forth by the bankers present to better their service and improve their relations with the public. From communications I have received from bankers and business men and the heads of great national newspapers, as well as from press reports and editorials, I am satisfied that these conferences considerably increased public understanding of banking in this country. I am firmly of the belief that the American people are always fair when they understand.

The gentlemen of the press who attended these meetings and reported them were accurate in their portrayal of our deliberations and, upon our invitation, consulted with the officers and members of the staff of the Association conducting the sessions in any instances where discussions of a technical character were not at first clear to them.

Through these conferences I believe the members of our profession have acquired a better knowledge and understanding of the new banking laws and regulations under which we now operate and, by the interchange of ideas and views made possible, they have unquestionably brought the operating officers of our banks closer together in the solution of their common problems.

One of the most important results, I believe, has been the stimulation of interest in the subject of customer and public relations as an important factor in the restoration of confidence in the soundness of our banking structure. At each conference, clinics on Constructive Customer Relations were held, the attendance at which in each instance was most gratifying. Much has been said with respect to a national program of advertising to make banking understood and to fully inform the public of its functions and services, but knowing that each community has its own peculiar conditions I have felt that a national program as generally referred to could not accomplish as much as the bankers themselves could in their daily contacts with the public, not only through their operating officers, but through each and every employee of every bank and by such advertising programs as are appropriate to conditions in their communities. It should be recognized that in his or her social sphere, every employee is the banker of that group. These conferences and the program of Constructive Customer Relations sponsored by our Association have made fine progress in stimulating an awareness on the part of banking executives of the importance of this factor in bank operation, and I am hopeful that in due time each and every institution in the country will undertake this program.

At each conference I urged that similar meetings be held by the State Associations and county groups, and during the year I have observed the influence of the regional conferences in the programs of the annual conventions of the State Associations and other groups. I have also noted that some of the State Associations have organized standing committees on Public and Customer Relations to function as advisory counsel to their membership on these subjects. If this movement is continued and intensified, an understanding of banking and its functions will spread fan-like until each and every individual in the country will acquire a knowledge of the true functions of banking and an understanding of the vital part banking plays in his economic life. Again, I say when our citizens completely understand, I have no fear for the future of American banking, for the people of America are fundamentally fair when they understand.

A meeting was also held at each of these conferences of the Presidents, Secretaries and other officers of the State Associations represented in the territory covered by the respective conference and the officers and staff of the American Bankers Association, in order that the American Bankers Association might secure a better grasp of the problems of the State Associations and, in turn, that the State Associations might gain a knowledge of the aims and objectives of our Association. I am satisfied that these meetings resulted in better understanding between the officials of both organizations.

Another benefit which I believe has accrued from these conferences is that they afforded the bankers of the country an opportunity to concentrate upon a Nation-wide program of a character which will contribute much to the development of the best banking service, and in order that the benefits of these conferences might be made available to those who were unable to attend, the addresses, debates and discussions which took place were compiled and published by "Banking," under the title "Present-Day Banking." Unquestionably, this book constitutes a valuable addition to banking literature in portraying present-day banking thought in this country.

In one short administrative year it is not possible to cover all the ground which should be covered, and, to a great extent, our efforts this year were of a pioneering character. I am therefore most hopeful that this program of regional conferences will be continued in future administrations of the Association, and I am quite sure that, with the experience gained this year, such conferences as may be held in the future will be of ever-increasing value and productive of even greater benefits.

I would like to record my appreciation to the 108 speakers who addressed the conferences and led the debates, and to those who conducted the clinics, all of whom made valuable contributions toward the success of this undertaking. I received the finest possible cooperation and support from the staff of the Association in the planning, execution and conduct of these conferences. Conducting these conferences was like holding three conventions in addition to the customary scheduled meetings of the Association, with the further problem of the limitation of time for the preparation and carrying out of the program, thus entailing a great burden upon the members of the staff. I would like to express my appreciation to Executive Manager Shepherd and the members of the staff of the Association for their fine cooperation and helpfulness in this undertaking, as well as in connection with all other matters during this administrative year.

As the question of major banking legislation was pretty satisfactorily settled with the passage of the Banking Act of 1935, it was felt by our Association, as well as the Federal Administration and leaders in Congress, that no major banking legislation should be enacted in the Seventy-fourth Congress. Although none was enacted in the last session, this did not preclude the introduction of many proposals affecting banking, some of which even at first glance did not appear to affect the interests of banks, but all required the most careful analysis and involved many conferences on the part of Robert M. Hanes, Chairman of the Committee on Federal Legislation, and the officers of the Association with administrative officials and leaders in Congress. In these conferences we have received from the government officials and members of both the Senate and the House courteous and attentive consideration of the views we have expressed.

The Banking Act of 1935 required interpretation of certain provisions through the promulgation of rules and regulations by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the office of the Comptroller of the Currency. We have had free and frank discussions with these supervisory authorities of government, and these agencies have been most helpful in many instances in making available to us tentative drafts of such regulations and affording us opportunity to have representatives of the Association appear and submit recommendations and comments. Mention has often been made of the desirability of adoption in America of the policy pursued in other countries, where bankers sit in with the legislators in the drafting of legislative changes in the banking structure as well as rules and regulations issued by the supervisory authorities. During recent administrations of the American Bankers Association we have been building up a closer and more cooperative contact, both with the Congress and the supervisory officials of government. I can assure you that during the past year the relations which have existed have been most satisfactory in that we have had the opportunity of frankly discussing these matters not only with the supervisory officials of government but with the committees of Congress in charge of banking matters.

It is my belief that regardless of party politics or what administration may be in power, in the best interests of all concerned it is imperative for the American Bankers Association to continue to have the opportunity of presenting to the leaders in Congress and the officials of government the viewpoint of practical, operating bank executives on the subject of such regulations and interpretations prior to their issuance. In order that the viewpoint of those of us who are daily engaged in rendering this great economic service to the people may be given consideration, our approach should be such that the fine and cordial relations which have existed between our Association and the supervisory officials of the government will be continued.

The most difficult problem regarding legislation with which we were confronted during the past year developed in connection with the Revenue Act of 1936.

Among the provisions of this bill was one which placed a tax on undistributed earnings, which, if applied to banks, would have been in direct conflict with the program undertaken by the government to rebuild and strengthen the capital structure of the banks of this country. Proposals were made to include banks in the tax on undistributed earnings with additional exemptions which might have temporarily taxed the banks at a lower rate, but the principles involved in these proposals were destructive to the capital structure of the banks upon which the security of depositors depends, and we all know that with the FDIC in existence we must build for strong bank capital, and any legislation which would have a tendency to tear down this strength would not be in the best interests of either the banks or the public. Thousands of banks failed during the depression because they did not have sufficient capital structure to withstand the tremendous depreciation of assets which took place. The American Bankers Association took the position that banking should not be included in the proposals to tax undistributed earnings, but should be taxed at a flat rate.

In our approach to this subject of taxation, briefs were prepared which showed the philosophy of every banking law and regulation to date aimed to strengthen and conserve the capital structure of banks and were of a nature which urged prudent management because banks are the custodians of the funds of the people and the integrity of their capital structure depends upon the accumulation and preservation of their surplus and reserves. These briefs, which were drafted in language understandable to the layman, were supplemented by an outline of all previous laws and regulations showing the proposed legislation was of an entirely contrary philosophy. Many conferences were also held and briefs submitted at the hearing on the bill before the Finance Committee of the Senate.

Our problems in connection with this legislation were many. There were banks which did not either accept deposits or make loans, whose capital structure had to be preserved and built up to correspond to the increase in their business. I am referring to strictly trust institutions. We had the problem of the holding companies. The Banking Act of 1935 provides that in order that depositors be protected, a bank holding company must build up its surplus according to a percentage of its ownership in the stock of the banks in the group. A tax on undistributed earnings would have defeated this purpose.

Also, we were desirous of having included a provision allowing common trust funds to be handled without being taxed as an association. We felt it was only right and proper that the beneficiaries under small estates should be able to place this business with a corporate fiduciary which would not be able to handle it under existing law. The history of small estates and legacies has been that without the advice, guidance and help of a corporate fiduciary these estates and legacies are soon dissipated.

You will therefore note that as the Revenue Act of 1936 was passed we were successful in our efforts to exclude banks from the provisions of the law taxing undistributed earnings, as well as in regard to other phases of the legislation.

I desire to advise the membership of our Association of the splendid work which was done in this connection and the fine assistance rendered me by First Vice-President Smith; Robert M. Hanes, Chairman of the Committee on Federal Legislation; Charles H. Mylander, Chairman of the Committee on Taxation, and the office of our General Counsel.

The foregoing constitutes a report of the high points of the year's activities of the Association, and I feel it is now appropriate that I give you a resume of my views concerning general conditions affecting banking and the national welfare.

It is encouraging to note the steady progress which is being made in industrial recovery, as general business conditions have continued a favorable upward trend. Steel production is on the increase; construction contracts awarded reached the highest monthly total during July since June, 1931; electric power output has advanced to a new high record; car loadings have increased contra-seasonally to the highest levels since October, 1931, and factory employment and payrolls are also up. According to these and other measuring sticks, business is rapidly reviving, and, of course, we all know that ample bank and investment funds are available for business expansion.

All of this gives an encouraging outlook, but the question comes to mind as to whether this business revival can be sustained and the trend upward continue without some readjustments in certain vital factors of our economic situation.

There still remains a serious unemployment situation to be met with, to my mind, is the key to many of our problems. Furthermore, we must all realize that expenditures, Federal, State and municipal, must be brought more definitely under control. Also, we have the problem of taxation which, if allowed to increase substantially, is bound to result in retarding business recovery. With regard to expenditures which have caused deficit financing, I think every fair-minded man recognizes that in times of national emergencies, occasioned by war, depressions or some cataclysm of nature, the Federal Government of necessity, by virtue of its duty to the people of the Nation, must undertake steps involving unusual expenditures of funds. We have been in a very serious world-wide depression, during which values shrank through the workings of deflationary economic forces, and millions of our people were unable to obtain employment. All of us must agree that in such times and under such conditions our people cannot be allowed to starve or suffer for want of shelter. Likewise, we have been confronted in recent years with serious droughts, dust storms and other disasters which have devastated large areas of fertile farm land, and floods have also brought great distress and destruction.

During these emergencies, when the people located in the areas affected have been rendered powerless to help themselves, it was the duty of the government to assist in such calamities. But making allowance for these factors, if we are to continue the present business recovery, we must take steps by which the budgets of Federal, State and municipal governments will be brought more definitely under control and work as rapidly as possible towards budgetary balancing. If this can be accomplished, business will be assured that we are on firm foundations and can go forward in the traditional spirit of American enterprise and invention to create new channels for greater employment.

In my mind, the major factor in this problem is the necessity of removing as far as possible any uncertainty surrounding the rules under which business operates. When business leaders are assured that these rules have been definitely established and are encouraged to go forward, such assurances will add to their confidence, increase their willingness to extend their operations, and thereby increase the capacity of business to cure unemployment through sound reemployment.

One step toward this goal would be a review by the government of its whole relief program, which of necessity had to be developed rapidly, looking toward the elimination of waste and duplication.

The question of taxation is vital and related to this problem, and it seems to me that our Federal, State and municipal tax systems are in serious need of study and consideration of the possibility of being placed on a sounder basis. I am advised that the total tax burden increased about 33% from 1925 to 1935. In the same 10-year period the national income was diminished by 31%. Ten billion dollars in taxes is a very serious burden when it must be collected out of a national income of 53 billions. This was approximately the case in 1935. In 1925, however, taxes of only about 7¾ billion dollars were collected out of a national income of 77 billion dollars. I do not believe this is a question which involves partisan politics but is of fundamental concern to all people regardless of what political party is in power.

An examination of the various taxes imposed by Federal, State and municipal governments discloses that, from the standpoint of effect upon the Nation as a whole, there are quite a few situations which need correction. There is an exceedingly large number of cases where the same objects of taxation are subject to taxation by different taxing jurisdictions. This duplication and overlapping of taxes practically always leads to unnecessary administrative expense and unnecessary annoyance to the taxpayer. Moreover, in most cases it brings about unfair distribution of the tax burden, for I doubt that the legislators of one jurisdiction, in devising measures for raising revenue are always mindful of the taxes imposed by other jurisdictions. Consideration should be given to the fact that the economic effects of these duplications are not always confined to the particular State in which the taxed individual or corporation is located, but may extend throughout the Nation.

Another serious defect in our tax system is its lack of certainty. New taxes are continually being devised, and the old taxes are continually being changed in form and effect. In making plans for the future, individuals and corporations cannot foresee the new forms of taxes they may be called upon to pay, and yet these future taxes may seriously threaten the very existence of their businesses. Often even past transactions are reached by a retroactive tax. For example, I cannot help but feel that the new tax on undistributed profits, enacted on June 22 of this year but retroactive to Jan. 1, has had a disturbing effect upon the future plans of our corporations. It may be that there has been some tax avoidance through the unnecessary retention of corporate earnings, but an attempt to cure this evil in some other way than by an undistributed profits tax might have been the wiser course. I believe in the right of self-government, which has contributed so much to the growth of America and American institutions, and I fear the effects of a penalty tax on a wide or even imperative accumulation of current earnings. Legislation which is aimed not only to raise revenue but to effect a social change must be considered and designed most carefully if we would escape grave dislocations to our economic structure. Moreover, such legislation must be synchronized properly with the general theory of our income tax, in order to avoid inequities and double taxation. We need certainty and less complexity in our tax laws and a more practical and business-like examination of this whole subject and a common understanding between now being carried on. Such litigation retards business and is expensive to both the government and the taxpayer.

I am advised that in England their taxes are standardized and no sudden changes in method are made. It would seem to me that an examination of this whole subject and a common understanding between the States and the Federal Government as to which types of taxation will be levied to support the respective governments would assist in assuring business stability. If this question can be settled and our taxes standardized in form, changes then would not take the form of new taxes, with their resultant unsettling economic effects, but revenue requirements would be adjusted by raising or lowering the rate.

I realize that this may be difficult of accomplishment; nevertheless, I think the question of taxation, which in the past few years has taken between 25% and 30% of the income dollar of each citizen, is worthy of the most serious consideration and study, to see if satisfactory readjustments cannot be made. It is my understanding that some thought has been given to this problem, and I feel it is important for our consideration because of the taxes burdening the individual and corporate customers of banks, for inequitable, uncertain and complicated taxes imposed upon the public are bound to react unfavorably upon the business of banking. With a total public debt, Federal, State and local, of approximately 53 billion dollars, it is obvious that the tax burden for some years to come must be considerable. I therefore urge that you lend a helping hand in stimulating interest in a reconsideration of this vitally important question.

A few words as to the future of American banking. During the year, through the contacts I have made with bankers from all parts of the country at the Regional Conferences on Banking Service and the annual conventions of State Associations, and from replies to inquiries I have addressed to nationally-known leaders in various types of banking, I have been able to secure a very good cross-section of banking thought as to what the future holds for the business of banking.

All of us are concerned with the question of earnings and the shrinkage in commercial loans. We all recognize that true commercial loans, which constituted a large percentage of our earning assets at the time of the inauguration of the Federal Reserve System, and immediately thereafter, have shrunk to the point where they can be considered no longer the major source of bank earnings. This decrease in commercial borrowing is not directly attributable to the depression, although, of course, such commercial borrowings as did exist were lessened by the ravages of the depression.

In my judgment, for the present at least, commercial loans cannot be relied upon as the chief earning asset in our portfolios, for due to conditions following the 1923 deflation, when huge inventory losses were sustained, coupled with the activity of investment houses and the strong market for securities, a situation was brought about where many corporations which were commercial borrowers at seasonal periods built up their capital position to the point where they did not need this banking service. Also, there has been a complete change in the method and rapidity of manufacture, transportation and distribution which has eliminated much of the need which formerly existed for carrying large inventories requiring commercial borrowing.

There are some who feel that with a balancing of the Federal budget and the resultant return of business confidence, rates for earning assets will increase, surplus funds will not be created by deficit financing and, as economic conditions improve, there will be a restoration of the volume of commercial credit. But, for the present at least, this does not seem likely to occur unless, as some feel, it might be brought about by the tax on undistributed earnings which, however, introduces other factors requiring careful consideration in the extension of credit.

Therefore, it seems to me that at least for the time being we will have to look to other fields to employ our loanable funds, such as loans other than true commercial loans, where the credit will be based upon the soundness of the borrower, the assets securing the loan and the borrower's ability to amortize the loan over a reasonable period of years, and other types of credit, such as instalment credit and home financing. However, in making loans of this kind every banker must take into consideration the type and character of his deposits and see if the volume and terms of the credit to be extended are in the best public interest, always maintaining what I would term an adequate degree of liquidity.

I think we should realize that our customers are not bankers, and when applications are made for loans which at first do not appear to be bankable we should carefully analyze the proposition to see if it cannot be placed in bankable form. If the loan can be made bankable, we will acquire a good earning asset, and if it cannot be made bankable, then, in the interest of good public relations, I think we should take pains to clearly and frankly explain the reasons why the request cannot be granted.

Looking at our immediate future, attention must be directed also to the increase in the investment portfolio of the banks of the Nation. I believe great care must be exercised in the purchase of securities. An examination of the records of these institutions which failed to survive the depression clearly indicates the necessity for carefully analyzing the character of securities prior to and following purchase. There is no question but that the bond portfolio is playing an important part in the earning assets of banks, and I believe it is highly essential that each and every institution have on its staff officers and employees trained in the examination and analysis of securities. Pursuant to requirements of law, the Comptroller of the Currency recently issued a regulation which is a constructive step in pointing the way to the purchase of sound securities.

The purchase of a bond is an extension of credit the same as the granting of a loan, and officers and employees handling this part of the bank's operations should be just as conversant with the trends, and as carefully schooled in the examination and analysis of securities as the lending officers must be in that phase of the bank's activities; even more so, because in the extension of credit to borrowers, the officers are usually well acquainted with the borrowers, whereas very few of those who manage the corporations whose issues we buy are intimately known to the officials of the purchasing bank.

Another factor to which I think we must give careful consideration is that of Federal deposit insurance. There is no doubt but that in this period of low earnings, occasioned by the lack of demand for loans on the part of the public and the abnormally low rates at which funds can be employed, the assessments for Federal deposit insurance, coupled with other increased costs, presents a serious problem to the management of our banks. When the existing law was under consideration by the Congress, the Special Committee of the American Bankers Association took the position that the Directors of the FDIC should be given some latitude in the levying of assessments. We felt that at whatever percentage the assessment was fixed, the directors should have the right to assess up to that amount, so that if the operations of the corporation were successful, and when the assessment proved too heavy a drain upon the members, the Corporation's directors would have the right to adjust the basis of assessment. The House of Representatives took the position that the rate should be fixed at ⅛ of 1% and be mandatory, and when the bill went to the conferees a mandatory rate of 1/12 of 1% was agreed upon as a compromise, with no latitude being given the directors of the Corporation in levying the amount of the assessment.

We have all observed the successful operation of the Corporation as disclosed by its report published last July. Since the Corporation was created, of course, we have gone through a period where values of assets have been on an upward trend and the capital position of the banks which were licensed to reopen has been strengthened, so that to date we do not have a true basis of experience upon which to judge its needs in a period of depression. Nevertheless, it would seem that the position of the Corporation would justify the granting of some relief in the amount of assessment, which would necessitate a change of law to provide the directors of the Corporation with latitude. It would seem that a step toward making this possible would be for us to give full cooperation to the supervisory authorities in our relations with them regarding the condition of our institutions, and by adhering to the policy of promptly charging off all losses currently rather than allowing them to accumulate.

In this regard it is interesting to observe that in a recent address Leo T. Crowley, Chairman of the FDIC, made the following statement:

"It would be a serious indictment of bank supervision if we should be required to collect 40 million dollars annually for an extended period of years in order to meet the bank losses of the future. The Federal Deposit Insurance Corporation is anxious that consideration be given to an adjustment of the assessment, but it is not willing to do so until bank management and supervision have clearly demonstrated that the banking system has been put on a permanently sound basis. The answer rests with the supervisory authorities and with the bankers themselves."

This statement by Mr. Crowley clearly indicates a sympathetic understanding of this problem.

I have in mind another suggestion which, if adopted, I believe would be most helpful in the operation of the FDIC and the maintenance of a sound banking structure. That is, the appointment of an Advisory Board consisting of well-trained bankers, who would be selected with due regard for geographical representation, and rotated annually or bi-annually, which could do much to assist the Corporation and the insured members, who have such a vital interest in its successful operation. These men should serve without compensation, receiving only reimbursement for such expenses as they incur incident to the discharge of their duties.

You will recall that in his address before our annual convention in New Orleans, last November, Mr. Crowley gave expression to the desirability of the creation of such a board. With deposit insurance in existence, I believe it is to the best interest of all concerned that there be the closest cooperation between the bankers of this country and the FDIC.

We have all learned much in the trying years through which we have been passing. There is now greater knowledge among bankers than ever before regarding economic conditions and the influences which occasioned difficulties in the past. Furthermore, governmental statistics and information respecting banking are now available which give us a better viewpoint of general banking conditions and which were not at our disposal in the past. The capital position of the banks of the country has been materially strengthened, and I view with optimism and confidence the ability of the banks of the country to make healthy and sound progress, for chartered banking is as vital today to the economic life of the Nation and as able to service the needs of our people as ever in the history of our country.

The President of the American Bankers Association is extended the courtesy of invitations to address many public gatherings. During the past year I have felt it was my distinct duty not only to accept invitations to address banking groups but business groups as well. I have also availed myself of opportunities afforded through the courtesy of the radio broadcasting companies to present our objectives to the public, acquainting them with our desire to render every helpful service, and in all by public utterances I have sought to clear up any misunderstanding of banking which may have been created in the minds of the people by those who have preached fallacies regarding banking.

In these addresses I have also tried to assist the departments of government in their efforts to prevent a return of the overchartering mania which proved so disastrous to our banking system in the past, by showing these audiences the fallacy of the belief that more banks create greater prosperity and that while we must have an adequate number of banks in this country, to charter banks in communities already adequately served with banking facilities would only result in a return of the same conditions which caused so many failures. I have pointed out to these groups that any banking institution, if it is to properly serve the people, must be strong, and that it can only remain sound when its earnings are adequate. I have also endeavored to expose the fallacy of statements which have been made that banks coin money, calling attention to the fact that banks do not coin money but that it is coined by the Federal

Government by virtue of the power granted Congress under the Constitution; that neither do banks issue currency nor create credit, explaining that while it is true that banks extend or grant credit, credit is initiated with transactions predicated on confidence between buyer and seller or between producer and consumer, and that the banker in extending credit only plays a secondary part in the creation of credit. I have stated that when faith in the future exists in the business world, men are willing to assume risks and enter into obligations which are to be repaid at some future time, that through their services to business, chartered banks enable our citizens to carry out transactions in the field of credit, but credit itself originates in business and not in banks.

In appearances before these groups, and in the wider audience provided by the medium of the radio, I believe I have been able to bring about a better understanding between bankers and the public.

In the formulation of the program for this convention I have endeavored to carry out another of my objectives, which has been to promote a better understanding between banking and business, and, therefore, I have invited nationally-known business leaders to give us the benefit of their views, and I am sure you will find their messages of interest and value. These gentlemen are leaders in their respective fields of business, and I desire to express my deep appreciation to them for their willingness to give of their time, energy and experience in the preparation of the addresses which will make available to us information and ideas of great value. You will also note from a glance at the program that there are included subjects of specific banking interest, such as the questions of investments and trust relations, and I am very appreciative of the courtesy of the two gentlemen, who are recognized as outstanding authorities in the respective subjects assigned to them, in coming here to present their views on these topics of timely importance.

I feel it is appropriate that I express my opinion upon the manner in which we should handle our relations with the public and proposals for legislative change, for I think much depends upon the character of our approach to these two problems. We must all recognize that unsound proposals for banking legislation are introduced in the various Legislatures and in the Federal Congress to a great extent due to a lack of knowledge and understanding of the true functions of banks, and that in their activities legislators normally reflect the views and desires of their constituents. I urge that we recognize that where there is a demand for legislation to correct or create some condition it usually reflects the opinion of the people of the various sections of the country. Therefore, if we can create a wider understanding on the part of the public of the true functions of banks it will do much to allay demands for changes in the banking structure which are not in the public interest.

However, where such proposals are made I feel we should carefully analyze them and investigate the underlying causes for their introduction in an endeavor to discover their effects upon banking and the public interest if enacted into law. If an analysis of the proposals indicates the legislation can be made workable and constructive, we should use our experience and practical knowledge to help to so shape it. On the other hand, if it is the type of legislation which would change the character and form of our government and is contrary to fundamental American principles, then I think it should be strongly opposed. In opposing such measures, the American Bankers Association is also doing constructive work, just as truly as when it makes definite constructive proposals, but when offering such opposition we should realize that as bankers our profession is a dignified one and that our conduct must be such as will win for us the confidence of the people of the communities we serve. If we cannot offer recommendations for amendments which are constructive we should show the detrimental effects of the legislation if enacted, not simply upon banking interests but upon the public interest as well.

As an Association, I do not believe we should ever take a partisan political position, for if we do we are bound to fail in our duty to the membership of the American Bankers Association and cannot present our case in the best interest of the public and the shareholders whom we serve.

American banking is well on its way to the high position of public confidence which it enjoyed prior to the depression. The bankers of America must recognize that we must continue our constructive approach in dealing with the problems which the future will bring. In this connection I desire to call attention to the fact that many new proposals for legislative change are bound to be introduced in the next session of Congress, and in addition a number of emergency Acts adopted in recent sessions which are expiring will come up for reconsideration, some of which will vitally affect financial operations.

The greatest gift which can be given to man by his associates is the opportunity for useful service. During the last five years you have given me that opportunity by selecting me to serve you as Chairman of the Committee on Federal Legislation, as Vice-President, and finally as President of the Association. At the close of this convention I retire from the high office to which you elected me last November in New Orleans. I have endeavored to faithfully and conscientiously fulfill the trust you have placed in me, and I hope I have been able to make some contribution to the betterment of banking. In closing, I desire to extend to you, my associates in the banking world, my deep appreciation for the honor you have bestowed upon me and for the opportunity you have given me to serve.

Hero or Villain

By Clarence Francis, President General Foods Corp., New York, N. Y.

I consider it a great honor to be invited out here to speak before an audience as important as this—before men as influential as you are.

And by "influential" I am thinking at the moment not so much about your voice in the market place. Rather, I have in mind your influence for the good of the community, the example which you can set—and the rest of us expect you to set it!—in straight, hard but human thinking and in playing the game in a way that is both sportsmanlike and constructive. That is a big order! It is enough to make any man hesitate about entering the banking business, and once in, it is certain to test the stuff he is made of!

Sometimes a speaker likes to hold his message—and perhaps his audience—for the end of his talk. Well, I believe that if you have something to say, the best thing is to say it. And so I am going to say to you right now—and then I am going to try to prove it—that an important share of the leadership of the United States is in this room today—the economic and moral leadership which should set the tone not only of American business but of the general public as well. And further, that I am sincerely and heartily convinced, from what I know now, that a lot of you banking chaps are not taking the place in the front of the picture where you belong.

If I can do no more today than to hold up a mirror and let you see yourselves in your full stature, if I can only strike the warm, human spark that will leap among you from elbow to elbow, from shoulder to shoulder, so that each man will become aware of his neighbor as if for the first time, and will suddenly say to himself:

> "Why! I am not alone! I have got mates on both sides of me—good, trustworthy fellows, too. And we are sharing the dangers and the triumphs; so let's get together in a brotherly way; let's take our rightful place in the sun!—and together we will go places."

If I can get you to do something like that, I will feel that I am repaying you, and in generous measure, too, for the privilege of appearing here with you today. Yes, I am proud to be your guest; but, gentlemen, I am going to confess that when Mr. Fleming in his courteous way asked me to speak here, I went into pretty much of a dither. I said to myself: "Good Lord, what do they want me out there for?" I could not imagine what a mere "prune peddler"—oh, yes: that is what we of the food business are termed by our more endearing customers—I couldn't imagine what message of constructive, useful and original import I could bring to an assemblage of the Nation's bankers.

My temptation was to talk about the wide scope and the ramifications of the food industry. It would be a cinch, for I assure you we have the ramifications aplenty.

Well, what should I talk about? Bank deposits, bank liquidation, the availability of bank credit, industrial advances of the Reserve banks, discounts? Or should I hold them spellbound by setting them straight on money—the gold standard, the commodity dollar, international currency stabilization, the boloney dollar; or, perhaps, somebody said, in this tolerant California setting, the Florida Ship Canal dollar might win a sympathetic ear.

After much cogitation, I said: "No, by golly! That is out. What is there new about boloney that I can tell to a banker? In fact," I said to myself, "how is it possible for anyone to say with finality anything regarding what should be our permanent monetary policy? No, that just isn't in the cards." You know, most of our thinking is oftentimes merely a rearrangement of our prejudices. And so I decided to stick to what I have had to learn in the food industry—the human equation, the X quality which is mankind. I have spent a lifetime trying to learn how to make a man's mouth water for tempting foods, and when you come down to it about the only difference between your business and mine is that most people still believe they have to sing for their breakfast, thank goodness! But as for money, there is a belief that that stuff ought to be distributed with the compliments of the Congressmen, like the way they used to frank packets of garden seeds.

I will stick to the facts. I wanted very much to be of use to you, because, as an industrialist, I am indebted to you in more ways than one. So this summer, while you chaps were out there in your palatial yachts, or riding your polo ponies, I stayed behind to direct two difficult and unique surveys, especially for the use of this convention, and my devoted helpers soon convinced me that it was a tough job. It kept them hustling nights and Sundays and even over Labor Day. We used the same hard and uncompromising research which we in the food business have gotten into the habit of turning to whenever we are in the dark about the facts in some problem of product or the merchandising of that product.

The results of these two inquiries, I think, are very much worth while. I am able to bring to you facts, not theories; an up-to-the-minute Candid Camera picture of yourselves, not a pretty studio pose. And I think that before I am through, gentlemen, you will know more about yourselves and about what the folk outside think of you than you did yesterday—and, perhaps more important, more about the tremendous job that lies ahead for American banking.

Briefly, we have made two nationwide surveys. We obtained, first, the views of the banking world—of 7,400 A. B. A. bankers, at the crossroads in the cornfields and in the metropolis—about your problems and your customers.

Second, we went to 50,000 average citizens—a scientifically fair sampling—in all walks of life, on Park Avenue and "back of the tracks," rich and poor, workers, housewives and storekeepers, in all parts of the country, to learn what John Citizen and Mrs. Citizen think about you.

The answers are not mine. I did what a newspaper reporter would have done: I interviewed those who had news. The questions in the survey among members of the American Bankers Association were helped by the advice of some good friends that I have in the banking world. The response of you bankers—an astonishingly outspoken response, straight from the shoulder, it was, too—guided our countrywide inquiry among the general public. Let us look at the facts. First, what have you bankers been telling me?

The Banker Survey

A business man may write off "goodwill" at $1. But he is only kidding his bankers. The chances are he values his customers' goodwill at more than the manufacturing properties. Now, how about a banker? Is goodwill as important to him as to the manufacturer? I think it is worth a lot more than all the magnificent sculptured marble, fireproof steel and bronze grillwork that you can pack into a bank structure.

Our survey shows that, on the word of you bankers yourselves the American public is far from unanimous on the question of a friendly attitude toward the banks—and I say that this is a tragedy, an economic tragedy that impairs the national wealth to the tune of—well, you say how many million dollars. Only 58 bankers out of every 100 believe that the public has a friendly attitude toward the banks, the survey of American Bankers Association members reveals! Think of that, gentlemen. In other words, nearly half of you bankers are in doubt about the goodwill of your customers and potential customers. There is danger in such a situation. And 11%

of the bankers tell me that the public is not friendly. A fourth of you feel that the public is "just indifferent."

This on the word of the bankers themselves, mind you. We will see what the public says later on. Now let us get at the bankers' reasons for this costly, this wasteful hostility or indifference. A bank president in the corn belt said his community was "just indifferent." Why? His answer was laconic. He wrote: "Past experience." Another Middle Western bank president blamed the antipathy on "too much propaganda adverse to banks." Another wrote: "Some people who lost money in closed banks are not friendly." Well, that is possible.

Here is a forthright fellow, the head of a bank in the Mississippi Valley in a town of more than 25,000 population. He didn't bother to check the proportion of his sales area which was friendly or even unfriendly. He just lumped the customers as "indifferent." Why? He said, "Incompetent management of banks. Bank executives should be required to pass examinations."

A banker in a town of under 25,000 blamed "preaching by the radical elements." Another banker said the public's attitude was not friendly. He said: "The bankers were called all kinds of names by those who had to find a 'goat.'"

A New England banker said the public was not friendly. The reason, he said, was: "Dislike of people you owe." Well, that is an easy "out," but I wonder if it is the whole truth. I am just wondering if the boys with the unfriendly customers aren't trying to alibi their own reluctance to adjust themselves to a changing day and a changing market.

Isn't there a clue to the solution in the reply of a small town banker out here on the Pacific Coast, where, incidentally, the survey showed an enthusiastic view of the public's attitude, when he wrote:

"Yes, the public is friendly. Why? Because the officers and employees in the past two years have gone out with the intent of making friends and regaining the confidence of the people, and have succeeded very well."

What? Bank officers going out and making friends only in the past two years? That is perfectly astonishing to a food manufacturer! What did they do before that? Take an isolationist attitude behind the marble counters? Wait for business to walk into the bank?

Why, we manufacturers run our legs off trying to corral the customers and win their friendship. We depend on our salesmen, truck drivers, executives, stenographers, dietitians, demonstrators, and factory employees everlastingly to sell the company and the company's products to their friends. It has gotten so that even the stockholders are now eager to boost the sales record—they volunteer as the advance line of attack when a new product is put on the market.

Let us get on with the survey; then perhaps we can let the tabulations preach their own morals.

Seven out of ten bankers believe that the public knows that failed banks result from bad assets. A third of the bankers said the public charges them with being too strict in making loans and in not properly serving their community. More than half said the public thinks a banker's first duty is to the depositor, and 15% said the public thinks a banker's first duty is to the borrower.

Understand, please, that time forces me to give you some of these results in a sort of scatter-shot manner. Many replies were qualified. Others were too lengthy to report in this talk. However, I have with me the preliminary tabulations in case any wish to have sets of copies, and I can promise that a more detailed and final report will be available shortly. And if and when they are available and you want them, they will be broken down into eight geographical sections, separated so as to show the differences of opinion between those in 25,000 or below and 25,000 or over. Those which I have seen have been very interesting to me.

Our nationwide survey reveals that about a third of the bankers believe their customers seem to understand what a bank really is. Almost another third said the customers do not understand, and the other third of the bankers answered that people have only a partial understanding.

While I confess freely that I know little or nothing about the internal problems of banking—I am only a borrower of banks, which may give me some standing here—as an old campaigner in the fields of advertising and merchandising I cannot refrain from offering the remark that misunderstanding breeds fear and hate, and that, contrariwise, to stimulate loyalty and confidence, one of the immediate jobs of the banking world apparently is to hold a big housewarming and invite Mr. and Mrs. John Citizen into the bank to see, in simply understood demonstrations, how and why the wheels go 'round.

Of course, we food manufacturers since the turn of the century have done just that—and profitably. We have made our factories immaculate, the operations worth watching, so that tourists the world over come by the thousands to see the scientific conversion of raw materials into prepared foods. We have stimulated this public curiosity by sampling on a tremendous scale, but of course I won't go so far as to recommend sampling as a solution of your problems.

Another illustration of the public misunderstanding which hamstrings banking is the item in our survey revealing that a fourth of the bankers feel that their own customers do not understand why it is necessary to make service charges on unprofitable accounts. And another 15% believe that their customers have only a partial understanding of this matter. But there is hope here, because banks reported that they are holding staff meetings to help the employees acquaint customers with the bank's problems and policies.

Certainly a bank—that essential of modern economic existence—should exert every possible bit of energy and strategy to win over its trading area, not only to increase the business of the bank but to make quite sure than the banking fraternity as a whole will have a thumping crowd of friends in court when illogical or crackpot legislation is offered for the voters' approval. As you can understand, there is entirely no politics in my talk today; and I think that you will agree with us business men that no politician nor political party has any monopoly on crackpottery as a high art.

Here is more from the survey: Many bankers reported that the insuring of deposits has made their depositors feel secure. A banker in the South said: "The banks, instead of the Government, should manage the insurance fund and weed out the useless banks."

But for the Nation, 67% of the bankers surveyed said that the banking and monetary legislation enacted since the crisis has increased the long-run security of bank depositors and stockholders generally; while 18% said such legislation has lessened the security. While 53% of the bankers said such legislation had assisted the banks in rendering the maximum service to their communities, 27%, or more than a fourth, said these laws have hindered the rendering of maximum service. Who is right?

A New England banker said he believed that "the restrictions on the forming of new banks will make for fewer but much sounder ones." A banker in an Eastern city of under 25,000 population said that the legislation has given the public more confidence in the banks. But a banker in a Middle Western city of over 25,000 population said: "I believe the FDIC weakens good banks to keep poor ones alive."

Well, what about instalment buying? Did it help wreck the country in 1929, as some have charged? Let us examine our survey. We find that more than half of the bankers believe it did and about a third said it didn't. On the question: Is instalment buying a good plan? 27% said "Yes"; 33% said "No," and 34% said "okeh" with limitations and control.

Almost one banker in four said the small personal finance companies have taken away business they would like to have. Four out of five bankers said the bankers are increasing their personal loan business for greater earnings. About half said they are making more real estate mortgage loans today than a year ago.

Now look at this one. A third of you bankers reported that the public is reading your advertising more than in the past; only 4% said "less." Excuse me, gentlemen, but how do you know that? It is interesting, if true. But isn't someone in the crowd taking things for granted? We business men don't want guesses from bankers. It seems to me that some of you fellows might well set about discovering the maximum "pay load" obtainable from your advertising machinery; and one good way would be to make a hardboiled survey of the problem.

The Public Survey

As I said, we have many other tabulations, such as the statistics on the activities of American banks in obtaining new business, in counseling local business, data on the bankers' ideas of harmful legislation, the banking outlook, improving appearance of banks and the participations of officers in community tasks.

But time, I am sorry to say, forces me to skip over to the larger cross-section survey conducted among your customers. This public inquiry was made all over the country. It is exciting news. I think it offers some valuable suggestions. Let us dig into it.

We wanted trends—popular, last-minute trends. For instance, we asked the American public: "Do you think it is as necessary to save for your old age as it was in your father's day?" It was a significant question, as you no doubt realize. Forty-four and six-tenths per cent said it was as necessary; 47.3% said it was more, and only about 5% of the public said it was less necessary to save today than in the horse-and-buggy days. Apparently the public isn't intending to rest back on the oars and trust to social security legislation to provide entirely the green pastures of one's old age. The response clearly indicates that the American public intends to keep the banks and insurance companies busy for a long time yet.

I wonder, by the way, if you know what percentage of your community deals at the banks? Well, our survey among adults in all walks of life revealed that 87.9% said they used the banks at the present time. That is a hopeful figure. Now, all you have to do is to get your share of it and then go to work to get more business and more profitable business out of your clientele.

We wanted to know if some were scared to walk into your handsome edifices. Of course, we refrained from submitting this question to any of our eminent public enemies numbered from 1 to 100. At any rate, we received no replies postmarked from that rocky refuge out there in that most beautiful of bays.

We asked the public this question: "Are you treated just as friendly by your bank as by the stores where you regularly shop?" And about a fourth of the public said "No," meaning that three-fourths of the public, or 76.2% to be exact, said that they were just as favorable.

Darned if I know why! Maybe you ought to invite the public to come in and meet you fellows at an A. B. A. convention. I have never encountered a more warmly human and companionable crowd in my life than I have here. The suspicion dawns on me that you bankers have been holding back on your customers. Surely, it can't be an inferiority complex? And I wouldn't be surprised if it was, what with all the lambasting you have had to take these past few years. I was frankly surprised to find 76% favorable answers to that question. But, gentlemen, I want to make this statement very plain: that if we thought that 24% of our customers were unfavorable, we would be sick, and I can't help wondering whether you would think us a good risk if you knew that 24% of our customers were unfavorable to us.

Wait! Let us get another slant on the public's opinion of you. Incidentally, the questioning required no signatures, hence the replies were candid and outspoken.

We asked: "In your opinion, are banks in your locality doing their part to help business and employment?" This was, you see, a test of how good a job you have done of selling yourselves to your community. Well, only 43% of the people said the banks are pulling their weight, and 57% said "No, the banks are not doing their share in the job of recovery." Right or wrong, that is the public's belief as it existed up to 13 days ago. It is not my belief; I doubt if it is the belief of many business men. It is a general opinion.

And I would like to ask: Please, what are you going to do about it? There have been made theories advanced to light up the way to prospesity, and I myself have insisted, perhaps too emphatically, that a modernization, replacement and rebuilding of America was the surest of cure-alls; but I think we are all going to realize that we won't really pick up momentum until the banks get on a far more solid footing with the public—and honestly, fellows, your friends can't do it for you. But they can and will gladly help you.

Now we come to a question that I toss on the table for what it is worth, without regard for political significance. I might explain that what we wanted to do here was to measure the heroic proportions of the financier in the eyes of the man on the street. Once the banker was the local big shot. Is he so today? Let us see.

We asked the public: "Is there any man in public life with whose views on money matters you agree?" More than 6 out of 10 men and women said "Yes." And who was he? At the risk of stirring some partisan emotions almost on the eve of the election, I might begin by revealing from the nationwide tabulations that the bankers didn't fare so well.

The top four in the vote—just to end the suspense—were President Roosevelt, Father Coughlin, Senator Glass an Governor Landon—and in that order. Trailing the leaders were the following in this order: Herbert Hoover, Henry Ford, Congressman Lemke, Dr. Townsend, Senator Borah, Norman Thomas and Ogden Mills.

Interpret that as you will, gentlemen. But remember, after all, it is an untouched photograph of American public opinion snapped across 3,000 miles of this country

We of course received other nominations, but these were the chief ones. When we stop to realize the contributions which banking has made to help build this country to greatness in a brief 150 years, when we consider the average banker's devotion to his institution and the Nation's interests, it is, I think, lamentable that no banker or bankers stood out conspicuously in this poll. Personally, I believe the question was improperly worded. For certainly we need your voice. We need your sound leadership. This is not the hour to shrink back from the spotlight, or the brickbats thrown on the public forum. You fellows have proved you can take it. Well, let us hear from you. I here and now call for volunteers!

My time is getting short and I will have to hurry, but I wanted to let in a little more light on the public mind as we find it today and as it affects your business and mine.

We asked the public: "About what year do you think America will reach another peak of prosperity?" We hoped thus to get an insight into John Citizen's private plans for investments and his expectations for good times, which of course means a boom in buying.

This boom—if you want to call it that—is expected by at least half of the people between now and 1940. A quarter of the people expect a prosperity peak will arrive by 1938, and 12 out of every 100 expect a peak to hit us after 1940 and before 1945.

Hold on a moment. Let us view the picture through the other end of the opera glasses. We asked the public this question, too: "Do you think the United States will have another depression?" And 9 out of 10 people responding said, yes, they think we will have another depression. So we said: "When?" 17% replied that they could not hazard a guess as to the dolorous date. The two favorite years for the next depression were fixed at 1945 and 1950. In fact, 4 out of every 10 saw it coming somewhere in the decade between 1940 and 1950.

Well, thank gracious we are through with the statistics. Sometimes I think they have been stretched end-to-end around the equator so often that they stretch your credulity as well, and get you so snarled up that you make about as much headway as a buggy-whip salesman at an auto show.

All this time, while I have been exploring these surveys with you, I have been trying hard to see how you might profit from them; and repeatedly my mind returns to the experiences the food industry of—the oldest and largest of all our industries, taking a third of the national income and giving employment to millions in many fields—and I'm blessed if I can see much difference between your business and mine.

After all, what difference is there between a grocery store and a bank? You sell money. We sell prunes. When both of us are functioning at top-notch efficiency, we make life a whale of a lot more livable for our countrymen than it would be without us.

If you will allow me to say so, these surveys make it patent that the banks haven't learned what we have had to learn, perhaps because you are more isoltated, perhaps because we are spurred by a terrific competition aided and abetted by the millions of housewife shoppers daily thronging the 400,000 retail outlets and demanding more and more service, higher quality, and forcing an ever thinning margin of profit. Consequently, we have had to learn to do business always with the customer in mind.

Go back two score years; thumb back a few more for good measure. Remember the old grocery store of that day? The foods lying loose in boxes, barrels and bins, dusty, unappetizing, manhandled—and I mean manhandled—and too often, in the less reliable stores, you didn't know whether you were buying the dealer's thumb or a full weight pound of bulk goods.

And the service was just about as crude as the merchandise displayed. The atmosphere wasn't conducive to courtesy or cooperation.

What brought about the change? I will tell you. It was in part the packaged food manufacturers. They changed the whole picture. Suddenly housewives were offered their choice of "cracker-barrel" stuff, or merchandise of constant weight and quality, which was both clean and convenient to use. Little wonder the ladies said, "Give me the packages!"

And for the groceryman, the packaged foods—in containers assuring easy handling and display—were a boon, too. He could wait on a customer more quickly. He eliminated his big losses from spoilage, breakage and overweight. He could show his clerks how to become merchandisers instead of order-fillers. The food packagers prospered; and as they prospered, they set aside money—millions of dollars—for research laboratories, for experimental kitchens, to explore the secrets of Mother Nature, to make foods more nutritious, more appetizing, easier to serve.

And during the past several years they kept up their researching, and they stuck religiously to their advertising. They had learned a tremendous lesson. To some it was a hard lesson! And it was this: When you claim merit for your product, Heaven help you if you do not pack it full of merit, not spasmodically, not 75 or 90% of the time, but all of the time! Once you have built up at great cost a reputation for quality, that quality must find its way into every one of your packages every time, every day, year in and year out.

Food manufacturers have learned that the public will desert you overnight if you try to take a short cut—if you become slipshod in either your manufacturing methods or in your advertising claims.

And the public thereby has been the gainer. Quality standards were raised; prices, due to stiff competition, went down. The public now buys packaged foods with confidence. Everyone knows that the freshness, the quality and the price will be the same in the metropolis as in the village off the main road. And this trend toward the packaged product is so overwhelming that I predict that in the next ten years almost everything in the grocery store will be packaged and improved.

Today the food people think, dream, talk improvements, ways and means to boost the quality higher, economies to effect price reductions, new and better products, new designs for packages, new uses, new conveniences for the home cook, better service rendered the retailer, and, above all, selling the industry and its importance and merit to the American public.

I wonder, is there another clue here to the solution of the problems confronting the banking world? Is the answer partly that some of you have kept your noses so close to your traditional duties that your gaze could not focus sharply on the magic word "Psychology"? Psychology, a silk-hat word for human nature. It is the mighty power up there on the whirling leather belt. But it is no good unless you shift the lever and throw it over into gear.

Human nature! See how it motivated the packaged food folk, once it started going. When poeple—customers—began inspecting the plants, the manufacturers cleaned house and soon were vying with one another to see who could have the most attractive factory. And, inspired by public praise, management and workers took price in themselves and in their jobs.

So we find them puting on their Sunday manners in business hours, until, even during the strain and confusion of a depression, we find the established companies rejecting the temptations of the chiseler's shortcut to profits, and instead basing their policies on the question: "Does it mean a fair deal to our employees, stockholders and customers?" And even a fair deal to competitors, too.

Probably what made them decide that a clean fight was the best fight was, first, a realization of their responsibilities to those who had entrusted them with their livelihoods and investments, and second, the realization that their own welfare depended on the good health of their competitors, for it is a fact that one bad tomato can spoil a whole box.

Generally it is a fact, too, that the larger the company the more likely does the management realize its responsibility to thousands of others, the more likely the sense of pride in accomplishment, the more likely the effort, the year-in and year-out effort to do the job just a little bit better. What a pretty picture. You must have begun to think the food industry is a garden of roses. I will be accused of trying to tempt a lot of good bankers to remodel their movie palaces and turn them into food stores.

If I have sounded as if we have had no troubles, no problems, that is a mistake. We have had plenty of troubles, and many of them were of our own making. But we of the food business are on the right track. I am speaking of trends, not perfection. The trend is right. Of that I am convinced. We are planning for the future.

Food is essential, but the proper handling of the people's money likewise is most essential. Certainly, without your economic and financial wisdom and counsel, the food industry could not have shown such progress. The record is very clear on that. What the banks have done for the food industry they have done for other industries, notably the durable goods industries to an even greater extent. By doing so they have played a most important role in the marvelous progress of our country.

And what a swift progress it has been. This is a young nation. We have grown like Topsy. Now we must take over the job and seek improvement, send Topsy to a sensible finishing school. This is largely your task and ours. We have seen your worth. By your financing you have aided employment over a long period of years.

Even during the depression, when the banks have been criticized, the service which you have rendered to industries by financing new and better operations and inventions has been great. The record has been one of cooperation of which the banking fraternity may well be proud.

There have been errors, and so long as human beings operate banks there will be more. But these mistakes, to almost a perfect score, have been mistakes of the head—not of the heart. I am not attempting to whitewash anybody. I still believe that 95% of all of us, regardless of our station in life, are honest and mean to do the right thing.

The other day an author asked me if I knew the difference between a hero and a villain.

"And what is it?" I asked.

"They are one and the same man," he said. "You can take any character and make him either a villain or a hero. It is merely a matter of point of view. The hero," he said, "is actuated by motives of unselfishness, he is doing something for others, he is saving someone from disaster. The villain is self-interested, he is actuated by personal motives. And the public always cheers the hero. Examine any book, any movie, any Broadway play, take the plays of Shakespeare apart, and always you will find this is true. The only difference between the hero and the villain is what the spectator thinks each fellow is aiming at." Gentlemen, isn't that true?

And coming closer to home, what do you want the spectators to think you bankers are aiming at? In cold dollars and cents, wherein lie your profits? As hero, or villain, in the public's consciousness? But the question does not concern you alone. It vitally concerns every business man, every investor, every property owner, every responsible citizen in the land—for we are all dependent upon you.

But even a well-meaning public does not understand your business. Our surveys illustrate that. And that is costly to you. Banks have an educational job to do. It calls for self-enlightenment as well as educating the public. So has industry got to do this job. And the Government should come in as a third partner in this accomplishment. We cannot rest on our oars. We must have the courage to go ahead. Let us not stop pioneering.

They say we have crossed our last frontier. I say that is not true. We have only started in this country. And if anybody thinks that the social and industrial progress has been unprecedented, just watch America's smoke from now on.

Overproduction? Pshaw! We are suffering from under-production. We are not making enough products to fill the need. Who among you dares say that right here in our own land people are eating as much or as well as they might? Who dares say they are as adequately equipped for modern living as our industries and our scientists and bankers are capable of providing?

Millions of houses, stores and factories are antiquated, worn out, ready only for the wreckers. They are too wastefully old and inefficient; they stand in the way of progress. Battered automobiles throng the highways, a menace to life and limb. Five million farm houses need electrification. People need new clothes, new shoes, new hats, and shirts, and silk stockings. They need air-conditioning, mechanical household devices, modern recreational and cultural facilities—all the blessings which our machine age is so well designed to provide.

Where, gentlemen, is our frontier? It is right here at home, working and scheming to provide more and more of the great masses of our countrymen with the facilities for enjoying a rich, full life, a useful and stimulating life. There is a goal worth while. And work for all here—for we industrialists know that only in a widely employed, well paid and contented nation can we hope to find the customers required in our age of mass production and distribution.

So common sense, past experience, calls out to us: Rebuild America! Replace the worn machinery! Make our own prosperity. That is our opportunity. It is yours. Yes, your opportunity is to win the people's goodwill by financing the big undertakings to the mutual profit of all concerned. What a vista lies ahead of you!

For who dares say that the banking business has reached its full growth, that its functions from now on should be routine without imagination, stabilizing without self-discipline, constructive without a strong undercurrent of social consciousness?

We are egotistical enough to think we will get along on any set of rules they will write. But the going will be easier with your help, your inspiration—moral and spiritual, as much as economic.

Men, there is a big job ahead. No one of us can do it alone. Let us all join hands—and I include imperatively our Government, regardless of the ploitical power in office—and freely realize our inter-dependence. Let us put our own houses in order and then sell ourselves to our citizens, sell them also on the country's potentials for shared progress.

Let us make it clear that, in a whirlwind start, this country of ours—starting from scratch—has erected an institution second to none in the world from any point of view; that we have merely been stopped for a few short years for breath-taking, or maybe stock-taking, that we have started running again, and that we are going places undreamed of even in the minds of our most ambitious pioneers.

On this ground, hallowed by the achievements of pioneers, let us dedicate ourselves to a bigger and better and happier united nation. Men, I envy you. Yours is a great responsibility and a great opportunity.

A Banker Looks at Europe

A Memorandum on Conditions as Observed abroad, by RUDOLF S. HECHT, Chairman of Board, Hibernia National Bank, New Orleans, La., before Executive Council Meeting

Six weeks spent in the rapidly evolving panorama of European history these days is scarcely long enough to send one home with fixed opinions about present-day conditions or the fateful future into which the various countries there are rushing. However, if one is forearmed with a real economic interest in the life of these nations and takes time to make contacts with as many different kinds of people, from financial and economic leaders down to hitch-hikers, as I did, as I traveled about, mostly by motor, and if one asks as many questions as I managed to do, it is quite possible to form some very distinct impressions as to the significance of the great social and political changes which are taking place there and are likely to have farreaching consequences the world over. Of one thing I am sure, and that is that America cannot stand as wholly aside from these world problems as some of us might wish.

Perhaps there could have been no better time and place for me to collect my thoughs and try to review the kaleidoscopic impressions of such a trip than on a homeward journey aboard the majestic "Hindenburg," as she carried us back to the United States in comfort and the calmness of the upper airs above a tumultuous sea.

Foremost among the feelings which I think any American would have, and which I desire particularly to express with a new emphasis, despite its perhaps somewhat hackneyed sound, is simply this, that the more one sees of and studies the social, economic and political problems of Europe, the better satisfied one is bound to feel with conditions in the United States, in spite of the many problems which we, too, are facing at home. There is a second and equally important thought which I brought home with me as a result of my observations and studies of those few weeks abroad, and it is the importance of our carefully watching the developments of the new social ideas and ideals which are rapidly spreading over the Continent there and the need of our gracefully accepting some of the more moderate evolutionary changes going on at home lest we, too, may face some of the social upheavals which have taken place and are still taking place throughout Europe today.

By this I do not mean to infer that there is any real danger of facing such conditions in the United States, because I am confident that our present business organizations have within themselves greater flexibility and adaptability to social progress than have those of Europe, and that our present form of representative democracy has within itself ample means for protecting the interests of the masses.

I shall refer back to this subject once more, but will first put down my impressions of the several countries in order in which I visited them.

France

The new "Front Populaire" Government was just taking hold in France as I arrived and the great "stay-in" strikes, made effective by the physical occupation by the workers of the business houses and factories affected, were being settled practically by government decree. Little wonder, therefore, that the country seemed uneasy and upset over these disturbed relations between capital and labor and the internal strife which was everywhere in evidence through street demonstrations, frequent and open display of the red communist flag and clashes between the authorities and the more radical element of the left wing.

It is not easy to appraise these outward evidences of a disturbed populace and it is still more difficult to draw safe conclusions from their casual observance, but even before I discuss their causes and probable meaning I want to record my opinion that France is not likely to go "communistic," and will, perhaps after a few more experiments with extreme left wing politics, come through its difficulties with the capitalistic system still intact, even though operated on a far more liberal and somewhat more cooperative basis. To understand just what did happen in France, it is necessary to take into consideration two factors. The preservation throughout the world depression of the franc on the gold basis, fixed about 10 years ago, had forced on succeeding French governments a policy of economy and deflation which not only made foreign business increasingly difficult, but also had an adverse effect on domestic business and employment.

Secondly, French workers have been habitually underpaid, and, speaking generally, their standard of living has been materially below that of either Germany, England or Italy. The cost of living was slowly rising, thus making conditions increasingly more difficult for the laborers, but apparently employers of labor, even in the profitable and successful industries, were too short-sighted to grant reasonable relief voluntarily.

It was not surprising, therefore, that almost the first acts of the new Blum Government concerned themselves with the fate of the workers to whose whole-hearted support the "Front Populaire" owed its success. Necessarily, these new social measures were hurriedly prepared and are faulty in many respects, but they have, temporarily, at least, brought a measure of industrial peace and have given the workers of the lower grades more reasonable wages, paid holidays and better living conditions, besides giving the working classes as a whole the feeling that a new social and political era was dawning for them in France.

Contemporaneously with these relief measures on behalf of the workers, new laws were being introduced to assist the farming interests, and particularly the producers of wheat, all of which of necessity tended to raise the level of prices. How well this increase in the price of living and the increase in earnings can be balanced is, of course, uncertain, but on the outcome of this delicate economic problem the future of the present Government rests. Meantime, Mr. Blum is faced with an equally difficult financial problem. Contrary to the predictions of many students of economics and finance at the time of the recent elections, the new Government has not devalued the franc and has, as yet, put no restrictions on the movement of gold. Moreover, as I see it, there is no likelihood of either of these things happening in the immediate future, though I recognize that the policy of inflation pursued by the present Government will of necessity require some ultimate adjustment.

The most drastic step thus far taken by the Blum regime is the virtual nationalization and complete reorganization of the Bank of France, and the installation of a new Governor of the Bank, Emile Sosthene Labeyrie. Although the capital of the Bank is privately owned, it will now be entirely dominated by the French Government. Since this century-old institution has always been considered the mainstay of the country's currency system, such political domination appears all the more dangerous because of the frequent and drastic changes in government which the country has experienced in recent years.

Simultaneously with this change of the management a new unsecured credit of ten billion francs was granted by the Bank to the new Government, which appears to insure the present regime's ability to meet its increased disbursements over the next several months, but also makes certain a still further deficit in the already badly unbalanced budget. How this problem can be overcome without new and radical forms of taxation is difficult to see, and ultimately the day of reckoning will have to be faced, either through devaluation or some form of artificial control of the country's economic system such as is now practiced by several of its neighbors.

In the meantime, the new Government is testing its credit by the issuance of a domestic loan in small denominations of very short maturity. Treasury bonds in denominations as low as 100 francs are being sold all over the land through banks, post offices and other government establishments. They have a maturity of 6 and 12 months and bear the high rate of 4 and 4½%. To the extent that this offering succeeds, the Blum Government's financial problems will be eased, and no limit has been placed on the amount of these bonds to be sold. The first response was said to have been satisfactory and up to expectations, but so far as I know no figures of total sales to date have been published. In any event, the Government will take all the money it can get in this manner in the hope that thus its financial and economic program may be helped and as much as possible of the new credit at the Bank of France be kept open for future emergencies.

In this connection the views of some of the leading bankers in Paris with whom it was my privilege to talk will be of interest. Just as bankers and others in America are greatly concerned over the huge deficit piling up in Washington, so do the financiers of France look with concern upon the inflationary effect of the new Government's policies and actions. The flight of capital from France has been tremendous because of this fear of inflation and possible devaluation, although the return of gold to the Bank of France in the few weeks previous to my visit indicated a slight reversal of this tendency.

In discussing the question of the possible devaluation of the franc, one of the ablest bankers of France made this interesting observation: He said that until recently much of the pressure in favor of such action had come from the large industrialists, who felt that their only chance of competing in the world's markets and thus building up the exports of France lay in the adjustment of the franc. They now realize, however, that such a devaluation would probably be of little help to them. The so-called "clearing agreements" and other artificial trade barriers and the ever-rising spirit of nationalism are constantly restricting the flow of international trade, so that the possible increase in the export of French goods would be very small. Moreover, after their recent experience with enforced increases in wages, they frankly fear that if any devaluation of the franc took place in the near future, labor would be likely to use its newly-found power to enforce further increases in wages, so that most of the benefit of any devaluation would immediately be lost to the manufacturer and little real advantage be left for him in competing for increased foreign trade.

Summing up, I left France with the distinct impression that its economic and financial problems will somehow be solved and all will be well with its future if only a serious outbreak of civil strive among the masses can be avoided. Personally, I believe that the country's greatest hope and safety lies in the French peasantry, which still is the mainstay of the nation.

Germany

For one who has studied recent political and economic events in Germany only from afar, and largely from newspaper reports, a visit to that country is something of a revelation. I think almost any American to whom "Freedom and Liberty" still mean something more than empty words is apt to enter the new Germany, as I did, with certain prejudices, because of the ruthless means and methods by which the present regime has come into and held itself in power, and because of certain class and racial hatreds and injustices which have gone along with this new order of things. But if one lays aside these feelings and dispassionately observes the remarkable transformation in the physical appearance of the country, as well as in the spirit of the people, a certain admiration for their accomplishments can hardly be denied.

It was my privilege to talk with Dr. Hjalmar Schacht—who still is the economic dictator of the country—and with many leading bankers. Motoring alone, I not infrequently picked up interesting looking hitch-hikers in various parts of Germany, just to learn something about the frame of mind of the masses, and in shops and at the Olympic games I engaged people in conversation and asked many questions. Granted that many of these people talked with a good deal of reservation, and granted, also, that every effort was being made to give, especially to visitors at the Olympic games, the best possible impression, and finally, making allowance for the fact that two weeks spent in such a study is not enough to see much under the surface of things, nevertheless, one could not fail to admit industrial activity is everywhere in evidence and that the mass of the people appears more content than in many years. And this appears to be true in spite of the fact that, due to Germany's inability to pay for any but the most necessary imports, there is frequent shortage of certain food supplies. Thus, for instance, several of my hitch-hiking friends told me that it was for the moment very difficult for the average householder to get eggs, first, because there was a shortage in the country, and secondly, because the available supply was concentrated in Berlin and other tourist centers so that there should be no shortage of any kind for visitors. The average German apparently good-naturedly pulled his belt a little tighter and did without.

It would lead too far to attempt to describe even briefly the changes which have been brought about in the leveling of class differences, the increased opportunities for the enjoyment of life by the working people, the physical and mental education of the youth of the land, both boys and girls, and last, but not least, the reawakening of the national spirit as evidenced by the feverish increase in military activities. So far as business is concerned, tremendous changes have taken place. Bigness is being discouraged in every possible way, and the existence of small, independent undertakings is considered essential because it helps to maintain a strong middle class. Capitalism, in its broader sense, is apparently in no present danger, but its status is probably best expressed by a declaration made early by the new regime, which said:

"All activities will be governed by the law that the nation does not live for the benefit of the economic system, nor the economic system exist for the benefit of capital, but capital serves the economic system and the economic system the nation."

Wise has been the industrialist, merchant and banker who early recognized the necessity of conforming to these guiding principles of new National Socialism, for those engaged in what we would call "big business" who co-operated in this spirit fared relatively well, while the fate of those who attempted to "stand pat" and fought this new order of things was anything but pleasant. And whatever serious objections may be raised to this new order of things by which the all-powerful Government enforces its will, it must be admitted that the practical result has been the complete suppression of the communists, who were alarmingly numerous in Germany a few years ago, and the absolute elimination of strikes, wage disputes and disturbances of that character.

Extremely interesting, from a social as well as economic standpoint, are the many things which the Government is doing to improve the status of the working classes and, incidentally, also to encourage an increase in the population. I will mention but two of these. Any young man desiring to get married can get a "marriage loan" of 1,000 marks (approximately $400) for the purchase of household goods, which he can repay over a long period of years. Whenever a child is born to the union, a credit of 250 marks is made on the loan by the Government. By this and many other special privileges which the father of several children receives are large families encouraged.

The other important innovation which has been encouraged by the new regime to please the working man is the so-called "Kraft durch Freude" (strength through pleasure) organizations which, through government co-operation, make it possible for the masses, at an unbelievably low cost, to enjoy such pleasures as attending the theatre, taking delightful week-end journeys and going to the seashore, or even taking steamer trips for long distances through their legally-fixed and paid-for vacations. But enough of such details! All I want to convey is that those who believe the present regime in Germany is doomed to early failure are very likely to be disappointed. Of course, the 98% election returns which have been reported in support of the Government do not reflect the free will and thought of all those who are almost forced to go to the polls, but I am firmly convinced that in any absolutely free and secret election the present Government, on the basis of its accomplishments, would receive a very substantial majority.

As to Germany's foreign commercial relations, I will make reference only to the acute situation which has developed in recent weeks in the trade relations between Germany and the United States, and which threatened to bring to a practical standstill all export and import business between the two countries.

Under a recent ruling of our Treasury Department—based on definite legal opinions—certain so-called "countervailing" duties have been imposed on certain German goods imported after July 12, 1936. This action is based on the provisions of the Tariff Act of 1930, which provides that whenever any bounty or grant has been paid on the manufacture or export of any article which is dutiable under this Act, then the Government must levy an additional import duty equal to the bounty or grant. Since considerable business of this sort has been done and was contracted for, this ruling came as a considerable blow to both German and American export and import houses. The Germans admitted that premiums were being paid by them on certain exports, but that they were not government bounties but were paid out of voluntary contributions by certain industries. They argued, moreover, that these premiums were only allowed to equalize exchange differences resulting from the devaluation of the dollar, which the German exporter cannot overcome in any other way.

The unpleasant sequence of this American ruling was a new German regulation prohibiting the use of so-called "A S K I" marks for the payment of imports into Germany. Without going into detailed technical explanations, "A S K I" marks were created by German exports and constitute almost the only means at present available for the payment by Germany for cotton and other raw materials exported from the United States. Fortunately, a solution for this acute situation appears to have been worked out, because very recently a second ruling was sent out by our Treasury Department indicating that the German Government has taken measures to discontinue the objectionable concessions made at home, and, therefore, making it possible for the American Government to eliminate the burdensome countervailing duties. Thus at least a limited trade between the two countries can be carried on.

Italy

My travels in Italy were confined to brief visits to the cities in the northern part. The most important one in which I spent some time and had a real opportunity to talk with bankers and business leaders was Milan. There the new spirit of Italy is everywhere in evidence. No city I have visited in recent years in any country showed such enormous building activity as does Milan, and there is a remarkable amount of optimism for the future of the country.

Prices are high for both agricultural and industrial products, and the budget is sadly unbalanced, even without the enormous extraordinary military and naval expenditures connected with the Ethiopian campaign. Italy's debt now exceeds 150 billion lire, and while there has been no official devaluation the lire has really depreciated about 25% when measured against the actual price of gold within the country. However, the successful outcome of the recent war and his victory over the League of Nations through the elimination of sanctions have added much lustre to Il Duce's name, and the new agreement with Austria and Germany has given the country an increased feeling of power in European affairs.

One conversation with an Italian banker seems particularly worth mentioning. "Watch," he said, "how the whole diplomacy of Europe will shortly be dominated by those countries governed by dictators. Hitler, Mussolini and Schussnigg could shake hands across the Alps and to all intents and purposes re-establish the old Triple Alliance without consulting parties or parliaments, and they can in all future European disputes act with a dispatch and independence absolutely impossible in a country like England, where embarrassing questions must be answered in Parliament and cumbersome formalities must be conformed with before anyone can or dare speak with authority. Thus the leadership in European diplomacy will pass to new hands."

This is undoubtedly a somewhat exaggerated picture, based to some extent on the patriotic enthusiasm of the Italian banker in question, but it gave me a lot to think about, and there is a challenge in this present situation which I believe is causing British leaders considerable worry, especially after the humiliation which England suffered as a result of their complete failure in the Italian sanction episode.

Switzerland

Several days spent in motoring through Switzerland gave me an opportunity to observe how severely that country is suffering because of the relatively high cost of living resulting from its faithful adherence to the gold standard. The predominant business in Switzerland has always been the tourist business, and that has suffered terribly in recent years. The high exchange rates have greatly discouraged travel from all countries, and recently Swiss exchange has almost been unobtainable by prospective travelers from Germany, which in the past furnished the largest number of visitors. As a consequence, the better hotels were painfully empty and not a few were closed entirely.

Switzerland's industrial activity is largely limited to the production of light, high-grade articles such as watches, textiles and food products, but agriculture supports a large percentage of the population. Generally speaking, farms are heavily mortgaged at high interest rates and banks hold many such obligations which are in default. Banks have also suffered greatly by the German crisis, because financial transactions with Germany were always large and enormous sums of Swiss capital are tied up in Germany in "Sperr-mark" and similar accounts. However, the banking situation is gradually improving and Swiss bankers seem to take a hopeful view notwithstanding the fact that the country's budget shows a deficit and railway earnings, which flow to the Treasury, are far below usual totals.

Every effort is being made to maintain the currency on the old gold standard and to prevent speculation in it as far as possible. No inducement is offered to the prospective visitor by making it possible for travelers to buy Swiss francs at special rates, such as can be done in the case of lire or marks, but special concessions are granted by very low railroad fares and by substantial rebates on gasoline purchased in Switzerland if one remains a minimum of three days.

England

General economic conditions in England are undoubtedly better than those of any other European country at this time. There are two principal reasons for this. For several years past England has enjoyed a real building boom, especially in residential construction for the middle classes and small workers, and the benefits of this activity are widespread. Secondly, English industry is benefiting very largely from the country's change from its age-old policy of free trade to one of protection, and many articles never heretofore manufactured in England are now being produced in competition with similar imported goods which are subject to substantial duties.

Since the adjustment made as a result of the nationwide strike a few years ago the country appears to have been free of any major labor troubles, and while there are still many unemployed on the dole the number is decreasing. Figures given me by one of the leading economists in London are that the number of unemployed has gone from 2,800,000 to about 1,700,000. Altogether, the impression one gains is that there exists social peace and reasonable prosperity in the land.

In London it was my good fortune to have conferences with a number of the financial leaders, including Montagu Norman, Governor of the Bank of England; Reginald McKenna, Chairman of the Midland Bank; Charles Lidbury, Chief General Manager of the Westminster Bank; W. M. Goodenough, Vice-Chairman of Barclay's Bank, and many others. A also talked with some of the outstanding economists, such as Henry Clay of the Bank of England; Professor T. E. Gregory, and others. What interested me most was the very liberal attitude which British conservatives are taking toward many of the great social changes going on in the world, and what surprised me beyond measure was the new point of view which "Lombard Street" as well as "Threadneedle Street" now take of the gold standard and the question of "managed currencies." England went off the gold standard without a flurry nearly five years ago, and its "managed currency" has been so well managed that almost everybody seems to be satisfied with the status quo, and I found little interest displayed in the subject of formal stabilization of the pound.

The truth is that under England's compact economic and banking system the Bank of England, which is a privately owned and managed institution, can regulate the flow of money and the currency perfectly, both through the cooperation of the few big joint stock banks and through open market operations. The general public does not know just what gold coverage is behind the pound and apparently worries not at all over the fact that the pound is no longer convertible into gold. Everybody in and out of England accepts the pound without question, just as they did when the pound really meant so many ounces of gold. The remarkable part is that people from all over the world come to London to take inconvertible pound notes in preference to their own notes, some of which are actually convertible into gold.

One English banker said to me rather seriously: "The reason we get along so well on our present basis is that, fortunately, our population is rather dull when it comes to financial matters. They do not understand this gold question. They do not care. A pound is simply a pound to them." But this banker was far too modest. It is not the dulness of the English populace, but their confidence in the competent management of their currency and their country's financial affairs that makes them feel that "a pound is simply a pound," no matter what is behind it. And indeed the fine record and innate strength of English banks and the remarkable history of the British banking system justify this confidence and faith.

Leaders in finance say that they are quite satisfied with the present order of things, and while, for the protection of their own international trade, they are doing all they can to keep the pound as stable as possible with the dollar and the franc, they are not at all interested in formal stabilization and are not likely to be until world conditions, and especially European political conditions, are far more stable than they are today, and until some measure of international economic confidence is restored.

For one who has always looked upon London as the acme of perfection and conservation in all things financial, it was particularly surprising to find this new attitude and to be told in high places that the gold standard was "out of date." It is argued that the gold standard worked all right as long as it only had to take care of the normal fluctuations resulting from natural trade relations between nations, but that it is folly to think it can take care of the violent movement resulting from the flight and occasional repatriation of capital. I went to Europe in the hope and belief that something could be done in the reasonably near future toward formal stabilization of the principal exchanges; I left London fully convinced that while real cooperation is possible toward practical stabilization between the dollar and the pound, the question of any formal stabilization of the exchanges lies quite a long ways in the future. All my previous economic reading and teachings had always been to the effect that it was the gold standard which made for economic stability. It comes as a bit of a shock, therefore, to be now told by competent and important people that the reason it is not practical just now to go back to the old orthodox gold basis is because we have so much economic instability. How the world changes!

It may be worth while to add here that such changes in monetary control as have occurred in England could hardly be duplicated in the United States. Instead of having a half dozen banks with many thousands of branches, the finances of our country are handled by nearly 15,000 independent units. This condition alone would make it impossible to create in America the compact, centralized control of our monetary and banking systems and of our other economic processes which has been developed in England. Moreover, the size and diversity of the United States and the constitutional distaste of our people for highly centralized personal control makes it unlikely that we shall have established here the amount of central authority which would be necessary as an effective substitute for the impersonal and effective ultimate restraint exercised by an adherence to the gold standard.

One other incident which occurred during my brief visit to England seems worth recording because it expresses in so few sentences England's present frame of mind on the international situation. Mr. Chamberlain, the Chancellor of the Exchequer, speaking on July Fourth at a Unionist meeting, after pointing to the domestic prosperity which had come to England as a result of tariffs and other factors, continued as follows:

"Above all, in these days of stress and anxiety, when the peoples of Europe are conscious that their future may conceal dreadful possibilities, it is to the British Empire that they turn for hope and encouragement, because they feel, they know, that the British Empire will always be found on the side of peace and good will.

"It has fallen to me, as Chancellor of the Exchequer, to have to ask the people of this country to submit to further taxation just when I had hoped to be able to give them further relief, and I must once again pay my tribute to the spirit in which they have accepted that new burden.

"I know they understand that the safety of the country must be our first consideration, and that we could make but little contribution to the peace of the world unless we were so armed and equipped as to be able to meet our share of any risk that might be involved. In that task, the task of arming and equipping our country, the Government is engaged without remission, and I know that in the accomplishment of that task I can safely appeal for your continued confidence and encouragement."

Everywhere there is convincing evidence that Mr. Chamberlain's policy s being aggressively carried out, but I doubt very much that enough new taxes will be imposed to pay for these enormous expenditures, and I believe even England's budget will fall far short of being balanced this year.

Conclusion

The European picture as a whole is not a cheerful one, either from a political standpoint or from the point of view of the business men. World stability cannot be brought about so long as the present tendency toward economic nationalism continues and every nation strives for self-sufficiency. It cannot be denied that this economic nationalism is in many instances not based on mere desire for selfish advantage, but rather on absolute necessities of the countries in question.

Accordingly, international trade is doomed to many artificial restrictions for some time to come. This does not mean that we should give up in despair and do nothing to improve the situation and try to rehabilitate world trade, but in making future plans it is best to look these unpleasant facts squarely in the face.

The gold supply of the world is now concentrated in the hands of so few nations that it has become a fundamental necessity that goods and services must be accepted in payment of international obligations or else international business transactions must stop altogether, because the debtor countries are practically without monetary resources.

Meantime, some of our neighbors are not resting on their oars, as may be illustrated by England's most recent action of authorizing the sale of $50,000,000 of British goods to Russia against their issuance of 5½% Russian Treasury notes, payment of which British authorities undertake to guarantee in due course.

In one European country after another, business men have had to reconcile themselves to progressive socialization of industry and commerce, and an increasingly large surrender of their individual rights, until they have reached the establishment of something approaching the totalitarian state. It is true that as a result the acute and unbalanced relations between capital and labor have been greatly improved, but at a cost far greater than would have been possible by far smaller voluntary concessions before conditions became so unsettled as to bring about the political upheavals which followed.

Six weeks of close observation of these conditions have convinced me more than ever that we can ultimately escape similar political unrest and social upheaval only if we have the wisdom to profit by these developments and recognize these changing conditions by tempering our demands for the liberty and privileges of the individual with a sincere consideration for the rights of the masses upon whose welfare our national safety and prosperity will ultimately depend.

Fortunately, there appears to exist in the United States today a widespread recognition among our business leadership that the capitalistic system must be in the service of the nation, and that its prosperity and continued existence are based upon its ability and willingness to be the best economic servant that can be employed. I believe, further, that through liberalism in their attitude both towards employees and towards the public, American industries have the power in their own hands to combat communism and to minimize social unrest if they will only use this power intelligently. In other words, I am convinced that the great lesson of Europe to the United States is that the solution of our economic and social problems does not lie in our approaching a totalitarian state through still greater centralization of government, but rather that we deal with these problems through our present free institutions and an enlightened business policy, without the necessity of strikes or government compulsion.

Is Democracy in Banking on the Way Out?

Abstract of Address by MERLE THORPE, Editor and Publisher "Nation's Business," Washington, D. C.

When hard times come, one solution always appears: "Let's change the banking system." Most of the ills of adversity are attributed to the machinery of capital and credit. Likewise it is represented that the hope of recovery and the promise of a better world lie in such change.

The changes proposed in America invariably involve more regulation, supervision, control and operation by political agencies. This is natural because America has had the least of such political control of any country in the world. The great issue before the American people today is whether we shall continue with the democratic method of handling the people's savings through bankers or put these savings into the control of a political administration. It is an issue as old as the world itself; it is and has been the main objective in the struggle between political power and individual freedom and initiative.

Discussion is important today because this Nation must sooner or later make a decision. The decision will be a momentous one because it will determine all the other national questions confronting us. Simply, the question is, who shall allocate or invest—or spend—the savings of the people? How will such allocations be made? Who will have the use of the funds? Shall it be done by individual bankers as in the past, or by a political board or bureau? Already, the battle lines are drawn.

Discussion is important, but will be futile, if not approached in a spirit of seeking light rather than of generating heat. No intelligent appraisal nor intelligent decision will be reached in an atmosphere of partisanship or by indulging in personalities. Princles are paramount and sincerity must be attributed to proponent and opponent alike. Who says it, matters little; what is said alone deserves analysis and consideration.

"Capital allocation" is one of the many mouth-filling shibboleths sired by the depression. It sounds like a discovery, something new, but it isn't. That political agencies should allocate capital, in other words, should allot the savings of the people, is the axle of the communistic wheel. Karl Marx had 10 "points" in his platform of communism. The first was:

"Centralization of credit in the hands of the State by means of a national bank with State capital and an exclusive monopoly."

Marxians of later days recognize its potency. Lenin, an avowed disciple of Marx, who has been deified as the father of modern Russian Communism, observed:

"Through the nationalization of banks they"—the small business men—"may be tied hand and foot."

Elsewhere he said:

"One State bank as huge as possible, with branches in every factory—this is already nine-tenths of the Socialist apparatus."

Even more recently the British Socialist leader, G. D. H. Coles, said:

"Before a labor government nationalizes any industry, it should nationalize the banks. With the banks in our hands we can take over other industries at leisure."

The urge to control banking resources, thus emphasized, comes from others who disavow communistic or socialistic ends. Not long since a witness appeared before the Banking and Currency Committee of the House of Representatives. He said that, to achieve certain objectives—the prevention of speculation and the stabilization of business—it is "necessary to concentrate the authority and the responsibility for the formulation of national monetary policies in a body representing the Nation." "It is necessary," he added, "to improve our machinery of monetary control."

The witness, in his instance, was not attacking the capitalistic system. He was Governor Eccles of the Federal Reserve Board, and he was speaking of Title II of the so-called Banking Bill, which would make possible the establishment of political control over the operations of the Federal Reserve System. Much water has gone under the bridge since Karl Marx laid what he conceived to be the communistic cornerstone, the "control of the monetary system," but his plan still seems to serve the purpose for any increase in political management in a democratic country.

Why is political control of credit and capital regarded as so essential to any program which undertakes to substitute governmental thinking and planning and acting for the thinking and planning and acting of the individual citizen? The United States Chamber of Commerce, in formal declaration, describes it as follows:

"The real needs of commerce, agriculture and industry could be subordinated to the spending plans of the government and to its dictation concerning the volume and kind of credit to be made available from time to time. . . . Efforts could be made to control the level of production, prices and employment, through adjustments of the mere volume of money and credit, by a Washington bureau which thus would be permitted to experiment with a most dangerous form of so-called central planning."

Note the phrase "dictation of the volume and kind of credit." What does this mean to the Man in the Street? It means that a bureau or board in Washington would have the power to decide for him if he may buy an automobile on the instalment plan, the price, the style, or if he may buy one at all. It means that his deposits in the bank are no longer under his control through his bankers, but may be allocated for some social purpose in another section or, indeed, a foreign land. It is all a part of a larger policy, which Professor Tugwell describes as follows:

"Capital allocation would depend on knowledge, from some planning agency, of how much for a measured future period ought to be put to one use rather than to another. Given this information the first step in control would be to limit selfallocation. This is the first great problem in this field. Industries, because of their past and present, regardless of temporary luck, grow over-confident of the future and expand their own activities beyond all reason."

This alarms me, for Professor Tugwell on other occasions talks of "discipline," that I "must subordinate" myself, "must consent to function" along lines "defined" for me. Lenin likewise had much to say of "strictest discipline," and so do Stalin, Mussolini and Hitler. They also overwork the worm "must." I may be old-fashioned, but I dislike the word.

"Capital allocation" is what bankers in America, under the urge of a democratic method, have been doing ever since their banks were established. Until recently, for 30 years, approximately three billion dollars have been "allocated" annually for the creation of new industries, the launching of new enterprises, and the maintenance and development of the vast industrial and trade organization by which the country gets its bread and butter. What those who advocate a change actually mean is that the allocating should be done by political authority and not by the banker, who is supposed to know his community and his borrowers. Government, in other words, should take over the function of banking as an essential step in the reconstruction of society in accordance with a definite plan.

The tide is running strongly here, as in the rest of the world, toward political control. The pity of it is that the many do not recognize it; it would be more hopeful if the issue were brought out in the open for an aye or nay vote. The movement is away from the traditional, democratic method of "capital allocation" now represented by the American banking system. It is being replaced by a new autocratic method of allocation under political supervision and control. Through the exercise of the power of taxation, for example, the Federal Government is collecting capital without the formality of deposit slips, and allocating it, by appropriation, for the building of dams and power plants, the erection of model towns, the electrification of rural homesteads, the manufacture and sale of goods of various descriptions. This tendency is not of recent origin. It began before the New Deal was thought of.

The people, especially when the shadows of depression gather, are easily persuaded to believe that bankers are irretrievably reactionary—financial Bourbons, henchmen of Wall Street and that fabulous monster, the "money trust." The banker, therefore, becomes the whipping boy of the unscrupulous politician and the demagogue. All of this is done, ironically, in the name of the new "liberalism." Ironically, because American banking is essentially a democratic institution, and the American banker must be by profession "liberal," if being "liberal" means to be tolerant of the ideas and opinions of others, and not set against change because it means innovation. Take away the banker's traditional glass eye, invented by those who know very little about him, and banking is a striking example of voluntary cooperation. The banker, probably more than any other professional man, except, possibly, the politician, must keep his finger on the public pulse. If he were the arrogant person he is often pictured to be, he would have no depositors and, therefore, no bank. If he were an irreconcilable reactionary, who opposed change, how long would he last in this fast-moving age?

The successful banker, as a matter of fact, is no more than a go-between. On the one hand, he is the trustee of funds of many depositors who have confidence in his integrity, his understanding, and his judgment. On the other, he is the *paterfamilias*, the head of the family to those who are attempting to launch new enterprises and new projects—the advance guard which clears the way for the forward march of civilization. The banker must sift the visions of those restless dreamers who are constantly groping for new ways to develop and improve the present order of existence, and choose the most likely ones. To do this he must understand the temper of the people and their aspirations. He must understand their limitations. No bank runs under its own power. It depends upon the voluntary cooperation of the public to entrust to it the funds which it may invest, and it depends in the same degree upon the resourcefulness and energy of the people in the productive use of these funds.

The banker cannot accumulate capital resources by the imposition of a tax. He cannot allocate arbitrarily the funds entrusted to him in conformity with his preconceived ideas of what ought to be—not if he ever hopes to get them back for his depositors. He knows that he must give an accounting of his stewardship and, if he has made mistakes of judgment, take the consequences.

The American banker, as we have known him, is the real exponent of democracy. He, unlike the so-called liberals and progressives, really believes in democracy, to the extent, as Calvin Coolidge put it, "that he is strong enough to permit the people to make and correct their own mistakes."

Contrast this spirit with the "allocation" of capital by political authority. Government takes its capital where it finds it, without, as I have said, the formality of issuing a deposit slip, or it gives its promise to pay in the form of a bond. No bank examiners shadow its doorway. It makes its accounting as it chooses. It allocates as it pleases, regardless of the return upon the investment, to "suit the needs of the hour" or the predilections of the political office-holders who happen at the moment to be in authority. The allotment of a $40,000,000 bridge project often hangs upon the whim of a single official, such as the one who you recall announced that New York City had better get busy or "I'll change my mind." If the banking system of the country had been run as casually as we have run the political system, the Nation would have been irretrievably bankdupt long ago.

How has democracy in banking worked out in America? What is its record of trusteeship of a yearly average of $50,000,000,000 on deposit? What account of stewardship can the 16,000 bank Presidents, responsive to the people, make? Not at any time has more than 1% of the $50,000,000,000 been in actual jeopardy.

Foreign commissions sent over to study our banking system invariably go back to praise, to report its fine cooperation with industry.

Bankers are patriotic, again responding to the people. When political leaders exhorted "Lend money to Germany; bring Germany back so she will again be a trading nation among the nations," the banks responded. When a Secretary of Commerce urged loans to the countries of South America, "Help build them up, and they'll buy our factory products," they cooperated to that end.

The record stands clear. In 50 years America has from 2,000,000 ideas in the patent office, developed hundreds of new industries, 18 of which, for example, furnish employment today for more than 9,000,000 wage-earners. It is no coincidence that not a single other of the 59 nations during the same period developed a single great enterprise. Mistakes of judgment, yes, but infinitesimal compared with larger benefits. Allocations made daily, corrected daily as only private operation can do, allocations made primarily on the basis of success, with uncanny knowledge as to the public's acceptance. The wealth produced is the miracle of the ages, and is so widely distributed as to make the condition of the average man in America the magnet of millions of immigrants who, strange to say, fled from the blessings of "capital allocation" by the State.

By any test the handling of the people's savings from the bottom up and not from the top down, gives America the clear advantage. The burden of proof is upon those who are demanding the change to authoritarian methods.

Large-scale operations in a large-scale country require large-scale pooling of savings. A bundle of faggots are replaced by a 100,000 horsepower generator. You can't buy a turbine in a 10-cent store. The savings of a thousand thousand individuals must be pooled to carry on. Such pooling in America has been under the voluntary cooperation of individuals through the instrumentality of banks, responsive to democracy. Such pooling by a political agency is State socialism, whether by the painless route of taxation or compulsory allocation by a Federal board. Furthermore, in one instance the hazard is left with the people where it belongs; in the other it is placed upon political managers, who come and go.

Here is a disturbing thought: Every step forward in economic progress since the world began has been through the voluntary effort of individuals. The corollary is true; political organisms have never created wealth-producing enterprises. Walk down the street. These telephone and telegraph poles, rails, department stores, power plants, buildings—dwellings and commercial—the airplane overhead, that radio aerial and motion-picture house, ships, coal mines, the oil derrick, the automobile—all the product of individuals cooperating. The bank is a development of the jeweler who safeguarded his customers' cash; the insurance company began as a pooling of risks by traders.

As Herbert Spencer points out, it took 50 years to sell the idea of city water-works to Germany by the British engineers who developed them. Even the Post Office grew from the private collection and distribution of mail.

Capital allocation by political boards would engage in nothing new. It would simply take over what has already been pioneered. That has been the record. Capital allocation in the democratic way is not foolproof. It is far from perfect. Excesses and abuses there have been. No one condones them, but perspective should be preserved if sound premises are to be arrived at and a sound program laid down.

Everyone wants a more ideal world, a world where selfishness and trickery are eliminated. Progress in this direction, despite the earnest exhortation of school and church and example of good men everywhere, has been slow, although sure, throughout the centuries. Attempting to reform humanity by reforming machinery is a mare's-nest.

With the ideals of honest reformers we are all in hearty sympathy. All of us long for a world where there is no greed, selfishness, avarice; no injustice, no inhumanity of man to man, no acquisitiveness. But we should not be blind to the fact that probity, uprightness and honor among members of the business community are so much the commonplace that they escape notice by their very prevalence. A good name in banking is no curiosity in the United States.

Is democracy in banking on the way out? Yes, in spite of its phenomenal record, in spite of its habitat in a democratic America, unless the present course is changed, unless we go into reverse and return to the faith that men and women "should be allowed to make and correct their own mistakes."

It is on the way out unless the people realize that ill-considered reforms through the centralization and expansion of political authority are attended by grave dangers, dangers no less real because they are intangible. America furnishes the tragic spectacle of free men forging their own chains. Liberty, freedom of action, are being whittled away by subtle and seductive promises of benefits to come. Such liberties, we know from history, can only be regained by long and arduous effort, by sacrifice, often of blood, and we also know that many times once lost they have never been regained.

The banker has always been, and contrary to the wise-crackers, is today a man a community looks to for counsel on complex public questions. His responsibility is to appraise and understand these larger questions, then to arouse the active support of his neighbors to the realities that the citizen is alone custodian of his own destiny. This responsibility cannot be delegated to anyone. Even the Supreme Court has no muskets.

The citizen's responsibility is also great. If he fails to preserve the American tradition of the march toward higher standards of life and work, ordered liberty under law, the culmination of man's greatest effort to be a free spirit, if he fails, then the American tradition will be homeless; it will be a tradition without a country.

Business and Education

By LELAND WHITMAN CUTLER, President Board of Trustees, Stanford University

Mr. President, Ladies and Gentlemen: To Follow Merle Thorpe on any program is a difficult assignment. To me, it is most difficult now when I am listed to speak on business and education, because over 30 years ago Merle and I went to University together and we formed a friendship which only death can end. We went to this University not like many of our lads do now. Merle worked in the library for 18 cents an hour, and I envied him his job because he had this golden chance to read the books he loved while he kept the rest of us waiting at the counter with cards for the books that were prescribed for us to read.

Once in a while he violated his trust and slipped me a library book because he knew that maybe I couldn't afford to buy the textbooks for the courses that we studied together.

We worked our way together and I hate to admit it, but we even led the Stanford band together. The student body took a vote one time as to who was the worst cornet player, Merle or myself, and Merle won because he kept right on playing regardless of how it sounded or how the notes read, while I learned a little trick, which has stood me in good stead ever since: Whenever I came to a part that I couldn't play, I just stopped and beat time and of course it sounded better.

In those days, the Republicans and Democrats alike were affluent and they used to pay $25 for a band to play at a Democratic rally or a Republican rally, and one night the Democrats had a rally in Mayfield, and the Republicans in Redwood City, some 10 miles away. So Merle and I divided the band into two parts. He took the basses and baritones with him to Redwood City because I could play higher than he could, way up where the clarinets belonged. I took the reeds and the base drum and a few other things and went to Mayfield with my cornet. I want to ask you, whether the Republicans or the Democrats won that year (I won't tell you) if what Merle and I did would be called boondoggling or whether the certainty of $25 to the actuality of $50 would be called inflation.

Merle has taken his education into business and he is of the East, but I know he loves the West. I am sure he will remember that Thanksgiving day in a country church when we said thanksgiving together, and when we played cornet duets together. And it is to me more than a coincidence that I follow him. It is an honor. I very humbly offer to you the words of education in business which we learned together. But before I speak of education in business, which is my theme, I want to impress upon you the delight which all San Franciscans have that you are here in this city that we love, to admit our gratitude that you have come so far to to see us, and to ask that you cede to us, your host, the only privilege a host can claim; that is, the desire to make you feel at home, and the sensing that you know well you are welcome is a true one.

I am not the city's welcomer, but I do know how the city feels about you, and we want you to like us and accept as unreservedly and as genuinely the things we have to offer as we offer to you in that same fashion everything that we have. We are glad that you are here to see the West, all of it, and we want you to have faith in the West, as our bankers here have faith in the West, because, after all, we are a nation, not a compass, and there must not be any trembled point between the East and the West.

Here in San Francisco we like and respect our bankers and have faith in them. I don't know of any city in the land where men stood together and helped each other in the troubled days like they did right here in San Francisco, and I don't know of any city in the land which would have smahed so fast if it had not been for the fine, understanding bankers we had. I doubt that some of them even speak to each other, but they are grand, fine, dominating personalities and I have seen them disagree so violently on one issue at one time that you would have thought the world was coming to an end, and the next day, they decided to put it over and went zealously about doing it.

I remember five or six years ago in the ordinary course of my business—that of suretyship—I went to New York and the East to see how many contractors might be developed to build a dam across the Colorado River. Every contractor I saw referred me to his banker and every banker I saw, while he treated me knidly, looked very pityingly at me and undoubtedly wondered what sort of a fellow I was who could hope for help on such a project. It was a granite canyon, I was told, so tall that high upon its crests were water marks of floods that flet each year on their way to Mexico, a turbulence that could not be curbed. Each one told me that he would advise his contractor not to bid because the West was too far away.

There weren't any bidders from the East because the East did not understand the West. Just a day or so ago, the Prseident of the United States touched a button which released the waters of that mighty river built by a western contractor, the building of it made possible by western bankers who, still mindful of the trusteeship of the funds entrusted to their care, saw the building of that dam to its conclusion.

I never think of that mighty dam without thinking a tribute to the bankers who had the faith and the wisdom to know it could be done and to see it through. I wouldn't be surprised, of course, if those self-same western bankers were approached by western contractors to be permitted to build an acqueduct, say, from the Catskill Mountains down to New York, or build a subway back there, or dam the Hudson River, the western bankers might have vision enough to tell the western contractors to stay home and do their own digging and building in their own back yard. However, the point that I do make is that we of the West know more about you the East than you of the East know about us.

You have the magnet of accomplishment to attract us. We have more the magnet of opportunity. And while it is in the mingling of the two—accomplishment and opportunity—that education comes, education cannot ever rest upon accomplishment, for such would mean the death of education. Please may the education of the East and North be strengthened by the opportunities of the West and South, just as those opportunities are heartened and encouraged by the accomplishments of your great cities, in building, in culture, and in domination, and, if you please, in guiding the course of the country.

We all need each other. The West has been a wilderness long since first cities of the East and South strolled their aristocracy upon a boulevard of opportunity and accomplishment alike. Education can take Wilderness and Aristocracy by the hand and lead them to Democracy, and so from this great land of opportunity I ask you to believe in us, have faith in us, and learn from us as we have learned from you.

Business and education, too, must walk hand in hand, and although it is a mighty thing, I would not speak now of the education which comes from the things you learn, once you are in business, but of the things colleges and universities should teach young men and women when they are in their teens or scarcely out of them, when they are of no help to business at all, and when all they know about business is what they have heard from a mother or a dad over the breakfast table about bills, or whether their allowances could possibly be stretched to take in the eager, unexpected things they want.

I would speak, too, of the lads who work their way and wonder what they will do for a living when they get out of college. They have been taught by masters, trained in theory, but underneath the drone of precept is the errant listening thought of the student: How does all this help me eat, or help me amount to something in the world?

It is my honor to be President of the Board of Trustees of a great university, a trusteeship which has to do with the preservation and proper application of many millions of dollars, but a trusteeship which must concern itself with the preservation and the proper application of many millions of dollars and a trusteeship which also must concern itself with the education of young men and women so that they may grow up to know the difference between right and wrong in daily thinking, in conduct, and in the work of life.

Education is dependent on the men and women of the faculty who select those to be taught. It is dependent upon the response of those selected for the things that they are taught and for the ideals which prompt the teaching. It is dependent upon the men who administer the trust and the policy of the University.

There is probably nothing in the world that is more illusive than education. Men have tried for ages to define it and they have tried to obtain it. You and I do not clearly know what education is, but this we do know: that no country can rise above, nor does it fall below the teachings of its schools, and whatever it is the world needs most must be accomplished through education, and what the world has always needed, and will always need, and needs now more than ever in its history, are leaders whom other men will follow on the right road in the doing of right things, and translate education into the making of this world a better place in which to live not only for themselves but for the countless thousands they can never see or know.

The universities of this country are on trial as to whether they shall devote themselves to science and the professions and the arts alone, or give an equal place to clear-eyed respectful young men who don't want to be doctors or lawyers or engineers, but who have the right to know what the ordinary things of life are all about and to be fitted for the doing of the commerce and the business of the world, upon which, after all, the professions and the arts must depend.

All of our universities are on trial as to whether above the routine of the classrooms they can place a star to light the paths of young men and women in the years ahead, and all of our universities are on trial as to whether they can give, as teachers, men whom younger men throughout their lives will remember as counselors and friends.

I know literally scores and hundreds of fine men, who are the great, strong men of their communities, who, I think, remember very little of the routine things they learned in their classrooms, but who had, in the formative days of their youth, teachers who treated them as comrades and friends, fine mature men on the faculty who instilled ideals into their hearts which cannot be defined but which have stayed with them to this day.

I think the sound continuation of business rests upon the education which can come from our universities, but there can be nothing more destructive to the soundness of business and to our democracy than to have sneering, over-brained teachers on the faculties of our universities. Any university's contribution to the world should be an advocacy of ordered government, or at least a standard from which we start toward one, a standard which will rhyme with a belief in God or stern respect for the wishes of those who disbelieve. What any university must demand of its faculty and students is, whether they agree to any particular accepted academic course or not, that they must hold their purpose to the preservation of democracy, to study all they want and get all the degrees they want, but not to sneer at the foundations of a country which made their thinking and their learning possible. And, above all else, that no member of a faculty can slyly teach indifference to democracy nor can students hold to jest and scorn the reason why men have died in battle for America.

If in your lifetime or mine men thought it worth the while of their own souls to stand up for America and take their chances unto death, the least that our universities can do is to take the sneering disbelievers—faculty and students alike—by the heels and throw them out.

With a great respect for the older men of business, many of whom, thank God, are still in control, you know well that no longer is business learned in the grocery store, around the cracker barrel, or in the trading of hens or horses or in the wise chewing of tobacco. You and I wish that some of our youngsters could have the philosophy of the cud and know when to cast part of it into the cuspidor. We wish they could have the understanding of the storekeeper who had to keep the cracker barrel filled so that he might have a change to hear of the outside world and how to run the Government, the while his glance wandered to his shelves and wondered how he could pay for the things he had bought with the money he knew would not come in.

Business isn't learned that way any more. Business now is taught in universities throughout the land where there are graduate schools where young men are taught the theory and the principles of business and the proper application of it to the things which business has bulit up.

You and I know that the youngsters from our universities cannot bring us anything at the start, but why not give them a chance? Charge it up to profit and not to loss and take them into your organizations where they can put the things they have learned to work. If our universities are right in trustees and faculty, the studentship will be right and you can trust them not to termite into the foundations of your business upon which your livelihood depends and upon which America must rest.

Last year I signed over a thousand diplomas for young men and women just getting out of Stanford University. They let me talk to them at their graduation dinner and, being a bit facetious, I said, "Your diploma will admit you into any business house in America and if you display it prominently enough, it will give you the exist just as readily." A day after graduation my secretary came in with a grin and offered me the card of one of these graduates with the names of 10 of them signed, "Your diploma will get you into any business house in America. Please may we come in?" Of course, they came in and three or four of them got jobs.

Business should be taught in our universities and it is right that our young men should, in the thing they want to do in life, be held to the discipline of classrooms and of books, but it is right, too, that you older men of business take up where universities leave off.

One day your fine names will be tradition and tradition of itself touches only yesterday, but tradition kept alive by youth walks in warmth from day to day. Knowledge with you has survived disillusionment and you still believe in men. Why not put the mighty arm of your knowledge and kindliness about youth's shoulder so that he may walk a way with you before you are tradition? Lads learn to walk in sunshine and if you now and then just match your step to theirs, they will know how far their stride can go before their pace is yours and some day when you least expect it, they will take your traditions into tomorrow's sunshine and in that sunshine build traditions of their own from the materials which you have taught them how to use in youth and from the remembrance of your own workmanship.

I know how you frown and shudder when your office boy—who probably wants to be a banker himself—comes in and says, "There is a kid outside, just out of college and he wants a job." I know how you frown and shudder, but please let him in and talk to him. Maybe you can't give him a job, but you can given him encouragement and if you talk to him a little while you may sense in him yourself when you were goung.

What is going to happen to you and me if youth isn't given the opportunity to sense accomplishment in his nostrils? What is going to happen to him if some older man does not give him the benefit of understanding and tradition and knowledge? What is going to happen to you and me if youth isn't given the the opportunity to take our traditions and our knowledge and our understanding—pitiful as they are—into the days ahead? What is going to happen to the Government of the United Statse, which we take so blandly and so much as a matter of course? I will tell you what can happen if you men of business are patient with the youngsters of business? You can train these clear-eyed, respectful young men and bring them to the manhood which all business and all civilization demands and you can help the universities bring them to the stubborn faith that government rests on the promise of a flag to fly on forever. You can train clear-eyed young men if you will call them from your anteroom and give them a chance. You can put knowledge in their minds; you can put understanding in their hearts and all their lives they will hold your traditions in their trust.

There was an ancient French philosopher who said, "My son, in your youth lay up a stock of absurd enthusiasms, else you will lose a great many of them by the way and reach the end of your journey with an empty heart." Don't let youth reach the end of the journey with empty hearts. Recall your own absurd enthusiasms. Give youth work to do.

We have had anxious days as has all the world, but you and I know that this United States of America is a better place in which to live and face our future than any other country in the world. And yet, we cannot face our future without trained youth and so by your precept, give youth faith in government and in ideals and in the character of America, for in those ideals and in that character you and I can face our future without fear and we can face other countries with pride and this country of ours through all stress will stand like oak and rock until time's end.

And such is the offer and the plea of education to business.

Address

By JESSE H. JONES, Chairman Reconstruction Finance Corporation

Not Presented

With regard to the omission of the above address, President Fleming, said:

We had expected that the Honorable Jesse H. Jones would be with us as our first speaker, to give us his viewpoint on business and banking. When I arrived in San Francisco shortly before one o'clock on Sunday, Mr. Jones asked me if I would not come to see him. He advised me that he had been pretty much under the weather, and he . . . therefore asked to be excused from appearing before the convention.

President R. V. Fleming read to the convention the following letter from Mr. Jones:

Sept. 20, 1936

Dear Bob:

As you know, I have been convalescing on the Coast for the past few weeks, intending to attend and address the Convention.

While I have entirely recovered my health, I am still a little shaky on my pins, and will appreciate your expressing my regrets to the Convention for not taking my place on your program, and accept the will for the deed. I had intended talking quite informally, but do not feel quite up to it.

It has been a pleasure to work with the bankers during the trying period from which happily we have emerged, and I hope time will further cement the ties and friendhsips we have made.

We can all take satisfaction as well as comfort and pride in the condition of the Nation's banks. They are strong enough in capital and resources to properly meet the credit demands of our great and growing country.

With best wishes for a constructive meeting,

Sincerely yours,

JESSE H. JONES.

Honorable Robert V. Fleming, President,
American Bankers Association

COMMITTEE AND OFFICERS' REPORTS—GENERAL SESSION

Report of Economic Policy Commission by the Chairman, Leonard P. Ayres, Vice-President of Cleveland Trust Co., Cleveland, Ohio

The Outlook for Commercial Banking

Commercial banking in this country appears to be facing important changes. Perhaps they are the most important that it has confronted since the closing year of the Civil War, over 70 years ago. In that year the Congress enacted a tax of 10% annually on the notes of all State banks, and by that Act suddenly drove out of existence a large part of the money with which business was transacted and banking was done. That change made National bank notes our chief form of currency, and developed bank checks into our principal medium for transacting business payments.

The change that is now taking place is that the volume of banking that may properly be termed strictly commercial banking has so far declined that it constitutes but a small fraction of what it was just before the depression, and it has not recovered nearly in proportion as business has recovered. The volume of industrial production has increased until it is now as great as it was early in 1928, and demand deposits are at levels never before reached, but the totals of commercial loans are little more than a third as great as they were in 1928. They are not much more than 10% larger than they averaged in their lowest year of 1934. It is the purpose of this report to consider whether this condition is probably merely temporary, or whether it is more likely to prove of long duration.

Commercial banking is a term which we imported from England, and it has never been adequately descriptive of our business banking, for commerce has never been the dominating feature of our national activities. When we in America refer to commercial banking we mean the form of banking which bridges the gaps of time and credit in the production and exchange of goods. Commercial banking in its pure form is seasonal banking. It has been that since the days of Adam Smith. He wrote that a bank should loan a merchant only that sum which the merchant would otherwise be compelled to keep idle by him at other times if he furnished all his own capital.

As the years have gone on the accepted concepts of even pure commercial banking have been broadened, but they have always retained the fundamental principle that its one true function was the granting of short-term credits to finance seasonal requirements arising from the production and exchange of goods. Commercial loans have characteristically been self-liquidating loans, and when they have been represented by commercial paper it has been a cardinal feature of that paper that it did not depreciate in value. Bank loans which did not have these qualities of liquidity and almost complete safety have been known as capital loans. It has always been recognized that when a banker made capital loans he had in some degree become a partner in another man's enterprise, and in theory at least that has been considered bad banking.

These theories of banking have been formulated in the text books, and been laid down by the courts, for many decades both here and abroad, but in point of fact no national banking system has ever conformed to them. Banking is always an integral part of the business life of a nation, and it is governed by the needs and conditions of the times, and not by finespun theories which would constrain and restrict it through the counsels of perfection. Thus it has come about that the commercial banks of all the leading countries have come to hold investmet securities in their portfolios as well as commercial loans. They have all made loans secured by collateral. They have made capital loans and, directly or indirectly, they have made real estate loans.

By delving through the annual reports of the Comptroller of the Currency it is possible to compile figures showing the composition of the earning assets of all our commercial banks for a long period of years. For this purpose we may consider all our banks except the savings banks as being commercial banks. We may classify their earning assets in three groups. The first consists of investments. The second consists of capital loans, which are mostly made up of collateral and real estate loans. The third class we may term commercial loans; and they consist of all the other loans to customers. All bankers will realize that taking the country as a whole the commercial loans so defined include a considerable proportion of loans that hardly deserve to be classified as true commercial loans, but nevertheless this broad grouping will serve our needs for this discussion.

The figures show that since 1900 the earning assets of all our commercial banks have been distributed in these three groups at five-year intervals in the following percentages:

PERCENTAGE DISTRIBUTION OF EARNING ASSETS OF ALL COMMERCIAL BANKS

Year	*Investments*	*Capital Loans*	*Commercial Loans*
1900	22	29	49
1905	24	30	36
1910	23	36	41
1915	23	37	40
1920	23	26	51
1925	28	21	51
1930	28	35	37
1935	56	23	21
1936	60	21	19

It is a fairly accurate general statement to say that since this century began, and up to the advent of the great depression, there has been a pretty steady tendency for our commercial banks to have one-half of their earning assets in commercial loans and the other half about equally divided between investments and capital loans. The variations from this rule have been considerable, especially when business was inactive, but the general tendency has been fairly well defined.

In the period of this depression, and so far during the recovery, a marked change has taken place in these old established relationships. At the present time the investments of our commercial banks, instead of being about one-quarter of their earning assets, are 60% of them. The capital loans are about 21%, but the commercial loans have declined in volume so that instead of being about half of all holdings they are only about 19% of them. As has already been noted, the commercial loans are not much more than a third as much as they were in 1928, and they have not increased much as the recovery has gone forward.

Now this situation is a highly important one for the banks, because they are equipped and staffed to handle a very much greater volume of commercial loans than is now available. If the earning assets of banks are to consist for any long period mainly of investments, and in only minor degree of loans, important changes will have to be made in the policies and in the personnel of the institutions.

It would be natural to assume that with a continuing general recovery in business activity there would result important increases in the volumes of commercial loans. There can be little doubt that further business expansion will result in more commercial borrowing, but it is difficult to suppose that it can soon restore anything like the old volumes of loans. If it were going to do so the increases in loans up to the present stage of the recovery ought to have been far greater than they actually have been.

In current discussions of these matters the claim has been repeatedly made that increases in bank loans normally come late in recovery periods, and well after industrial production has made good advances toward normal levels. Almost without exception such claims are based on studies of the Federal Reserve figures which until recently have lumped together the real estate loans and the commercial loans of reporting member banks. Those loans, taken together, did recover slowly after the depression of 1921. The figures of the Comptroller of the Currency for commercial loans in all commercial banks do not tell any such story. They show that after the depression of 1921 the commercial loans had reached new record-breaking levels by 1923. No such development is under way in this recovery period.

During the past few months a moderate increase in commercial loans has been taking place. An analysis of the Federal Reserve figures shows that it has been almost confined to the loans in the two Federal Reserve districts of Chicago and Cleveland. A plausible explanation of this would be that these are the two districts where the automobile industry is concentrated, and that this industry has been having an exceptionally prosperous year. Those two districts are also the largest producers of many other kinds of durable goods such as agricultural implements and iron and steel products in general. If this is the reason for the increase in loans it justifies hopes that further increases in the outputs of durable goods will result in still more commercial loans. Nevertheless, it does not explain why loan increases generally have been so small, and why they have not appeared in greater degree in other parts of the country.

Probably there are two chief reasons for the declines in the absolute and relative volumes of commercial loans. The first is that during the long prosperity period before the depression great numbers of business enterprises were able to build up corporate surpluses, and to replace bond issues by selling stock, so that they largely relieved themselves from dependence on the banks for financing their seasonal requirements. The progress of this process was made evident by the great shrinkage in the volume of commercial paper available in the financial markets.

The second reason for the failure of the volume of commercial loans to increase comparably with the advance in business recovery is to be found in the indirect effects of the long-continued deficit financing of the Federal Government. As the Administration has floated bond issues and expended the proceeds, the money resulting from them has flowed rapidly through business channels, and found lodgment in the banks in the form of demand deposits. The banks now hold great quantities of the Federal securities, and these account for the huge increases in the figures of bank investments. The banks also hold record-breaking amounts of demand deposits, and in considerable degree these are credited to the deposit accounts of business enterprises. As a result, such corporations are not actively seeking commercial loans.

Another factor tending to curtail the volume of commercial borrowing has been the reduction of the time element in the movement of merchandise through more rapid railroad and motorized transportation, thereby reducing the total volume of credit required to finance the Nation's current business.

Two general conclusions seem justified. The first is that it appears probable that for a long time to come the proportion of the earning assets of commercial banks that will normally be invested in securities rather than in loans will continue to be much higher than it used to be before the depression. The second conclusion is that while the volume of commercial loans will surely increase as business recovery advances, it seems unlikely that our banks as a whole will soon be able to return to their old practice of having about one-half of their earning assets in commercial loans.

The Economic Policy Commission does not view these prospects with apprehension, but it does deem them important. If the developments of banking over the next few years are to be of the sorts indicated, they call for thoughtful modifications of banking policies. They appear to indicate that American banking has entered upon a period of considerable duration in which the expenses of bank operation will need to be readjusted to conform to the changed income-producing power of the earning assets.

It would not be true to say of American banks that in the words of the old song, they are all dressed up but have no place to go. It would, however, appear to be true that they are all prepared to go where they used to go, and that it is not now possible for them to go these, nor does it seem likely that it will be possible in the near future. Their main activity used to be the financing of the fluctuating current needs of American business through the making of commercial loans. They are now equipped to do it on a far larger scale than they are doing it at present. They should now devote more attention than they have heretofore to the problems of the wise and prudent handling of their investment accounts, in the realization that these problems are not only of the first importance, but also that they are not merely temporary problems.

LEONARD P. AYRES, *Chairman*,
NATHAN ADAMS,
THOMAS B. McADAMS,
MAX B. NAHM,
CHARLES F. ZIMMERMAN,
J. STEWART BAKER,
R. S. HAWES,
WALTER S. McLUCAS,
A. P. GIANNINI,
FRANK K. HOUSTON,
JAMES R. LEAVELL,
THOMAS R. PRESTON,
GURDEN EDWARDS, *Secretary*.

Report of Official Acts and Proceedings of Executive Council, Presented by Raymond Dunkerley

Since the adjournment of the convention at New Orleans, La., the Executive Council has held meetings Nov. 14, 1935 at New Orleans; April 28 and 29 at Hot Springs, Va.; and Sept. 21 at San Francisco.

At the meeting in New Orleans the Council elected Arthur B. Taylor, Treasurer, and F. N. Shepherd, Executive Manager; and, in accordance with the nominations of the Nominating Committee, elected members of various committees and Vice-Presidents for foreign countries, and approved the appropriations recommended by the Finance Committee.

The session at Hot Springs, Va., were devoted to detailed reports from and consideration of the work of the Divisions, Sections, Commissions and Committees of the Association; the review and approval of various acts affecting legislation, all of which are covered in various committee reports, and a variety of routine business.

Upon the recommendation of the Protective Committee the Executive Council declared itself in favor of nationwide voluntary fingerprinting.

The Council approved the action of the Administrative Committee in carrying out the order delegated to it by the Council at New Orleans, Nov. 14, 1935, to inauguarte a pension and retirement plan on a contributory basis for employees of the American Bankers Association, and the changing of the group life insurance on employees to a contributory basis to conform with the pension plan.

The Executive Council approved the report of the Committee on Pension and Retirement Plans, which embraces the principles which, in its opinion, should be considered by banks contemplating the inauguration of a pemsion and retirement plan. It ordered that this report be printed and distributed to the members of the Association.

Following careful study and approval by the Administrative Committee, the Executive Council considered the Statement of Principles of Commercial Banking prepared by a special committee of the Bank Management Commission. This Statement of Principles of Commercial Banking parallels the Statement of Principles for Trust Institutions adopted by the Association, which has proved of much benefit. The Executive Council has not only approved this Statement of Principles of Commercial Banking, but has ordered its publication and distribution to our member banks.

President Fleming: It is customary that a motion be passed approving the report and proceedings of the Executive Council. Does the Chair hear such a motion?

William S. Elliott (Commercial Bank, Thomasville, Ga.): I move the adoption of the report, Mr. President.

[The motion was duly seconded and carried and the resolutions adopted.

Report of Protective Committee

Indications that the bank crime wave has been broken were presented in the report of the Protective Committee, submitted to the convention meeting of the Executive Council by James E. Baum, Manager of the Association's Protective Department. The report said:

"For three successive years since 1933, marked reductions in crimes against banks have been reported, but the sharp reduction in 1936 is unparalleled in the records of the Protective Department.

"The peak year for bank robbery was in 1932 when 631 bank burglary and holdup attacks were reported. This unprecedented total dropped to 407 in 1934 and was again reduced last year to 311 attacks.

"In the Association's fiscal year ended Aug. 31, 1936, banks and trust companies in this country were the victims in 148 daylight holdups and 41 night burglaries. Although a total of 189 bank robberies in a year must be regarded as excessive, the current period reflects a further decrease of 40% compared with a year ago and a reduction of 71% in four years."

Credit for this desirable result is given in the report to the jurisdiction given to the Federal Government in 1934 and 1935 to punish bank robbery, the courageous and tireless work of all classes of arresting officers, and a wider and more intensive use of modern protective equipment and preventive measures within the banks.

The report points out that while banks not members of the Association represent less than one-third of all eligible banks, they were the victims in about 60% of the bank robberies during the year. "The bank robber strikes where the least resistance may be expected," the report said, "and it is not by accident or coincidence that non-members suffered 114 robberies while their neighbor banks under American Bankers Association protection, and aggregating more than twice their number, sustained but 75 attacks."

Report of Committee on Resolutions—Budget Deficits of National Government and Taxation Burdens Impede Complete Business Recovery—Urges Against Indiscriminate Chartering of Banks

The report of the Committee on Resolutions was presented as follows by Thomas R. Preston, Chairman:

Business Conditions

Business recovery continues to make good progress in almost all phases of our economic life. Neither unsettled conditions abroad nor our national political campaign at home seems to disturb our domestic business activity. Despite industrial, commercial and financial improvement, unemployment continues in such serious proportions as to delay the establishment of a full rounded prosperity. The most formidable barriers against a complete recovery appear to be the continuing budget deficits of our national Government and the growing burdens of taxation. These problems are nonpartisan in character and call for joint effort and unity of purpose among all of our people.

Banking-Supervision and Legislation

We reiterate our stand, expressed in the resolutions adopted at our last annual convention, that the chartering of new banks be limited rigidly to the economic needs of the nation. With the reduction of the number of banking institutions in the country to something less than 16,000 units, the correction of over-banking is making sound and orderly progress. The strength of the banks is attested by the fact that they have repaid to the Reconstruction Finance Corporation 88% of the funds they borrowed from it during the banking emergency and a substantial proportion of banking capital owned by the RFC has been retired. The Government's total investment in the banks now constitutes less than 15% of their capital structure. American banking is now well able to finance by credit extensions any expansion of sound business enterprise that may accompany business recovery.

Public opinion must be aroused to prevent the over-production of banks through the indiscriminate chartering of new institutions in places which are either not large enough to support a bank or in which there are already available sufficient banking facilities. We view with concern reports which have reached us of a tendency in some localities to establish new banks which are not required and to bring political pressure to bear upon supervisory authorities when they have resisted unjustified expansion of banking facilities in their jurisdictions. We recommend that support be given the supervisory authorities under such conditions.

We believe that the Banking Act of 1935 and the regulations issued under it should be submitted to further practical test by experience before being changed by important amendments. The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency, as well as this and other business associations, are conducting extensive researches into the sufficiency of its provisions. We believe that these researches when completed and studied carefully by the Government agencies and practical bankers will indicate whether major changes in the banking laws will appear desirable.

Postal Savings and Government Lending Agencies

We approve the researches conducted by the Association's Committee on Banking Studies with respect to the Postal Savings System and Government lending agencies. We particularly commend the steps taken to establish the facts. Assurances have been received from Government officials that they are desirous of discontinuing certain of these agencies as soon as adequate service can be rendered by the banks. We entertain the hope that when the facts have been fully ascertained it will be possible to suggest legislation which will be in the public interest and which will moderate competition between the Government agencies and the chartered banks.

Bank Management

Certain economic changes in the nation's business practices have reduced the volume of commercial loans required to finance current operations. These changes, coupled with constantly lower yields on investments, have had an unfavorable effect upon the earnings of many banks.

It is axiomatic that sound banks cannot continue to be sound without adequate earnings. We urge that all banks devote special attention to the problems of improving their portfolios of investments, of canvassing the possibilities of developing new forms of credit extension, and of adjusting interest payments in conformity with the changed conditions. We also urge that all banks which have not already done so establish fair and just schedules of compensation for the actual services they render.

Taxation

We heartily endorse the constructive suggestion of President Fleming that immediate steps be taken better to coordinate Federal, State and municipal taxation. Duplication and overlapping of taxes by various jurisdictions lead to excessive administrative expense, unnecessary annoyance to the taxpayer, and an unfair distribution of the tax burden. The uncertainty and hesitation continually created by the flood of new taxes and by frequent changes in the form and effect of old taxes have a serious and destructive effect upon business activity. Taxes should be standardized in form. Changes then would not take the guise of new taxes with their resulting unsettling economic effects, but revenue requirements could be adjusted by raising or lowering the rates.

Government Credit, Expenditures and Budget

We have confidence in the fundamental credit of the United States of America. We consider ourselves fortunate that it has been possible for banks to lend substantial support to the Government in its efforts to meet the exigencies of the emergency. The banks have responded during this period as they always have in times of great need, having abiding faith in the resources of this Nation and the character of its people.

But we reiterate the statement made in the resolutions adopted at our last convention that, while unusual economic circumstances and necessary efforts to relieve human suffering and deprivation, under emergency conditions, may justify unusual expenditures of public funds, they should not be allowed to obscure the vital fact that a definite returns to a balanced budget should be the prime consideration of a sound fiscal policy.

It is our belief that expenditures, Federal, State and local, should now be brought more definitely under control. We believe this is essential as an assurance to business that our national finances are on firm foundations, and that business and industrial enterprise are justified in going ahead with expansion of their activities, which is the surest method to create greater employment for workers of all classes.

Resolutions Committee

Thomas R. Preston, President Hamilton National Bank, Chattanooga, Tenn., Chairman.

William F. Augustine, Vice-President National Bank Division, Vice-President National Shawmut Bank Boston, Mass.

Leonard P. Ayres, Chairman Economic Policy Commission, Vice-President Cleveland Trust Co., Cleveland, Ohio.

H. M. Chamberlain, Vice-President State Bank Division, Vice-President Walker Bank & Trust Co., Salt Lake City, Utah.

Blaine B. Coles, Vice-President Trust Division, Vice-President First National Bank of Portland, Portland, Ore.

Theodore P. Cramer Jr., Vice-President State Secretaries Section, Secretary Oregon Bankers Association, Portland, Ore.

Frank R. Curda, Vice-President American Institute of Banking, Vice-President City National Bank & Trust Co. of Chicago, Chicago, Ill.

Rudolf S. Hecht, Chairman Public Education Commission, Chairman of Board, Hibernia National Bank, New Orleans, La.

W. L. Hemingway, President Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.

P. D. Houston, Chairman Bank Management Commission, Chairman of Board American National Bank, Nashville, Tenn.

Noble R. Jones, President Savings Division, Savings Manager First National Bank, St. Louis, Mo.

Fred I. Kent, Chairman Commerce and Marine Commission, Director Bankers Trust Co., New York City.

Francis M. Law, President First National Bank, Houston, Tex.

Charles H. Mylander, Chairman Committee on Taxation, Vice-President Huntington National Bank, Columbus, Ohio

Max. B. Nahm, Vice-Pres. Citizens National Bank, Bowling Green, Ky.

Lewis E. Pierson, Chairman of Board, Irving Trust Co., New York City.

Andrew Price, President National Bank of Commerce, Seattle, Wash.

Charles E. Spencer Jr., Vice-Pres. First National Bank, Boston, Mass.

Gurden Edwards, New York City, Secretary.

Special Resolutions—Commending Administration of President Fleming—Regret at Inability of Jesse H. Jones to Address Convention

The following special resolutions were presented by the Committee on Resolutions and duly adopted:

The American Bankers Association takes this occasion to express its sincere admiration for the able administration of the affairs of this Association by its retiring President, Robert V. Fleming. The services he has rendered to all banking through the influence of his office and the powers of his own personality have contributed an invaluable stimulus to the banking profession. Bankers owe him a deep debt of gratitude for the origination and successful consummation of the series of regional conferences on banking service. They fully accomplished his purpose of aiding in taking the mystery out of banking and in providing an opportunity for the bankers of the country to come together to give intensive consideration to their common problems.

We also here express our thanks to the leaders in business and banking who have given us the benefit of their time and experience as speakers before the various meetings of this convention. Each of them has made a valuable contribution to its success.

We particularly regret that the Honorable Jesse Jones, Chairman of the Reconstruction Finance Corporation, was unable to prolong his stay in California to address this convention. We extend to him our sincere good wishes for a complete restoration of his health and strength.

We also thank the San Francisco bankers, the bankers of the various cities en route to this convention who lightened our journey with hospitality, the local committees of San Francisco who have put in long hours of loyal endeavor in preparing for the sessions of this convention, the hotels for their excellent entertainment, the many representatives of the press from various parts of the country who have given such adequate news treatment to our meetings, and the citizens of San Francisco for the cordial hospitality which they have so generously extended to the members of this Association.

Boston and Mexico City Extend Invitations for 1937 Convention

President Fleming: I am advised that we have two communications for invitations to hold our next convention. I believe Mr. Spencer of Boston desires to address the convention.

Charles E. Spencer Jr. (the First National Bank of Boston, Boston, Mass.): I am here this morning at the direction of the Boston Clearing House Association which has instructed me to present an invitation to the Association to hold its next convention in Boston, Mass.

Boston is well situated and has accommodations to care for your convention, the details of which could be worked out later. New England in the fall produces the gorgeous pictures that you will have to come to see for yourselves rather than have me explain, with its soft and hardwood trees feeling the effect of the early fall. The foliage is exceptionally fine. The towns and villages through New England, through its gates have produced paths to all parts of this great land. Follow these paths back to the East, Boston bound for your convention in 1937.

President Fleming: We also have another gentlemen who would like to address the convention, Dr. Luis G. Legorreta, Director Banco Nacional de Mexico.

Luis G. Legorreta (Director, Banco Nacional de Mexico): As a foreigner it is my duty, ladies and gentlemen, first, to thank you heartily for the many courtesies which the Mexican delegation has received from you all, second, to thank the convention committee for the courtesy of granting us five or ten minutes to address you, and, third, I wish to be excised for my poor English. Before saying a few words, to invite you to Mexico City, I cannot resist the temptation to express in a brief word the feeling I have of the biggest problem that we bankers have facing us.

[Mr. Legorreta then addressed the convention briefly on the banking situation in Mexico, at the conclusion of which remarks, he extended an invitation to the convention to meet in Mexico City in 1937. His remarks along this line follow:]

Mr. Legorreta: I wish to extend you an invitation from Mexico. Mexico is a new country, which will interest every one of you. The objection may be raised that it is far. It is not far. It does not take more than two or three days from any place in the United States to Mexico. Although it may be considered a foreign country, perhaps that is an advantage, and it might be well if you could accept our invitation because there you could discuss your business with complete freedom, and view it from the outside, although in plain view of your own country—which sometimes is better. I assure you you will find in Mexico much of brilliance and that we will receive you with our arms open and with the heartiest desire to satisfy you.

President Fleming: I think we may certainly be assured whether it is Boston or Mexico that we decide upon, we shall have a delightful place in which to hold the next convention. Does the convention desire to give consideration to this matter at this time?

Thomas R. Preston: Mr. President, it has been the custom, as most of you know, to refer these invitations to the Administration Committee and I now move you that these two very generous invitations be referred to that committee with power to act.

[The motion was seconded by A. D. Simpson (President, National Bank of Commerce, Houston) and Carried.]

Members Invited to "Banking Session" of Convention of National Foreign Trade Council

Mr. Dunkerley: I have some announcements. Eugene P. Thomas, President of the National Foreign Trade Council, Inc., announces that their annual convention will be held at the Stevens Hotel, Chicago, Nov. 18, 19 and 20, and extends an invitation to members of the American Bankers Association to attend. Mr. Thomas says, "The Banking Session which was such a successful feature of the conventions held in New York and Houston will be of particular interest. Owing to the attention directed to the question of the stabilization of currencies, a special report on this will be presented to the Convention."

Report of Committee on Nominations—Newly Elected Officers

W. L. Hemingway (Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.), Chairman of Committee on Nominations: A regularly called meeting of the Nominating Committee was held in the Borgia Room, St. Francis Hotel, Sept. 22. The unanimous recommendations of this Committee are as follows:

For President: Tom K. Smith, President Boatmen's National Bank, St. Louis, Mo.

For First Vice-President: Orval W. Adams, Executive Vice-President, Utah State National Bank, Salt Lake City, Utah.

For Second Vice-President: Philip A. Benson, President Dime Savings Bank of Brooklyn, Brooklyn, N. Y.

This report is signed by the Chairman of the Committee and Mr. Stephenson, the Secretary.

President Fleming: Gentlemen of the Convention, you have heard the report of the Nominating Committee. Are there any other nominations?

Richard S. Hawes (Vice-President First National Bank, St. Louis, Mo.): Mr. President, I move that the nominations be closed and the Secretary of this convention cast the vote of the convention for Mr. Smith for President, Mr. Adams for First Vice-President, and Mr. Benson for Second Vice-President.

President Fleming: You have heard Mr. Hawes's motion. Is there a second to it?

[The motion was regularly seconded by Mark M. Holmes, President, Exchange National Bank, Olean, N. Y.; the motion was put to a vote and carried.]

President Fleming: Mr. Secretary, will you cast the ballot?

Mr. Dunkerly: The ballot has been cast.

President Fleming: The ballot having been cast, I advise you now that Mr. Smith has been elected your President for the ensuing year, Mr. Adams your First Vice-President, and Mr. Benson your Second Vice-President.

The Executive Council announced, following its organization meeting, that Arthur B. Taylor, President of the Lorain County Savings & Trust Co. of Elyria, Ohio, had been re-elected Treasurer and that F. N. Shepherd had been re-named Executive Manager of the Association.

Remarks of President-Elect Tom K. Smith

In accepting the Presidency of the American Bankers Association I am fully aaware of the responsibilities which go with this high office and I am deeply impressed with the honor you have seen fit to confer upon me. I earnestly hope for the strength of mind and body which will justify your confidence in my ability to meet the obligations imposed upon me as leader of the Association during the coming year.

As First Vice-President I have had an opportunity to observe the character of the leadership which has guided the Association during the past year. Rovert V. Fleming has established high standards of intelligence, enthusiasm, energy and sincerity for the Presidency of the American Bankers Association. It is a source of personal satisfaction that by the provisions of our constitution he will be a member of our Administrative Committee for another three years.

I realize that this is neither the time nor the place for an extended address from the incoming President. However, you who have elected me to this position have a right to expect some announcement of the objectives of my administration, if only in general outline.

I shall continue the worthy projects initiated by my predecessors. Recognizing the value of the regional conferences which Mr. Fleming inaugurated last year, I hope to continue them during the next year. It is my belief also that the problem of public relations, which deservedly received extensive consideration during the past year, merits our continued attention. We shall likewise carry on with energy and enthusiasm the activities of the Association in the fields of legislation, protection, taxation and insurance.

I am convinced, however, that the most urgent problem confronting our profession today is the adaptation of banking to a changing economic environment. The years of the now passing depression have been a period of determined struggle. We have been fighting to keep our banks solvent, to sustain a crumbling business structure, to bring financial assistance to sorely distressed local, State and National governments. This period has been one of extensive changes. New banking legislation has been enacted. There have been fundamental alterations in the methods of issuance and distribution of investment securities. Gigantic new banking institutions, quasi-governmental in character, have appeared, some to aid our chartered banks, some to supplement their activities during the emergency, and some which appear to be in direct competition with us. There have been fundamental changes in underlying business practices; forms of financing upon which we depended a few short years ago are giving place to new methods. Consumer credit has grown to gigantic proportions.

These changes, taking place with characteristic American speed, have naturally brought about perplexity and bewilderment. During these crowded years we have been too busy to give them more than scant attention. It is time for us to pause and take our bearings; we must chart these new seas in which we are to sail. There is an imperative need for research as we face the opportunities and responsibilities of these changing times.

Often we think of research as an elusive pursuit in the realm of theory. But there is another way of looking at it. To put it in plain language, research is the effort to fund out what we should do when we cannot keep on doing what we have done before. The study of the Postal Savings System now being made by the Association's Committee on Banking Studies is an example of a type of fact finding of great importance to us all. At an early date we shall complete this study and submit it as a basis for the future policy of the Association. During my official connection with the Association I have given a great deal of time and thought to research, and I am now prepared to announce it as one of the major objectives of my administration. We must now take stock of our resources and determine how in this rapidly changing business and economic order we can best serve the interests of the depositor and borrower.

Research in itself, however, is not enough. Education must follow. The facts we learn in our studies must be conveyed and explained to every banker in America. If we are to make effective the results of our research, every agency of banking education must receive our moral and our financial support. In bringing financial support to these educational agencies, bankers must not feel that they are offering donations out of their bank funds, rather they must realize that they are making investments which will return dividends to themselves individually and to the banking fraternity. Of all the branches of business, banking offers the least tangible product and is the least understood by the public. The more intelligently banking is carried on, the greater will be the profit to the individual bank and the greater the prestige of banking as a whole.

The work of an association of this kind cannot be done by one or by a few individuals, and no statement that I could make regarding its work would be complete without an acknowledgment of the services of the officers, the committees, the professional staff, and the membership of the Association. It has been my experience that no man who has been called upon has lacked the ability or the willingness to carry his share of the burden. With continuation of this spirit, we cannot fail to advance.

During the past century, our chartered banking system has progressed in spite of wars, droughts, eras of prosperity, and eras of depression. I am convinced that there is no problem in banking confronting us today which research, education, and cooperation cannot solve. These three are the bulwaks upon which I base my hope for American banking, and these make up the platform upon which I urge your continued support of the American Bankers Association as it faces the coming year.

Presentation of Silver Service to Retiring President Robert V. Fleming

President-elect Smith: Ladies and Gentlemen of the Convention, Harry Haas of Philadelphia has a matter to present to the Convention.

Harry J. Haas (Vice-President, First National Bank, Philadelphia): *Mr. President, Ladies and Gentlemen.* At this time it is my pleasure to represent not only the bankers who are here but also those bankers who are back home and members of the American Bankers Association. And I suppose I have been seclected for this job because of my very intimate, first-hand information of the subject of which I shall speak.

Those of you who were at the American Bankers Association convention in Atlantic City in October 1931 will never forget the wave of pessimism that almost overwhelmed that meeting. At such times few men can keep their heads, when those about them are losing theirs. Those who lose their heads would hope to regain their equilibrium through legislation and frantic appeals were at that time made to our legislators. As a result, much banking legislation was introduced, some good, some bad, some indifferent, but mostly the result of impulse and not clear, clam, deliberate thinking.

In an atmosphere such as existed in 1931, we realized that banking legislation was possibly the most important business before the American Bankers Association and that we should have a man as Chairman of the Federal Legislative Committee who knew banking, from office boy to President, who knew the inner workings of Government agencies, who had the physical strength and courage to oppose, as well as propose, whose honesty and integrity of purpose were unassailable, whose standing was equalled by few and excelled by none, and, most important, one who had the faculty and habit of getting results.

All these may sound like the possessions of a superman but really result in good, old-fashioned common sense.

Did such a man exist and could he be found? If we found him, could he be induced to accept the position as Chairman of the Federal Legislative Committee, not for one year, but possibly until the crisis had passed? Could he give it the time and effort necessary to bring about the desired results? We considered the availability of a number of men, and, with all due respect and regard for the many outstanding bankers, by a process of elimination we unanimously decided to request Robert V. Fleming to accept the appointment.

He accepted, not with the idea of glorifying himself, not with the idea of receiving honors or recognition. These were already among his attainments. His sole purpose was to serve not only the business in which he was an important factor but also to serve his country, in a crisis, to the best of his ability along a line in which he was so admirably equipped to serve. How well he has succeeded is a matter of record. Through his wise counsel, advice, untiring personal efforts, and ability to command the services of others, the American Bankers Association has come through this crisis and occupies a plane higher than at any time in its history.

You have shown your appreciation of his efforts by elevating him unanimously to the highest position within the power of the American Bankers Association to confer upon anyone, but even so you can never fully render unto him the honor which is his for the tremendous service which he has rendered. I know from personal experience that during the past five years he has worked for long periods of time, day after day, and night after night, until almost the hour of sunrise on the following day—all in the interests of the banks of this country, its depositors, and borrowing customers, and to the exclusion of many personal, social and family matters.

The greatest problem to me is not to understand what he has done but how he has stood the strain physically and mentally and my only answer to it is that he knew his job and it gave him no worries, except to find more than 24 hours a day in which to labor. In addition to all these duties he runs one of the best banks in this country. He has been at the head of many of the social and civic organizations of Washington and served on the board of directors of many of its outstanding corporations.

Is it any wonder that the District of Columbia Bankers at Hot Springs, Virginia in 1932, at whose meeting I was present, presented him with a testimonial designating him as the outstanding banker in the District of Columbia? And that is not all. It was my pleasure to attend the meeting of the Board of Trade of the District of Columbia at which a thousand members were present when he was designated the outstanding citizen of the City of Washington. He is an exception which proves the rule to the Biblical quotation, "A man is not without honor save in his own country among his own people and in his own family."

Now, Bob, I want to say to you that your success is not the result of inheritance, or chance or luck, but it is the result of hard work, intelligently directed, and with the full backing of your character. Those who know you best know that while you have many years of useful life before you, the American Bankers Association is going to continue to have the benefit of your wise advice and counsel, and the American Bankers as a testimonial to you desire to present to you this chest of silver. I want to read the inscription to the members:

Presented to Robert V. Fleming by the American Bankers Association with their best regard and esteem and in recognition of his outstanding achievements as President, 1935-1936.

President Fleming: Mr. Hass it is difficult on an occasion such as this, upon receiving this tribute on my endeavors for American banking, to say very much. However, I assure you that from the bottom of my heart I am greateful to this Association for the honors which they have bestowed upon me and for the opportunities they have given to me. . . .

President-elect Smith: I understand that that concludes the proceedings of this convention. Therefore, the Sixty-Second Annual Convention of the American Bankers Association is adjourned.

NATIONAL BANK DIVISION

AMERICAN BANKERS ASSOCIATION

Fourteenth Annual Meeting, Held at San Francisco, Calif., Sept. 23, 1936

INDEX TO NATIONAL BANK DIVISION PROCEEDINGS.

Real Estate Loans for National Banks

By RUSSELL G. SMITH, Cashier Bank of America N. T. & S. A., San Francisco, Calif.

National bankers, as a group, neither appreciate the possibilities of increased real estate lending nor realize their responsibility to provide their communities with mortgage money.

We need only glance at the record to realize that this is true! In 1915, a little more than a year after the passage of the Federal Reserve Act, with its Section 24 permitting National banks to make loans secured by real estate, the total of mortgage loans held by National banks amounted to $150,000,000, or 11.7% of their time deposit total of $1,285,000,000. Today, with the time deposit total of National banks hovering around $7,500,000,000, real estate loans amount to but $1,340,000,000, or 17.8% of the time deposit total. In other words, while the time deposits of National banks have increasd by more than $6,000,000,000 during the past 21 years, National bankers have, in the same period, increased their real estate loans but slightly over $1,000,000,000. Under the law, National banks could have $4,500,000,000 invested in real estate mortgages on their present time deposit basis; instead, the total of real estate loans is less than $1,500,000,000.

The time deposits in National banks are of substantially the same character as the time deposits in the 10,000 State banks of the country, yet these State banks, with $16,000,000,000 in time deposits, have approximately $7,500,000,000 in mortgage loans. This figure amounts to 46.8% of the time deposits of State banks, and is nearly three times the proportion shown for the National banks. There exists no valid reason for this great difference in the employment of identical funds, and it is particularly illogical at a time when National banks are experiencing difficulty in keeping their mounting deposits gainfully occupied. As a matter of practical benefit to themselves and to the communities they serve, National banks should place a much larger percentage of their time deposits in mortgage loans.

Gradual liberalization of the legal restrictions on real estate loans by National banks has been in process since the passage of the Federal Reserve Act in 1913. Many National bankers, however, have been loath to avail themselves of the privilege of increased real estate lending. This has been due to a feeling that real estate loans, being noncommercial capital assets, had no place in a commercial banking system. While this attitude was proper in 1913, when our National banks were truly commercial banks with only a small proportion of time deposits, it is slightly out of place in 1936 when time deposits make up 30% of the deposit composition of our National banking system. Yet it is the commercial banking tradition which has operated so effectively to prejudice many National bankers against real estate loans. Although the time has long since passed when our National banks could be termed a commercial banking system, a great many National bankers still view real estate loans from the standpoint of the strictly commercial bankers, regardless of the fact that their time deposits increase apace and their commercial loans dwindle month by month.

Although this attitude is perfectly proper for banks whose deposit composition is almost entirely commercial, it is out of character in banking institutions with both commercial and savings deposits, as is the case with the great majority of National banks. No one will quarrel with the theory that banks having strictly commercial deposits should seek loans only in the commercial field, but it is equally clear that banks which are partly savings require longer term loans of a character which will provide a return sufficient to permit the payment of interest on their savings deposits. If National banks are to continue to share in the savings of the people they must be prepared to share in the real estate financing in which these savings may properly be employed. If we accept the savings of the American people we owe it to them to put those funds to work in the proper channels of constructive activity. Not only is this socially just, but it is conomically necessary. It is economically necessary for two important reasons. First, because savings represent capital accumulation, and it is out of capital accumulation that the mortgage money of the country should come. Second, because banks must have the higher earning power of these longer term investments if they are to pay a reasonable rate of interest on savings deposits.

Unless the National banks of the country pay a fair return for the use of savings funds, they must be prepared to see their savings deposits gradually gravitate to building and loan associations and to strictly savings banks, thus leaving National banks with only commercial banking business. While some may argue that such a transition in banking would be a good thing, it must be remembered that the majority of National banks are in small cities and communities and serve the people of those communities in every banking capacity. Banks chartered solely for savings or solely for commercial business could not exist in small cities and towns. Consequently, some communities would be deprived of banks. Furthermore, to deny savings facilities to the smaller banks will force people to deposit with and borrow from absentee institutions and thus deprive local communities of the supporting influence that comes from the employment of local funds in local building and business.

There is a constant demand for loans for the purchase or construction of homes, and there is every indication that this demand will assume steadily increasing proportions during the next several years. The studies of the Federal Housing Administration have shown that there is a need for much additional housing throughout the country, and there is no question but that the Federal Government will continue to encourage residential building in every way possible. This means a well maintained demand for loans for the purchase or construction of homes in nearly every community in the country. This demand is and will continue to be a local demand and should be supplied by local funds. Not only is this desirable for the welfare of the communities themselves, but it is equally necessary for the best interests of the National banks serving those communities. By far the greater proportion of these institutions have a deposit composition made up partly of savings deposits. They cannot continue to operate on a profitable basis if they are to depend entirely on commrcial loans. Due to economic factors with which we are all familiar, the volume of strictly commercial loans has been on the down grade for many years, and these loans are not likely to be available in any great volume in the near future. In fact, the dearth of demand for commercial credit has already resulted in many banks taking on the aspects of investment trusts in an effort to keep their deposits gainfully occupied. That the return on this class of investment plus that obtainable from the small volume of commercial loans available is not sufficient to permit the payment of a reasonable rate of interest on any amount of savings deposits is clearly evident. If National banks wish to place their operations on a truly profitable basis, retain their savings deposits, and serve their communities in the proper manner, they must be prepared to place a much larger proportion of their savings deposits in mortgage loans.

Mortgage loans, properly made and serviced, are a highly satisfactory investment medium for a part of savings deposits. Such loans provide a consistently high rate of return with but a small loss ratio. The principal admitted weakness of real estate loans in the past has been lack of liquidity, but this has been corrected by proper provisions for amortization of principal, by the introduction of the insured mortgage loan, and by changes in the Federal Reserve Act. Other asserted weaknesses of real estate loans were due primarily to faulty methods of financing, such as unsound appraisals, lending on unrealized appreciation, failing to give proper consideration to the character and financial condition of the borrower, and to other ill-advised practices. Most of the ills commonly charged to real estate loans were in reality due to lack of a proper technique in mortgage lending. If National bankers will but mold the accumulated experience of many years of mortgage lending by institutions specializing in this type of loan into a scientific real estate loan policy to fit their individual needs, it will be possible for them to employ a much larger proportion of their savings deposits in mortgage loans, with safety and with profit.

The desirability of such a policy is at once evident when we consider the problem which now confronts the National banks of the country. During the past three years total deposits of National banks have increased nearly $9,500,-000,000. In the same period, loans have decreased $358,-000,000. This decrease in loans, coupled with the tremendous increase in deposits, has placed at the disposal of National bankers a total of more than $9,850,000,000, most of which, due to lack of demand for commercial credit, has gone into the investment account and into excess reserves. With these excess reserves earning nothing, and with the yield on high-grade bonds at the lowest point in 30 years, earnings have suffered severely. The result has been that many National banks, in an effort to improve fading revenues, have cut their interest rates on time deposits far below the already low maximum of 2½% now permissible and, in addition, have limited the amount which they will accept from any one savings depositor. Such a policy represents retrogression and is definitely detrimental to the best interests of the banks adhering to it. National banks should seek to develop the savings business of their communities and should employ a larger proportion of such deposits in real estate loans. This would improve earnings, permit the payment of a reasonable rate of interest, and result in greatly increased service to the community.

Only by completely serving the deposit and credit needs of their communities can National banks justify their existence in those communities. If National banks are not prepared to do this, they may with confidence look forward to a competitor institution which will. Both enlightened self-interest and a proper sense of responsibility to their communities should impel National bankers actively and aggressively to develop their savings deposits and their real estate loans.

An expansion of real estate loans means increased earnings for National banks, due to the fact that real estate loans yield a consistently high return on the funds invested. In a period when the yield on bonds available for sound investment ranges from 3% down, real estate mortgages secured by homes may be had at rates varying from 4½% to 6%. In period of high bond yields, interest rates on real estate loans have also been high, ranging from 6% to 8%. Over a 26-year period in one mortgage lending institution the interest rate on loans averaged close to 6%. In many localities it has never dropped below 5%, and in others 8% has been the going rate for many years. A survey of interest rates the country over indicates that at the present time mortgage money consistently returns an average of better than 5½%.

Nor is this excellent interest return dissipated by a high loss ratio. While comparative data on the relative loss experience for real estate loans, commercial loans and stock and bond investments is not available, it is my belief, based on 24 years in banking, that real estate loans have, on the whole, been more satisfactory from the standpoint of losses than either commercial loans or stock and bond investments. I have found that this opinion is held quite generally among bankers who have had long experience in mortgage lending.

Thus we see that, considered from every angle, real estate loans are a desirable investment medium for National banks. It is, however, a special field of credit in which commercial practices do not entirely apply, and if National banks are to derive a maximum of benefit from this type of loan with a minimum of trouble, it is essential that real estate loans be made in accordance with sound principles of mortgage lending. It is to a discussion of these principles, evolved over a long period of years by many institutions engaged in mortgage lending that the remainder of this paper will be devoted.

First on the list comes the principle of amortization, requiring that every real estate loan be made with provision for liquidation by means of regular payments. The importance of amortizing real estate loans cannot be overemphasized. Had the mortgage loans made during the period prior to the depression been properly amortized, there is no doubt but that a large part of the depression foreclosures would not have been necessary. Many borrowers would have had a much larger equity in their property and would therefore have made a much more strenuous effort to retain it. In addition, a steady stream of instalment payments in the pre-depression years would have brought many real estate loans down to a point more nearly in line with the decrease in real estate values, and would have made possible a less drastic foreclosure policy for many banks.

Unquestionably, one of the great lessons of the depression with respect to real estate loans is the absolute necessity of providing for instalment payments steadily to reduce the borrower's indebtedness. As a result, the flat loan has practically disappeared and amortization is the watchword of the day.

Not only is amortization essential in lending on homes, but it applies with equal force to loans on every type of business and farm property. Such loans should be paid off during the best earning years of the property, and a program of liquidation, based on the probable productive life of the property, should be part and parcel of every loan on income-producing real estate. In the case of farm loans, the amortization program should be based upon the income which the farm produces from year to year. In good years, when the level of farm prices is high, the rate of amortization should be faster, in order that the farmer's indebtedness may be cut down as much as possible during his period of prosperity. The bank will thus be in a better position to carry the farmer when the lean years come.

Placing real estate loans on an instalment basis is desirable from the viewpoint of both borrower and lender. To the borrower a program of liquidation means looking forward to eventual ownership with steadily increasing confidence. It makes possible a single long-term loan without the expense and uncertainty of renewals. The borrower can assume his obligation with full understanding of what is expected of him and, further, he is encouraged to maintain his loan in good standing by the knowledge that every monthly payment brings him that much closer to complete ownership of his property.

From the standpoint of the lender, amortization is doubly desirable. The instalments steadily reduce the amount of the bank's risk in the property, serving both to increase the security of the loan and to offset depreciation of the property. A revolving fund for loans is provided, and new loans may be made from the incoming payments. With this constant supply of investment funds, banks are enabled better to serve their communities through being in a position to supply a steady, even flow of credit, in place of alternating periods of plenty and paucity. In the event a bank finds it necessary to reduce its outstanding credit, instalment loans provide a means of accomplishing this result with a minimum of disturbance to the community. The bank simply tightens up on new loans and lets the incoming payments reduce the total. If it is found necessary to borrow at the Federal Reserve Bank, amortized loans provide a self-liquidating security. In addition, amortized loans furnish the bank with a monthly check on the soundness of the loan. A delinquent instalment serves to bring the loan to the attention of the bank for possible corrective action and greatly reduces the possibility of loss.

The second principle of sound real estate lending relates to the basis on which the loan is made. Experience has shown conclusively that in making real estate loans the time-honored three C's—Character, Capacity and Capital—should be given equal weight with the value of the property in judging the desirability of the loan. It is to the borrower that we must look for payment, and his standing as a moral and credit risk should be given full consideration. The importance of correctly judging the moral risk is well known to all of us, and may be passed over without further comment. In regard to the credit risk, there are several factors which must be taken into consideration. In making long-term real estate loans the age of the borrower is an important item. To allow a man who is 50 years of age to assume a 15- or 20-year loan, with his arned income as the only means of payment, is unjust both to the borrower and to the bank. Loans must be paid out of income, and just as it is necessary that business property pay off during its best earning years, so also it is necessary that home loans which are to be paid out of earned income be arranged to mature within the borrower's best productive years. If the borrower is unable to handle the obligation under these conditions, the bank does him a favor when it refuses the loan.

With regard to maturities, experience has shown that in making farm loans, short-term loans are actually more beneficial to the farmer and more satisfactory to the bank than the long-term loans. After all, it is to the advantage of the farmer to get out of debt as quickly as possible, and the short-term loan helps him do this. The maturity should be arranged to coincide with the period of crop returns and the farmer should be urged to apply as much of his year's earnings as possible on the loan. The reduced loan may then be renewed to the next crop return period and the process repeated. In this way the farmer's indebtedness is reduced as fast as his income will permit instead of by set instalments which take no account of varying yearly income. Through a sympathetic and understanding relationship between the banker and the farmer it is possible to extend the benefits of long-term credit without incurring its numerous disadvantages. The short-term farm loan is a flexible instrument which permits the bank greater leeway in serving the farmer without sacrificing essential security.

Some may argue that real estate loans are made on real estate and that moral risk and credit responsibility are secondary considerations. This viewpoint may do for those banks which are willing to acquire property by slow purchase, but for bankers who wish to make loans secured by real estate and who desire to see those loans pay out on schedule, moral risk and credit responsibility are of paramount importance. While the value of the property determines the ultimate safety of the principal, it is the borrowers to whom we look to keep the loan in good standing, and the loan should be made upon a basis that will reasonably insure satisfactory performance of the contract. Foreclosure and sale, even if conducted without loss, is a highly unsatisfactory method of collecting a loan.

In determining the amount which may be safely loaned on a piece of real estate, two factors must be considered: First, the present and probably future value of the property; and, second, the income of the borrower, either from the property, in the case of commercial or farm real estate, or from other sources, in the case of the individual home-owner. Both factors are of great importance—value as an ultimate guaranty of safety, and income as an indication of ability to properly service the loan and amortize the principal, in addition to providing for maintenance expenses. In the case of farm loans, the income which the farm may be expected to earn over the period of the loan is of the utmost importance, for experience has shown that in the case of farm loans the income value of the farm is of relatively greater importance than the value which may be placed upon the land at any given time. Income value may be fairly well determined while an appraisal is only a matter of opinion. The income value should be based on the average level of farm commodity prices over a period of years rather than a single year, for in this way it is possible to get a better estimate of normal income.

In order to estimate with any accuracy the present and probable future value of a given piece of real estate, a careful appraisal must be made, not only of the property itself, but of every other factor which can in any way influence its present or future value. A detailed inspection of the premises, together with some knowledge of the district and of property values therein, may form the basis for a fairly good estimate of present value; but with loan maturities stretching out over 10, 15 or 20 years, other factors come into play which must be given full consideration if the loan is to be properly protected until maturity.

There is the question of depreciation in value due to age and usage. While such depreciation is inevitable, its extent and rapidity is largely conditioned by the quality of construction and severity of usage. Construction standards may be gauged in the appraisal process, and the character of the present or potential occupants furnishes a reliable guide as to what to expect in the matter of usage. The depreciation factor for multi-family dwellings and commercial buildings of every description as well as for small homes may be estimated from the character of the present and potential occupants.

In the case of loans secured by farm real estate, this factor must be given added consideration due to the possibility of depreciation in the quality of the land through exhaustion or other misuse. Here diversity of crops, crop rotation, irrigation facilities, and the skill of the farmer are of prime importance.

Possibility of depreciation in value due to obsolescence must be considered and an effort made to estimate its probable proportions. Obsolescence is a reduction in use value, and any influence which tends to reduce the use value of a piece of property is an obsolescence factor. Hence, the appraiser must be prepared to prophesy concerning many things. He must be able to judge whether a district is on the way up or down, whether it is "static" or "dynamic." He must judge as to the possibility of changes in building restrictions and zoning laws. He must be able to foresee possible shifts in population from one district to another. He must be able to analyze the layout of the city and determine if the various districts, such as industrial, commercial, financial and residential, are likely to remain unchanged or if there is a probability of further movement which would have an effect on property values in the district under consideration. Other obsolescence factors include changes in the style and layout of buildings; reduction in use value due to changes in economic or mechanical processes; lack of adaptibility to diversified use. Upon all of these eventualities the appraiser must exercise his powers of prophecy.

Next on the list of depreciation factors is the possibility of loss in value through a general depression in business or through over-building in the line under consideration. In connection with the first factor it is interesting to note that past experience of many institutions well versed in mortgage lending indicates that loans made in depression periods are far more satisfactory in every way than loans made in periods of relative prosperity. This is undoubtedly due to the fact that in good times there is a tendency to over-value properties and to give insufficient consideration to the other factors entering into the loan, while in the case of depression loans ultra-consirvative appraisals are the order of the day, and other factors, such as income and credit responsibility, receive their just due. Proper protection against depreciated values due to changes in economic conditions depends upon accurately judging the point of the business cycle at the time of appraisal and making allowances both for a possible inflated real estate price level and for the probable trend of values during the life of the loan.

Depreciation in value due to over-building may be insured against to a large extent by care in the selection of loans for new construction. In judging the desirability of loans for new building of any character, consideration must be given to the actual need for the new construction and to its probable effect on loans already held by the bank. New commercial or residential property brought into being in a community already well supplied can result only in decreasing the value of properties already under mortgage to the bank, and, in the case of income property, in reduced rentals to the bank's debtors. A reliable guide as to the desirability of new construction, either commercial or residential, may be had by watching carefully the trend of rentals and vacancies in properties similar to the one under consideration.

After a careful appraisal of the property has been made and the various other factors affecting the present and probable future value have been weighed and allowed for, consideration must also be given to the relationship of the loan to the income and net worth of the borrower. A borrower whose only assets are his income and his prospective equity in the property should not be allowed to assume an obligation which is out of line with his total responsibility. Excessive credit is injurious to the borrower, and places him at a disadvantage from the start. In as much as the loan should be amortized so as to pay off within the best earning years of the borrower or of the property, it is important that both the size of the loan and the amortization program be scaled to the borrower's capacity.

The monthly payment should bear a proper relation to the income of the borrower, for if it is too large the loan is likely to become delinquent quickly. In determining the amount of the monthly instalment, consideration must be given to the borrower's ability to pay taxes on the property and keep it in good repair, in addition to meeting his payments. It is important that this be done, for undoubtedly there are many real estate loans long since foreclosed which would be in good standing today had the initial arrangements for payment been more in line with the borrower's capacity.

Third on the list of sound principles in mortgage lending is the policy of making each type of property offered as security stand by itself and pay its own way. It is no part of sound mortgage practice to make the more desirable types of security carry those less desirable. The experience of mortgage lenders over a long period of years indicates clearly that certain types of property are far more satisfactory than others as mortgage security, and this knowledge may be put to good use in future lending activities. In appraising the property, in determining the proper ratio of loan to appraised value, in fixing the interest rate and terms of payment, the performance record of the property classification in which the security belongs should be taken into consideration and proper allowances made. In this way property classifications showing a high proportion of trouble and foreclosure items can be made to pay their own way, and the bank will be in a position to offer more favorable terms on properties showing a good performance record, with resultant benefit to the bank and to the community.

While a detailed analysis of the comparative desirability of the many types of mortgage security is not feasible at this time, a few general observations in this regard may be of interest.

Experience has shown clearly that single and two-family dwellings are the most desirable types of mortgage security. Not only do they furnish a relatively small proportion of trouble and foreclosure items, but the loss record on foreclosed property is likewise very satisfactory. They are small loans, usually under $5,000, and, as such, make possible a wide diversification of risk. This is important, for the experience of many mortgage lenders indicates clearly that many small loans are far better than a few large ones. From the standpoint of both safety of principal and satisfactory performance of contract, 40 loans of $5,000 each are much to be preferred over one loan of $200,000. In the field of real estate financing the small home owner is surely coming into his own, for his performance record shows that he is definitely a preferred risk.

Generally speaking, special purpose buildings and multi-family dwellings such as apartments and hotels do not show a favorable record, and in making loans upon these types of property, both the relation to the loan to appraised value and the interest rate to be paid should reflect the greater risk inherent in the loan. By thus taking cognizance of the varying loss probabilities in each type of mortgage security, banks will be enabled to maintain their real estate loaning operations on a more profitable basis.

Thus far we have discussed real estate loans from the purely technical viewpoint of bank management. Considered from this angle, it is clear that real estate loans, properly made, are a desirable investment medium for National banks, with an excellent interest return, and a relatively low loss ratio.

However, there is another aspect to this question of real estate loans and one which is worthy of consideration by every banker. Not only are real estate loans desirable as a highly satisfactory source of revenue, but they also offer an admirable instrument for building sound, healthy public relations. Through increased real estate lending, banks can greatly extend their field of service and strengthen their standing in the community. The bank's facilities are made available to a much larger group than would otherwise be the case, and with every loan the bank has the opportunity to merchandise other services and to make a friend for the institution. As a factor in building good public relations, real estate loans cannot well be overlooked. By supplying their communities with mortgage money, National banks will become more completely a part of those communities and will reap the benefits, not only of an excellent investment medium, but of increased goodwill as well.

The Bond Account From a Bank President's Viewpoint

By ANDREW PRICE, President National Bank of Commerce, Seattle, Wash.

The able addresses at this convention of Lindsay Bradford, J. Harvey Wilkinson and Mr. Eichler, and the various reports of the Association's committees and commissions, leave little to be added to a discussion of the policy, procedure and problems of a bank's investment portfolio.

The very fact that those in charge of the program selected four speakers on this subject, and that the reports have developed it to such an extent, is convincing evidence that bank investments are uppermost in the minds of bankers everywhere. Those of you who were fortunate enough to hear these addresses or reports will recall that they are in substantial agreement as to the reason for this state of affairs. Indeed, the facts on which they proceed have been established beyond question by all who have studied the subject.

In its summary of facts, the able report of the Commission for Study of the Bank Structure of the New York State Bankers Association, published last year, said:

> Whatever the theory of commercial banking may be, we face an accomplished fact, a practical condition where true self-liquidating commercial loans have dwindled to small proportions and capital assets have become the predominant part of bank portfolios.

The extent to which this change has occurred is interestingly developed in figures given out yesterday by the Economic Policy Commission. In its reports showing the distribution of earning assets of commercial banks since 1900, this report shows that at that time and continuing with only minor fluctuations until 1925, commercial loans constituted approximately 50% of the assets of commercial banks, as compared with an average of approximately 25% in investments. What a marked contrast with the present condition, when only 19% of assets in commercial banks are in loans as compared with 60% in investments.

As was so well said by the New York State Bankers Association in its study of this subject:

> In fact, one conclusion from recent developments seems inevitable. With the growing volume of capital assets and long-term assets the element of quality is of supreme importance. The extent to which capital values may shrink in periods of declining prices and depressions is now appreciated. As long as prices are rising and business is growing, banks can carry on with assets of secondary quality and perhaps make large profits, but the day of reckoning always comes when the economic trend changes. These periodic reverses must be expected, and the bank that fails to recognize this fact in the selection of its assets does not weather the storms.

There appears no way to avoid fluctuations in prices or to eliminate the element of contingency risk and speculation. The bank that fails to recognize this fact in the selection of its assets does not weather the storms.

This principle does not apply to the selection of bonds alone but to assets in general. The reason for this is that a bank is an organism, not a mere mechanical combination. Any disturbance in one part of it will derange or vitiate more or less the whole. An error in the conduct of its bond account produces fruits which combine with other errors in a bank's management, and the product of the two is not their sum, but the evil may be raised to a very high power by the combination. Only by the harmonious operation of all branches of a bank's business can it maintain a healthy condition. If a bank has a large part of its investments in mortgages or in collateral loans on securities, then obviously its management must keep this fact well in mind in selecting its bond investments.

The banker must therefore know the rest of his bank's affairs so well as to be able to determine how many bonds should be bought and how great a risk can reasonably be taken as to maturities and kinds selected. This is equally true in the small bank as in the large one. The fact that men's time and thoughts are absorbed with many things in small banks does not relieve them of this responsibility. By the same token, the President of a large bank has the same responsibility even though the task of supervision of its bond account is delegated to a committee.

An outstanding necessity of banks today is for more thoroughly trained investment men in their official organizations. These men should be selected for their sound, mature judgment as well as their knowledge of investment securities. It is desirable that they be officers of equal rank and standing in the organization as those handling loans. Too often, it seems to me, banks which have splendid staffs of loan officers rest for their investment decisions upon men who are not well rounded in principles of sound banking as well as sound investment procedure. Obviously, every bank cannot have separately constituted bond investment divisions. In such cases, it is the duty of the individual charged with the responsibility for making bond investments to endeavor so to equip himself by study and application as to qualify for this task. It is a responsibility, which in fact as well as in law rests upon the banker himself. He cannot successfully avoid this by delegation to others, especially those outside his bank.

For the reasons I have previously stated, I feel it would unduly labor the question for me to undertake to restate many of the points developed by other speakers at this convention. For brevity's sake, I gladly subscribe in general to Mr. Bradford's basic philosophies as outlined by him yesterday, which were:

1. Confine the portfolio to high-grade credits.
2. Limit the maturity risk.
3. Be satisfied with the going rate of return on high-grade credits.
4. Do not put emphasis on increased earnings from capital gains in the portfolio.
5. Confine the portfolio to securities promptly marketable.
6. Invest the portfolio so that it tends to mature serially over a limited period.

I would, however, qualify, or rather amplify, these points with the opinion that in part they rest for their success upon the proper timing of their application. This can be hedged by the relative amount invested at a given time. For example, the Economic Policy Commission's report shows that for 25 years commercial banks successfully operated with approximately 25% of their assets in investments. Let us apply Mr. Bradford's program to that portion of our assets with confidence that it is sound in principle and proven by experience. But today, when approximately 60% of our assets are in investments, it seems to me we may well ponder with the proprieties of applying the formula to this full amount. In other words, what we should do with approximately 35% of our assets lies in the twilight zone of uncertainty. As to all or a substantial part of the present excess over our normal investment funds, it seems to me they should be confined to investments of such maturities and quality that we can carry them to maturity without undue risk to ourselves or restriction of our commercial banking functions.

This is to a large extent, of course, a question of timing, and the present low rates lend no great satisfaction in accepting "the going rate of return on high-grade credits" for all of one's investment funds.

"You can't run a bank successfully on bond profits," said a good banker. But who would agree with him when he said, "If the bond account shows a running off in income, I prod my committee into action and get that idle money working, for the only way I can keep income up in a falling interest market is to buy more [bonds] at a less income rate"? During the past three years this has worked well, for the market has gone only one way—up. But I dare say that if this same banker were serving on his investment committee he would temper his remarks. There comes a time when the wisest and most profitable procedure is to stand aside, to forego current income for future gain or to avoid future loss. To buy more bonds at a less rate to keep up income is apt to cause many a future headache.

No banker can be 100% successful in properly timing purchases and sales. But he can do certain things which will greatly reduce the hazards of errors of judgment in this respect. The most important of these is to be constantly alert to the three indicators of the financial system: Prices, the rate of discount, and the foreign exchanges. When unrestricted by artificial means, these register the operation of economic forces and point to the time to buy and time to sell bonds.

At present the value of two of these indicators is reduced if not destroyed by laws which hamper the free action of economic forces. Exchange rates are now artificially controlled by stabilization funds or other restrictions in practically every civilized country, and little can be learned from this source. Discount rates here and abroad are likewise largely influenced by governmental action.

But prices are particularly important indicators at the present time, especially those making up the cost of living. For these, like the steam gauge on a boiler, indicate the temper and pressure of public opinion with respect to the currency system and the credit structure of the country.

In the past fluctuations in the value of commodities have caused great crises. Bonds, being contracts to pay dollars at a future date, not dollars-worth, are bound to fluctuate as to value according to the purchasing power of the dollar. Indeed, markets tend to discount such trends. There is no present indicator which is apt to better disclose this trend should it eventuate than the index of the cost of living. Under present conditions most individuals with money and many institutions are unwilling to purchase long-term bonds, or otherwise lend for long periods, due to uncertainty as to the value of the dollar in which these debts will be paid in the distant future. And if the cost of living shows a strong tendency to advance rapidly, this uncertainty will be further increased.

In spite of what has been done with coinage laws, prices are still fixed as they always have been fixed in the world markets, in terms of gold. And here in passing let me express the personal opinion that one of the greatest tasks which lies ahead of our national leaders is to work out a plan which will once again make all contracts gold contracts in law and in fact. On account of its bearing upon foreign trade, obviously it is desirable that such a plan be undertaken in conjunction with the other principal nations of the world. This is not a simple task, but on it rests the solution of our present domestic and international trade difficulties. It seems to me with our overwhelming ownership of gold it is incumbent upon this Nation to lead the way to such stabilization, probably on the gold bullion standard, and as Kemmerer has so well said, "the way to stabilize is to stabilize." Success in this would far transcend any other type of international leadership not excepting the field of world peace. Indeed, it would constitute the greatest single contribution to peace. Nations, like individuals, are slow to make war with their good customers.

We all know you can't legislate good times. Unsound legislation, on the other hand, can paralyze enterprise and arrest credit. In appraising various plans which are advanced to cure our social and economic ills, I think it well to remember what William Graham Sumner, then Professor of the Science of Society at Yale University, said in 1896:

> The fashion has grown up among politicians and stump orators of using assertions about prosperity and distress as arguments for their purpose and parties come before the public with prosperity policies. They have programs for "making the country prosperous." If this country with its population, its resources, is not prosperous by the intelligence, industry and thrift of its population, does any sane man suppose that politicians or stump orators have any devices at their control for making it so? The orators of the present day see prosperity where they need to see it for the purpose of their argument.

Some banks during the past three years have profitably employed a part of their funds in the field of low-priced bonds. Of course, many of these were until only a few years ago rated triple A and only due to the depression dropped back into lower classifications.

For those who are so disposed, the time is fast passing when this plan can be considered for even a small part of a bank's bond investments. The reason for this is not only because of the decreasing returns obtainable under it, but because the risks increase as the supply of good lower priced bonds decreases. Indeed, the time seems close at hand when this class of bonds will be entitled to first class ratings. Then the cheaper bonds will in truth be second or lower class grade securities, and woe be unto the banker who finds himself with any considerable amount of such paper when the next cycle runs its course. Surely memories of 1929 to 1933 are too fresh in the minds of most of us to find us in that position.

But for those of us who may forget or those too young to have experienced the devastations of a depreciated corporrate bond portfolio, it is likely well enough that attempts have been made to throw up legal barriers against a recurrence of this experience. I refer to the regulations respecting bond investments contained in Section 5136, U.S.R.S., the Comptroller's interpretative ruling with respect to this section dated Feb. 15, 1936, and the Comptroller's circular containing excerpts from his address delivered in Sacramento on May 2, 1936. These introduce a new factor which has a most important bearing upon the formulation of an investment policy.

This law puts upon the Comptroller of the Currency a duty to prescribe limitations and restrictions with respect to the securities which a national banking association may purchase for its own account, and leaves to him the duty of defining the term "investment securities" as he may by regulation prescribe.

State banks, members of the Federal Reserve System, are subject to the same limitations and conditions.

This was a big assignment which Congress gave to the Comptroller. The discussion and controversy which have resulted from the Comptroller's regulations, it seems to me, should not have been directed to him in his endeavor to fulfill the mandate of the law, but rather toward the law itself. Like certain other banking legislation adopted under the pressure of conditions prevailing in 1933 and even in 1935, the full effects and consequences of such broad authority as contained in this law were evidently not envisioned by Congress. I do not disagree with the purpose of the law, but it seems to me that the law is just not workable. It inevitably places upon examiners the burden of decisions which should be and can only properly be the responsibility of officers and boards of banks. If the same general principle were applied to loans to be made by banks, it is obvious that an utterly impossible condition would result.

Soon after the Comptroller's circular of Feb. 15 became effective, it was evident that rating bureaus could not appropriately be the final judges of bond investments for banks. Any successful investor, and rating bureaus themselves, will testify that their ratings must of necessity reflect primarily the past. Nor are market prices alone the criterion by which the safety of bonds can be judged. A large school of thought today attacks the safety of our government and other high grade bonds, not on the score that they are priced too low, but rather that they are priced too high. And yet when a bank examiner is faced with the necessity of making a decision with respect to a given issue of corporate bonds under the terms of the Act and regulations which have been issued under it, he naturally is influenced by both the rating bureaus' appraisals and the price of the bonds in the market, generally interpreting a low price as an indication that a bond lacks in quality. Having reached the conslusion that the bond is therefore speculative and not eligible, he must report the bond under the caption of "bonds unlawfully acquired."

No honest board of directors or group of bank officers welcomes the classification or implication of any of their acts being "unlawful" where they have exercised reasonable precaution and followed their best sound judgment. There is little wonder there is such general complaint as to this law. I am satisfied that the Comptroller used his best judgment in promulgating the regulations he has issued under this Act. I also think any other man, imposed with the responsibilities of that office, would find it difficult to define the term "investment securities" with any greater satisfaction to all concerned than he has done.

There is another reason why I find myself in disagreement with Section 5136 of the Banking Act as it stands today. It offends a fundamental principle of our constitutional form of government; namely, it transfers to an administrative officer charged with the duty of enforcing the law the right reserved to Congress to make laws. It is my belief that the bankers could well direct their particular efforts to getting the Act itself so modified as to make it workable and leave the responsibility where it belongs—with the banks themselves.

The other powers of the Comptroller, the Federal Reserve Board and the Federal Deposit Insurance Corporation Board are sufficiently broad, or could certainly be made so, so that if in any particular case investment practices or policies are indulged in which are apt to result in loss to the depositors, such cases can be dealt with summarily. In final analysis, "the real responsibility for maintaining high standards of quality for bank assets rests upon the management of individual banks."

Let us consider for a moment the subject of interest. If we knew more about what causes the fluctuations of the interest rate, we would be in much better position to judge what might reasonably be expected as to bond prices. This applies especially to government bonds and other so-called money bonds. The present rate favors borrowers, not lenders. If this were true as a result of capital accumulating more rapidly than it was needed to extend enterprise, it would no doubt be advantageous and would lend confidence to long-term commitments even at present low levels. But it is evident that our present low interest rates tructure is not the result of accumulations of capital beyond the needs of enterprise. Until within the past few months we all know that production decreased for the greater part of the past decade. We are all equally well aware that during the past several years capital has been consumed at a rate more rapid than it has been accumulated.

One can only conclude, therefore, that the present low interest rate is the result of the large amount of credit created by government borrowing. It seems clear that the fluctuation we have experienced does not correspond to the normal action of the forces which should produce this rate of interest. If this be true, then the effects of it are not a subject for congratulation. On the contrary, a higher rate than that now prevailing would prove a real benefit, not to the bankers nor creditor class alone, but to the country as a whole. It would give tone to the money market, now a dull and lifeless affair. It would be a benefit to small investors and savings depositors who have seen their interest halved or quartered during the past four years. And last, but not least, it would greatly reduce the dangers of banking, in which the entire Nation found in April, 1933, it had a vital concern.

It seems unlikely, however, that we will see an early change in interest rates. Never before in history has interest been so well harnessed. Whether this great natural force can be kept harnessed and under control remains to be proven. Somewhat dependent upon how you answer that question will depend your viewpoint with respect to the future course of the bond market and its corollary questions.

For my part, it seems to me the likelihood is in favor of continued low interest rates for some time to come. There has been released in our banking system a vast amount of government credit, which appears today as deposits in our banks. As long as banks continue to hold the government obligations which created these credits, these deposits will remain in the banking system and will press for use. Not until the bonds themselves are retired by actual payment will the deposits which they created be withdrawn from the banks.

It is characteristic of governments under such circumstances to use every power at their command to keep the cost of borrowing down. This is bound to exercise a restraining influence on other tendencies for interest rates to advance. The same is true of our present vast holding of gold, which continues to increase. But if for any reason a heavy withdrawl of foreign gold should occur, most economists agree this would likely be one of the best things which could happen to us.

The holdings of government bonds by banks is a subject of much discussion, not only in banking circles but by the public at large. Not infrequently the issues presented by government expenditures beyond current income are confused with the question of the fundamental soundness of the credit of the United States of America.

Right here let me say I do not condone a continuing Federal deficit, nor do I countenance indiscriminate public spending, but I seriously doubt the wisdom of impugning the soundness of our banks because of their present holdings of U. S. Government bonds. Banks bought these bonds because they had confidence they would be repaid at par at maturity and for the reason that they are as nearly riskless investments as can be found.

As far as I know there is no recorded instance where the Government or any of its agencies has directly exercised any coercion upon the banks as a whole or upon any bank in particular to buy its securities. Certainly a 7% allotment on subscriptions to the last Treasury offering belies this contention. It probably can be justly claimed, however, that as a result of the policies and programs adopted by the Government in its efforts to set in motion the forces of recovery, that this has brought about a condition where banks, by force of necessity of keeping their funds employed at a minimum risk, have had to turn to the government bond market.

Up to this time I believe that, irrespective of our personal opinions as to the proprieties of the use to which large portions of these funds have been put, the banks of this Nation have been justified in their investment in government bonds. In appraising the risks from this point forward as bankers, it is our task to consider the progress which is made by this, our largest and strongest customer, to set its house in order, to balance its budget, and for us to determine whether its policy will be to waste its substance or conserve its resources as against the time that it may again be called upon to meet a great national emergency. To the extent that we see progress is being made in the direction of a sound fiscal policy, I conceive it is our duty as bankers and citizens to lend our continued support, consistent with our resources, just as we would to any other customer, firm or corporation whose real worth cannot be seriously questioned and whose prospects are as bright as those of the United States of America.

Of two things I am certain: First, that no depositor will lose a dollar on the government bonds held by our banks today.

Second, that bankers have infinitely more to worry about with respect to the soundness and value of their other bond holdings, which in the aggregate for all reporting banks amount to approximately 50% of their total bond investments.

As to market fluctuations, occasioned by changes of interest rates and other investment hazards, it is obvious sound banking requires the establishment of reserves just as we establish reserves against other contingencies. It is my observation that banks, both large and small, generally recognize the necessity of doing this, even though it results in serious reductions to their already greatly reduced current earnings, and even though they may regard this contingency as remote. In closing, I would like to quote once more from Sumner, who in 1879 listed the qualities for a great banker as "those of the practical man, properly so called—sagacity, good judgment, prudence, boldness and energy." Certainly these are needed in the conduct of a bank's bond account to-day.

COMMITTEE AND OFFICERS' REPORTS—NATIONAL BANK DIVISION

Address of President C. W. Allendoerfer, Executive Vice-President First National Bank, Kansas City, Mo.

Enactment of such vital banking legislation as was approved by the first session of the Seventy-fourth Congress was followed necessarily by a period of adjustment during the early part of the National Bank Division's year just closed. New requirements had been laid down for National bank conduct, and new interpretations were being formulated. These brought inquiries from member banks and provoked numerous comments which deserves and received careful consideration. Regulations and rulings had to be drawn by the Board of Governors of the Federal Reserve System, by the directors of the Federal Deposit Insurance Corporation, and by the Comptroller of the Currency. They required study, and fortunately, by invitation, representatives of the division, together with representatives of other branches of the American Bankers Association, were permitted to sit in a discussion of most of those regulations, in tentative form, to consider their practical effect, and offer suggestions for their improvement.

Particularly significant and commendable is the practice inaugurated by those officials of thus permitting representative bankers to study the preliminary drafts of the several regulations, and later to join in discussion of them with a view to determining their workability from the standpoint of the operator as well as the supervisor.

It is believed that some of the recommendations made in those conferences, after being subjected to searching study and discussion, brought about changes in language which preserved the ends sought by the supervisory boards without disturbing practices admittedly proper. Generally speaking, the division feels that the regulations as promulgated are acceptable and, for the most part, they are not seriously complained against.

Though it was not practicable, it is regrettable that all of the arguments and all of the reasoning back of each regulation considered cannot be published. They would show how, in many instances, understanding dissolves criticism, and that proposals which at first may seem strange or ill-advised frequently assume a different aspect in the light of recognition of their purposes, and often yield readily to modifications which, without changing aims, render them more adaptable to the wide variety of practices and communities to which they will apply. The policy of open and free discussions obviously is so constructive that adherence to it by all regulatory authorities is earnestly hoped for.

Manual of Lending Powers

The number of regulations governing National banks, especially immediately following the passage of such a comprehensive law as the Banking Act of 1935, is bound to be somewhat confusing for a time and difficult to keep in quick-reference form and in proper physical relation to the statutes they elaborate. To alleviate this condition the National Bank Division has prepared a manual of powers and restrictions governing loans and investments by National banks. This document contains the pertinent sections from the various laws, and carries also the adjunctive regulations issued by the several supervisory authorities. In addition, much explanatory comment has been provided. Care has been employed to avoid duplication of publications already in existence.

It is felt that this manual will be a helpful accessory to the equipment of every lending officer of a National bank. It is confined to the two banking functions mentioned above. It is usable with dispatch. It is as compact as its nature will permit without an abridgment destructive of its purposes. Grateful acknowledgment is made to the office of the General Counsel of the American Bankers Association for the great assistance rendered in the preparation of this manual. It has just come from the press, and a copy has been mailed to each National bank.

Real Estate Loans

The division felt, too, that it would be desirable to make a study of real estate loans. Some figures are available bearing upon such loans since passage of the Banking Act of 1935, but the areas covered are not broad enough nor do they present enough diversification to establish definite trends. Clear it is that much greater real estate lending now is possible, just as the McFadden Act of 1927 broadened this privilege moderately after heated debate upon the desirability of so doing. The expansion since the liberalized law became effective last year has not been very considerable, and perhaps could not be attributed to the change in the statute. However, the broadened powers, supplemented by the various factors intended to encourage such borrowing and such lending, may result in a larger volume.

A committee of our division has made a study of the history of real estate loans in National banks, which study is the basis for an address on the subject to be made at this convention by the committee Chairman.

Collection of Non-Cash Items

The frequently recurring discussion of the propriety of the handling of non-cash collection items by Federal Reserve banks is prompting the division just now to give it some consideration. Partially responsible for this decision is the fact that a secial committee of the Presidents of the Federal Reserve banks is making a study of the operations of their banks including those of the collection departments. The division seeks to determine whether it is the opinion of the members of the division that a change of practice should be made in view of past experience and present conditions. Aided by the results of the earlier inquiries, it may be possible to suggest a course which will be equitable and satisfactory to all classes of banks. This is the aim of the division.

Federal Legislation

Federal legislation always is an important part of the National Bank Division's work. Governed by laws enacted by the National Congress, and supervised by officials who receive their authority from that same source, obviously the work of the Congress is vital to members of the division, which follows carefully and constantly all proposals to change the laws affecting National banks. However, all other banks, in a greater or lesser degree, also feel the weight of Federal statutes. In the last session of Congress a great many of the bills which concerned National banks—especially those which affected them only indirectly—touched also all other banks and, therefore, became the responsibility of the parent body—the American Bankers Association. That did not mean that the National Bank Division took no active part in the work. On the contrary, it never relaxed its efforts. They were put forth continuously in cooperation with the parent body, to which the division gave a full measure of hearty support.

But there were offered in the last session of Congress some bills which related to National banks alone. These were in greater number than in any other recent session, and embraced a variety of purposes. Some of them were not supported by sound reasoning, and no such bill impressed Congress sufficiently to advance it to any point even near the stage of final enactment. Unfortunately, too, some bills which were recognized as proper measures failed of enactment. I am referring now especially to several of the recommendations made by the Comptroller of the Currency.

One of them would amend and clarify Sections 5199 and 5204 of the Revised Statutes of the United States so as to make it certain that National banks could declare dividends more frequently than semi-annually. Another of his proposals would define bad debts to mean "any debt due an association on which interest is past due and unpaid for a period of six months, unless the collateral thereto well secures such debt in the amount at which it is carried as an asset on the books of the association or unless such debt is in process of collection."

These and other recommendations made by the Comptroller of the Currency received Congressional committee consideration, but were laid aside finally due largely to the lateness of their introduction, and to a desire to enact only such measures as were considered immediately necessary. However, the reasons urged in support of these bills still are convincing, and likely the measures will be presented again when the next Congress convenes, Jan. 5, 1937.

Social Security

Following the passage of the Federal Social Security Act there was much interest in the question whether National banks were subject thereto. "Instrumentalities of the United States" were exempted from the provisions of the Act and the Supreme Court had decided that National banks are "instrumentalities of the United States." At the time of the meeting of the Executive Council of the American Bankers Association in April no government ruling had been made as to whether these court decisions would be held to apply to the provisions of the Social Security Act. Recently the Internal Revenue Bureau has ruled "that neither the banks nor their employees are subject to the taxes imposed under Titles VIII and IX of that Act." A copy of the full text of that ruling was mailed to each National bank by the Secretary of this division.

The Act contemplates that taxes for unemployment compensation may be levied by the States and credit taken by an employer for contributions to a State unemployment fund up to 90% of his Federal tax.

A new form of taxation of National banks by State authorities would have been a serious threat to Section 5219, on which we rely for protection against unjust local taxation. The problem was thus one which concerned the Association's Special Committee on Section 5219.

As I have stated, the ruling of the Internal Revenue Bureau had not been issued at the time of the Executive Council meeting in April, and during that week a joint session was held of the members of the Executive Committee of the National Bank Division and the members of the Committee on Section 5219. It was reported that the Social Security Board was of the opinion that the employees of National banks should receive the benefits provided in the Act and correspondingly the taxes should be paid. It appeared probable, therefore, that new legislation would be proposed, if necessary, to put National banks under the Act, and President Fleming appointed a joint committee composed of representatives of both the National Bank Division and the Committee on Section 5219 to give close attention to the form of any such bills which may be submitted to Congress.

Trust Departments

The Banking Act of 1935 provides in effect that State banking authorities may not examine the trust departments of National banks, unless the particular bank in question desires to submit voluntarily to such an examination. Nevertheless, the right to examine was demanded by State authorities in the case of the largest National bank in each of two States. The Trust Committee of our division has investigated carefully and found that there is some conflict with the Federal Statute in the laws in eight States, although in most cases the authority is merely permissive and the State official is not required to make the examination.

Harmonizing of State laws with Federal statutes is expected during the next sessions of Legislatures, and action by the division on the subject is not considered necessary, though it is prepared to be helpful if called upon.

We are much concerned over the report submitted to the President of the United States and the Speaker of the House of Representatives on June 18, 1936, by the Securities and Exchange Commission, representing a part of its Study of Protective and Reorganization Committees, and dealing specifically with Trustees Under Indentures. If the recommendations of that report become law, they might result in the complete segregation of trust departments from commercial banks, which would be harmful to banks and business alike. Some 1,578 National banks are exercising trust powers, and the National Bank Division is glad to cooperate in any way possible with the Trust Division, whose field includes the trust functions of all banks. The Trust Division is fully alive to the possibilities for harm in the report of the SEC.

Federal Loan Agencies

The interest of our division in the subject of competition by Federal loaning agencies was expressed on the program of the division meeting in New Orleans through an admirable address by Wood Netherland. During the year an inquiry into the extent and character of this competition was conducted by the Association's Committee on Banking Studies and, therefore, has not been pursued further by our division as such.

Division Aids to Members Individually

The slow, tedious progress of the business revival, accompanied by a moderate improvement in banking, as well as general business, precipitated problems of unusual character which required prompt consideration. Many of them were centered in the Nation's capital by reason of the numerous Federal agencies exercising authority over National banks, and because of the still greater number of such instrumentalities directing in some measure the affairs of clients of National banks. The location of the division's office in Washington, D. C., enabled it to render a variety of helpful individual services. They were not restricted to National banks. They were accessible to all members of the Association without charge, and were availed of by banks of all classes.

This individual service had to do with practically all governmental bureaus, but by far the greater part of it led into the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Treasury Department. The close relationship of member banks with these agencies makes those numerous contacts necessary, and the splendid spirit of genuine cooperation which those agencies have displayed uniformly has made success of the work possible. Its scope and character thus are pointed out so all banks will be informed and so they may share in its benefits. It is too well known to this division for me to speak at length on it, but that work is done by our Secretary, Edgar Mountjoy. He has these wonderful contacts with the bureaus, and every member of the Association will find that service extremely helpful if you need something done in Washington.

You have just listened to a report of the principal activities conducted in the name of the National Bank Division during the past year. It was an interesting year, less spectacular, perhaps, than some others, but, having been cast by fate into this most fascinating age, in which the business of banking continues to intrigue those who delve into its science or undertake to meet its exactions, the year was by no means devoid of developments or denied an important position in the recovery period.

It is true that we are not, for the moment, experiencing the tenseness or the emotion which accompany a banking or a business crisis, a change in the monetary standard, a sharp revision of the banking laws, including the insurance of deposits or the purchase by the government of large sums of the capital of private banks. All of these we have seen during a few recent years, and the recollection of them will abide with us permanently. However, with the passing of the emergency, and the opportunity thus given for a study in retrospect, we are able to appraise these changees with much better understanding and to adjust ourselves to them with a greater degree of assurance.

Not only the banks, but bank customers as well, yielded to the processes of this adjustment. In support of the contention that it has proceeded a long way, I may remind you that, except historically, now one seldom hears mention of the various factors which wove such far-reaching changes into the banking fabric. The retirement of the preferred stock of banks goes on steadily out of recoveries and earnings. Commercial banks, guided by the statutory restrictions and regulations, pay no interest upon demand deposits, and find it possible to allow only a very low rate upon time money. Depositors accept this reduction in interest income without serious complaint, obviously realizing the true purpose of it, and evincing satisfaction in being able to place their funds safely. And yet with all this ready willingness to subordinate higher income to safety there is little mention by depositors of the FDIC unless it is in connection with the liquidation of an insured bank. Little query is made as to whether or not a particular bank is insured. Is this because of the general feeling of security created when the insurance fund was established, and sustained by the almost-total absence of failures among banks? Or is it due to other influences, or to a combination of all of them?

Without doubt some large part of the restored confidence in banks is the result of the public education campaigns conducted by bankers' associations and by individual banks in the attempt to "take the mystery out of banking." These efforts, continued systematically, definitely will carry to men in other lines of business a better understanding of the principles of banking. This leads to speculation upon the effect of public education campaigns upon bankers themselves. Are you one who has asked himself, "Can I explain convincingly to the business men and farmers of this community why I can make this class of loan and not that one; why I have to employ service charges; why I cannot pay more interest on deposits?" Has the Chamber of Commerce or the Rotary Club been around and flattered you into agreeing to make "just a short talk" on the meaning of increased reserve requirements? If so, unless you are a real student of banking, I can sympathize with you. It is no simple task to express in clear and orderly fashion the fact and the theory of the powers for the control of the volume of credit provided in the Banking Act of 1935, even if one has the details of the law clearly in mind.

To give to our neighbors in clear and understandable language the real reasons why we do thus and so in banking is not only desirable, but essential, even though it will require that some of us do some reviewing in our own minds or in printed pages. This reviewing is a wholesome thing. It not only equips us to help others more satisfactorily, but it sharpens our own perception of current trends and events. For many years it was said with some justice that bankers had no proper understanding of economics or of public relations. However, such criticism cannot be true of a body of men who are sincerely and generally studying their business as bankers are doing now, not only as to underlying tested theories, but also as to present laws and regulations which have yet to demonstrate their strength or weakness. The first use of the power to increase reserve requirements has passed by almost without a ripple, but its significance has not escaped the attentive banker.

Unsatisfactory earnings have forced bankers to be particularly keen just now about operating problems, and about the development of services, the extension of which will produce a little profit. Just as the farmers of the Middle West are displaying ingenuity in handling the problems of the great drought, the American banker is proving ingenious in meeting the scarcity of gross income. Perhaps in both cases there will remain in the permanent program practices which would never have been initiated but from necessity.

But it is hard to believe that the main source of income and the central concern of banking will not remain in the loan and investment accounts. A viewpoint of the investment account will be well presented on this program. What changes are taking place in the character of our loans? It is certain that there is a great shrinkage in the volume of credits which will be retired automatically through the seasonal production and marketing of goods, grain or livestock. There are always a few individuals under nearly any condition who display sufficient ability and industry to warrant the borrowing and the loaning of working capital. But these are all too few. If I am not mistaken a frank check of our portfolios now will indicate the growth of a group of loans which were formerly classified as "good but slow." These are loans which are believed to have in them the essentials which make final payment certain, but which are not expected to be retired at the maturity of the note. It would appear to be possible to judge properly of credits which will be liquidated through a program of operations extending over more than one season or one year, probably with fixed serial payments. This will require a little different approach, a little longer viewpoint, and a little more care to provide against the contingencies which are more likely to arise in the longer period. If I sense things right, we are doing this intermediate financing. I hope we are making only loans which are good, whatever may be the program for payment.

It takes no wisdom to say it, but I will do so nevertheless—it is in times of easy money and low interest rates that we make the mistakes which worry us later on.

Resolution Calling for Discontinuance of Handling by Federal Reserve Banks of Certain Non-Cash Collection Items

Prior to the presentation of the address before the National Bank Division of Andrew Price, President Allendoerfer of the Division said:

Let me say at this time that following our next address there will be brought up tnis matter of the resolution with reference to non-cash items collections by the Federal Reserve banks. Many of you are interested in that subject and we will want a full discussion, so please remain and say what you have to say on that subject.

With the conclusion of Mr. Price's address, President Allendoerfer had the following to say:

Those of you who have followed the collection system of the Federal Reserve banks since it was first inauguarated will remember that it was set up with the idea that we needed a par collection system for checks on banks in this country, and while that idea itself met with some opposition, the practice has become almost universal.

Having a collection department, the Federal Reserve banks began and have continued to handle items which were not checks on banks. There has been from time to time some expression of opposition to that practice. The American Bankers Association itself had a special committee on that subject, which worked for some time but which was finally dismissed.

Recently, there have been some new reasons for giving this subject consideration. Members of your Executive Committee were particularly interested in the subject, and at the spring council meeting, it was gone over very carefully, but it was apparent that as a National Bank Division we could not say to the Federal Reserve Board, the Board of Governors of the Federal Reserve System, or to the Prseidents of the various Federal Reserve banks officially, as representing the division, that National banks felt so-and-so about the collection of non-cash items. The only way to get an expression from the members of the division—or rather two ways—would have been by some form or questionnaire, which seemed impracticable without an accompanying explanation and discussion, and the other was that it be presented at our division meeting at the annual convention.

In order that a resolution may come before one of the divisions of the American Bankers Association, it is necessary under the constitution and by-laws that that resolution be placed in the hands of the Secretary of that division 15 days before the meeting, that it be submitted to the Executive Committee of that division, and if they recommend it, it may then be presented to the division. All of that has been done with reference to this resolution. The purpose of your President is to get it before you, so that there may be all of the possible objections heard and all of the possible arguments for. You will realize that in coming to the floor that it does come to you with the unanimous recommendation of the members of the Executive Committee of the division. I will ask Mr. Mountjoy, the Secretary, to read the resolution.

Secretary Mountjoy: Mr. President, the resolution reads as follows:

Resolved, that it is the sentiment of the National Bank Division of the American Bankers Association that the Federal Reserve banks should discontinue the practice of handling certain classes of non-cash collection items, and that the incoming President of the National Bank Division is hereby authorized to appoint a special committee, whose duty it shall be to give further study to this matter, and if in the judgment of said committee it is desirable to do so, that it shall present the results of its study to the Board of Governors of the Federal Reserve System and the Presidents of the various Federal Reserve banks, looking toward a solution of the problem.

The term, "non-cash collections," as used in the above resolution is intended to cover in general all items not payable by or at a bank.

The following discussion ensued:

President Allendoerfer: Ladies and gentlemen, there are some uncertain words in there, that are not definite. The explanation of that is this: the President of one of the Federal Reserve banks told me that he had found that in his own bank they were handling 64 different kinds of non-cash collections. There are perhaps some additional kinds in some of the other Federal Reserve banks. For example, non-cash collections in the definition of the Federal Reserve banks include checks which have once been protested. It includes drafts against savings account, with savings pass books attached, and tnings of that kind. So it is not the thought of the man who presented the resolution or of the Executive Committee that we would be against—if we pass this resolution—the continuance of handling of any kind of non-cash items. The explanation at the end of the resolution, and made part of it, indicates that it means the handling of items which are not drawn on banks or payable at banks.

The resolution is before you. Do I hear any motion for its adoption?

Russell G. Smith (Bank of America, San Francisco): Mr. President, I move the adoption of the resolution.

]The motion was seconded by H. E. Cook (Second National Bank, Bucyrus, Ohio.]

President Allendoerfer: The motion to adopt is now before you, and we are ready for discussion. I will recognize Melvin Rouff of Houston, Texas, as one who has given this matter much thought and who has been in the Committee and heard its discussion. I will ask Mr. Rouff to present the arguments which he believes warrant the adoption of the resolution.

Mr. Rouff: I would like to speak briefly in favor of this resolution which has the unanimous approval of the Executive Committee of the National Bank Division. Its submission now is most timely. Particularly is it timely in that a committee appointed by the Federal Reserve Board is now completing a survey of the Federal Reserve banks' activities directed toward the reduction of expenses of the Federal Reserve System.

The September Federal Reserve Bulletin disclosed that the first six months of the current year only two of the 12 banks, St. Louis and Dallas, had net earnings in excess of dividends for the first half of this year. The remaining 10 failed to earn their dividends. Further, a review of the discussions on the floor of Congress at the time of the passage of the Federal Reserve Act does not reveal that it was the intent or the purpose that the Federal Reserve banks should handle non-cash collection items.

The term "non-cash collection items," as used in the resolution is intended to include only items not payable by or at a bank. It would not include bonds or coupons. And may I repeat that last sentence, if you please: It would not include bonds or coupons? The handling of these items by the Federal Reserve banks does not benefit their member banks, benefitting, if you please, only corporations, firms, and security dealers, who are large users of this free service to the detriment of and penalizing the individual banks throughout the nation, both large and small. The handling of non-cash collections by the Federal Reserve banks is probably of less direct benefit to member banks than any of the so-called free services, and the cost to the System is very large. The handling of non-cash collections is a proper function belonging to the commercial banks. As handled now by the Federal Reserve, it takes from your bank and our bank a revenue for the handling that rightfully belongs to the commercial banks.

In conclusion, I am sure you will agree with me that it is wise to pass this resolution which only authorizes the appointment of a special committee whose duty it shall be to give further study to the discontinuance of handling certain non-cash collections. It is not a mandate, but if in the judgment of the Committee it is desirable to do so, they shall present the results of their study to the Board of Governors of the Federal Reserve System.

President Allendoerfer: Is there further discussion of this question?

Mr. Cook: Supporting this, Mr. Chairman, from the standpoint of a smaller bank, and being fully convinced as to the reasonableness and the justice of this reolution, I want to say just this: that we feel in the smaller banks very much the need of revenue which would accrue to us by the handling of non-cash items such as provided for in the thought contained in the resolution. In meeting with the smaller banks, not only in our own State but from many other States, we find that that same thought obtains: that here is a source of revenue to which the banks are entitled, and it is not properly a function of the Federal Reserve System. For that reason, that should be placed back in the hands of the commercial banks so that might have that revenue and such business as might come through that channel.

President Allendoerfer: Is there other discussion of the subject? The President would particularly appreciate comment on this subject by gentlemen from banks outside of cities in which Federal Reserve banks or their branches are located.

Dunlap C. Clark (The American National Bank, Kalamazoo, Mich.): I might say in passing, in that connection, so far as our contact with the Federal Reserve bank on these non-cash items is concerned, where those come to use from the Federal Reserve, we levy the customary charge for handling and so far as the outgoing items are concerned, we have consistently routed them through our most conveniently located correspondent, either Chicago, Detroit or New York.

President Allendoerfer: Is there further discussion of the question? If not, I will call for the question. I think it is understood that we are voting for the resolution expressing the sentiment of this division in favor of the elimination of some of the present services of the Federal Reserve banks with reference to non-cash collections.

Those in favor of the resolution please signify by raising their hands; opposed. The "Ayes" have it.

Report of Committee on Nominations—Newly Elected Officers

In behalf of the Nominating Committee, J. R. Cain, Chairman, presented the following recommendations:

For President: William F. Augustine, Vice-President National Shawmut Bank, Boston, Mass.

For Vice-President: Russell G. Smith, Cashier Bank of America National Trust & Savings Association, San Francisco, Calif.

For members of the Executive Committee for a term of three years:

Representing the Second Federal Reserve District, W. A. Boyd, President First National Bank, Ithaca, N. Y.

Representing the Fifth Federal Reserve District, W. J. Waller, Vice-President Hamilton National Bank, Washington, D. C.

Representing the Seventh Federal Reserve District, Thomas R. Hefty, President First National Bank, Madison, Wis.

Representing the Twelfth Federal Reserve District, Andrew Price, President National Bank of Commerce, Seattle, Wash.

Respectfully submitted:

J. R. Cain, Vice-President of the Omaha National Bank, Omaha, Neb., Chairman;

P. B. Doty, President of the First National Bank of Beaumont, Texas.

W. E. McGervey, Executive Vice-President of the Third National Bank & Trust Co., Dayton, Ohio.

[The report was duly adopted and the newly elected officers installed.]

STATE BANK DIVISION

AMERICAN BANKERS ASSOCIATION

Twentieth Annual Meeting, Held at San Francisco, Calif., Sept. 22, 1936

INDEX TO STATE BANK DIVISION PROCEEDINGS.

Country Bank Earnings—Why and How

By HARRY A. BRYANT, President Parsons Commercial Bank, Parsons, Kan.

In discussing a subject of this kind it is well to divide it into two parts. If an attempt were made to tell you how country bank earnings can be made simple, it would be quite an undertaking—but when the "why" is added, then it will be a lot easier. The first part of this discussion will, therefore, deal with "Why Country Bank Earnings," and the second, "How They Can Be Improved."

There has never been any argument about the desirability of earnings for any kind of a bank, and in the past few years this subject has been foremost in the minds of most bankers. Particularly so with the small country banker, and by that I mean the average small town banker in towns of 50,000 or less. In fact, with the possible exception of the Reserve city bankers, we are all country bankers, so our problems are very much the same.

It has always been true that a bank, like any other business, must be profitable, if it is to stay in business. Now what is meant by profitable? Not just operating coverage with a small margin, but sufficient earnings to pay dividends, cover reasonable losses, and still have a balance to increase the surplus account. This has been the ambition of every sound banker.

It has now become more than an ambition; it has become a necessity. First, for the reason that we as bankers are on the spot. More than that, we are on trial, so to speak. On trial to see if we can justify our existence as small unit bankers under the dual system of banking, as we know it today. To so justify ourselves we must first operate profitable banks. Otherwise, we won't survive. That is the best reason for the "why" of it, and what is the answer if we don't survive? To me there is only one answer—branch banking, operated under a single system. There is a strong undercurrent in that direction, and that is why we, as small unit State bankers, must do a better job than we have been doing. And when I say we are on trial, I do not mean by the supervising authorities alone, but by the public and by our customers. They are watching us to see if we can serve them properly as unit banks. If not, then they are going to demand better banking service, and the only answer is—branch banking.

While branch banking is not the subject under discussion, bank earnings play such an important part in determining whether or not we are to have nation-wide branch banking that it seems proper to discuss it briefly from that angle. First of all, branch banking means further concentration and control of credit, and I do not believe that the public, once they realize just what branch banking would mean to them and to their communities, would favor any movement in that direction.

If this is true, and since a large majority of the bankers of this country are not favorable to it, then why permit the few individuals or groups that are working to this end to bring it about? We all know what has happened to the small independent grocer. He has been practically crowded out of the picture by the chain grocery store. Do we, as bankers, want to assume the same relative position in our town that the manager of the chain store now occupies? I'll say we don't; and if not, then the most effective way to combat this movement towards branch banking is to operate sound and profitable banks and at the same time serve our communities as independent banks should serve the community that supports them.

Much more could be said against branch banking, but just now the point I am trying to make is to show the relationship between bank earnings and branch banking. If we are going to continue to operate independent banks, then we must operate profitable banks. Nothing will make a bank more independent than profits and, on the other hand, nothing can be more favorable to branch banking than unprofitable banks.

The customer first wants his bank to be sound, and second, to be profitable, so it can continue to be sound. In the past few years customers have demonstrated that they are reasonable and fair by paying for services that were formerly furnished without charge. Any community that can and will support a profitable bank is entitled to good banking service and, by the same token, any community that cannot support a profitable bank is not entitled to and should not be served by an unprofitable bank.

As business improves, the demand for banking service is going to increase and the demands for new charters will be made, whether it will be profitable to operate a bank in the community or not. It would, therefore, seem wise that bankers see that surveys are made that will show from past experience whether or not profitable banks can be operated in the various communities now without banking service. Then, when the time comes, facts will be available to substantiate the argument against a repetition of the overbanked position this country was in a few years ago. It would seem just and proper that State and Federal agencies work in harmony to this end, as they well know the penalty of too many banks that cannot possibly operate at a profit.

And to me, that is the real "why" of the necessity for country bank earnings. If the operation of the average country bank cannot be made profitable, then the only answer is elimination, liquidation, consolidation or otherwise, and then branch banking is sure to follow.

Now, how can all this be accomplished? In the first place, after being honest, a banker should be practical. We expect our customers to be both honest and practical, so why shouldn't they expect the same of us? Since we are going to be practical, we should first analyze our individual problem from an earning standpoint. See what our requirements really are, and then face the important question: Can these requirements be met? Let us assume that the practical banker operates under a budget, or at least knows what his average fixed charges are. Also, that he has trimmed his operating costs to the bone. If not, he had better start trimming. I have known a few bankers who seemed to feel as though they had done all they could do, after they had made a few reductions in their expense account. After that, they have been afraid to move, except to go to bankers' meetings and complain about how hard it is to make any money in the banking business.

There are many ways of reducing operating costs, after salaries have been reduced. Now that business is increasing, additional help will be required in many banks. Have you ever visited the neighboring banks of about your same size to find out how they are handling the various departments in their banks? Short cuts are continually being found that will eliminate a lot of unnecessary work. Just the other day, in our own bank, it developed that the transit items had increased to a point where it seemed necessary to employ additional help or find more efficient methods of handling these items. In a conversation with M. A. Limbocker, President of the Citizens National Bank of Emporia, Kan., I found that they had been using the Recordak system in their transit department for several years and had found it entirely satisfactory and a big timesaver. The result is, we investigated this system and are instaling it in that department and have found it won't be necessary to employ any additional help. The expense of operating this modern equipment is just about half of the salary of an additional clerk. Many other modern machines and methods are in use today, and I merely mention this personal experience to show what can be accomplished by seeing what the other fellow is doing.

After analyzing our problem, why not reverse the usual procedure and see where and how earnings can be increased? That is where the practical application comes in. Bankers that have tried it have found it can be done. How? First by changing from our old-fashioned methods to modern methods that meet present-day conditions.

I would like to give you an actual happening that will show what the modern youth of today is thinking about. When I do so, I hope you will pardon the personal reference to our own son, who is now 14 years old. This happened last winter at the breakfast table on one of those cold winter mornings we sometimes have in Kansas. The old Ford car had been frozen up for several mornings, and it had been impossible to get our young hopeful hauled to school in his usual luxury. On this particular morning the modern son said: "Well, dad, do you suppose the old bus will start this morning?" Instead of giving him a modern answer I started to tell him that when I was a boy of his age I had to walk to school, no matter how cold or stormy it was; that my father did not haul me to school, &c. He waited until I had repeated three times about "When I was a boy," and then said: "Dad, I'm really not interested in how you got to school when you were a boy; what I'm interested in is, is the old car going to start this morning?"

That may sound unimportant to you. It did to me at first, but after I went down to the bank I got to thinking about what he had said. The more I thought about it, the more important it seemed. And then I began to apply it to the banking business, with this conclusion: It is not so important how things were done 30 or 40 years ago. The important thing is, how are they being done today; is the car going to start this morning? Is the bank going to make a profit this year? And finally, if not, what am I going to do about it, other than say, "Well, when I was your age we didn't do this and we didn't do that."

Of course not; it wasn't practical, and it wasn't being done that way then—meaning, that to make money today we must change our attitude and change our procedure, not from the fundamental principles of sound banking, but by the application of new methods. What is wrong about soliciting loans, after we have investigated the prospect? What is wrong in letting the public know we are willing to make loans? Nothing, if we use our heads in doing it. In Kansas, last year, through the Kansas Bankers Association, we adopted the advertising slogan, "When you borrow money, borrow from a bank." You would be surprised at the favorable response.

What made it possible for the GMAC, the Universal Credit Co. and the Commercial Credit Co. to build up loan portfolios totaling millions of dollars? It was not done by watchful waiting, but by aggressive policies in keeping with modern times. Every one of their loans originated in some bank's territory. Did you ever observe what their percentage of losses has been? Compare it with the percentage of bank losses. By this I am not suggesting that all banks, or that any banks, for that matter, go into the finance business, but I am calling to your attention a loan field that has been sadly overlooked.

Since we are going to be practical, why not do this: Determine in each individual case how much idle money is available for investment. Second, what percentage of cash, bonds, local loans, real estate loans would be desirable in each locality. For example, take a bank with capital of $100,000, surplus $50,000, and deposits of $1,500,000. Assuming that 20% to 25% of the deposits would be ample cash to maintain, that would require $350,000, leaving about $1,200,000 for investments; 40% of deposits in bonds would be $600,000, leaving another $600,000 for local loans and other investments. It would seem reasonable to believe that at least $250,000 of this $600,000 could be placed in desirable local loans to farmers, merchants, individuals and small business concerns. We would still have $300,000 left, and if $200,000 of this amount could be invested in high-class finance paper and about $100,000 in amortized loans on real estate, it would seem to be an ideal situation from a standpoint of both liquidity and earnings for the average country bank.

The income could be estimated about as follows:

$600,000 bonds at average yield of abount 3% and 3½%	$18,000
$250,000 local loans, other than finance paper and real estate, at average yield of 6%	15,000
$200 000 finance paper, average yield 12%	24,000
$100,000 loans on real estate, average yield 5%	5,000
Service charges, rents and all miscellaneous charges on $1,500,000 deposits, but not including any recoveries	8,000
Gross earnings	$70,000

The operating costs could be estimated about as follows:

Salaries and clerk hire		$24,000
Miscellaneous, such as stationery, light, heat, water, telephone, telegraph, insurance, &c		12,000
Taxes		4,000
Interest on deposits		8,000
Fixed operating charges		$48,000
Estimated earnings available for distribution:		
Dividends	$8,000	
Surplus	8,000	
Losses and depreciation	6,000	
		22,000
Gross income		$70,000

This would be an ideal set-up, if it could be accomplished. It is at least a goal or an objective, and a good part of it can be accomplished if we are willing to move over out of the old rut and out on the open road of modern times. A bond account can be easily regulated by sales or purchases and, in my judgment, should be maintained only until local loans can be increased to the desired amount. In other words, the bond account, if in an excess position, should be used for temporary income until more profitable investments can be secured to take their place.

Time does not permit me to discuss all the various methods that are being used to increase local loans, so I am going to take automobile instalment paper as an example. Suppose we start from scratch, as we did, with no paper of this kind and set our goal at $200,000. We decided it would take too long and be almost impossible to accumulate this amount of paper direct from individual borrowers. Instead, we selected two responsible automobile dealers and approached them on the matter of handling their instalment loans. And remember, I said responsible dealers. They had been sending their paper to our-of-town finance companies, but told us they would much prefer to handle their notes locally. They did say, and justly so, that they had always understood that we did not want that kind of paper, and the funny part of it is, up to that time we thought we did not want it. We agreed to handle their paper at the same rate and under the some conditions the finance companies were handling it; the dealers to endorse the paper, make all collections, furnish insurance, set up a reserve on each car, and settle with us once each week. The result has been that we have acquired about $75,000 of this paper since March of this year and do not have a single note that is delinquent as much as 15 days. Lots of work involved, sure; constant supervision absolutely necessary, sure; and why not, for a net yield of better than 12%, without any additional expense.

In selecting new real estate loans for investment it is quite evident that only amortized loans should be made. Frankly, I think that is the only kind of real estate loans we should ever have made in years gone by. Any real estate loan that runs five or 10 years, without any reduction in the principal, has no place in any commercial bank. That well-known item, "Other Real Estate Owned," is largely a result of loans that were not amortized.

The matter of local loans and local demand, of course, depend on conditions in the various communities. However, a progressive, yet sound policy, will develop new desirable loans in almost any community. There has been considerable complaint about the various governmental agencies now competing with banks. The only answer is, to meet this competition on all desirable loans.

If credit unions are being organized in your community to make small salary loans, a personal loan department might be advisable to meet such competition. Many banks have developed this field and have found it very desirable and profitable. However, before branching out in any new field it would be wise to investigate thoroughly before taking the step. Any bank that has operated a personal loan department successfully will be glad to give you their experience.

For that matter, this same rule applies to any new departure from the old customary methods of banking. In our anxiety to increase our earnings, we should not plunge into a new field before we have investigated carefully and found the best and safest method being used by those that have had experience in that particular line. Plenty of money has been lost in the past by bankers trying to force loans in times of easy money in order to increase their earnings. In reality, in times like we are having now is just when we should be the most careful, but that does not mean that it cannot be done.

It has been the general experience that the desirable customer who has strayed away with the lure of cheap money will soon find out that he has been fooled and will be glad to come back to his bank after he has become disgusted with the red tape, inspection fees and other requirements made by governmental agencies. For the undesirable ones that have gone and want to come back, it should be just too bad.

The bond account, like finance paper, must have constant supervision. Not all country bankers have sufficient information to operate a bond account without expert advice, and if they are in this position, then they should employ expert advice by all means. That old saying, "Buy a good bond and put it away and forget it," won't work any more, if it ever would. Conditions are changing too fast, and the bond that was good last year might not be so good this year. So it would seem logical and wise to give that part of the portfolio having the largest investment the most attention and supervision. The average country bank cannot exist on the small income to be derived from an excessive bond account, such as many banks have today, so the practical thing would seem to be to reduce the bond account to its normal position and to the proportion you decide it should be in just as fast as these other avenues can be developed.

In this ideal set-up that I have given to you the item of service charges and miscellaneous earnings has been placed at $8,000 for a bank with about $1,500,000 in deposits, and this is not an unreasonable figure. I say that because I know it is being done. The customer expects to pay for good service, and the few bankers that are still working for nothing and boarding themselves are foolish. There may be a tendency to let up on these charges as other earnings improve. To do so is to admit that the charges were not justified when earnings were lean. If they were justified then, they are justified now, and should be continued by all means.

You may have noticed that I have dealt almost entirely with the earning side of the ledger. Most of us have been reducing expenses for five or six years, and then just waiting for our earnings to come back through an increased demand for loans. Well, it has not happened, and may never just happen unless we, as bankers, do something to make it happen. There is a limit to which operating costs can be reduced, but there is no limit, except the limit of common sense and good judgment, to which earnings can be increased. I am old-fashioned enough to think there is still an opportunity to make money in the banking business—not under the old methods, perhaps, but under a modern and, at the same time a sound, policy. One that will insure a reasonable return to the stockholders, that will take care of the losses as we go along, and still have something left for that well-known rainy day.

What's in the Customer's Mind About Banking

By A. L. M. Wiggins, President Bank of Hartsville, Hartsville, S. C.

I speak to you today as a customer and not as a banker. The larger part of my experience with banks has been as a customer. In undertaking to develop the subject of "What's in the Customer's Mind About Banking," it is not my purpose to present my personal views, but instead, I have tried to discover the views and to find the viewpoints of large sections of thought among bank customers about banks and the banking business.

In a representative capacity, therefore, and not as an individual, may I present this brief study of "What's in the Customer's Mind About Banking." For convenience in speaking, this composite customer will address you in the first person:

The Customer Speaks

We, as customers of the banks of the United States, welcome this opportunity of speaking directly to the bankers. The opportunity is an evidence of your interest in us and our affairs. We have noted within recent years in your advertising, in your public speeches, and in personal contacts, an increasing interest on your part in us. We have also noted a changed emphasis on your part in your relationship with us. Formerly, your efforts were directed largely toward soliciting the deposits of our funds. Within recent years you are emphasizing more and more the service functions of banks and the service spirit of bankers. As a result of this changing emphasis we, your customers, are discovering that the entire function of banks is to serve not only the bank customer and the stockholders, but the public welfare as well.

There may be some among you who question the advisability of emphasizing banking functions as services, who somewhat resent an implication that a banking institution should be a servant of its customers. Such a banker may also look with scorn on any program of building customer and public goodwill and oppose efforts to inform the public as to the real functions of banks, their methods and policies, as well as any attempt to dispel the mystery which has always stood between the banking public and the banks. If there be one among you with such a viewpoint, he himself needs to be educated to the fact that the people of this Nation realize today as never before the extent to which banking policies and banking services affect their welfare. To an increasing extent we have become bank conscious.

The greater emphasis on the part of bankers associations on the subject of improving customer relationship is evidence within itself of the general acceptance of the desirability of the new program, and it is in the direction of furthering that program that we address ourselves.

Losses to Depositors

Losses to depositors during the decade ending in 1933 logically resulted in a general demand for greater safety for depositors' funds. Although losses to all depositors during the recent depression amount to less than 2% of all deposits, and to that extent are small as compared with losses sustained in most other forms of business investment, it is also true that individual losses have been high, and in some cases of disastrous proportions. As depositors, we have the right to know what the banks propose to do to provide greater safety for our deposits in the future. We are united in a demand for a greater degree of safety than the American banking system provided in the decade ending in 1933.

Many answers to that demand have been proposed. Some have suggested a unified system of banks and have proclaimed advantages for centralized Federal governmental regulation and control. Others have advocated the development of large branch banking systems with adequate capital, with trained and efficient personnel which they claim that small unit banks cannot command. The branch banking systems of Canada and of England have been pointed out as examples of branch banking systems that have provided a maximum of safety to depositors. Others have recommended changes in laws, both State and Federal, that will correct the defects which the experience of recent years revealed. An occasional voice has been heard condemning the entire system of chartered banks and recommending that the Federal Government itself should undertake to perform the banking service of the Nation.

Deposit Insurance

Government has answered the demand for safety of deposits by setting up a system of deposit insurance. We understand that the bankers for the most part condemn the deposit insurance plan as unfair to individual institutions and unsound in principle, although some admit that it may have been desirable as an emergency or temporary measure. Some of your customers are satisfied that this insurance system answers our demand for safety. Others question the adequacy of the insurance if banking fatalities should at some future time develop to the same extent that they did during the period ending in 1933. We recognize that a sound and well-managed banking system needs no insurance, and that it is equally true that if banks are not sufficiently capitalized and are not soundly administered, insurance will not adequately meet the situation. On the whole subject, our minds are open and we are ready to be convinced as to changes that may be needed in the present banking system or that some different system should be utilized. However, until over a period of years, there is unquestioned evidence that the present banking system will provide safety for the depositors' funds, we insist on a continuation of some form of deposit insurance.

In spite of our concern over the factor of safety in any banking system, there is one price we are unwilling to pay. That price is a banking system that is foreign to the needs of the American people, a system that will not adequately serve the peculiar needs of a dynamic, progressive and individualistic people. We recognize that losses in every line represent a price for progress, that with scientific and economic advances, a toll is taken. If maximum safety means a banking system unresponsive to the vigorous development of the American Nation, we are ready to forego that degree of safety. However, we believe that the safety we require may be provided, the American system of banking service preserved and that adjustments can be made which will give all we ask.

Sound Condition

We believe that the banks in the United States are today in the soundest condition in which they have been for a quarter of a century. We believe that on the whole the banks are being soundly administered today and with due regard for the public interests and for the safety of depositors and stockholders. However, many of us have a feeling of apprehension at the general violation by banks of one of the fundamental requirements of sound banking when bank statements reveal that funds have been loaned to one customer in an amount that is almost as large as all the loans to all other customers. We question the wisdom of a further increase of these loans in the face of the continuing operating deficits of this customer for the past six years, and with the end not yet in sight.

Bankers Should Speak

Much of what we think about banks and banking comes as a result of contacts with bank officers and employees, with newspaper accounts of banking matters, and with formal advertisements. Our principal source of information is what the banker says or what he writes. From the plaform and in the press have come criticisms and charges against banks and bankers, some obviously without justification, but others having a degree of convincing plausibility. For the most part, bankers have pursued a policy of silence. Such a policy may have been proper in the midst of depression, but we believe that the time has arrived when bankers should inform the public and advise the public on these questions on which they are best qualified to speak. The press, which on the whole genuinely seeks the facts, is often frustrated in its efforts to discover the truth about banking through the silence of the only one who has the facts—the banker. As your customers, we have been delighted at the growth of a new attitude that is fast growing among bankers, that of giving the public the facts, a policy of presenting the true banking picture.

There may be some among you who feel that it is unwise to inform the customers about the operations of banks, whose attitude is that a bank is a private corporation and that its affairs are concerns of the stockholders, primarily, and that so long as the stockholders are satisfied, the public may be disregarded. To such a banker, we can only say that so long as you are using our deposits to make profits for your stockholders, just so long do we demand the right to have full information about the operations of your bank. Your attention is called to the fact that when we borrow money from you, you require greater security from us than you give when we lend money to you, by means of our deposits. Do not overlook the fact that in many cases your liability to depositors is covered by a ratio of current assets of not more than to one, and of total assets of 1.05 or 1.1 to 1. As depositors, we exercise a greater faith in your institutions than as borrowers you show in us. And of this viewpoint, we have no complaint so long as your institution is soundly administered on the basic policy that the interests of the depositors come first.

It seems to us a reasonable request that you should give more complete information about the operations of your bank that heretofore you have given. Your published statements mean very little, and to many of us they mean nothing at all. We want an interpretation and illumination of those statements, information as to what is behind the figures. What is the investmetn policy or loan policy of the bank? Of what do your investments consist? Your stockholders know these things, but in as much as our stake as depositors is many times larger than that of the stockholders, we are entitled to a revealing report at least once a year of the operations of the institution that holds our funds. Many banks are already pursuing this enlightened policy and customers generally are expecting other banks to fall in line.

In the day-to-day dealing with bank officers and employees, we have noted an increased consideration for the customer. This is particularly true as to loan officers. In years past many bankers have been poor salesmen of the bank's funds. They not only adopted a passive attitude toward making loans, but in many cases were unreceptive and made the prospective borrower feel that he was asking a favor, and that in applying for a loan he had placed himself in an inferior position. Fortunately, such an attitude on the part of bankers is becoming increasingly rare. The customer today, if he is entitled to bank loans, is free to pick and choose the bank with which he shall do business, and that banker who fails to recognize the making of loans as a mutually profitable business transaction will find his customers leaving him for a more satisfactory banking connection.

The most important factor in determining the customer's attitude toward banking is personal contacts between bankers and customers. Many bankers in their personal relationships with customers and the public pursue a policy that is inconsistent with their own published advertisements. Advertising through the newspaper or through printed matter or by radio is effective in telling a story but at best it is merely a promise that requires fulfilment by an individual. That individual is the bank employee or bank officer. No matter how attractive the bank's advertising may be nor now arresting the appeal, it must have the backing of personal interest, courtesy and a desire to serve by the men and women who represent the institution advertised.

As Customers

As customers, we want banks on which we can depend in bad times as well as in good times. Bank credit is more essential to the life of a business in times of depression than in times of prosperity. The forced liquidation of sound loans in the early thirties crippled and in some instances destroyed the business of some of us. In so far as such liquidation was necessary for the protection of depositors, we have no criticism, but we do maintain that a bank should not over-reach itself in financing its customers to such an extent that it must ruthlessly sacrifice them when trouble appears on the horizon. No customer wants a bank that seeks his business when money is cheap and plentiful but immediately undertakes to convert his loans into cash when the first cloud appears in the economic sky.

We have been told that many of the woes and ills that we have suffered during the past few years are the product of an unfair economic system in which the banks are an important factor. We have been told that the banking system manufactures credit and deposit currency as it chooses, enlarging or curtailing the supply at the bidding of capital and without regard to the needs of national life. We have been told that the banker represents an economic system that can operate in no other way than to produce such economic excesses as were witnessed in 1929 and such misery and despair as came in 1932. We believe that most of these charges are untrue, but unless the bankers give us the facts which prove them untrue, many of us will believe them.

Public Attitude

We have a firm conviction that at the present time the public mind is in the most receptive mood toward the banking business that it has been for the past decade. It is more open to information, reason and understanding on banking matters. Even in legislative halls there seems to be an increasing desire to get the true facts about the banking business, to give due credit to the bankers who have struggled through the difficulties and the disasters of the past few years and have brought their institutions safely through the economic war. The banker himself today enjoys the confidence and esteem of his community to a greater extent than for many years. The public is just now beginning to appreciate fully the sacrifices that were made, the unselfishness displayed, and the unusual ability required in carrying financial institutions through the difficulties of the recent depression.

In spite of the enticing appeals of various economic soothsayers, we are emerging from the economic wilderness of the past few years with a clearer understanding of the importance to the life of this Nation, of a sound, privately-owned and privately-administered banking system operated under adequate government supervision.

The Banker Comments

Now, with your permission, may I comment briefly on this discussion brought to us by our customers?

Let us admit that there has existed in this country during recent years a most critical attitude toward banks and the banking system. It is not alone a question of the mechanics of bank operation nor of loan policies and customer relationships, but a more searching interrogation into the whole banking system. The public inquires whether or not our complex banking system is performing a maximum public service and in the interest of the public welfare, and if not, what changes should be made by way of perfecting the present system or establishing a new one which might perform a more valuable service and better meet the needs of the American people. We should undertake to discover whether such an attitude of the public mind is justified by the operations of banks and, if the sources of antagonism can be discovered, we should remove them. But even more, we should have the courage to examine our entire banking system, complex as it is, and recognizing the conflicting viewpoints bankers hold on such controversial subjects as branch banking, unification of banking systems and central bank control, with the objective of discovering adjustments that may be made or changes or even a far-reaching revamping in order that the banking system may perform the maximum service in the economic life of the people of this Nation.

As bankers, we believe in the American dual system of State and National banks. We believe that the American system is suited to the characteristics, the needs and the aspirations of the American people. We believe that this American banking system has contributed more to the progress and development of this Nation, to its rapid economic growth to the high standards of living of its people, than any other banking system has contributed to any other nation in the world. We recognibze that it has not been perfect, that there have been bank failures, that depositors have lost money, but that such failures and such losses have been relatively small in relation to the swiftly-moving economic progress of national life. Other systems may be suited to peoples of different temperaments, to countries with older civilizations which have been more willing than we to stabilize their national life on lower levels of public wellbeing, and who have been somewhat content to accept a static condition of life. We have accepted the minutest control and regulation of our banking institutions by government agencies, State and Federal, to an extent not attempted in any other great nation. We have everything to gain from a banking system that is sound, that is strong, that is serviceable, and that promotes the welfare of the

American people, and we have everything to lose in defending any system that does not meet those requirements.

We are willing and ready to correct any difficulties in our banking system which the exigencies of depression or the growing needs of the American people indicate is needed. The whole history of American banking has been one of development and improvement, and of servicing the most notable development of national life in all history. We are willing and ready to have this system weighed in the balance of fair public opinion. Perhaps we are guilty of having pursued too long a policy of silence when unfairly and unjustly attacked. Perhaps we have failed to appreciate fully the interest of the customers in this businecc to which our lives and efforts are dedicated. Perhaps the atmosphere of dignity and strength that pervades our institutions has carried a suggestion of aloofness. Perhaps the very nature of our business has made us symbols of wealth and power. Perhaps some of us have been unworthy. Admitting all of these things for the purpose of reply, our answer is that the American bankers today face their customers and the American people with a clear conviction that they are administering worthily the most efficient and the most serviceable instrumentality in the economic life of the American people—a banking system unsurpassed throughout the world in the service it renders to national life.

From the nature of our business, we can hardly expect enthusiastic public demonstrations of our popularity. We neither ask nor expect such recognition, but we do believe that an informed public opinion, a public educated on the subject of banking methods, policies and services, will defend the American banking system from the exploitation of such theorists or politicians who seek not improvement but destruction of the banking system in their efforts to remold American life into new and strange patterns.

Permit me to offer two practical suggestions:

First, that an advertising program be devised, pictorial in its arrangement, portraying the development of American life, economically and socially, during the past half of a century or more, emphasizing the contribution of the banks under the American banking system toward that development. These advertisements should be prepared in mat form, with a definite release date on each subject, and published simultaneously in newspapers and in magazines and in printed matter of all kinds throughout the entire United States. The effectiveness of such advertising will be multiplied by its simultaneous appearance; wherever the reader turns he will see the same advertisement, whether it appear over the name of a small country bank or the name of a large city institution.

Second, that the program of the American Bankers Association and of State Associations be continued with even greater emphasis and concentration along the lines of public education about banking. A number of field workers should be employed, men capable, informed, and with public speaking ability to carry the message of American banking to bank officers and bank employees in group meetings, in city meetings, and in district meetings throughout the entire country, who in turn can carry the story to the customers and to the public.

Conclusion

Whenever I am discouraged at the direction in which our national life seems to be going, when I see, on the one hand, powerful trends that are pointed toward chaos and disaster and when, on the other hand, there appear granite walls which would block an enlightened progress of national life, I bring to bear the true compass which has guided this Nation between the rocks and over the falls in almost every period of national crisis, the compass of the sound common sense, the moderation and tolerance and sportsmanship of the American people. Using this true and tested compass, the American bankers, and the American people boldly may sail the seas ahead.

COMMITTEE AND OFFICERS' REPORTS—STATE BANK DIVISION

Address of the President, Fred B. Brady, Vice-President Commerce Trust Co., Kansas City, Mo.

Your President, in rendering an account of his stewardship for the State Bank Division, finds that the past year has been one of rest and relaxation when he compares it with previous years, which were confronted with new legislation, banking codes and regulations. This period has given us an opportunity to do more association work and spend more time on customer and public relations and other questions affecting our institutions and their operations.

The greatest stimulating influence to our association work has been the carefully planned, well-attended regional conferences held in the different sections of this country. The addresses were timely and the forum discussions following brought each subject before the meetings in its practical application. It is the judgment of our State Bank Division that these conferences inaugurated by President Fleming should be continued on a plan in keeping with banking progress.

The objectives of our State Bank Division, as we have previously stated, are: Better banking and better bank earnings. These are the purposes of our existence. They are our defense against future difficulties, our pledge of service to the public, and our obligation to ourselves.

Bank earnings is our problem. We are confronted with low interest rates, which apparently will continue. Expenses have been curtailed, salaries have been reduced, and interest on deposits has been lowered or eliminated to make a proper showing in the earning account.

Bankers in the past were competitive bidders for deposits. Free service and high rates were offered as their inducement. Today they are competitive bidders for loans and are offering low rates of interest as an inducement. Both of these situations are foolish from an earning standpoint and clearly show the need of cooperation in ceasing to loan money at starvation rates. This is a dangerous time in banking. Idle funds are always the third degree for banks, and yield a temptation to lower the investment standard. The public realizes the economic necessity for banks and wants to see them earn a reasonable return for their stockholders. We believe this same public is willing to pay a fair return for money.

Our division feels that the time has come to direct certain streams of government credit back into the commercial channels, and every effort is being made to convince those in authority that the banks are prepared and willing to handle these credits, and ask that they be restored to us.

I believe the strength and recuperating power of our country will always assert itself. Our confidence is growing. A survey by our Committee on State Bank Research, under the chairmanship of Robert M. Hanes, shows that in 10,473 State supervised banks and 5,386 National banks, the total resources have increased over the year ending Dec. 31, 1935, $5,600,000,000. Deposits over the same period have increased $6,400,000,000, and investments increased $2,600,000,000, while loans decreased $600,000,000. In this same period is shown an increase in net profits, and it is interesting to note in this report that net earnings in proportion to total earnings show an improvement in nearly all the States, and responsible for a share of this increase is the fact that gross losses and expenses have declined.

I earnestly request that you read this printed report of our Committee on Research. You will be interested in its ratios, which you may compare with your own bank. You will be struck with the comparison by States on various items. I wish I had the time to read into this address their complete report. In their study they have reached certain conclusions, part of which is set forth as follows:

"The purpose of proper bank management is to increase earning capacities of banks. Fundamentally, this means increasing income on the one hand and reducing losses and expenses on the other. The production of more income depends primarily upon expansion of volume of business, growth of deposits, and intelligent investment of available funds. With acceptable loans scarce, the yield on high grade securities low, and call money rates far below normal, the highest principles of good management should be foremost in the mind of every banker who is striving to bring about greater earning powers in his bank.

"The fact that losses on loans continue to be higher in most states than losses on other investments proves rather conclusively, that banks are still making loans without thoroughly investigating the financial conditions of the individual or business concern. . . . Reduction of losses on loans means the application of constant attention to every loan from its inception to maturity. Likewise, investments in securities require sound and conservative policies, based on thorough knowledge and analysis before purchase and systematic review at regular intervals thereafter."

As we study this survey we are convinced that management is going to write the story of our future. Bankers of ability will cause their institution to earn and prosper. The margin will be smaller and the work harder and more exacting.

Changing conditions will always make bank legislation a subject for study. The Banking Act of 1935 as it deals with the Federal Reserve System has been given careful consideration by our Committee on the Federal Reserve System, under the direction of its Chairman, Harry A. Brinkman. They have tabulated the State banks with reference to their membership in the Federal Reserve System under this Act, which shows that approximtely 12½% (1,133) of the 9,007 non-member banks in the country have deposits over $1,000,000, and 611 of these banks affected, or over 50%, are located in eight States, while on the other hand 18 States each have less than 10 banks that would be affected.

The concentration of these banks in a comparatively few States may give some idea on the problem of developing support in the event of remedial legislation in Congress. We agree with our committee that mere size should not be the measuring stick for membership in the Federal Reserve System, nor that membership in the System shall be a condition to joining the Federal Deposit Insurance Corporation. We recognize the advantages of membership in the System for certain banks, but we recognize the fact that many of our smaller banks do not feel that there is anything to be gained by such membership. It is the conclusion of a number of our State bankers that membership in the Reserve System should be voluntary, and should be left to the individual decision of each bank. Our committee does not make a recommendation as to the time when an effort should be made to amend the Banking Act of 1935, but it does recommend that a careful watch be kept on the situation so that at some opportune time prior to 1941 this desirable change might be made in the Banking Act.

It is the judgment of the State Bank Division that the chartering of banks should be a matter of careful consideration and no charter should be granted unless it is proved that the community needs a bank and that it is a public necessity. There should be reasonable assurance that the bank would be profitable from an earning standpoint, and, most important, a thorough investigation should be made as to the character, experience, financial standing, and qualifications of the proposed officers.

Your Committee on State Legislation, under the leadership of C. M. Malone, is joining other committees and organizations in an effort to prevent the overchartering of banks. Our general interest in the FDIC makes it the more necessary that we have proper laws and discretionary powers regarding this subject. The publication on "The Bank Chartering History and Policies of the United States," by the Economic Policy Commission of the American Bankers Association, reveals some important facts. We commend it to you as worthy of careful reading and study. We do need a better coordinating policy between the Federal Deartment and the State Banking Departments on this subject.

Our State Bank Division recognizes in the State Banking Departments the greatest assistance in keeping in touch with the laws and management of banks. Our division is interested in working with them and realizes that we have many problems in common. Suggestions from these State Supervisors are most interesting to our membership.

At five-year intervals our Committee on State Banking makes a detailed survey of State banking departments, personnel, term of service, compensation, manner of appointment, examiners, &c. This year it was decided to issue the three surveys covering a 15-year period, indexed and bound into a single mimeographed volume. This was sent to all bank commissioners and officers of the State Bank Division and proved very valuable.

Chairman Koeneke and his committee wisely stress the fact that the most important movement to be undertaken is the forming of a sound policy for chartering banks. For this purpose they suggest that a charter board or commission should be appointed which is entirely non-political in nature so that at no time would the judgment of the board be swayed by political favoritism. A non-political banking board should be appointed with authority to make a thorough investigation of a proposed organization of a bank by limiting authority and eliminating as nearly as possible all political favoritism in the granting of bank charters, the danger of over-bank conditions could be prevented.

Our division is interested and concerned with the operations of the postal savings system which at its inception may have been justified for thrift but never justified for competition. President Hecht in his New Orleans address concerning Postal Savings, and which was recognized by the Committee on Resolutions, said:

"In this connection I wish to lay particular emphasis on the fact that competition which the Postal Savings System gives privately owned banks through the relatively high interest rate and liberal withdrawal privileges allowed its depositors is unfair, and since every depositor can now get full protection for his deposits up to $5,000 through any member of the Federal Deposit Insurance Corporation the need for the Postal Savings System has really passed except perhaps in such rural communities as do not enjoy other banking facilities. A serious effort should therefore be made at the coming session of Congress at least to modify, if not to abolish, the law governing the Postal Savings System."

This question is being given consideration by the Banking Studies Committee of the American Bankers Association. We are encouraged over the prospect of some remedial legislation on the Postal Savings System.

The Committee on Federal Legislation, under the leadership of C. J. Kirschner, has the question of Postal Savings continually before them, and they are wholeheartedly cooperating with the Association's Committee on Federal Legislation to secure the discontinuance of the System. Pending its discontinuance, their work will be to have the rates paid and received by the Postal Savings System brought into harmony with current conditions in the money market.

This committee is also rendering assistance in the movement to standardize the report forms used by the various supervisory authorities in making their respective examinations. This standardization would assist our membership in setting up their accounts to conform with these blanks, and thereby simplify our report operations.

In recent years we have been interested in customer and public relations. Under the direction of this committee, with Brewer D. Phillips as Chairman, bankers have become more interested in public relations work in their own communities. Public opinion is changing. The suspense and misunderstanding surrounding our profession is being turned into confidence and respect. We assumed an indifferent attitude and permitted abuse and unjust criticism to be heaped upon us too long. Bankers felt that it would be undignified to protect their rights and their profession. This reluctance to defend ourselves has given the agitator his chance, and he has not hesitated to blame our banks for all our economic illness, and as a remedy has suggested their elimination.

The public has been listening for our defense, and now we have awakened to the fact that they are interested in our banking policies and recognize the fact that banks are a part of our economic life. They are interested in what they may expect in the future. Our division, through its committee, suggests greater activity in taking our customers and the public into our confidence, familiarizing them with our policies and dispelling from their minds the mystery that seems to surround our business. No one connected with a bank should ever be too busy to explain any operation, answer any question, or give the reason why; in short, show an interest and a spirit of friendliness.

I wonder if we are overlooking an opportunity to teach customer and public relations through personal income loans to individuals and small concerns based on character and assured income. These loans are the outgrowth of the continued increase in instalment financing. In Booklet No. 17, put out by Bank Management Commission, they say that "The personal loan department extends a valuable service which is profitable to the banks. The personal loan department simply serves to organize what is at present a large mass of unorganized credit and place it upon an orderly basis." This department can be made profitable, and at the same time you could be performing a double service of helping these safe, small borrowers get credit at a fair rate and be helpful in dispelling from this borrower's mind the fear and awe of entering a bank and approaching an officer. In other words, you are educating him to come to the bank for financial service and advice, and directing these borrowers toward the fields of private enterprise. Our committee urges all bankers to cooperate with the Customer and Public Relations program of the American Bankers Association, and with the Public Education Commission, and study the text book on "Constructive Customer Relations" published by our Public Education Commission.

Our division reaffirms our faith and confidence in our American dual system of banking and recommends to Congress that it be preserved. The most powerful form in preserving our present banking system is the proof evidenced by public sentiment, that the banks are serving their economic place in our business structure. Our duty as a State Bank Division is to encourage and assist our membership to operate safe, strong, conservative, well-supervised banks—banks that build their communities. The officers of our institutions have a responsibility to see that their banks are progressive, meet conditions fairly, serve their communities safely and meet their customer cheerfully.

Our dual system of banking has always encouraged individual initiative which is responsible for our Nation's growth. We are known as a country of opportunity. Our people are ambitious. Crush this spirit within them and you will destroy the factors of American progress.

This same spirit has built communities and encouraged business enterprise and stimulated a pride and patriotism to defend them. These, in brief, are our arguments for our present banking system. Let's preserve it and preserve every other factor that contributes to help any person who is willing to put forth an honest effort. Let nothing be done to banish American opportunity.

Statement by B. F. Clark, Incident to Mr. Bryant's Address

During the course of Mr. Bryant's presentation, B. F. Clark, President of the Colorado State Bank, Denver, made the following statement:

In addition to being President of the Colorado State Bank of Denver, I am also Vice-President of the Colorado Bankers Association. I have been President of the Colorado State Bank for 26 years. I came from a country town with 20 years' experience in the country banking business. We took up automobile financing. I have been sitting here and listening to two or three different speakers on the subject. It is an old subject with me. It commenced back in 1915 and 1916.

Our little bank commenced paying semi-annual dividends in 1917. We paid 3% semi-annually until we had our surplus equal with our capital, which is $50,000. It is a small capital, and it is a small bank. Sept. 30, 1920, we paid our first quarterly dividend. On Sept. 30, this year, when I get home, I shall have the pleasure of drawing our sixty-fifth consecutive quarterly dividend.

I should not have said a word if Mr. Bryant had not so nearly outlined our bank. It will just take me a moment to give you the figures. When I left home on Sept. 15 the Colorado State Bank of Denver had $50,000 capital, $50,000 surplus, $37,973.94 undivided profits, $568,551 in loans, $3,000 in furniture and fixtures. And four years ago we moved our office from one room to another and spent $10,500 in new equipment, which has been charged off down to $3,000. Municipal bonds, $65,000; United States bonds, $239,000, cash and exchange, $848,000. And I may say now that I am this far from home, so that the assessor can't hear me, in right good times we paid out dividends to the extent of $35,000, which was turned over to a trustee to hold for the benefit of the stockholders, which keeps it in our own family. And that is invested in bonds and good notes.

And we have paid, in two years and a half, 5% quarterly and 5% at Christmas. Our bank has paid Christmas dividends every year for 10 years, and last year we split $1,200 in cash between our nine employees. That result is very largely due to the fact that I was a country banker in a large city and didn't know any better than to take hold of motor financing. And I may say this: that we commenced first with the dealer—

Mr. Bryant: Wait a minute, now! I have that thing down here. I appreciate the help that you are giving me. It is a big help to the speaker when you write stuff down like that and can bring it in here. Your record is wonderful. I can boast of no such record as that in the bank that I operate.

Mr. Clark: I might say this: That our net profit last year, our gross profit, was $71,000, and our net profit was about 17 or 18 thousand dollars. We paid $2,490 government income tax.

Report of Committee on Public Relations—Would Restrict Use of Term "Bank"—Summary of Other Committee Reports

A recommendation that bankers undertake a campaign to bring about restriction of the use of the words "bank" or "banker" to those actually engaged in the banking business was made in the report of the Committee on Public Relations submitted to the State Bank Division. The report was presented by Brewer D. Phillips, Chairman of the Committee, Chairman of the Board, Bank of Jamestown, Jamestown, N. Y. Assuming the soundness of the public policy which divorced commercial banks from the sale of securities and the setting up of independent corporations for the handling of the latter, the report said, it follows that organizations having none of the character or responsibility of banks should not be permitted to use these titles.

Appointment of non-partisan boards or commissions to have charge of the investigation of applictaions for new State bank charters as one means of restraining future over-chartering of banks was recommended by the Committee on State Banking Departments, of which H. W. Koeneke, President Security Bank of Ponca City, Okla., is Chairman. In addition the committee suggested that "all banks be urged to make an exhaustive study and survey of banking history and conditions in their respective communities, primarily for the purpose of being informed, and secondly, to be in a position to furnish detailed information to the various supervising agencies, should a movement be started for additional banking facilities.'

A survey was presented of the number and location of State banks not now members of the Federal Reserve System, which will be affected by the requirement in the Banking Act of 1935 that in order to continue as insured banks under the Federal Deposit Insurance Corporation, State banks with average deposits of $1,000,000 or more in 1941 must become members of the Federal Reserve System in 1942. This survey, reported by the Committee on the Federal Reserve System, under the Chairmanship of Harry A. Brinkman, Vice-President Harris Trust & Savings Bank, Chicago, showed that of the 9,007 non-member State banks, 1,133, or approximately 12½%, have deposits of over $1,000,000. The report pointed out:

"Of these 1,133 banks, 611, or over 50%, are located in the eight States of Illinois, Indiana, Iowa, New Jersey, New York, Ohio, Pennsylvania and Wisconsin. In Arizona, the District of Columbia, New Jersey, New York and the five New England States substantially more than one-half of the State banks would be required to become members.

"The enforced membership of the 1,133 banks under the provision of this law will, in one operation, more than double the number of State banks in the system, increasing the number from 961 to 2,094.

"The committee cannot endorse the principle that mere size shall be the yardstick for membership in the Federal Reserve System or that membership in the system shall be a condition to joining the Federal Deposit Insurance Corporation. This whole question is one which should be carefully watched during the next few years so that at some opportune time prior to 1941 an effort may be made to have the law amended."

Report of Committee on Resolutions—Again Declares in Favor of Dual Banking System—Urges Amendment of Social Security Act—Also Change in Law Governing FDIC

President Brady: We will now hear the report of the Committee on Resolutions.

H. A. Brinkman (Harris Trust & Savings Bank, Chicago, Ill.): *Mr. President, Ladies and Gentlemen*: In announcing the personnel of this committee, President Brady included the name of W. J. Rahill of Louisville, Ky. Mr. Rahill is not at the convention. He was unable to come. Consequently, the members of the committee who sat in on the deliberations are: Frank T. Hodgdon, Farmers & Merchants Bank & Trust Co., Hannibal, Mo.; H. W. Koeneke, the Security Bank of Ponca City, Ponca City, Okla. and J. H. Penick, W. B. Worthen Co., Little Rock, Ark., and your Chairman.

This committee offers the following resolutions:

Resolutions

For many years the State Bank Division has annually declared itself unalterably in favor of the dual banking system and the preservation of State autonomy with respect to branch banking. While the attitude of the State bankers of the Nation has undoubtedly been an important factor in the preservation of these principles which we believe to be fundamental, nevertheless it must be admitted that the forces working toward their destruction are stronger today than they have ever been.

Historically the State banks antedate the National Banking System. Numerically they outnumber the National banks almost two to one. The State banks have performed a service in the development of the business and economic life of the Nation which has been of inestimable value and there is nothing in the picture to indicate that they cannot continue to serve their communities with economy, safety and efficiency and with more intimate knowledge of local needs than is possible under distant Federal bureaucratic control.

Furthermore, the banking systems of our 48 States have been and will continue to be the most effective check against the centralization of banking power in any one authority which we believe unwise, if not dangerous, in a country so extensive and with such varied business and agricultural interests. Therefore we wish again to assert ourselves unmistakably in favor of the dual banking system as now constituted in this country and opposed to any legislation which would take from the States their right to control the business of banking within their boundaries.

The Federal Social Security Act exempts from its operations service performed in the employ of the United States Government or an instrumentality of the United States, a political subdivision thereof, or an instrumentality of one or more States or political subdivisions and the Internal Revenue Department has ruled that National banks shall be classified as instrumentalities of the United States under this section of the Act. Entirely regardless of the merits or the constitutionality of the Social Security Act, this ruling has the effect of placing State banks in a disadvantageous position and we demand that legislation be enacted correcting this discrimination. As the law now stands, it further discriminates against the State banks in that they would be taxed on their payrolls under the unemployment insurance section of the Act but due to the stability of employment in the banking business, bank employees themselves can receive little if any benefit from this tax.

The Banking Act of 1935 provides that all banks with average deposits of over $1,000,000 in 1941 must become members of the Federal Reserve System in 1942 in order to have their deposits insured by the Federal Deposit Insurance Corporation. Without questioning the merit of membership in the Federal Reserve System, we feel that such membership should not be a requirement for eligibility in the FDIC. The FDIC should be open to all sound State banks regardless of membership in the System, and we urge that steps be taken to amend the present law at an early date.

We recommend that the State Bankers Associations of the several States continue their efforts to secure the elimination of the double liability running against stockholders of State banks or in the event that this is not possible to work for such legislation as will place definite limitations as to the duration of such double liability.

We wish to commend in the highest terms the good work done by our officers and committees during the past year and particularly the efficient help that our Deputy Manager, Frank W. Simmonds, has been to this Division and its thousands of members.

Committee on Resolution State Bank Division:

Harry A. Brinkman, Vice-President, Harris Trust & Savings Bank Chicago, Ill., Chairman.

Frank T. Hodgdon, Cashier, Farmers & Merchants Bank & Trust Co., Hannibal, Mo

H. W. Koeneke, President, the Security Bank of Ponca City, Ponca City, Okla.

J. H. Penick, Vice-President, W. B. Worthen Co., Bankers, Little Rock, Arkansas.

Mr. Brinkman: Mr. President, I move the adoption of these resolutions.

[The motion was duly seconded.]

President Brady: You have heard the Report of the Resolutions Committee. It is now open for discussion and amendment. Do I hear any one regarding these resolutions as to amendment by striking out or adding to? If not, as many as are in favor of the motion will make it known by saying "aye;" opposed, "no." It is so ordered.

Report of Committee on Nominations

President Brady: We will now hear the report of the Committee on Nominations by Mr. Malott.

For President—H. M. Chamberlain, Vice-President, Walker Bank & Trust Co., Salt Lake City, Utah.

For Vice-President—Robert M. Hanes, President, Wachovia Bank & Trust Co., Winston Salem, N. C.

For Members of the Executive Committee for a Term of Three Years—Harry A. Bryant, President, Parsons Commercial Bank, Parsons, Kan., and W. S. Elliott, Vice-President and Cashier, Bank of Canton, Canton, Ga.

Respectfully submitted:

M. H. Malott, President, Citizens Bank, Abilene, Kan., Chairman.

L. A Andrew, Vice-President, First State Bank, Mapleton, Iowa.

M. Plin Beebe, President, Bank of Kimball, Kimball, S. Dak.

Mr. Malott: I move the adoption of the report which, if carried, would elect the names we have selected.

President Brady: Before this motion is seconded, are there any nominations other than those submitted by the committee? If not, I will entertain a second to the motion which has been made.

[The motion was duly seconded and carried and the new officers installed.]

TRUST DIVISION

AMERICAN BANKERS ASSOCIATION

Fortieth Annual Meeting, Held at San Francisco, Calif., Sept. 22, 1936

Meeting for Elections Only

The Trust Division of the American Bankers Association convened at the St. Francis Hotel, San Francisco, Calif., at 2:05 o'clock, Sept. 22, Merrel P. Callaway, President, presiding.

President Callaway: Will you come to order, please? This is the Annual Meeting of the Trust Division. There will be no addresses. The business before the meeting is that of the nomination and election of officers. We will have the report of the Nominating Committee by Mr. Stockton, Chairman.

Richard G. Stockton (Wachovia Bank & Trust Co., Winston-Salem, N. C.): *Mr. President and Gentlemen:* As Chairman of the Nominating Committee, I would like to report that we have made a very careful study of all suggestions made in response to an inquiry that Mr. Sargent sent out for men qualified for the Executive Committee throughout the country and we desire to make this report:

For President: Blaine B. Coles, Vice-President, First National Bank, Portland, Ore.

For Vice-President: Robertson Griswold, Vice-President, Maryland Trust Co., Baltimore, Md.

For Members of the Executive Committee for a term of three years: Carl W. Feninger, Vice-President, Provident Trust Co., Philadelphia, Pa.; A. L. Lathrop, Vice-President, Union Bank & Trust Co., Los Angeles, Calif.; Roy M. Huff, trust officer, First National Bank & Trust Co., Tulsa, Okla.; Maclin F. Smith, Vice-President, Birmingham Trust & Savings Co., Birmingham, Ala.; Sidney F. Taliaferro, Vice-President and trust officer, Riggs National Bank, Washington, D. C.

Mr. Stockton: That is the unanimous report of our committee, Mr. President.

President Callaway: Are there any other nominations? If not, the nominations are closed and I will declare those whose names were presented duly elected. I have great and particular pleasure, Mr. Coles, in welcoming you as the President of our Association.

President-elect Coles: I am honored. It is a distinguished privilege to become President of this Division and to follow in the line of succession to these men we have had all these years. As I look forward to this year, it seems to me we are going to have a very interesting year and a very busy year. Coming from the Far West as I do, I am going to have to rely on my friends and associates in the East a great deal. During the past year I have tried to follow the traditions of the usual vice-presidential office by doing nothing and speaking only when I have been spoken to. But as I present this pin representing the office of Vice-President of this Division to Mr. Griswold, I want to caution him that he is not expected to follow those traditions. In fact, he is going to be called upon a great deal and I hope he will be very active and get much practice this year so he will know what he is coming into next year. . . . I ought to say that very shortly I will announce the appointment of the committees over which I have jurisdiction.

At this time I am going to announce the fact that I will directly reappoint the entire Committee on Trustees and Trust Indentures, with Mr. Page to continue as Chairman, save that I am adding to the committee at the present time Mr. Callaway who was an ex-officio member and now becomes an active member, and Mr. Stockton. Otherwise, the committee will remain as heretofore constituted.

I thought you ought to know that because I want that committee to continue without interruption and without break in what seems to me at this time the most important work we have before the Division.

Mr. Griswold: Thank you very much. I want to say that if I can be of service to you, I will be there. I would like to say one thing more and then I am through. I want to pay a tribute to our Past President, Mr. Callaway. Merrel and I have been working together for great many years. He has certainly done a wonderful job.

President-elect Cloes: Is there any further business to come before the meeting?

Deputy Manager Sargent: There is no further business.

President-elect Coles: Then we will consider the meeting adjourned.

[The meeting thereupon adjourned at 2:15 o'clock.]

SAVINGS DIVISION

AMERICAN BANKERS ASSOCIATION

Thirty-Fifth Annual Meeting, Held at San Francisco, Calif., Sept. 21, 1936

INDEX TO SAVINGS DIVISION PROCEEDINGS

Problems of the Institutional Investor

By RUDOLPH J. EICHLER, Member Bateman, Eichler & Co., Los Angeles, Calif.

To say that the problems of the institutional investor are greater today than ever before, at least in the memory of the present generation, is a trite statement. These problems cover of course those normal questions that will continue to develop in any business, plus the one problem that overshadows all others—What shall be the investment policy of the institution under present conditions, with the huge amounts or cash lying idle on its shelves?

The many ramifications of any discussion on investments cannot be covered in a 25 or 30 minute talk. If we had 25 or 30 hours to discuss this question, I do not believe it could be solved to the entire satisfaction of anyone. Here,'I believe,' we have a problem that is not definitely answerable, each institution shaping its policy according to its best judgment, and, in some cases, with views that vary widely.

Certain well-informed individuals in this country feel that we are on the verge of an extremely drastic inflation, making the purchase of long-term, high-grade, fixed interest bearing securities a very hazardous undertaking. On the other hand, there are others, equally well informed, whose belief and faith in the integrity of our dollar is such that they have not departed in the slightest degree from the orthodox investment policy of investing only in those securities that command the highest rating, regardless of the premium that must be paid to obtain such obligations under present conditions with so much credit available.

It seems reasonable to suppose that somewhere between these views we will find the answer to the furture for investments, and that the best investment policy must be to some extent a compromise between these two fields of thought. It is quite obvious to me that we must to some extent throw overboard a great deal of historical background when we attempt to peer into the future in an endeavor to ascertain what bond prices are going to do.

One of our financial services recently pointed out that:

> If the British experience in England's trade recovery can be taken as any criterion of what to expect in America, the probability is that, even as business activity broadens and prosperity widens, corporations in the aggregate will require little new capital in the form of security flotations or bank loans for some time to come.

This article went on to say:

> The implications are that interest rates will remain low, that bond prices will remain high, that business will continue to benefit from low interest rates, and that stocks will tend to capitalize dividends and earnings at generous multiples.

Although it would be difficult for anyone to contradict the statement that at present there would seem to be little hope for a demand that would utilize any large portion of the credit available, it is also true that the position of the credit structure in this country and in Great Britain are widely different in character.

Ask yourself where our money rates would be today if our Government had raised the money to accomplish its huge debt increase by the same methods that were utilized during the war. Where would money rates be if the Government had attempted its financing by orthodox methods, rather than by inflationary methods? Here we have the borrower who has been constantly paying less interest as his borrowings increased. Is it not sufficient to say that our present low rates are artificial and repercussions from this false condition must be felt sooner or later? To what degree these conditions will be felt is of course to a large extent tied in with future financial policies of our Government.

Is it not reasonable to feel that each increase in governmental debt by the present methods of Government financing adds to the hazards of the high grade bond market? Can we feel that the raising of reserve requirements will have anything but a momentary effect as long as this condition remains? We hear much of the danger to our credit structure caused by the large amount of our Government bonds held by banking institutions. I believe the figure is something over 60% of the total debt, but, obviously, the amount is of staggering proportions. I personally cannot see how this constitutes any hazard insofar as the banks themselves are concerned. It is evident that so long as more borrowing must be done, every effort will be made to maintain low interest rates on those bonds. The ability of our Government to borrow under present conditions at very low interest rates is well known to all of us, and the means available to maintain Government bond prices is of course also familiar.

It may be that our present business activity should be laid to some extent to the inflationary trend, a result of present financial policies. Should this assume serious proportions, it is of course questionable whether anything could stem the insatiable demand for credit which would result in higher interest rates and lower bond prices. A large portion of institutional holdings of Government obligations are, however, of a fairly short-term nature, which must be taken into consideration; also the ability of the institution to take Government bonds to the Reserve Bank, if necessary.

If there is an implication that the Government might be unable to meet these obligations at maturity or pay the interest when due, this seems to be a goundless fear, as providing for payment of principal and interest does not seem to me to be a problem. If we knew that the Government debt were going to be stabilized at around present figures, I think we could all agree that it could be easily handled, but at any rate, even countries with the weakest credit do not usually default on internal obligations. The problem is simply in what kind of money they will pay, and this is a question that affects the depositor of a bank and not the institution.

A borrowing corporation and an investor whether individual or institutional, are inherently opposing forces. If a borrower feels that money rates are the most advantageous he is likely to experience for a long period of years, he is naturally inclined to issue long-term securities. At this point, the lender should probably be more interested in short-term obligations. An investment organization underwriting an issue of bonds must endeavor to satisfy the borrower and at the same time issue securities sufficiently attractive to make them successful in bringing out funds from the investing public. At the present time, with the plethora of idle funds, we have unquestionably a borrower's market, where in some cases, corporations with the highest credit have been able to practically dictate their own terms.

The recent financing of the General Motors Acceptance Corp. was interesting to me, as this corporation borrowed $100,000,000 on its 10-15 year obligations, the money costing them, I think, slightly over 3%. I believe this corporation was borrowing at the banks on a short-term basis at 1¼% or 1½%.

Although it is unquestionably true that the vast majority of recent financing has absorbed little new money and has been principally of a refunding nature, there has been a slight tendency toward a betterment of this condition. Bethlehem Steel Corp.'s new issue, in the amount of about $55,000,000, I think allots about $40,000,000 for new construction. In addition, the demand for money from institutions for commercial purposes, I believe we can feel is becoming slightly better. Loans and discounts reported by member of the Federal Reserve System have shown an upward trend this year for the first time since the depression.

Some months ago a number of prominent eastern financial authorities, you will remember, had some discussion as to whether interest rates had reached their low point and would turn higher, the net result being a decided difference of opinion. From a psychological standpoint, the buyer of securities at present rates has been a reluctant purchaser and this attitude is not decreasing to any extent as refunding at lower rates continues.

Now, I should like to touch briefly on a few more normal problems which I feel are important to the institution:

Is there not a great field for study by the Savings Division of your Association concerning the various laws regulating investment by savings banks and savings departments? Why a savings bank must be restricted to certain types of investments and not have the same latitude enjoyed by a commercial institution is probably more apparent to those in the banking field than to one in the investment business. If we agree the limitations are necessary, we must attribute almost superhuman intelligence and foresight to the individuals who draw up such statutes. Events of the past few years, however, I believe, have pretty well demonstrated that it is not possible to have statutes which will not become obsolete or impracticable due to changing conditions.

I believe, for instance, that the New York State law provided a few years ago that bonds of a railroad corporation were legal if that corporation paid dividends at a certain rate for a stated period on its common stock. What was the position of the savings bank that purchased substantial amounts of these bonds, when the corporations stopped paying dividends? The law, I believe, was changed; but at any rate, it seems obvious that such a corporation might continue to pay dividends to keep its bonds within the legal category, when the interests of the bondholders would be best served by cessation of such dividends.

Have the investment results of the savings bank portfolios, under these restrictions, been more satisfactory than those of the commercial institutions with less exacting restrictions? I believe it is safe to say that in California the laws regulating investments by savings banks have limited the investment policy of such institutions to a point that has been harmful. For a number of years, within my knowledge, real estate bonds, district bonds, irrigation district bonds and other obligations were purchased by savings banks who were influenced to a great degree by the fact that these bonds were legal for savings bank investment. Certain district obligations, irrigation and reclamation district bonds were made legal by statutes, in my opinion, with the idea that such legality would make the sale of such securities easier, rather than from the standpoint of protecting the investment policy of the savings institution.

Real estate bonds are legal in this State when the amount of the issue does not exceed a certain percentage of the appraised value. As you know, the appraisal of real estate has never been an exact science, and experience has taught us that many real estate issues that were definitely second-rate in character were sold on a legal basis. Securities in this State have been sold, both to institutions and individuals, the prefacing remark being: "These bonds have been certified as legal investments for savings banks in this State." Obviously, the Superintendent of Banks certified them because they complied with the statutes. There must be other States that have had the same experience, and it seems to me that some uniformity of restrictions, if necessary, with greater latitude would be beneficial.

Further, it seems to me that restrictions governing the investment policies of banking institutions imply a lack of ability on the part of such institutions to judge investments and that there is some set of printed rules, compiled by wiser heads, that will soundly guide the destinies of bank investments. I cannot agree with this theory. I believe that this same rule follows concerning the recent ruling by the Comptroller of the Currency's office, that members of the Reserve system may not purchase a bond that is "distinctly and predominantly speculative, when below that standard as these terms are used in rating manuals." I do not believe that this is any step forward in solving the investment problems for banks, although I have no quarrel with the rating services and believe that they can be used to advantage when tempered by the judgement of the investor. I do not know how many issues of securities there are in this country, both listed and unlisted, corporate, municipal and government. Taking at random a figure of, say, 100,000 to 200,000, I think that we can well imagine that no investment service is capable of correctly rating all of these securities. No young man, sitting at a desk with a copy of a corporation's earning statement and balance sheet, can, with any degree of accuracy, using a slide rule, successfully, in my opinion, dictate investment policies. Rating services take into consideration what has happened in the past, and rightfully cannot attempt to forecast the rating of a bond in the future.

The fact that Chicago-Northwestern general mortgage bonds were rated "Aaa" in 1928, did not prevent them from defaulting. The fact that Erie refunding 5s were rated "Baa" at the same time, did not prevent this issue from continuing to pay its interest throughout the depression. There are any number of such instances as this.

I have felt for some time that, even in the larger financial institutions, there is a fundamental weakness in the investment policy that is rather difficult to overcome. This may be surmounted satisfactorily in some instances, but I believe that in the majority of institutions, the officer in charge of the investment portfolio has his actions reviewed by an investment committee or the executive committee of the institution. It is extremely difficult to guide the destinies of any investment account without full power to act, unless those individuals with whom you confer have a wide knowledge of securities. In considering investments for his institution, the investing officer can be little-criticized for purchasing or submitting to his committee, say, New York Edison 3¼s, or Illinois Bell 3½s, or other issues of this type. Rated "Aaa" there is little possibility of any change in this rating, nor in the ability of the company to satisfactorily service the bonds, under practically all conditions. Such obligations assuredly may well form a part of any high-grade investment account. Of course the investing officer probably realizes that under present conditions he is paying a premium for this credit.

If you were in his position, you would probably have had no hestitancy in submitting New York Central refunding mortgage 5s in 1928, when they were rated "Aaa," but would you not be disinclined to attempt to induce your committee to concur in their purchase when they were on the bargain counter within the past year or so and rated only "Ba?" If the purchase turned out satisfactorily, your salary would of course continue, but if it did not turn out successfully, something very definitely unsatisfactory might happen to you, and why should one take these chances?

I think that we should not fail to emphasize the importance of having a man trained along investment lines to manage the portfolio of any institution of size. Without reflecting one iota upon the ability of the banker, I believe it is fair to say that his viewpoint, in most cases, is decidedly different than the investment point of view. He views credits as a banker, and, as one friend of mine in the banking business recently stated, he is more interested in whether he should loan John Jones a thousand dollars than as to whether he should buy a certain block of $100,000 worth of bonds.

A full knowledge of investment securities is attained only after many years of study and practical experience. A banker also has a very exacting business, or profession if you will, and it is pretty difficult to cover both fields satisfactorily. Often preconceived ideas regarding securities seem to govern the opinion of banks regarding the desirability of securities. I have seen securities turned down without any examination because a name did not sound well and other institutional investors have said, "We will not buy debentures," or, "we will not buy this type of security or that type of obligation."

Now, a word about the bond account. I have heard many bankers criticize bonds and have found them reluctant buyers at best. Some authorities feel that institutions must become more substantial purchasers of bonds in the future than they have been in the past if they wish to keep their funds employed. It is pretty obvious that the institution which buys bonds when it cannot loan its money elsewhere has in the past found these bonds selling at lower prices, even in normal markets, when the demand for money increases. This is familiar to all of you, and the reason for it is obvious. I believe, however, that a bond account has been very satisfactory and profitable to many institutions and can be made so for most institutions if properly handled and given a chance.

What should you expect from a bond account? You should not expect to get a higher rate of interest from your bond account than the going rate for money. You should not expect to buy premium bonds without providing for their amortization; and you should certainly provide certain reserves in your account. Many institutions have in the past year or so taken substantial profits from bond accounts and credited these profits to current earnings. Are these institutions going to moan over the losses that the bond account may provide in the future? I think some institutions have been recently adopting a policy of using profits from bonds sold to write down the cost price of bonds purchased. If there ever was a time when reserves should be built up in a bond account, it seems to me that now is that time.

For the smaller institution, whose size will not permit the formation of an investment department and a trained man to handle its portfolio, I should like to make a suggestion. I believe that the investment business, as well as the banking business, has learned a great deal in the past few years. When you purchase bonds, unless you have very definitely in your mind exactly the security you wish to purchase and a pretty well conceived idea about building yourself a balanced portfolio, you must depend upon some investment organization for recommendations and suggestions.

The investment business, as well as any other business, must be operated for profit, and it must naturally follow that recommendations under normal conditions must be in securities that carry at least some profit to the organization making such recommendations. Many investment institutions in the country, realizing that this situation is likely to restrict their judgment, have, with the consent of both individual and institutional clients, established a practice whereby service charges or fees are paid when bonds recommended by them are purchased for the account of the buyer without profit to the organization making the recommendation, which compensates them, at last in part, for handling the account in an advisory manner. The success of this plan of course is dependent upon close cooperation with an able investment organization which will have full knowledge of your portfolio and needs.

I commend this thought to you, as I really feel that money spent for fees covering service charges cannot help but react to the ultimate success of a bank's portfolio.

Adaptation of Mortgage Lending to Modern Conditions

By Harold Stone, President Savings Banks Association of the State of New York, New York City

In introducing Mr. Stone, President Benson said:

It is my pleasure now to present to you a man whom I have counted a personal friend for many years. He is the President of our Savings Bank Association in the State of New York. He is Mr. Harold Stone and his chief job is that of President of the Onondaga Savings Bank of Syracuse, New York. In September, 1935, we made him, by unanimous choice, President of our New York Association. He has been connected with the Savings Bank for a number of years, as trustee and as attorney and finally as President. He came to the bank as counsel in the practice of law. He was a Director of Operations of the United States Employment Service in Washington during the war.

Mr. Stone's address follows:

I am assuming in this talk to you about mortgage lending that the problems in New York State do not differ widely from those of other States and fundamentally very much the same type of thinking is required in all sections of the country if they are to be solved.

In the last few years there has come to be very little distinction between mortgage lenders and property owners. We who once thought of ourselves exclusively as lenders have against our will, become property owners. Therefore, we have had to interest ourselves more definitely in the management of property and in those matters which jointly affect ownership and mortgage lending.

Outside of large bond issues, such as railroad mortgage bonds, the mortgage field is divided into two major parts—mortgages secured by income producing property, and mortgages secured by homes. The latter is the more important to the country as a whole. The extent of home-ownership largely governs the morale of our citizens and tends to stabilize commerce and industry, as well as government itself. I wish each family might buy a home for cash, but this is admittedly impractical, and we believe it proper to utilize instalment buying in this field, whatever may be our opinion of using it elsewhere. There is a reasonably permanent value in a home, and more attractive terms are possible than with shorter-lived merchandise; very possibly we might take a leaf from the book of modern merchandizers to bring this fact to the attention of the public.

"The average citizen should be able to purchase a home as conveniently as he buys a vacuum cleaner or an automobile," Lewis H. Brown, President of the Johns-Manville Corp., speaking from the point of view of the construction industry recently told the New York State Bankers Association.

One of the first considerations which strikes me as of paramount importance is a trend in real estate which makes a vast difference to us as lenders. I am sure that most of you will recall with me, for instance, those days when a house was built to serve as a home not only for the present generation but for generations to come. There was a stability of location, a willingness for generation after generation to remain not only in possession of the original property but as actual tenants of it as well. We have seen that day gradually disappear, at least in our part of the country. But it was followed in turn by a definite desire on the part of a very large number of people to own their homes and spend their entire lives there even though the children might move away. At the same time, there was on the whole a considerable modesty on the part of the home owner, who did not as a rule try to acquire and maintain a place beyond his means.

I think you will all agree that there is a substantial change today from those earlier conditions. We have in this country a more mobile population. I believe Roger Babson, the statistician, predicts that within a very short time some 6,000,000 of our population will be living exclusively in automobile trailers. Other estimates are higher. At any rate, with the great increase in industrial employment as against farm occupancy, jobs shift, plant locations are changed and we see a mass movement of the population. I have in mind such effects upon communities as has been caused by the shifting of cotton manufacturing from New England to the South and of shoe manufacturing from the East to the Middle West. Such moves have an undeniable effect upon the values of real estate and upon home ownership generally, for the prospect of moving from one place to another is not conducive to the purchase and maintenance of homes.

There is another phase of this same question which is of importance to us, and that is the tremendously rapid improvement in home construction and home conveniences. During the early years a house was a house and with the exception of some advances in heating methods and the adoption of open plumbing there were for many years relatively few major improvements in this type of construction. Today, however, obsolescence is rapid. We have the development of the use of fireproof materials, of vastly improved heating systems, of insulation, of air-conditioning, of electrical conveniences and sanitation, and we have seen a great deal of research in the field of prefabricated houses. Obsolescence in any field is a factor to be reckoned with, and whereas a house in the old days was constructed for a life of 50 or a 100 years, I think we have found to our sorrow that some properties not nearly of that age now have great difficulty in attracting a public which has become conscious of a desire for the most modern construction and equipment. We are interested in these developments because many of us find ourselves with old properties on our hands which must eventually be sold in competition with more modern homes.

But perhaps of even greater importance are the considerations which will govern sound mortgage lending in the future. What developments must we look for? Will mobility of the population increase? Will rentals be more attractive than home ownership? Will the present rate of improvement in construction be maintained, and will the public demand more and more conveniences? If so, what effect will that have on mortgage loans made for long periods of years? The tendency today seems to be toward making 20-year mortgage loans rather than mortgage loans for a shorter period, or as has for years been customary in New York State, a form of open mortgage, which has meant a "permanent" mortgage. It may well be proper to arrange new loans on a basis of annual amortization which will at least approximate the depreciation and reduction in value which results not alone from normal usage, but also from these outside forces of obsolescence. These questions seem to me to need the very careful study and attention of mortgage lenders.

I have some figures which perhaps illustrate that the "permanent" mortgage was suitable in the earlier days, but not suitable today.

In the 30 years, 1901 through 1930, one of our banks had total mortgage loans of $58,000,000. The net loss for those 30 years was about $81,000—less than 1-200 of 1% per year. In the following five years out of a total investment of $37,000,000 it has charged off $1,400,000. Assuming the charge-off to be a total loss, it is equivalent to about ¾ of 1% a year. Not all of this loss can be traced to the factors which I have mentioned, but their effect has been felt along with the general effects of the depression.

We find ourselves today much more closely affected than formerly by a number of other considerations. In New York State during the past year we have had a very vigorous representation on the part of many substantial citizens for a tax limitation statute. As I understand it, there is no general agreement that limitation of tax rate statutes holds the final solution of this particular problem. The burden of taxation on real estate has reached the point in many communities where the desire to own real estate has been seriously curtailed. It is not only that the present burden is high, but that there seems to be no real progress on the part of the authorities toward halting the appalling advances. I cannot recall that up to recently mortgage lenders took any active interest in the subject of taxation. They were not themselves large property owners, and I think their attitude was that property owners themselves had, if they chose, an opportunity to make known at the polls their opposition to high taxes. But the plight of these property owners has become increasingly evident to mortgage lenders, not only because they have had to acquire real estate due to unpaid taxes, but also because they have come a great deal closer to many borrowers during these trying years and realize the struggles which they have undergone. Just what the answer is at the present time neither I nor my associates in New York are prepared to say, but it seems clear that this is a situation to be faced. It affects us directly as lenders and affects the entire fabirc of home ownership in which we have believed so thoroughly for many decades and which we have done so much to foster.

In New York State we in the mutual savings bank field have found ample opportunity for cooperative effort in consideration of our mortgage and real estate problems, and have proven to our own satisfaction that this method of approach can be a tremendous force. It should not, however, be limited to savings bankers, but rather should represent the cooperation of all institutional lenders if it is to reach its greatest effectiveness. However, it has been easier for our savings banks alone to operate together, or at least to start the ball rolling, and we have acquired collectively a great deal of information which has been placed at the disposal of our banks.

As mutual savings banks exist in only a few States a word of explanation may be in order. These are purely mutual institutions managed by trustees without compensation. All of the earnings go to the depositors in the form of interest or additions to surplus. There are about six and a half million depositors in the 135 institutions in New York State. Their deposits equal about one-tenth of the bank deposits of the country. Of approximately six billions of resources about three and a half billions are invested in mortgages and real estate. I have heard it stated that in the whole country there are about 33½ billions of mortgages, which if true, shows the mutual savings banks of New York State alone own nearly 10% of all mortgage-investments.

Among our cooperative efforts I might mention specific information on neighborhood and community trends, which govern not only a bank's policy with reference to the sale of acquired real estate but particularly the granting of new mortgages in such areas. We have taken steps to consider how lenders might best influence the type of building being done. We have recently witnessed, in common with other areas, a considerable amount of speculative building. Often the builders are inexperienced and look upon this field merely as one in which to make quick profits. Frequently, we have found that the type of materials used, the inferior workmanship and the financial backing has been such as to make the property an unsound investment for any buyer and a highly speculative loan for any institution. Let me tell you a little story.

Some 15 years ago in one of our up-State cities a young couple bought a two-family house, expecting to rent the lower floor and occupy the upper themselves. They knew about as much about buying houses as the ordinary individual. One of their wedding presents was a grand piano. It was moved into the second floor and promptly fell through to the basement. There was an immediate public reaction, not only among their friends but among all those who liked to see fair play. The one savings bank in that city undertook, single-handed a campaign to wipe out so far as possible, so-called "jerry-building." It took time and hard work to educate the public—I might even add some of the other lenders—but it has worked, and today it is almost impossible to sell a piece of property in that city which does not qualify under the minimum standard of construction requisite for a savings bank mortgage loan.

We have considered some action of that sort among our savings banks which shall be State wide, and I believe that we are on the verge of undertaking a movement not only to protect mortgage lenders, but to protect the buying public against the purchase of improperly constructed properties. We do not want in this country a class of people who have out of bitter experience come to believe that a home is not a suitable investment. Our interest should extend beyond homes and to all buildings the construction of which will have a marked effect upon neighborhoods and our mortgages. We have recently had in New York City a ghastly illustration of improper building which resulted in the loss of life to a number of workmen. Those apparently responsible are now under indictment. But surely we who are vitally interested in proper building have a splendid opportunity to interest ourselves in some constructive way in this problem. Particularly does the situation point the need of much more careful and painstaking inspection by lenders. In New York we now have two substantial engineering departments, controlled by and available to our savings banks to follow very closely properties under construction, and if the structure is faulty in any way the loan commitment is not fulfilled.

We have also had an interesting experience in recent months in the cooperative selling of real estate acquired by institutions. We selected first one and then two more areas in which there was some evidence of public interest toward buying, and by using our combined weight through the instrumentality of a corporation wholly owned by the savings banks, we have stimulated the real estate market to the benefit of present owners and the entire community, and we have established a realistic scale of prices where prices were highly uncertain before. We believe we have bolstered the courage of those who were on the verge of losing it by making their properties acquire additional value in their own eyes. In addition we have transferred many properties to individual ownership at fair prices and have put the property itself in good condition. In this way we have also helped to maintain the status of neighborhoods which is all important to property values. In order to do this we have given much cooperative thought to the question of rehabilitation and we have urged it in those cases where it would produce additional income or improve salability.

If one lets his imagination wander a little on this question of cooperative action there are innumerable opportunities for research which will be profitable to lenders and to the community. It is my observation that our larger cities particularly afford splendid opportunities for highly constructive cooperative work. We hear a great deal, for instance, about slum clearance and the provision of low cost housing. Certainly lenders, who are perhaps owners, should be able to bring to bear opinions backed by actual research as to the proper and economic use of such areas, and recommendations as to appropriate areas in which to establish low cost housing.

There are many other fields in which cooperative research is almost essential if we are to have a sound mortgage lending business. In our State, as in many other States, our real estate situation has been complicated by the failure of guaranteed mortgage companies. It is neither my purpose nor my function to attribute the blame for these failures to any one or to any group. It does mean, however, that there are probably some opportunities for constructive thinking in order that large amounts of funds in the hands of the public may be made available for proper development. I have no definite recommendations to suggest, but this subject is worthy of the serious attention of institutional lenders in the interests of sound real estate development and ownership.

We have discovered one source of trouble, which I hope we may avoid in the future. I think that savings banks contributed much to the development of our State by making loans to help build up the communities served by them.

But there came a period when deposits in our banks increased more rapidly than the local demand for mortgage loans, and in an attempt to acquire earning assets they reached out beyond their immediate territories. Loans made away from home ground have proven much less satisfactory than those made in areas whose conditions were wholly familiar—I think we shall in the future be wary of distant loans.

I might suggest an apparent anomaly in the general method of mortgage lending. In almost any other sort of lending the rate charged for the loan is affected by the risk. In mortgage lending that has not been so. Should mortgage interest rates take into consideration the amount of equity which the owner has invested, the length of time which the loan is to run, the type of neighborhood, the type of construction, and so on? Might mortgage lenders more readily influence sound construction, higher equities, larger amortizations, by giving premiums therefor? Admittedly a great deal more attention would have to be paid to the individual mortgage than perhaps has been paid in the past, which would presuppose not only a thorough knowledge of the property, but knowledge of the credit position of the borrower as well. That increase in work might be considered wise provided the additional safety is commensurate with it.

I have not told you much about the real estate situation in New York State. It is showing definite signs of improvement there as elsewhere, but those signs of improvement in themselves impose a responsibility on lenders who are interested in the safety and yield of their own investments and who are interested also in the protection of the public against uneconomic investments and in the proper and logical development of their own communities. The message I have to bring to you today is merely the suggestion that a thoroughgoing knowledge of our problems, much of which can only be acquired through cooperation, will do more than anything else to put mortgage lending and the real estate investment of hundreds of thousands of our citizens on a wholly satisfactory basis.

Man: A Saving Animal

By Dr. Ray Lyman Wilbur, President Stanford University

In introducing Dr. Wilbur, President Benson stated:

We are honored this afternoon to have as a speaker on our program the President of one of California's great universities. Dr. Ray Lyman Wilbur is President of Stanford University. He was born in the State of Iowa. He is a former Secretary of the Interior of the United States and is a well-known educator. He received his A. B. and A. M. degrees from Stanford University, his M. D. at the Cooper Medical College, San Francisco, and LL.D. from a number of universities, including the University of California, Duke, Princeton, New York and Yale. Dr. Wilbur has been President of Stanford University since 1916, except for that time when he was Secretary of the Interior in the cabinet of President Herbert Hoover. Dr. Wilbur was Chairman, also, of the White House Conference on Child Health and Protection and Chairman of the National Advisory Committee on Illiteracy. He is a trustee of Rockfeller Foundation and of the General Education Board.

Dr. Wilbur: President Benson, Ladies and Gentlemen: In outlining certain things about my past, your chairman forgot my qualification which makes it possible for me to speak here today. I was one of the directors of a small National bank for 8 to 10 years. I did not learn very much about banking, but I did learn one thing and that is, the farther away the corporation is to which you lend money, the more you worry about it. I can see by the talks I have heard here today, that worry still goes on.

Dr. Wilbur's address follows:

Man is a saving animal. It is due to this quality of his that he has been able to conquer the world. Where do you think the Swedes or the Norwegians or the Finns would be today if they had not been saving animals? In fact, we have settled the temperate zones largely because of this peculiar capacity of ours to save. If not, the human race would have congregated around those quarters of the world where conditions are easy, the temperature mild and a supply of food available at all seasons. I think the Marquesans have had one of the most reliable setups in the way of living. For centuries they lived on balmy islands where there was an ample supply of food, fruit on the trees, and fish in the sea. They developed fine physiques and got along very well. They had one thing you might object to, and that was cannibalism. They ate their old people in emergencies, and their enemies when feasible. This carried them over food shortage and prevented over-population.

Instead of eating our old people, we try to get our citizens to save and thereby be able to take care of themselves in their later years. This saving habit, combined with transportation, invention, and public health, has offered protection to the immature and the aged and has made possible a vast increase in size in the human family; but there is danger in large numbers unless, along with it, there goes superior management of groups of men and an adequate control of environment.

In the Los Angeles Museum there is a collection of the bones of animals and birds found in a bitumen pit. These are the only remnants of the sabre-toothed tigers, the giant cranes, the camels, and other animals and birds that 50,000 or a 100,000 years ago roamed over the plains of the Southwest. Among these bones of extinct creatures there were found the skulls of pocket-gophers. These gopher skulls are of the same variety that we now find in many parts of California. In other words, the gophers survived; the others died. Why? Because the gopher is a saving animal. He stores in the ground both seeds and leaves, and can eat roots. This has made it possible for him to go through successive droughts and survive.

The human family has its ups and downs—its droughts and floods, its panics and booms, its periods of plenty and of starvation. If we can develop methods of handling our savings we may do as well as the pocket-gopher, but I am not sure that we are all smart enough to do so. The gophers meet many conditions better than we do. They do not congregate into groups that destroy, as we do. They drive off their own young just as soon as they are big enough to scramble about for themselves; and each young one carries with him the urge to save and the fear of owls, skunks, and hawks.

Through saving we have built up our civilization, and each generation adds something that the next can build upon if it chooses. Thus we keep advancing and accumulating stores of food, buildings, bridges, roads, factories, and so on. Our progress depends largely upon a very simple business method —and that is that the old bet on the young, and the young reward the old for the use of their savings by some form of payment.

That is capitalism. The old have worked and worked and accumulated something. They say to the young, "Take this something and go to work with it with all your energy and time and give me a return for its use. Then you build up something and go ahead." That is the capitalistic system. If you take any young fellow who wants to run a newspaper or a business he will find that he must use the savings of someone, either his own by work or inheritance or by "hiring the money" as Calvin Coolidge used to say. Perhaps in these times he might get the Government to let him have this something, for which they collect the savings of others through taxes.

Savings have taken all sorts of forms—buildings, pieces of paper representing partial ownership of enterprises, &c.; but all depend on a structure in civilization that is dependable and sound. When the Bolsheviks took over the Russian Empire they acquired ownership of the banks. They thought they were going to have great sources of wealth from these banks. They had seen the high figures those banks reported, but in the vaults they got only a few pieces of gold, a few jewels, and pieces of paper. The paper was no good, because they had destroyed all its value by the change in government. It was as if they had burned down a building and had left as salvage only the distorted nails and pieces of metal.

The basis of going forward with these savings from one step to the next is a stable condition of society. The first function of all society is to provide that security and that stability so that those who save can feel that their savings will be protected from year to year. If they fear that their savings must run the risk of having such an experience as I have just indicated, the spirit of saving is often destroyed, and in its place there develops a desire to spend.

This all comes down, then, to a question of management: First, group management through government and all forms of social agencies; and, second, individual management so that savings result from the handling of the affairs of persons.

We are herd animals. Herd animals have advantages but they also run great risks. Our rise and fall goes largely with that of the herd. If the herd is not well managed and led, the individual members of it cannot be entirely independent. Along with our increase in numbers, and our various methods of developing civilization so that we can act in groups, we have developed certain faults that can be classified as group diseases or disorders. One of these mass diseases, which is of terrible intensity and which comes periodically, is most destructive. We call it "War." It destroys life and savings and does damage to all of those who have been thrifty. It is the greatest enemy of mankind. Governments must do what they can to avoid this disease of war if we are to have a steady advance in the fortunes of the human family. Perhaps it is beyond hope for us to avoid wars. It seems inevitable that we shall see more of them. Their after-effects are as costly and damaging as their immediate consequences.

We can carry a certain amount of insurance against these conflicts by various procedures, and we can build up sufficient reserves so that the losses are not too great. But the human being has another quality which we call obstinancy. The result is that when he once starts into a conflict he does not know when to stop. Consequently we have usually used up all our savings and mortgaged our future before peace is made.

In this country we are now in the midst of paying for a war. We and our children's children will be busy handling this large debt for a long time to come. It will take good individual management by tens of millions of people over a long period of years just to get the back costs paid.

Any civilization that is built up with the idea that the mass of people is big enough to take care of everybody without the individual person looking out for himself is doomed to failure. We can look back in history and see how such civilizations have failed, time after time, People in the mass can make mistakes, and terrible mistakes. The only way a satisfactory nation can be built up is to have it made up of units with good self-management. In other words, each must look out for himself and contribute to the group; then the group can care for the immature, the sick, the weak, the old, and the unfit.

We can measure the quality of a civilization by the number of those who take care of themselves. We can measure the heart of such a civilization by the number that are allowed to ride on the rest because they are too old, uncapable, or unwilling to work. Right now in this country we are trying to carry a great burden of this kind. It is giving civilization some hard times; but perhaps if we go back to the pocket-gopher we shall be able to get the answer. Instead of saying "Go to the ant, thou sluggard" we can say, "Go to the pocket-gopher, thou waster!" At any rate, look the pocket-gopher over. If we can imitate him there is a good chance that we can hold together what we have and can keep that dignity of personality that is important to the vitality of any country—the dignity of not riding on the rest. That is what has made America, and that is what we want to see in the future.

There are two kinds of farmers. One consumes or sells his whole harvest, relying on someone else to save the seed for him and to hold back margins against drought and disaster. The other always lays aside a little corn or wheat so that in the spring he can sow again—and even eat again in the fall should there be a crop failure.

We have reached the stage now when too many people rely upon the government for their protection and care. More and more of us must again think in terms of self-management, so that each can do his share and each can add to the power of the government to protect those who need help. There is no way by which we can consume our harvest and have it. Only by saving can our kind of a country survive.

COMMITTEE AND OFFICERS' REPORTS—SAVINGS DIVISION

Address of President, Philip A. Benson, President Dime Savings Bank of Brooklyn, Brooklyn, N. Y.

Outlook for Savings

Savings deposited in banks amounted to $22,652,000,000 on June 30, 1935, an increase of $899,970,000 for the year ended that date. The latest figures indicate a further increase of over $600,000,000 for the year ended June 30, 1936, making an aggregate of over $23,200,000,000. Thirty-four years ago, when the Savings Division was organized, savings deposits amounted to $2,750,177,290. The increase in the 34 years is over 800%. Savings depositors in 1902 numbered about 6,000,000. They now number more than 42,000,000.

While State banks and trust companies and National banks participated largely in the total savings deposits of the country, the figures for the mutual savings banks alone are significant. A recent report issued by the National Association of Mutual Savings Banks shows deposits in mutual savings banks on June 30, 1936, of $10,020,013,775, a growth of $149,962,655 for the year. The mutual type of bank, while existing in only 18 States, and these mostly in the northeastern section of the country, has about 40% of all savings deposits in banks. There are 554 mutual savings banks in all, and of these the 100 largest have deposits of over $7,000,000,000.

An interesting comparison shown by the report is that of the interest dividend rate. On July 1 of this year the average was 2.58%. A year ago it was 2.84%. Rates for separate States vary from 2% to 3¼%; New York, the largest mutual savings bank State, paying 2%. In many States the rate is controlled by law, and banks are limited to the rate prescribed regardless of the fact that some could pay more. At the present time it no doubt is proper to limit interest rates and add excess earnings to surplus; eventually this will lead to larger interest dividends.

The surplus of the mutual savings banks was increased for the year to the extent of over $42,000,000. I mention the interest rate and the additions to surplus because in any bank the margin of safety consists of its capital funds, reserves, surplus and undivided profits. Any outlook for the growth and development of savings should take into consideration that there must be a corresponding growth in the margin of protection in the bank itself, any reliance on an outside guarantee being for unusual emergencies only.

While it is true that the savings accounts in most of the banks of the country are protected by the Federal Deposit Insurance Corporation or by an insurance fund created by a group of banks, such as the Mutual Savings Banks Insurance Fund of the State of New York, no true banker desires that confidence in his bank be dependent on such guarantees. It is far better that such confidence rest on the knowledge that the depositors' funds have been safely and wisely invested and that capital funds or surplus account are a full and sufficient protection against losses.

In contemplating the outlook for savings we are bound to consider the record of progress made by life insurance companies. In 1902 there were about 17,500,000 life insurance policies outstanding, representing insurance of $10,500,000,000 and protected by assets of $2,092,000,000. The latest figures available indicate that the life insurance companies reporting in 1935 and policies in force numbering over 124,000,000, insurance in force of over $100,000,000,000, and assets of over $23,000,000,000. These figures include not only ordinary policies but also industrial policies and group contracts. If we add figures for building and loan associations we will find that the total savings are a sum in excess of $52,000,000,000. I have no doubt that those who have interests in these savings represent more than half of the total population of the country. The growth is over 900% in 34 years. Thus, social security is not new in this country!

Mutual savings banks, working as trustees for the people's savings without capital stock, started in this country in 1816—120 years ago. In the minds of all right-thinking leaders, the principle of social security is deeply rooted. The principle that we have adhered to has been to "help the other fellow to help himself"; to inculcate in the individual's mind the habit of thrift and saving so that he would come to appreciate and understand the advantages of providing personal security. Human civilization has not developed through the principle of every man looking after himself, nor has it developed conversely through every man doing somebody else's work for him. The annals of human history have declared such methods complete failures! The former yielding utter selfishness, and the latter leading to the dry rot of sentimentality, which so thoroughly excited the indignation of Herbert Spencer, who said: "The ultimate result of shielding men from the effects of folly is to fill the world with fools." The principle that has governed our business and our life objectives in carrying it on attaches a condition to the "strong helping the weak," and that is of the weak helping themselves, and giving them every facility for doing so.

A government, in order truly to strengthen and benefit its citizens, must stimulate, by sound education and economic policy, the individual to become strong and independent, thus strengthening the resources of the government itself!

In recent years, yielding to popular demand, government has undertaken to provide social security through unemployment compensation, old-age assistance and contributory pensions. Naturally, we must be sympathetic with any move that will safely improve the security of the individual or his family. What has concerned me, due to the hurried passage of the legislation establishing such laws, is an apprehension that the progress we have voluntarily made in social security so far may be adversely affected if involuntary savings through government edict go beyond the capacity of the individual in further providing for his own security or that of his family.

Through the Social Security Act, the employee eventually will give up 12% of his payroll involuntarily to provide for the government plan of social security. The Act prescribes only 3% eventually for the employees' contribution to be deducted at the source; but all the taxes provided in the Act, totaling 12% when the entire tax is in force, is a tax against the payroll, which to the manufacturer represents what goes to his employees and is merely a factor of cost to be included in his final price. Hence the question which arises in my mind is whether the working man will be able to give up this initial amount of 3% of his pay, the hidden tax of 9% (which, while assumed by the employer, will really be included in the cost of production and thus result in a higher cost of living), and at the same time provide independently for his own welfare? There is a point at which the individual goes beyond his capacity to save. Will that capacity be so strained as to bring distress? It is a point that we should study and to which we should contribute our best thought.

As one considers social security and the recent Federal Social Security Act, one contemplates with amazement the result that Act may have throughout the years to come. All contributions under the Act are in reality a tax, and a tax not to provide for current expenditures, but to create a vast reserve fund. Figures used by the United States Senate indicate that in 1980 there will be a reserve of $47,000,000,000. This reserve, you will remember, must be invested in bonds of the United States Government. If sufficient obligations do not exist they are to be created and are to bear 3% interest. The government will, therefore, borrow from itself and one pocket will pay interest to the other pocket!

The theory behind the reserve is that the interest will make the plan self-sustaining. This is, indeed, an alluring phrase—"self-sustaining!" Let us correct any doubt about its true character at once. It will be "taxpayer sustained," for the interest paid into the fund by the Treasury Department must be imposed as taxation on the people. My own thought on the subject is that the whole plan of a reserve fund should be abandoned. It is unnecessary and dangerous. Furthermore, careful study of the Act indicates that it has many inconsistencies and injustices.

Let me reiterate my belief that there is nothing so good and wholesome for a country as a system of private savings and the habits of thrift and foresight that will lead to the creation of one's own reserve. Through such a system alone comes strength and independence and freedom from paternalism and bureaucracy. We are not ready in this country to accept, nor do I believe we ever will, the theory of an all-powerful State, nor of the State that guards us and guides us from the cradle to the grave.

In expressing these beliefs I must add that we will have, and we logically should have, some system of unemployment insurance with compensation small enough to induce obtaining profitable work as soon as possible. There must, of course, be a provision for the care of the needy aged. The growth of our social consciousness will see that this is done, and no one, I am sure, will quarrel with it.

Statistics indicate that there is a large amount of savings not deposited in banks or otherwise profitably employed. I refer to figures showing money in circulation—that is, all money outside the United States Treasury after deducting money held by Federal Reserve banks and agencies. In 1930 money in circulation averaged about $4,500,000,000. It rose to over $6,500,000,000 in February, 1933. It dropped again to $5,289,000,000 in January, 1934. Since then, however, the tendency has been upward. By the end of 1935 the total was $5,882,000,000, and in June of this year it reached a total of $6,241,000,000.

The figures of money in circulation are more significant when taken in connection with other figures. The velocity of bank deposits—that is, the annual rate of turnover based on the relation of deposits to individual accounts—to net demand deposits in member banks, from the figures for 140 centers outside New York City, indicate an average figure of 35 in 1927. This increased to 41.7 in February, 1929. It has since shown a decline, so that the average in 1935 was 22.1, and in July of this year 22.4. In New York City the figures are more striking. The high in March, 1929, 122.5, and an average of 71.5 for the years 1927 to 1932, inclusive, has gone down to 24.5 for 1935 and 20.9 for July of this year. It would seem that whereas there was less need for currency in July, 1936, from the viewpoint of the velocity of bank deposits, which can be taken as an index of business activity, there was, nevertheless, a vastly increased amount of currency in circulation. The decrease in velocity of bank deposits is 84%; the increase in money in circulation is over 40%.

A number of reasons have been advanced to account for the increased amount of the circulating medium. Probably some money in the form of American currency has gone to foreign countries. No doubt business corporations have a larger amount of "till" money. A large part of over $6,000,000,000 of cash, however, must be reposing in stockings, mattresses, cupboards, office vaults, and other places. There are, no doubt, reasons why people have withheld money from deposit in banks. Perhaps banks have not been soliciting deposits as ardently as they once did. We have restricted the amounts we will take. We have been paying low rates of interest, and on demand deposits no interest. Many people may still fear the safety of banks—they have not learned of the provisions made to insure the safety of deposits. Perhaps a large amount of government checks to farmers and others have been cashed and the cash retained in the personal possession of the recipients. All of these are guesses. The fact remains, however, that $1,000,000,000 or more should be added to bank account by the deposit of surplus cash.

I have some interesting charts and tables illustrating these figures prepared by the Standard Statistics Co. An interesting fact shown by these charts is that there has been a large increase in the number of $10,000 bills outstanding and a substantial increase in the $5,000, $1,000 and $500 bills.

There will always be competition for savings. We still have the Postal Savings System as a competitor of banks. Large increases in the deposits of the Postal Savings System in the years ending June 30, 1932, and June 30, 1933, amounted to over $400,000,000 for each of these years. This sudden and phenomenal growth undoubtedly reflected lack of confidence in banks. However, gains of the system since 1933 have not been substantial. It does not seem that the Postal Savings System serves any good purpose where it operates in places already served by chartered banks. In these places it seems entirely unnecessary. The question of safety for small depositors has been removed by the FDIC. There may be some excuse for taking postal savings deposits in places not accessible to other banking facilities. In any event, we cannot forget that none of the money of the Postal Savings System goes back into the communities from which it comes. The local bank, to a great extent, invests its money locally. Through the Postal Savings System local money is "syphoned" out of the district for use elsewhere. A full comprehension of the effect of the Postal Savings System and its declining usefulness to the country may no doubt come about and lead eventually to the system being restricted or abolished.

Building and Loan Associations and Savings and Loan Associations are not banks. Nevertheless, they are competitors for savings. Reduced to its simplest terms, the function of the Building and Loan Association is to sell shares or certificates on an instalment basis and to use the money to make mortgage loans. By no stretch of the imagination can the shareholder be considered a depositor or his money a bank account. It has more the nature of a long-term non-liquid investment. Of course, there are provisions for withdrawal of funds with limitations, but large amounts could not be withdrawn quickly, nor is there any system of insurance that would make it possible for Building and Loan Associations to pay any large amounts on demand. In fact, the insurance available to Building and Loan Associations provides for deferring payment of a large part of the shareholder's money for three years. That the Building and Loan Associations have been useful in making mortgage money available cannot be denied. There is no reason why those who wish to invest in them should not do so. It seems only fair, however, where competition exists between Building and Loan Associations and banks that those who do business with the former realize the nature of the investment they are making and understand that such investments are not and cannot be made the equivalent of demand deposits. Real estate is always a slow asset, and real estate mortgages are in the same category. Mortgages, however, pay a larger return than many other forms of investment.

If banks could tie up their funds almost entirely in mortgages they no doubt would earn and pay a higher rate of interest on deposits. They would not, however, be liquid enough to retain their character as banks. To be able to pay their depositors in full and on demand requires a great degree of liquidity, and with lower earnings only a moderate rate of interest to depositors is possible. Fairness, it seems to me, on the part of all agencies that compete with banks requires that the facts concerning them be stated clearly.

For example, any statement that the shares in Building and Loan Associations are insured by the Federal Government is not true. The insurance is by a corporation owned by the Home Owners' Loan Corporation. Moreover, even a statement that the funds invested are insured is misleading. The insurance only undertakes to guarantee the return of the principal amount. It does not guarantee that the investor will be able to get his money when he wants it. The average savings and loan investor is likely to believe from the use of the word "insurance" that in time of need if the building and loan association cannot pay him his money the Home Owners' Loan Corporation will. This, however, is not true. All the investor gets in such a case, except for 10% in cash, is non-interest bearing debentures having maturities of one and three years. The average investor does not know this, and if he did he might have an entirely different attitude toward this form of investment. Moreover, under the laws governing Federal Savings and Loan Associations, the association can at any time when it feels it necessary to do so refuse to redeem its shares without by so doing creating any default or any situation which would cause the insurance to become effective. It is therefore quite apparent that the small wage earner who is accumulating these shares to protect him during times of stress when he may be out of work and in most need of these funds will find himself with an investment that cannot be immediately turned into cash. A further statement indicating a guaranteed rate of interest is misleading. Some States, such as California, prohibit the guaranty of a fixed rate of interest on shares or investment certificates, and certainly the Federal Savings and Loan Insurance Corporation does not guaranty that the shareholder will get any definite interest return.

It is unfair for another type of institution to arrange newspaper advertising copy, and signs on offices, in a manner to create an impression that it is a bank advertising, or that the place of business is a bank. This means the competitor wants to assume a character it does not possess for the purpose of attracting the patronage of the public.

There is a proper place for a number of forms of investment in this country, and everyone with money to put aside should have freedom of choice. As I consider the outlook for savings I would bid savings banks have no fear of competition, and urge the saver to be sure they have a clear understanding of every investment or deposit made and to choose which suits him best. However, let him guard against the lure of a high interest rate, leading him to make an investment with the nature of which he is not thoroughly familiar.

No paper on the "Outlook for Savings" would be complete without mention of the School Savings System of the country. School savings banking continues to show an increase in the total number of schools in which opportunity for savings is offered, in the total deposits and in total net savings. Despite this increase, however, out of 30,000,000 school children, only about one-tenth of them have opportunity for school savings.

Realizing the importance of thrift to mankind, and that civilization and culture are the products of thrift, it is strange that so little atention is given to inculcating this habit in the minds of the youth of the country during habit-forming years. Instruction in the use and meaning and value of money should be part of every school curriculum. What better service can savings banks give to their communities than that of aiding the education of future citizens in the principle of thrift and foresight and in fitting youth to meet the demands of life well armed?

Our investment problems have not become simpler during the past year. The scarcity of bonds of the highest grade and an abundance of funds seeking investment have raised the prices of such bonds to the highest levels in many years. Naturally, we will avoid bonds of a speculative nature and those that are not protected by ample earnings or income of the debtor. To invest savings in long-term bonds at present prices, even though they are of excellent quality, means not only a low yield, but—what is more serious—the risk of loss through substantial market price depreciation, which will occur when interest rates go up as eventually they must.

Some bankers have consistently favored long-term government bonds as investments, feeling that the risk of a decline in price is only a remote possibility. Others have stayed close to shore and purchased short-term bonds and notes only. Of course, the former have had the advantage of greater income. Still other banks have "straddled" the issue, part of their portfolio consisting of long governments and part short. The result has been a fair yield on the average and a measure of insurance against market loss. Conditions still seem to favor low yields on government bonds for the present. As to how long this will be so, your guess is as good as mine!

Mortgages are still the ideal investment for a large proportion of savings deposits. Although less liquid than bonds, the interest return is greater. While rents and values were on the decline it was very difficult to find any great number of good mortgages. There has, of course, been some shifting of mortgages from one investor to another, principally because of the desire of owners to secure lower interest rates. While such shifts inure to the benefit of borrowers, they do not create an outlet for new savings.

A general recovery in business has tended to stabilize realty values, and a substantial revival in the building industry has furnished a demand for new mortgage loans. We will no doubt take advantage of these improving conditions, put our mortgage account in order, and take unto ourselves new mortgages. In investing in mortgages from now on, however, we should, from our past experience, be able to avoid some of our previous difficulties with our mortgage accounts. Our appraisals should be based on net income capitalized; they should take into consideration the trend of the neighborhood, and, of especial importance, practically every mortgage agreement should have a provision for amortization.

Personal loans and other ways of investing funds will be employed by many of our banks. We may render service in our communities by making loans to individuals of good credit standing. We were chartered, let us remember, to perform a necessary and useful service, and in discharging our duty on a high plane we will continue to enjoy the honor, prosperity and goodwill we have earned and possessed through the years. We can, I am sure, view the outlook for savings with much confidence. There is ingrained in the American people a feeling of independence, a desire to manage their own affairs, to achieve success through their own efforts. These characteristics make for thrift and savings. Our banks are stronger and better equipped than ever to serve the people and assist them in attaining their financial objectives.

Report of Committee on Nominations—Newly Elected Officers

The report of the Committee on Nominations was presented by Austin McLanahan, Chairman, as follows:

For President: Noble R. Jones, Savings Manager, First National Bank St. Louis, Mo.

For Vice-President: Henry S. Sherman, President, Society for Savings, Cleveland, O.

For member Executive Committee, for term expiring 1939: W. W. Miller, President, Bloomfield Savings Institution, Bloomfield, N. J.; Robert W. Sparks, Vice-President, Bowery Savings Bank, New York, N. Y. Alva G. Maxwell, Vice-President, The Citizens & Southern National Bank, Atlanta, Ga. For member Executive Committee for term expiring 1938: Stuart Frazier, Vice-President, Washington Mutual Savings Bank, Seattle, Wash.

Committee on Nominations,
CHARLES H. DEPPE
W. R. MOREHOUSE,
AUSTIN McLANAHAN

[The report was duly adopted and the new officers inducted into office.]

CLEARING HOUSE ROUND TABLE CONFERENCE

(UNDER AUSPICES OF BANK MANAGEMENT COMMISSION)

AMERICAN BANKERS' ASSOCIATION

Meeting Held at San Francisco, Calif., Sept. 21, 1936

INDEX TO CLEARING HOUSE ROUND TABLE CONFERENCE

Practical Bank Operation

By P. D. HOUSTON, Chairman of Board, American National Bank, Nashville, Tenn.

During the last few years, we have witnessed many changes in the business in which we are engaged and in the conditions under which we operate. But during these same years we have also seen more intelligent thought and more constructive effort directed toward meeting such changes and toward a development of a sounder banking system than during any other equal period in the history of our profession.

It has been said that adverse conditions both require and encourage clear thinking, so perhaps our sincere desire and our increased efforts to improve our banking system have been prompted in part by the necessities of economic conditions. Yet we know that this desire and that this effort had become evident even before the approach of less favorable business conditions.

Solutions of the problems with which we have been confronted, have been sought as well by many who were not engaged in banking. The result has been that many new statutes and regulations have become a part of our daily operations. We may grant that all such legislative effort has been well intended and may have been even good in its effect, but the positive fact remains that the real solution must come from within rather than from without the ranks of our profession. The real intelligent and understanding effort necessary to bring about a sounder and more profitable banking must be directed by those experienced in our business, and if we succeed in developing and maintaining a profitable banking system, then we shall have at the same time developed a sound and safe banking system.

Thus it may be fairly concluded that internal management is the answer to any question that today may exist as to our position in relation to our depositors, our borrowers, our stockholders and to the public at large. And it is to this subject of management that bankers, individually and collectively, today are giving their best thought and effort as never before—and not without successful results.

The first step toward the development of good management is an analysis of one's own operations in order to obtain a full knowledge of our costs and our income, and to determine which departments of our banks are profitable and which are unprofitable. With this information available to the management of each institution, any needed corrections may be more easily provided. If we know our costs, we may more easily establish a selling price. Banks deal in two commodities—credits and service—and these like all other commodities involve a cost and must be sold at a price to include not only cost, but a fair margin of profit as well, if the selling institution is to render satisfactory service and it is to continue in business.

Collectively, bankers are conducting extensive programs of research which are providing much helpful information on the banking situation as a whole, and this will point the way to a dependable analysis of individual operations.

Individually, bankers are not only carefully analyzing their own operations, but are cooperating with each other for their common good by exchanging the results of their findings, just as we shall do here today in this Conference. Such willingness on the part of bankers to aid each other than the whole profession may be improved in service to the public and in returns for our stockholders is one of the finest by-products of all this program for better management. This spirit, with proper determination, will succeed certainly in obtaining and in maintaining for banking its rightful place in the economic life of this Nation, because banking has within its own ranks the necesssary ability to provide to the public such efficient banking service as may be justly demanded or required.

The importance and the value of this exchange of our experience and views cannot be too much emphasized, and it is hoped that here today we shall enter whole-heartedly into the discussions that are to follow, giving and receiving such information that each may have or may desire in connection with the subjects that appear on our program, because in no other way will it be possibile to realize the full benefits that such a conference affords.

No bank is any better than its management, nor will our whole banking system be any better than its composite management, so there should be the double incentive for each of us to conduct a well-managed institution. First, for the somewhat selfish reason that our own bank may be successful, and second for the broader reason, that our success may add to the reputation of the whole banking system, which in turn again will add to the prestige of each, including our own. One unfortunate feature of recent experiences has been that criticism either just or unjust, which has been directed toward banking has had to be borne by each as a part of the whole, and without regard to the innocence or guilt of the component units of the whole system.

It is difficult, if not impossible, to set out the necessary qualifications to be required of the official personnel responsible for the management of our banks, and no one has yet been able to give us a blue-print of such specifications. But we do know that it is important that those connected with our banks as officers, employees and as directors should be fully informed as to the true functions of a bank and as to the best methods used in the performance of such functions. Then, too, greater effort should be made to acquaint the public with such functions and methods. This can best be done, it seems, through the contacts which our officers, employees and directors may have with the public. A greater understanding by the public will result in a greater appreciation of the service which a bank renders, and this in itself will increase to a surprising degree the public's use of our institutions. It is not too much to say that many people, even now, do not fully realize the service available to them from their banks, and when properly informed they may become vaulable patrons. So perhaps the question of public education and public relations may be a greater factor in Practical Bank Operations than we have heretofore considered.

It is entirely possible for us to over-organize our management with the result that our operations may be unduly burdened with unnecessary detail, and may become too machine-like—thus losing the warmth of human relationship which is so essential to our business. Organization may be overextended to the point of being wasteful, costing more than can be justified by the purpose served. Then, too, we may over-economize in the matter of operating costs. To gain a few dollars today by cost reduction may mean the loss of many more dollars of profits in the future, so in consideration of these questions we should not only plan according to our present and past conditions, but we should give some consideration to future conditions in so far as we may be able to forecast them.

In our discussions here today, the numerous phases of practical bank operations may be reduced to two major classifications—Income and Expense. These, of course, are inclusive of many other minor phases. The picture which the figures of these two accounts presents will reflect very largely the type of management enjoyed or suffered by a banking institution.

The most frequently expressed complaint of today is the lack of opportunity for the employment of our funds in the usual channels of commerce and industry as compared with the amount of funds invested in securities of low-yield rate. On the other hand, banks are even accused of refusing to extend credit. Such criticism is, of course, not founded on facts, and it is mere idle talk to say that banks prefer to place funds in low-yield securities instead of extending commercial credit on safe loans with a better yield.

The prime function of a bank is to extend credit to the commerce of its own section. It manufactures such credit by bringing together the wealth of its community that it may be available for the development of business and industry in that community, if the development can be done on a safe and sound basis. The increase in the proportion of bank funds invested in securities has not resulted as a matter of preference, but such use of funds has been resorted to by banks as their only alternative against holding idle funds. In addition to the difference in yields, a bank would much prefer to extend credit to commerce because such credit generates further new business in which the whole community and the bank will participate. It can scarcely be expected during a period of rising deposits that the demand for commercial credit would increase in the same proportion as our deposits. Business and industry will not borrow while it yet has cash on hand.

Bankers in their loan policies must not become too conservative. Our conservatism should be tempered with some liberality. It is likely that the experiences of recent years may have caused us to be somewhat over-conservative, and if such should be the case, it is but a natural consequence. We should be interested in making productive loans, and, therefore, the purposes for which a loan is sought should be given consideration along with the security that is offered. A loan may be well and fully secured and yet not necessarily be a desirable loan for our bank.

We may be able to improve somewhat our position by seeking new fields for the use of our funds. Much has been said of the competition from

Government lending agencies. The Government has indicated that it would withdraw its activities in this field when and if banks were ready and willing to extend such credits. At least some of this credit can be supplied by our banks, just as is already being done by many banks after having made the necessary study and investigations from which they have been able to convince the borrower that the bank can provide this credit and service in just as satisfactory a manner and at less cost than that of Government agencies. Perhaps much of this credit is not such as would be proper for a commercial bank to provide, but in the whole of these Government agencies there must be much business that could and should be properly provided by our banks.

Banks are now considering personal and instalment loans, thus entering the field of retailing this consumer credit in which heretofore they have played the part of the wholesaler, extending the credit to a middle concern which has in turn retailed the credit at rates much more profitable than those obtained by the commercial bank.

Many banks have developed new loan business by cooperation with concerns or individuals already customers of the bank, and thereby have created first, new profits for the customer, and incidentally, profitable employment for some of the bank's otherwise idle funds. In my opinion, any bank may well afford to make such study of its local community because it may find considerable business that could thus be created to the mutual advantage of its customer and the bank, and, incidentally, for the resulting benefit of the community. This condition of easy money and the lack of demand for money will in time adjust itself, and when this adjustment does come we should, out of the experience of present conditions, be better prepared to profit thereby.

In the effort to improve our net earnings, it is very necessary to exercise close control over our expenses, but we cannot afford to reduce expenses to the extent of impairing the efficiency of our operations or the services we render. Formerly one of the heaivest drains on our gross earnings was the interest paid on time deposits, and while this has been much reduced, there yet remains the question of whether or not the present cost of time deposits is as great in proportion to the income derived therefrom as were the higher interest rates in relation to the former income received. If deposits cannot be used profitably, then the interest rate may be high in any case. Interest bearing deposits are worth to a bank very little more than the profit for which they may be sold. In determining the rate of interest to be paid on time deposits it would seem that we should be governed by our ability to lend such funds at such a rate that will cover cost of deposit plus a fair profit to the bank.

In the investment of our funds we have long since learned that the selling price of money is subject to much fluctuation, but we have been slow to admit that this may have application with reference to the price banks should pay for their funds. There must be some relation between our buying and selling price, and if so, then the rate of interest on deposits must be subject to variation along with supply and demand.

Inauguration of modern equipment and the adoption of new methods for internal operation of our banks have enabled many banks to effect economies and to improve efficiency. The purchasing of supplies, and particularly the proper care and control over supplies after purchased, afford further opportunities to effect appreciable savings both for large banks and for smaller banks in proportion.

In my opinion, the greatest progress made by banks in their endeavor to improve earnings has been in the field of cost analysis. Most of us know well enough how to price a product if we have the cost figures, but we have not known very long just what it has cost a bank to provide that service which is so indispensable to our present system of trade and commerce. We had permitted ourselves to agree with the customer who accepted a valuable service without cost and as a matter of course, and not knowing ourselves just the cost involved, the customer could not be expected to know. To our surprise we have learned rather recenlty that the cost of much of the business that passed through our banks was being borne by the business of profitable customers—or perhaps in the final analysis it was being borne by our stockholders. It is most important that we know our costs of operations in every department of our bank. It is more important today than ever before. And when our costs have been determined, every department should be placed on a profitable basis, either by reduction of our costs or by establishing proper rates for the services which are provided. There seems to be no reason why any department of a bank should be operated at the expense of some other department. While great progress has been made in the matter of cost analysis, yet a large percentage of the banks of this country have not yet become informed as to their own costs and these banks in all probability are the ones to be most greatly benefited by such study and analysis of their own operations.

There are so many other phases of bank operations that relate to the vital subject of bank earnings that it is difficult to refrain from extending these remarks, but in these few minites I have undertaken to refer only in general terms to some of the major factors that constitute the theme of the discussions that will follow.

In closing I would emphasize two thoughts. First, let's remember that the reputation of our whole banking system in the minds of some may be the opinion which they hold as to one bank only. So individual improvement and cooperation toward collective improvement should be the purpose and goal of each. Now as we come to the discussions in more detail of the various phases of bank operations, let's be prepared to participate in the discussions at the close of the meeting so that the greatest good may be derived from this Conference which I believe is to be a most helpful one.

Security Policies

By J. Harvie Wilkinson Jr., Vice-President State-Planters Bank & Trust Co., Richmond, Va.

The primary interest of each of us lies in the question of interest rates, in the outlook for a change in the trend, and under existing conditions nowhere will that change be more definitely reflected than in our security account.

I think it must be a combination of fall madness, a certain giddiness and wishful thinking, or is it simply "the gypsy in me" which causes me to venture any comment on the future trend of interest rates, for if I were in my normal mind I am quite sure I would not have allowed myself to be caught crystal gazing in public. Surely you must wonder why a practical banker would be so daring, and I must say that I am motivated entirely by courtesy to those who follow me.

It is certainly my duty to try not to put you to sleep. I know you are interested in interest rates, and however unqualified the speaker may be, we often listen with riveted attention to those discussing a matter on which our minds are constantly centered. Allowing, then, for the extreme weakness of the background, I shall advance the thought that interest rates within the next two years will average a somewhat higher figure than are the current quotations for money.

But I rush on to add that the above statement does not mean 5% and 6% time money, and for purposes of this discussion I am not considering that increase in interest rates which would be brought about by a breakdown in government credit from endless budgetary deficits. In short, then, my guess is that the trend will be towards slightly higher levels than we now are suffering. But there must be some reasons for any statement of this nature and whereas in so short a discussion I can not debate the merits of each supporting point, I wish to present them for you to weigh in your own scales.

First, the demand for funds seems to me to have been less discussed recently than has the existence of the enormous excess supply. Three broad filds appear to offer possibilities in the next 24 months: Of prime importance is a continuation of the improvement in the volume of residential construction with all that means in its centipedic ramifications throughout our business structure; second, if governmental conditions are favorable the demand for heavy equipment and transmission lines by public utilities—which has been considerably pent up from a variety of causes over the last five years—should add tremendous weight to the momentum; third, the railroad equipment field seems to have just begun shedding its dry skin of antiquity. I am aware of the political uncertainties affecting certain aspects of these three demand factors, and I believe that the governmental phase may well be the determining factor in the degree to which and the speed with which the demand is realized.

The Board of Governors of the Federal Reserve System has increased by 50% the reserve requirements of member banks. By this action, which seems to me to have been very wise, the Board can be considered as having taken the first toddling step in setting itself up as a Supreme Court of Finance with all the influence and power which such a court would have. Whether the Board, in its future policies, will continue along that path is something which only the future policies themselves will reveal, but that the eventuality of a Supreme Court of Finance is nearer realization in our banking structure than it has been must, I think, be accorded real weight in appraising the future. To me this will be the most interesting development in American finance in the next decade.

What would the existence of a body of such stature mean? Surely not, you will say, that the Board of Governors of the Federal Reserve System can be expected to go against the wishes and policies of the Treasury Department. I do not believe they will go against the wishes and policies of the Treasury Department in the immediate future to any marked degree, but it is possible that by their future actions and by the fact that they have already demonstrated they will act, they may be able to curb an undue business expansion, to mollify the Treasury Department to the extent of persuading them that, after all, the difference between 2½% money and 2⅞% money in long-term government financing might be a cheap price to pay for the believed control of a wild business splurge, particularly when there are so many these days who love to control. Also, it should not be hard to convince straight thinking people that the difference between 1¼% and 1¾% five-year money would not be catastrophic. Again let me say I am cognizant of the difficulties in such a suggested procedure, and the dangers inherent therein are certainly well known, but I still believe that some such possibility must be considered in any attempted judgment on the rates for money.

To the preceding factors of the potential demand for funds and the possible functional growth of the Board of Governors of the Federal Reserve System add the slow increase, but nevertheless an increase, in reporting member bank loans. Then take into consideration the observable fact that consumer credit is being expanded by banks generally, and I believe you will have some factors which might produce results not now looked for.

We have ended this discussion of interest rates as it may affect the bond account. Of no less significance is the consideration of the relationship which the bank's security account should bear to the institution's capital structure, and by capital structure I have reference to preferred stock, common stock, surplus and undivided profits. I am sure you will not be shocked when I say that every bank in the country is buying securities on margin, for that is exactly what we do. You can then realize how necessitous it is to know well and accurately the amount and the quality of the margin. [Speaker here explained two tables distributed at the meeting, which we omit.]

It is to be remembered that the capital structure of our banks supports the real estate and the loans and discounts as well as the bond account and, accordingly, before figuring the amount of the capital structure which is available as a cushion for the bond account, it is essential to charge against the capital account, as it may be shown in the statement, the amount necessary to clean the loan portfolio, to bring the bank building and premises into line and reduce other real estate to a fair value. When this is done, the residual can be termed the net capital account, and this can be deemed the cushion for the security account.

On the first page you will observe a schedule of maturities and at the bottom of the page is an outline to be filled in showing the effect of a variation of ½ of 1%, a variation of 1%, and a variation of 1½% in the yield on bonds maturing according to the setup in the schedules. Reference to a yield book will enable any bank to compute its own position, to determine the variation in quoted market values which would result from a change in money rates of any given amount, and to compare the variations in the quoted price of its portfolio which would be brought about by changes in interest rates to the amount which it has available as a cushion in his capital account. The answers should be most illuminating.

The correspondent bank relationship in this country has been developed to a high degree of perfection along many lines, but in making use of our correspondents for service on our security portfolios we have, it seems to me, lamentable weaknesses. Historically, we do not have a long background, and the reason is that prior to the World War the security accounts of our banks were not as dominant a factor in the banks' operations as they are today. Then, subsequent to the World War many banks were engaged in the selling of securities, and they immediately took on the bias which is the natural trait of any merchandiser. Comprehensible skepticism existed as to the ability of a bank which was selling securities to advise a correspondent impartially.

In addition, and this seems to me to have been most important, we were to a large extent in a new field, and we did not give the attention to it which it merited. The security account was, and is, too much like a fifth wheel, but recently easy money has endured so long, bankers' acceptances and commercial paper have dwindled to such a small volume, and commercial loans have continued their shrinking to such a degree that treating the bond account as an integral part of the bank has come about through necessity. This background, then, was part and parcel of a very outstanding weakness in the correspondent bank relationship on security matters. It was, and is, not at all unusual for a bank to write its correspondent:

"Dear Blank:

"We have $50,000 to invest. What do you suggest?

"Very truly yours,"

Please remember in this instance our own institution both consults and is consulted and, accordingly, we feel we see both sides of the picture. Such a letter as that mentioned gives absolutely no basis on which any worthwhile suggestions or opinions can be rendered. It is highly essential, as I have endeavored to point out in the preceding discussion on capital structure, to know something of that very relationship, to know the nature of the deposits, to have some idea of the condition of the loan account, to know what function the banker expects the securities he has in mind to perform—that is, are they secondary reserves or are they bond investments? Are they to secure deposits? Are deposits seasonal? These and a multitude of other questions immediately register on the mind, and the resultant feeling on looking at such a letter is that of utter hopelessness.

The second great weakness in the correspondent bank relationship has been the lack of follow-up. Once a bank has bought a bond the security is oftentimes eligible for a pension before it is reviewed, and generally the pension is expensive. It is the obligation, and always must remain the obligation, of the purchasing bank to follow the securities in its own portfolio. The correspondent must not and cannot assume that duty where it is consulting with numerous banks. It would seem feasible for the officer handling the investments of a bank to have some clerk or his secretary write a form letter to his correspondent, when, as the result of a conversation with him, he might have purchased a specific bond, asking that correspondent if he still thought well of the bond and if he still held it in his own portfolio, and if not, what were the reasons for the change of opinion or for the sale.

This is far less trouble to the correspondent receiving the letter than is generally assumed, and is certainly far more satisfactory a procedure than for the correspondent to see the banker involved a year or 18 months later and have him ask, "What do you think of the XYZ 5s now?" when the correspondent may have changed his opinion or sold the bonds six months ago. The obligation, to repeat, is always on the purchasing bank to follow its own securities and it is my firm conviction, based on actual experience, that a frequent consultation between the investment officers of banks is productive of real results.

The current low yields and the great pressure for interest rates is likely to cause many of us to slur over the real and utterly irreconcilable difference between the secondary reserve and the bond account. Never was the difference more vital than it is today, and never was it more essential to realize that a security which can fit into the bond investment account, as such, will never fit into the secondary reserve account. The deposit structure of our commercial banking system is being inflated and there are many reasons why the secondary reserve account of banks today should be higher than they have been in their history.

This is not to say that every security in the bank should mature within two years—the maximum maturity of a secondary reserve account—and should have the high liquidity required by an issue which would qualify for the secondary reserve. Such a policy would be foolish, but it is at all times essential to recall that the function of the secondary reserve is to supply money quickly without an appreciable sacrifice in price when money is needed either because of seasonal fluctuation in deposits, increases in the demand for loans, withdrawals of deposits, or the oncoming of catastrophic conditions. The last-mentioned we do not hope for, but we must always be prepared for.

When the secondary reserve, by the sale or maturity of securities, makes these funds available, they, of course, go to replenish the primary reserve first, and out of that primary reserve account they flow into the channels indicated, but with the pressure for yield as great as it is, and with money bonds having been rising steadily for two years, there is a tendency to forget that such bonds do not necessarily qualify for holding in a secondary reserve account. They may be admirable for the bond account, but if there is a pernicious tendency in our banking system today, it is to hold too many bonds and too many long-term bonds in proportion to the capital structure.

I have endeavored to touch only four points—the matter of interest rates, the relationship of the security account to the capital structure, the question of the correspondent bank relationship, and the need for realizing the function of the secondary reserve. I have not attempted to discuss the difference between money bonds and credit bonds, the very vast difference in judging the merits and qualities of each, nor have I undertaken to set forth any standards for the purchase of any bonds. Those are technical matters, but if one were the best judge of bond values in the world, I still believe a knowledge of policies, principles and functions is an essential background without which the purchase of even the best bonds is futile.

Loan Policies and Personal Income Loans

By E. A. Mattison, Vice-President Bank of America N. T. & S. A., San Francisco, Calif.

The statement that banks need more loans is not apt to be challenged. That new lending fields are necessary to provide these additional loans is debated by some bankers. Those who question the necessity for new activities generally base their opinion on the assumption that a return to a normal demand for commercial credit will solve the problem. But, have not the borrowing needs of business enterprises changed to such an extent as to preclude a demand for commercial credit in the volume that was heretofore considered normal? Many leaders say "Yes," and that new fields of lending activities must be developed. It is from that view that I discuss this morning one new field that has already proved itself safe and sound, with great profit possibilities, and that is personal income loans—consumer credit. I refer in these remarks only to the direct extension of credit to the individual, not to the purchase of instalment contracts from dealers. The subject of dealer financing will require more time than is available this morning; however, I shall be glad to answer questions pertaining to dealer financing in the open discussion which is to follow.

Much has been written recently on the subject of banks participating in the extension of consumer credit. I will, therefore, review only briefly some of the reasons why consumer credit should be attractive to banks as a whole, and endeavor to outline certain fundamentals of policy which experience would indicate to be desirable:

First, there is the definite need for more loans, more income. From 1931 to 1935 bank deposits increased over 3 billion—loans decreased in the same period over 10 billion. Depositors' funds invested in loans and discounts as a consequence dropped from 68% to 41% at the end of last year.

Second, consumer credit is safe. The record of properly managed finance companies which have been extending this type of credit for nearly 20 years is without equal in the history of financial institutions. Experience has shown that the average individual respects his obligations. He will pay if he can, providing the terms of repayment are suited to his income.

Third, consumer credit is profitable. Even at rates greatly reduced from those charged by finance and loan companies, the business can be profitable. Using the Federal Housing Administration Title I rates of 5% discount, the business yields 9.7% on the money employed. After proper allowance for collection and detailed handling expense, an attractive yield can be shown on the investment.

Fourth, this business is available in volume. The public wants bank credit. Where it has been made available, Mr. Average Citizen has promptly availed himself of it because of the advantages over the ordinary avenues of personal credit.

With such a background, what kind of a lending policy should a bank establish? The policy must be broad in its scope of activity and should include (1) loans to finance the purchase of automobiles, (2) personal loans, and (3) loans to finance home improvements.

The policy must be aggressive and must be advertised extensively, because the public has to be educated to the fact that bank credit is readily obtainable. A spirit of friendly helpfulness must be instilled in the loaning officers. The public is not accustomed to borrow from banks. They do not think in terms of borrowing, but rather of buying on time. They have secured credit from sales-minded credit men, anxious to extend the accommodation. There must be flexibility in your plans, and a departmental group of specialists trained to handle the business. It should not be required that the borrower be a depositor of your bank. By far the majority will be in any event, and it provides an excellent means of attracting the accounts of those who are not. Local insurance agents should be recognized and their cooperation enlisted to secure business.

Local conditions must of necessity govern part of your policy, particularly as it pertains to rates and terms. The last thing there should be is competition among banks on rates and terms for this type of business. Compete on service—not terms. Potential volume naturally affects rate, and a standard is difficult to establish. A charge of 6% discount per annum is recommended except where large volume is available. Centralized or decentralized operations will also affect the rate necessity to reflect a profit. Strange as it may seem, the average person is more interested in the amount of his monthly payment than he is in the rate he is paying. This brings us to perhaps the most important part of the lending policy, and that it—terms—the number of months that loans will be extended for, and the amount of the down payment required.

The successful credit loss history of instalment financing was primarily built upon the extension of much shorter terms than are now available. Personal loans have resisted the tendency to a greater degree than any other type of instalment loan. The reason for this, I think, is clear. Such loans have been extended solely by banks or loan companies, and there has been no sales pressure from manufacturers or retailers to lengthen terms. In the case of automobiles, radios and household appliances, there has been a steady increasing of the time available on instalment purchases. Five-year terms are now not uncommon on household appliances, and three years on automobiles as against the old standard of 18 months. Such terms are, of course, not to be considered by banks financing instalment purchases.

In any event, it seems more important than ever for banks to assume their rightful place of leadership in credit and bring about a reversal of the present trend of terms in instalment financing. By your advertising and your customer relationship you will attract the sound, conservative buyer who is interested in what he pays in carrying charges, who does not want from 30% to 50% added to the cost of his merchandise in order to reduce his monthly payments to a minimum figure. Such purchasers are thoroughly satisfactory borrowers for banks, and it is their history that has proved beyond a doubt the safety of such credits. These borrowers will protect their equity in the merchandise even in times of stress.

So I say that a bank's lending policy on personal income loans should conform as closely as possible to the proven, established standards of sound credit. With such a policy, a department to extend consumer credit properly supervised and administered should be a profitable adjunct to any bank, large or small.

Account Analysis and Rates for Banking Services

By J. M. Sorensen, Vice-President Stephens National Bank, Fremont, Neb.

This is a very important question, and one in which all of us should be interested, and I trust that our discussion this morning will be helpful in working out a plan that will lead to uniformity and one in which all of us will be able to cooperate. Our banking institutions are primarily service stations producing services, which we sell to the public at a price which must be satisfactory and equitable both to the customers and the bank.

In considering this question we must decide if practices which have been followed in the past should be continued, or if experiences of recent years have proven that new methods should be adopted in order that banking may become safer and more useful in everyday business. It is regrettable, but nevertheless a fact, that only a few bankers have paid any attention to matters such as cost-finding. We spend millions of dollars each year on credit and investment analysis, finding out about other people's business, but we spend practically nothing analyzing our own. Uniformity of practices and charges are absolutely necessary but, in order to agree upon such uniformity, we must first realize that certain groups of institutions are on a common ground. We know of no better way of determining this than through a cost analysis in each of our institutions. Such an analysis would automatically classify our banks into three different groups, the small country bank, the middle-sized, and the large city institution. Each of these groups, after determining their cost, should then without difficulty be able to agree upon a uniform schedule of practices and charges.

Cost-finding would also assist banks by showing whether or not they were being efficiently operated as compared with other institutions and, in addition, it would give the banks a basis upon which to sell their services. It is hard to conceive of any salesman effectively selling his merchandise when he has no idea of its cost. The experience of bankers who have had their institutions analyzed and costs established has been that it is a great deal easier to explain these charges when they know exactly what it cost to produce them.

It is, of course, understood that investment in bank stock is made for the same purpose that money is invested in any other businesses. Banks are organized for profit which is entirely legitimate. With this understanding, it is only fair that we, as bankers, should recognize the fact that we have a great responsibility not only to our own investment but also to the public who entrust their funds to us. Banks must be profitable in order to be sound. They are the heart of the community and, unless we wish our community to suffer, we must keep our institutions sound.

In the beginning of banking, safekeeping of funds was practically the only service performed, but as the business developed a great many others were added. Activity and demand for services have increased many, many times.

People believe that because a few accounts in the bank are large and profitable, other accounts should be carried at a loss and services to them should be furnished free of charge. In the clothing business, when a suit of clothes is sold at a profit the merchant does not feel duty bound to give a pair of shoes to someone else. If a profit is made on one transaction it is understood that it properly belongs to the business. That is the purpose for which it is conducted. In exchanging banking services for balances carried in a checking account, we have been slow to recognize the fact that this exchange should be done in a business-like manner. The value of the account should be accurately determined, and if the cost of activity in the account plus a legitimate profit exceeds the earnings accrued on the amount of funds on deposit, a proper charge should be made against the customer. The principle involved is exactly the same as that found in the grocery store where produce is brought to the store to be used in exchange for goods. As an example, let us suppose that a farmer brings to the store 12 dozen eggs worth 12c. per dozen, or $1.44, and orders a sack of flour worth $2.00. The farmer does not except an even exchange. He expects to pay the difference, viz.: 56c. This same principle should be recognized in banking, and people should understand that the difference should be paid in one business just as well as it should in another, as business principles are the same no matter where they are found or in what kind of a business institution they occur.

At this point I can hear someone saying to himself: "Why does this principle not work both ways and, if the earnings on an account are greater than the cost of service rendered, why should the bank not be expected to pay the difference to the customer?" This is a legitimate question and is easily answered. When a customer brings money to the bank for deposit he merely asks that the funds be placed in safekeeping and that the bank stand steady to return them to him whenever and wherever he requires, and it must be admitted that this is a complete service in itself and all that can be expected by any depositor. If the bank is able to make a small earning on the funds and it chooses to permit the individual to offset a reasonable amount of activity against the earnings, that is the depositor's good fortune, but the bank cannot be expected and should not be asked to furnish more. I sincerely believe that the practice of furnishing these extra services in the past has been responsible for the grief we expecienced during the past few years. Bankers believed that they were duty bound to furnish all of these services regardless of what they cost, to offset the use of funds of their depositors. This practice made it necessary for banks to overwork their investments and losses resulted therefrom. A dollar is a good deal like a horse. It cannot stand to be overworked. If it is overworked it will lie down and die, and the same thing is true with a dollar.

As a class, we bankers can undoubtedly learn a great deal from concerns such as the American Telephone & Telegraph Co. Past experience has proven that investment in stock of their company has been most desirable. In 1874 the commercial telephone began in a very small way but bit by bit the business grew until today it is like the banking business: a great industry. Demand for its services have increased and, in order to successfully cope with this growth, scientific practices were employed. This company has been most efficient in its operation. Every cost, an item of expense, has been determined and is accurately distributed to its users and is charged for in proportion to the amount of services used. Banking service should be disposed of in the same manner. The system of account analysis should be as simple as possible, but it must be borne in mind that short cuts are liable to be expensive and inefficient, and in many cases unfair to both customer and bank.

Bankers who in the past few years have applied service charges have met with certain criticisms, the most common being: "I have never been charged before," or "the bank across the street (or in a neighboring town) does not make such a charge and I'll go there." These criticisms cannot be avoided until the public understands the fairness of the charges and, when they are based upon uniform costs, they will be accepted more readily by the customer and it will eliminate forever the practice of people shopping from bank to bank, seeking a place where free services can be obtained.

Many bankers have a horror of account analysis. This fear is unfounded as a very simple practice can be installed with little expense to the bank as employees do most of the work during spare moments and in between waiting on customers. The figures are accumulated by a very simple method, and distributed to the analysis sheet of the customer.

It seems as though every banker has in mind some certain charge which he feels is impossible to enforce, but all of them are not afraid of the same charge. In our State one of our bankers was converted to the service charge idea because of this very fact. He attended a meeting of nearly 100 bankers and very soon discoverd this peculiarity, but he also saw that every time a fear was expressed by one banker another one would get up and state that he had had absolutely no trouble with that specific charge. This convinced our banker friend of the fact that one charge could be applied just as easily as any other, and that these fears had no foundation. He is now a strong advocate of a complete service charge schedule.

It must be admitted that there are as many ideas of service charges and account analysis and methods of applying them as there are bankers, and every one of them insists on following his own idea. This is our main stumbling block, as lack of uniformity causes more dissatisfied customers than any other one thing.

Our recommendation and that of the Bank Management Commission is that cost finding is the first step toward uniformity. This does not need to scare you, as it does not require the services of an expensive expert. If, when you go home, you will locate Commercial Bank Management Booklet No. 15, "Manual for Determining Per Item Cost," issued by the Bank Management Commission of the American Bankers Association and proceed at once to determine the various costs in your institution, and then locate "Bulletin No. 69, Survey of Account Analysis," you will have laid the foundation for joining this program as far as your own institution is concerned. The next step will be to agree with other bankers in your class on a uniform schedule. The two booklets mentioned, costing 35c. to members of the Association, is the only expense necessary for finding your costs and determining into which class you belong, and if you are efficiently managing your institution as compared with other banks in your classification. I assure you that if you will make this cost analysis, following Booklet No. 15, you will receive many surprises, and it will be one of the most interesting experiences you have ever had and you will understand your bank as you never have before.

After your costs have been determined and you have aligned yourself with other banks of your size (within the group to which you belong) and a uniform schedule is established and the larger and more active accounts analyzed, you will have the satisfaction of feeling that your bank is cooperating with the most constructive movement for the good of banking that has been establishtd since the business of banking began. You and your customer may then have confidence because both of you will know that banking is in step with progress and that banking services will be dispensed in the same manner that you buy a pair of shoes, a suit of clothes or a box of candy. This is as it should be, because banking services are just as real, just as definite, and just as necessary as any piece of merchandise which can be purchased, the only difference being that you can see and feel the shoes or the clothes and taste the candy, whereas banking services cannot be seen or felt or eaten.

It is up to us to furnish to the customer the service he wants and needs, but like the clothing store or the candy shop we must show a profit sufficient to maintain this service.

Interest

By E. V. Krick, Vice-President American Trust Co., San Francisco, Calif.

The importance of this item in expense control is obvious. In the face of drastic rate reductions and the elimination of interest on demand deposits, as an expense item, it still holds second place. Our interest here in this subject is to give it our consideration for the purpose of improving the control, if possible.

At this particular time in our banking history, interest paid on borrowed money may be left out of our consideration. The presentation of this subject will, therefore, deal only with interest paid on time open accounts, certificates of deposit and savings accounts. Control of interest paid can be maintained in three ways; namely:

1. In setting rates.
2. In quoting rates.
3. In computing and crediting interest.

The question of setting rates is perhaps the major consideration but to have complete control all three must be utilized. However, items two and three may be disposed of briefly. The control in quoting rates is an internal problem with each bank. It is general practice, after rates have once been set, to furnish members of the staff with copy of the rate schedule. If the rates set are of such a character as to call for discretion the authority to quote such rates rests usually with designated senior officials.

The methods used in the control in computing and crediting interest vary somewhat. On this point, inquiry was made of a number of banks in various cities. The information obtained indicates that these banks use one or more of the following methods:

1. Interest is figured on each deposit and withdrawal daily and checked by a second indivudal or by a representative of the auditing department.

In some instances a control of interest figures is kept and at the end of the period the amount credited may be proved against the calculation of interest as shown by the interest control figure.

2. Semi-annual payments of $100 or more are checked by auditors in addition to the regular checking.

3. Outside firms are engaged to figure and check interest calculations.

4. Audit department spot checks, calculations and credits.

5. Run of old balances, interest, new balances on proof sheets is made and filed with auditing department for checking purposes.

6. On time open accounts and certificates of deposit, the auditing department is furnished with a card giving the interest arrangements with the customer. Periodically a check is made covering rates, calculations and credits.

It will be observed that some of the methods used do not give an absolute proof of the correctness of the interest figures while one method is quite exact. If the answers received represent a true average of all banks, then it appears that the majority of banks are satisfied, as to control, with a reasonable approximation depending on a check as against actual proof.

While control is necessary in quoting rates and in computing and crediting interest, as stated, the major control is exercised in setting rates. This is where sagacious management is given its opportunity.

Basically we must all agree, and the thinking public will be in accord, that interest paid on deposits must harmonize with investment and loan income. As interest income declines, interest paid must also decline but as a rule the latter is retarded somewhat. As rates rise, the same procedure will be experienced except that rates paid are apt to respond rather slowly.

We are all quite aware of the fact that during the past few years interest rates have been declining. How well has our control worked? The accompanying tables relate to all member banks of the Federal Reserve System and represent a comparison between 1933 and 1935. Table No. 1 on the face of it seems to give a favorable answer. Gross income in three years decreased $30,000,000. However, this figure includes other income which increased during the three year period. A breakdown indicates a decline in interest received of $65,000,000 while interest paid decreased $79,000,000. The trend of the two appears to be reasonably satisfactory. An analysis of the situation does not support the foregoing conclusion: (See Table II)*

The average return on loans and discounts declined from 4.68% to 4.16%, or .52 of 1%.

The average return on investments declined from 3.53% to 2.76%, or .77 of 1%.

The average return on combined loans and investments declined from 4.13% to 3.34%, or .79 of 1%.

This last substantial decline was occasioned by a drop in rates and a reduction of loans and was further increased by a percentage decrease of employed funds. A slight offset occurred because of a small percentage increase in investments (bonds). The change in the investment situation is evidenced by the following:

Percent of loans to deposits dropped from 48.2 to 33.6 or minus 14.6%

Percent of loans and investments to deposits dropped from 93.3 to 81.0 or minus 12.3%.

Percent of investments to deposits increased from 45.1 to 47.4 or plus 2.3%.

During this same period the average rate of interest paid on time deposits declined from 2.55% to 1.93% or minus .62 of 1%. At the foot of Table II it will be noted that

Total deposits increased	8,900 millions
Time deposits increased	1,100 millions
The difference between the two being an increase of demand deposits of	7,800 millions

For the purpose of this analysis, it is assumed that loans and investments were in proportion to the deposit lines (time and demand). Table III gives the investment rates per $100 deposits in 1935 as $2.71. Table I gives interest income in 1935 as $965,636,000 representing a drop of $65,000,000 from 1933. The increase in demand deposits amounting to 7,800 millions therefore contributed in 1935 (7,800 millions at $2.71) $211,300,000. Had it not been for this contribution, the decrease of interest income would have been $211,000,000 plus $65,000,000 or $276,000,000 as against a reduction in interest paid of $79,000,000. This latter figure includes the reduction of interest on demand and bank deposits amounting to $44,000,000. (See Table I.)

The analysis may be set forth in another way assuming again a distribution of loans and investments in proportion to the deposit lines.

In 1933 time deposits of 9,073 millions at $3.88 (See Table III) earned $352,032,000.

In 1935 time deposits of 10,181 millions at $2.71 (See Table III) earned $275,905,000.

A decrease of interest earnings amounting to $76,127,000.

Interest paid on time deposits amounted to:	1933	$231,765,000
	1935	196,490,000
A decrease of		$35,275,000

This analysis reflects that the reduction in income from time deposits has been twice as much as the reduction of interest paid. Three factors particularly should be kept in mind when considering these figures: One, loans on real estate have not declined as rapidly as commercial loans. See Table II). Two, all funds representing time deposits are not employed in loans and investments. Three, demand deposits have increased much more rapidly than time deposits (See Table II).

From the foregoing it is evident that as a country our banking systems are organized in such a manner as to make it impossilbe to obtain all the statistical information necessary to establish an intelligent control of interest paid. Table III is a very good example of the incompleteness of available information. While the information is valuable as far as it goes, it is not sufficiently complete. Statistical information giving:

1. Amount of time funds invested in loans;
2. Income therefrom;
3. Amount of time funds invested in securities;
4. Income therefrom;
5. Cost of handling time funds,

would go a long way in aiding the establishment of a proper control.

The result is that an actual control has not been developed. With, I believe, very rare exceptions, interest rates have been set without any comprehensive survey having been made. Rates generally have been reduced after considering two main factors:

1. Net profits were not sufficient to maintain higher rates.
2. New funds could not be employed at current rates to justify maintaining a higher interest paid rate.

It may be argued that these two factors are sufficient for after all if you "can't earn it you can't pay it." If it is desirable to control interest paid in a comprehensive manner then I believe some program should be laid out that would bring about the desired results.

There are factors to be considered other than mathematical ones. In the replies received to the questionnaire sent out, the information indicated a wide range of thought regarding savings or thrift funds. One bank considers all savings accounts in the category of short time funds or demand deposits and pays interest accordingly. Another bank draws a very distinct line between old deposits and new—paying interest on the old and none on the new. Many other banks place a maximum on the amount accepted and either refuse additional deposits or reduce the rate on excess deposits. Still other banks question the fairness of penalizing an old time customer who carries the maximum balance and wishes to deposit an additional amount at reduced rate on the additional deposit and yet accepts from a new depositor at the regular rate the same amount accepted from an old depositor at the penalized rate. There are those also who question the fairness of reducing the rate on all savings accounts because the normal deposit line has been diluted with new funds to the point that the average investment return has been materially reduced. These are some of the problems that are evident when fixing the rate.

If any lasting value is to attach to a discussion of this kind, then some constructive ideas should result. As a suggestion, I offer the following and hope that the discussion may result in developing a real constructive plan. First of all, a financial program must be set up; that is, determine upon the percent of deposits that should be carried in the various classifications of assets. With this done, the following factors must be given consideration:

1. Return from sound conversion of deposit funds.
2. Operating expense (cost of handling deposits and conversion of funds).
3. Desired profit on deposits before losses.
4. Rate of interest to be paid (1—[2+3]=4).

Table IV illustrates the plan. The rates and figures are arbitrary ones. A careful study of this whole question, I believe, will result in the conclusion that if a control is to be established based on facts resulting from experience then interest-bearing accounts together with related assets must be dealt with by themselves.

I suggest further than each state association undertake a survey or study to determine rate or rates of interest that banks would be justified in paying on the various types of funds. This study would necessarily take into consideration the question of financial programs for banks, the cost of operations, and the desired profit. In addition to these things, consideration should be given to practical phases of customer relationship, the long time trend of money rates, long time deposits of a permanent nature as against short time; genuine thrift accounts as against investment accounts. In trying out such a plan some states might find one survey for the entire state would be sufficient while others would find it necessary to make two or more studies depending upon trade areas, investment possibilities, local interest rates on loans, loss experience or local conditions.

Many of the state associations have recently appointed research committees. It would seem quite logical, that if an intelligent control of interest paid is to be developed, the machinery now available could be used.

[Note—*All tables referred to above are omitted.—*Ed.*]

Modern Mechanical Equipment as a Factor in Operating Efficiency and Economy

By Darrel G. Ensign, Assistant Cashier Utah State National Bank, Salt Lake City, Utah

It is not my purpose this morning to attempt to tell you something new, but I do hope to call to your current thinking a few things you already know.

There are many in this country who believe that modern machinery is responsible for many of our ills. As to this I shall only take time to read from a recent editorial in one of the Salt Lake City newspapers:

"The 50th anniversary this year of the installation of the first linotype machine comes at a time when the world is agitated over the displacement of men by mechanical processes. Doleful prophecies made by printers that this machine spelled their doom have not been fulfilled. The involuntary expansion of printing, brought about by this invention, has even protected the handsetters of type.

"Although the linotype machine has tolled the knell of handset type in the newspaper and large publishing houses, the lowering of prices in books and the immense expansion of newspaper material has put many more thousands to work than were formerly employed. The invention caused temporary displacement of some labor, but its net effect was to increase employment.

"The same thing is true in respect to other inventions in this modern world."

We all know that machinery is a friend of labor, as well as to capital and management. The greatest value has been proved to accrue to labor.

We owe it to our stockholders, depositors, officers and employees, and the public in general to decrease costs of banking as much as possible, and in keeping with sound principles. With income so drastically reduced in recent years, banks are forced to reduce operating costs. Let us be like many of our more progressive depositors who are continually reviewing their accounting procedures for the purpose of making still further economies. In this process of reducing costs we all know that modern mechanical equipment plays a very important part. We know that modern machine methods may be applied to bank routine with the same measure of success that such methods have produced in the factory. A person in charge of internal bank operations today must, in order to be most valuable to his bank, be fairly well acquainted with what industry has to offer in the form of machines and equipment.

The maximum value of mechanical equipment is realized through a division of labor. This simply means that each employee should have his work program so outlined that his efforts are concentrated on as few tasks as possible—in other words, he should not be required to turn from one task to another too often during the day. This simplification of an employee's work program to a few tasks results in a high degree of skill because of constant repetition. Employees are human beings, so it naturally follows that in turning from one task to another much time is lost, concentration lags, and the rhythm which is so essential to speed and accuracy suffers. It is relatively easy to thing for the large banks to group work for machine performance. It is easy to believe that the largest banks refrain from carrying the division of labor to as fine a point as they could, because they do not want to make mere machines of their employees. It is the small banks which have the real problem in applying this principle. I do not mean that these small banks cannot group work for machine performance, they can. To the medium sized and small banks I say, group your work as much as possible, but for the sake of educating the employees, and for auditing purposes, it is well to periodically transfer employees from one position to another. It is this practice which permits, in addition to normal turnover and promotions, the large banks to carry the division of labor to a fine point without injury to the employees in any way. In attempting to group your work I recommend the following procedure:

1. List the name of each employee at the head of a sheet of paper, using a separate sheet for each person. List under the name of each employee the things he does in the order he does them, as well as the approximate length of time each task takes.
2. Make a list of all the operations of the bank—not as to operators, but as to functions.
3. With the purpose in mind of eliminating too much switching of tasks for each employee, and with the sheet of each employee before you, list opposite each function (procedure 2) the names of employees who should serve in that function. Of course, in so matching employees with the functions, due consideration must be given to such as the adaptability of the employee for that particular work, &c.
4. From this latter list a work program can be set up for each employee. (Do not make the mistake of thinking you know your organization so well that it is not necessary for you to write it down on paper.)

In planning each employee's routine, as far as is practicable so arrange his work that he completes one operation before commencing another. Remember, that a tremendous waste follows the continuous changing from one task to another. Quite a number of banks have grouped their bookkeeping operations for machine performance to advantage by installing what we all know as single posting. With this system, posting machine use is more than cut in half, paper costs are reduced, and many banks report considerable savings in salaries. You are too well acquainted with this system for me to take the time here to explain it, but I might add that this system provides sufficient check against posting to the wrong account, against posting the wrong amount, and against picking-up the wrong balance.

As important as is mechanical equipment as a factor in operating efficiency and economy, I am firmly convinced that this factor is in large measure lost without intelligent planning and coordinating of operations. In other works, the effectiveness of machine operation is dependent upon internal bank management. You cannot any more obtain efficiency and economy in operations just by installing a machine that you can otherwise have good banks by just passing a law. My observations tell me that the greatest single need in internal bank operation today is some one in each bank whose duty it is to coordinate activities—some one whose responsibility it is to see the whole picture, in contrast to the department head who sees only his part of the whole. I think Mr. H. N. Stronck must have had this in mind when he asked in his book "Bank Management":

"Why do some banks still use the fixed-position plan of employees in departmental operations, with a resultant low time-utilization factor, as contrasted with the "shifting-crew" principle with a high time-utilization factor?"

The lack of coordination is evidenced in an uneven flow of work. If B's work is of such a nature that he cannot get started until A completes a certain phase of the process, then B is retarded in his work if A keeps him waiting. I like to think of such an interruption in the flow of work as the "neck of a bottle"—which *must* be expanded if the personnel and equipment are to function effectively. The "neck" may be expanded by the shifting-crew principle or otherwise, but it *must* be made larger.

In a number of banks I have noticed that the incoming clearings are the "neck of a bottle." It is normal in Clearing House cities that the incoming clearings must be sorted and proved quickly, that bookkeeping and other departments may have time to perform their function before the go-back hour for returning checks. This is a condition to which the shifting-crew principle can be applied to advantage—as soon as the incoming clearings are received, have a sufficient number of employees from various departments assigned to this task. It will be found that by shifting help at the right time much good will result in the flow of work—the "neck of the bottle" will be widened. It is desirable to have employees conscious of the fact that when the clearings arrive they must immediately stop what they are doing to take care of them. Let them know the reason why and they will cooperate, otherwise it will be found that some employees at times will defer this clearing work while they finish work for which no one is depending on them completing by a certain time. Care must be taken to see that these clearings are handled expeditiously or a stoppage will result in the flow of work, which will necessitate a larger bookkeeping force because of the lessened time between actual receipt of the items, and the go-back hour.

It is a common thing to find banks who do not give proper consideration to the handling of "proof" or "batch" department peak periods which occur daily. Items are held *altogether too long* in this department, with the result that more persons are required to handle the clearings, on us, transits, &c., after they *are* received from the proof department. In other words, this interruption in the flow of work does not permit the other departments' personnel and equipment to produce what they would otherwise be capable of producing. The "neck" must be made larger, whether it be by changing the system, improving the machinery, shifting help as between departments, or otherwise.

These simple illustrations, which attempt to demonstrate where it is common to find an uneven flow of work, only typify like conditions which may be found in other departments throughout the bank. Employees and machinery are dependent upon an even flow of work in order to perform to their maximum capacity.

The lack of coordination is evidenced in many ways. At times we see banks adding new departments or employing additional workmen to handle a new service, or a new type of work caused by new laws, service charges, &c. A coordinator will very often find it possible to merge these additional requirements into the present set-up with less running expense than if set up separately. For instance, when the problem of service charges became necessary, the first thought was to set up a distinct operation for this purpose. The securing of the "float" for each business account seemed to be an almost impossible task, especially since but few deposit tickets describe their items, so an extra employee or set of employees are hired to handle service charges. The point is—if the operations involving service charges are not made a part of the natural flow of work the cost of securing the needed information is expensive, and to a large extent offsets the objective you are working for—net profits. In other words, it is important in such a case as this to have someone in the bank fit this function in with the present set-up as far as is possible. Time will not permit me to outline here a system for securing the "float" with the regular routine, but I have outlined a procedure for distribution to any who wish to secure a copy after this meeting has adjourned.

We know that management has taken the agents of production, and with constantly increasing skill has worked them together to produce marvelous results, and at unbelievably low costs. In every bank within my experience that has high pperating costs, I find the trouble not to be so much a lack of proper equipment, not incompetent labor, but a deficiency in management. Management then is the key to the proper use of machinery, and upon it also depends the amount of production per employee. Good internal bank management will reflect itself in proper co-ordinating of activities.

Economies in Buying Supplies

By William C. Tompkins, Auditor First National Bank, St. Louis, Mo.

The question "What constitutes economy" in the purchase of supplies and services for a bank is considerably different from that in almost any other business institution. The reason for this lies in the fact that banks have business relationships with almost every kind of business. Consequently, to define what in itself constitutes a real economy one must be able to analyze the whole situation as it concerns his particular bank, taking into consideration balances, goodwill, &c.

The complexity of this problem is directly proportionate to the size of the bank. As a result, in the purchase of supplies and services in a bank, and especially in the larger bank, there are involved many questions of policy which prevent a mere dollar and cents approach to the problem. What may superficially appear as an economy may be rank extravagance when viewed from the standpoint of bank policy and bank relations. The mere saving of a few dollars in the purchase of an individual item may not in itself be an economy when all related factors are properly considered. Because of this situation, purchases in a bank should be under the supervision of a senior executive officer who is in a position to give proper consideration to the many and varied delicate questions of policy that are frequently involved in the purchase of bank supplies and services.

Where an institution purchases supplies in such quantities that it is advisable to designate some employee to handle details in this connection, he should be trained to view the problem from the standpoint of bank relations and discuss it with the senior officer whenever the question of bank policy is involved. This employee should not be the final authority but should function primarily from the standpoint of detail and operation. Where it is impractical to have some one employee for this purpose it is usually advisable to place the responsibility on some junior officer who can attend to the purchasing of necessary supplies.

The responsibility for the purchase of new equipment should rest with more than one officer, preferably two, and such officers should be those who are familiar with the entire internal operation of the institution, and in most cases responsible for such operation.

In handling a subject as that assigned to the speaker, it must be borne in mind that in talking before a group such as is here today, one cannot lay down hard and fast rules that will apply to all alike. It must also be borne in mind that conditions surrounding each individual case must be taken into consideration. There is one principle, however, which is fundamental in securing economy in purchases and this is that supplies be purchased by the institution rather than be sold to it. In making such a statement it is not intended to infer that salesmen or saleswomen are not to be given a courteous hearing. In this connection there often exist other factors that present difficulties. In many instances there are officers and directors of an institution who have an outside interest in manufacturing or retail stores handling supplies of use to the institution. This interest should be given only a proper influence in the placing of orders, and should never be permitted to work to the disadvantage of the institution itself merely because of an inside track. There may, of course, be occasional exceptions to this situation and they should be handled with proper regard to sound bank policy in the light of circumstances existing in each particular case.

In the purchase of insurance, which is one of the largest items bought by most institutions, and probably the most difficult to handle, the policies should be arranged for most advantageous coverage at the least possible cost to be consistent with the practical economies of the institution. Many of our larger banks have on their books balances from insurances companies, insurance brokers, agents and employees of insurance companies, running into many millions of dollars. While it is impossible to divide the limited amount of insurance that a bank has to give among all of those maintaining balances with it, it is essential that as far as possible reciprocity be practiced, i. e., to the extent that insurance is placed with those carrying balances rather than with particular friends or relatives of officers of the institution.

As an example—an officer in a Middle Western bank spent considerable time over a period of approximately two years listening to and conferring with representatives of various organizations who had impressed him with the idea that they could, by the selection of preferred risks, carry a portion of the insurance of the institution at a great saving. Definite figures after an exhaustive analysis disclosed that the saving would amount to approximately $1,275 a year. For an institution spending each year many times the amount of said saving for the purpose of creating goodwill, it can readily be seen that the institution, having on its books balances from insurance companies, agents, brokers, &c., amounting to several million dollars, could ill afford to place its insurance with the companies having no business relations with it for the purpose of saving the paltry amount mentioned, particularly so as several times the amount of the saving was expended for the purpose of creating goodwill and further the income from balances maintained by other companies far exceeded the saving suggested.

Frequently men of influence in various communities are made local directors of various companies, receiving a compensating fee for their services. Ordinarily this procedure, it can be readily seen, is for the purpose of influencing business. Interests of this kind should be given proper consideration, but should not be permitted to work to the disadvantage of any bank in dealing with said companies.

The purchase of legal services calls for a somewhat similar approach to that of insurance, in that such services should be secured without bias toward relatives, ownership or directorship in the institution. In recent years banks have of necessity required highly competent legal advice to an unusual degree, and under such circumstances it is consistent with economy that these services be reasonable as to price, from the standpoint of both competence and lack of bias. Nothing is so expensive as poor legal advice. It is especially important in this connection that the advice of the attorney be in no way influenced by the known desires on the part of a bank's officials with respect to his opinion. There are many instances of attorneys who, in their desire to please management, have had their opinions influenced by the known desires of the officials in charge of the institution. Obviously every institution desires an open and unprejudiced opinion carefully considered from an unbiased legal standpoint. Only legal services of this kind result in ultimate economy.

While it is true that bank policy should take into consideration balances of customers in the making of purchases of supplies or services, this does not imply that purchases should be made from any one who agrees to place a deposit with the institution on receipt of an order. The policy in this connection must be tempered with sound judgment from all points of view. A good plan for cases of this kind is to let it be definitely known that the institution always tries to reciprocate in making its purchases with those who maintain balances with it, and that if the company in question wishes to open an account and maintain a balance it will be given due consideration in the general course of business whenever future purchases in its line are being made. As a general rule it is a grave mistake to purchase supplies merely to secure a new bank account.

Purchases made at any time from friends or customers of the institution should be made at the then prevailing prices and not at a premium. When making such purchases from customers the one in charge must be alert to the existing market and should obtain competitive quotations so that no premium may be tacked on by a dealer who considers himself at advantage because of being a customer.

There are a great many details in connection with the purchase of supplies that are essential, but as volumes have been written on this subject there is no need for repetition at this time. It is just as essential to see that supplies are not wasted, after being purchased, as it is to endeavor to purchase to the best advantage. Proper storage facilities for supplies should be maintained and records kept of deliveries to the various departments. From time to time there should be a check among the various departments to see that certain ones are not over-ordering from the supply room, and that supplies are not being wasted in tellers' cages and departments themselves. Records (preferably on cards) should be maintained covering each form, item or machine purchased. These records should be maintained for a period of years so that at the time of reorder it can readily be ascertained as to quantities previously purchased, length of time in which they were consumed and costs at the time the purchases were made.

One making purchases should, of course, be familiar with the routine operation of the bank and have a real knowledge of the necessity of the supplies ordered so that forms of which only a limited number are used daily will not be bought in large quantities, and those used in large quantities be bought on a hand-to-mouth basis.

The remark has frequently been made by officers in smaller banks that they cannot waste their time in saving $1.00 to $2.00 in the purchase of deposit tickets as they can employ this time to better advantage in more useful pursuits. This is quite true, but continual saving in the course of a year's time really amounts to something, and the best interests of the institution must always be borne in mind.

Frequently supplies may be purchased in quantities that will bring a considerable discount. This does not mean that a great many of one particular form should be ordered, but it may be possible that two or three forms can be ordered to be run by the printer at the same time, thereby making possible a quantity discount. This requires a careful check and analysis of actual and potential requirements when such opportunities are offered.

The one making purchases should have knowledge of the sizes of paper so that forms may be prepared whenever practical in such size as to work out with the least waste. This is particularly true in purchasing counter checks and similar items. When new forms are under consideration the one making the purchases should be consulted so that his experience in working out the size of form may be made use of, as his knowledge of the different kinds, makes and sizes of paper is very valuable in such instances. Also in the case of such forms as need to be filed for reference his knowledge of the size and shapes of files is helpful.

Due to the many changes that are taking place in the banking business it does not appear wise to purchase supplies in too large quantities. This is particularly true of the forms of which only a few are used each day. In one institution where the purchasing of supplies was handled by an officer who had only a limited time to attend to the purchases, and who in reality only ordered as requested by employees, it was found that one particular form of which only one was used each business day had been purchased in quantities of 5,000. Due to changes the form had been reordered on several occasions with the result that they had on hand obsolete forms of six or eight different lots in large quantities.

Many institutions feel that it is economical to go into the printing business and this may be correct where the individual institution does not have accounts of printing companies. A sign in front of a counter in a hamburger stand adjacent to a bank is a good example of the policy of sound reciprocation. It stated that the bank and the hamburger stand had a mutual agreement whereby the bank was to refrain from selling hamburgers and the hamburger stand was to refrain from cashing checks. This might very conceivably be the proper attitude for the bank to adopt toward the printing function. An analysis of the actual cost of home printing as compared with the cost if purchased outside has shown that in many instances the cost is really greater to operate a printing establishment in the bank—not only did the supplies actually cost more than when purchased outside, but the reciprocal relations with firms in the printing business would have added to the profit account of the institution. There are exceptions to this rule we realize. In the larger institutions probably a limited amount of equipment, to take care only of forms for confidential purposes, &c., when it is preferred that these forms not be in the hands of outsiders, is a good arrangement.

May we again stress the importance of the one making purchases in the institution being trained in the institution and familiar with the interior operation thereof, particularly as to the use of various forms and the necessity of the maintenance of them for records. Certain forms are used only once and their retention as records is only for a limited period. These may be made on cheaper paper at a considerable saving. On the other hand, there are various records that should be maintained for a period of many years and the one making purchases, realizing this need, should purchase a quality of paper that fits the situation. In many cases losses have been incurred through inability to produce proper records, due to deterioration, and such losses could have been avoided if such forms had been prepared on a better quality of paper. It can readily be seen that the small apparent economy in the original purchase in reality was no economy.

Stationery that reaches the hands of the public should be of such quality as to conform to the dignity of the institution. Practicing too strict economy purchasing forms and stationery on too cheap paper is often poor economy from the standpoint of public relations. Those shaping the policies should give questions of this kind consideration so that the supplies used for the purpose stated will, in their opinion, be such as to properly represent the institution.

Frequently purchasing agents are called upon by representatives of firms which are making special drives disposing of certain stocks on hand, &c. and the purchaser is requested to order immediately to profit by the special prices. There is danger here that the purchaser will be stampeded. Experience over a period of years will no doubt show that the best answer to "hurry up" requests of this kind in nine cases out of ten is "No."

Every purchaser whether he be an officer or employee of the institution should be willing to listen to salesmen or saleswomen who pay them the honor of a visit. By listing to people who call on you with the desire to make sales, one may acquire knowledge of new forms, systems and appliances which is invaluable to the institution which he represents.

In closing may we say that if it were possible to chart the activities of purchasing agents our idea is that the best showing would be made in such cases where the savings line paralleled the reciprocity line most closely.

CONSTRUCTIVE CUSTOMER RELATIONS CLINIC

AMERICAN BANKERS' ASSOCIATION

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Knowing the Facts

By Harry R. Smith, Assistant Vice-President of the Bank of America N. T. & S. A., San Francisco, Calif.

From whatever angle you approach the problem of public relations in banking, it soon becomes apparent that one of the most vital forces in molding public opinion is the personal contact between the banker himself and the public. These contacts occur continually, not only in the banking rooms of the Nation and over the telephone, but in social life, luncheon clubs, locker rooms and smoking cars.

In every one of these contacts we are, often perhaps unknowingly, molding public opinion regarding banking and bankers. The impression that we give naturally depends on us. Most bank customers get their impressions of banking from their contact with junior officers, tellers and other employees because there are more of them, and because the customers contact them more frequently.

Gradually the public is being disabused of the impression that bankers are haughty and disdainful, because we have been insisting that our contact men treat all customers with courtesy and consideration, and because senior bankers have begun to remove the barriers which in former years discoraged personal contact with the general run of depositors. The large problem still remains, however, that of disabusing the minds of the public of the hazy or erroneous ideas they have regarding the nature and function of banking. This problem can be solved in the main by what appears to be the simple process of giving the public the facts.

Before we can give the facts to the public, however, we must first be sure that we know the facts; and that every contact man in the bank knows the facts; and that means every single employee from the President to the messenger. Naturally we cannot expect that our junior employees should be able to discuss the major problems of banking, but they should be informed about the routine functions of banking, at least sufficiently to avoid the mistake of giving out misinformation.

The senior clerks and junior officers should be well informed regarding banking and economics so that they may take advantage of the countless opportunities for public education which arise both inside and outside the bank. How are we to know the facts and to see that our employees know the facts? A large part of the answer may be found in the educational program of the American Institute of Banking.

Many of you were, at one time, students in the A. I. B., and some of you still are. But I wonder how many realize the present scope of its curriculum and the extent of its activties. The Institute, through its 220 chapters and its correspondence section, has well over 50,000 members, and last year over 39,000 were enrolled in its courses. The study covers, first, the functions and mechanics of banking and the differences between banks and other institutions such as building and loan associations and credit unions. This is followed by the principles of commercial law and a study of the law of negotiable instruments.

The work in economics is being expanded and a new and more practical approach is being given to this important subject. The study of money and banking gives an excellent background in the theory of banking and in the various steps by which banking has developed to its present form and magnitude.

The Institute teaches accounting and the analysis and interpretation of balance sheets and operating statements and the practical work of a credit department. The courses in bank management covers all phases of bank operation, but from the management rather than the operating viewpoint. These courses are followed by studies in corporation finance and investments and trust business.

If every bank officer and employee in the Nation would study these subjects in the American Institute of Banking he would know the facts. It is not enough, however, merely to train the employees and junior officers in the time-tested principles and practice of banking. The conditions surrounding banking and the laws and regulations under which banks must operate are undergoing constant change. The Institute provides the means of keeping abreast of the times by offering, as the occasion demands, additional courses for the graduates and bank officers, e.g., current legislative and banking problems, current monetary problems and studies in recent Banking Acts. To this phase of Institute work, practically every bank officer owes his support, in my opinion, either as a student, as an instructor or at least as a consultant.

At this point I should like to digress for a moment from the main stream of thought. To know the facts is important, but of almost equal importance is to know how to transmit those facts to others. Through its public speaking courses and contests, and through its program of debating, the Institute is training bank men and women to present the facts in a clear, concise and convincing manner. Bankers have a story to tell, but for years they have for the most art been silent.

It is the Institute training in public speaking and debate that has made it possible for Institute men and women to carry the message of banking into the schools, the colleges, the civic clubs and over the radio, as our contribution to the public education program of the American Bankers Association.

Now to return to the business of knowing the facts. Beyond the work of the chapters of the Institute is the Graduate School of Banking, now in its second year at Rutgers University. Designed to give intensive training to men who are now charged with executive responsibility, the graduate school might well be called the capstone of the American Institute of Banking. Last June 400 bank officers assembled at Rutgers from 40 States of the Union and from Puerto Rico. This student body included bank examiners, bank Presidents, Vice-Presidents, Cashiers and other officers from country banks and the largest metropolitan banks. For two weeks these students studied bank administration, trust administration, investments, advanced economics and banking law under a faculty of eminent professors, practical bankers and government officers. In addition to attending the resident sessions these students are following a rigorous program of extension work which will equip them to discharge more wisely their public trust as bankers.

If anything will do so, the American Institute of Banking and the Graduate School of Banking will develop in this country a larger group of bankers for the future who can be called professional. Men who can speak with the combined authority of training and experience; men with sound opinions regarding the destiny of private banking; men with the ability to express these opinions. Men whose words will be heeded in the legislative halls, in the public forum, in the press and in the literature of fiscal economics.

Such undertakings as the American Institute of Banking and the Graduate School of Banking necessarily entail a considerable outlay of money and time. We appreciate greatly the generous financial support of the American Bankers Association and of the thousands of bankers who give financial aid to the 220 chapters of the Institute. The fact that you continue this aid is evidence of your high regard for the work of the American Institute of Banking. Without this financial aid our task would be much more difficult.

But there is another type of support, without which our task would be almost impossible. I refer to the fine moral support and the genuine interest displayed by the senior bankers of the Nation. Therefore, I appeal to you to continue and, if possible, to increase your personal participation in the work of the Institute and your personal interest in the educational progress of your staff. A personal word of encouragement will offer more to promote the training of these young men and women than the most generous offer of financial aid if the personal interest is lacking or is unexpressed.

Your personal interest, therefore, will assure that the employees of yuor bank will know the facts and thus contribute toward the development of the sound relationship with the public toward which we are striving.

Women Customers

By Helen Kavanaugh, Wells Fargo Bank & Union Trust Co., San Francisco, Calif.

For centuries women were considered inferior to men. And, of course, they were, due to the fact that they were denied the advantages and privileges of men. Man monopolized the educational and athletic fields, and then with his trained mental equipment and super-strength, became the leader—the ruling power in the world.

But what a change in the picture since women have been allowed to develop. Figures on file at the Mayo Clinic divulge the fact that woman, through her greater resistance to disease, is now the stronger of the two, and has at least a four-year longer period of life—despite the fact that it takes a woman 10 years longer to reach the age of forty. In an educational way she has not only crept up on man but indicates that she will surpass him. In many universities there are more women students enrolled than men. This is true of our own University of California. In the last decade the female of the species has gained 500,000 in number over the male. If they continue to increase at this rate they will not only have a monopoly on education, but will also control the vote of this country.

While woman has been improving physically and advancing mentally, she has also been flourishing financially. Due to various changes in our economic condition, the financial power of the women of America is daily becoming more important. At the present time, according to figures contained in the magazine "Nation's Business" for September, 1935, and several other financial magazines, they legally own 60% of the dollars and have the spending of 85% of the earned income of this country. Sixty-five per cent. of the savings accounts are in their names; they are beneficiaries of 80% of life insurance outstanding; receive 70% of estates left by men, and 64% of estates left by other women. They own the greater percentage of stock in many of the largest companies, too numerous to mention, which gives them, in the final analysis, control of practically three-quarters of America's wealth. The women themselves are not aware of the important stake that they hold in the financial set-up, and certainly the men, especially bankers, are not aware of it, because if they were they would pay more attention to them.

When you take into consideration that it has been only a period of about a hundred years, perhaps, since woman has been out of her enforced seclusion, and compare that hundred years with all the favorable circumstances that have surrounded the growth of man for thousands of years, you are brought to the realization that woman is to be seriously considered financially and, if she continues to prosper and increase in number as she has in the last decade, is it not possible that in time to come she will be the bankers' only source of revenue? That may sound far-fetched and impossible, but who would have been bold enough 150 years ago to prophesy that women in the space of 100 years would travel as far as they have, and gather unto themselves three-quarters of the wealth of this rich, fertile country of ours?

Insurance companies have never overlooked the importance of a woman as a business prospect. They have definitely concentrated upon her as their records indicate. The figures of one of the largest companies in the world (name withheld by request) disclose the fact that in the last five years their annuity business has increased 535%, and 73% of this business was with women. How did this company receive such a large percentage of women's business? By spending time to educate them regarding the value of an annuity as an investment.

With a few exceptions, bankers as a whole have never tried to educate or inform women regarding the various banking services. Upon interviewing a number of bank executives and men whose duty it is to solicit new business, the fact was brought out that many women made use of only the savings and checking accounts. They either do not know about the complex and intricate functions of a trust account or investment department services, or they are bewildered by them.

During these interviews I heard many adjectives applied to my sex; no superlatives, just powerful, descriptive adjectives, such as women are temperamental to do business with, taciturn about their affairs, evasive, inconsistent, and most of all suspicious—very suuspicious. For instance, a woman may wish to create a trust, a living trust, and when she finds that she is required to assign and convey her property and assets over to the bank, she suspects that the bank is resorting to subterfuge to gain possession of her wealth. To use the words of one executive, "'for the average woman the trust department has always been enveloped in a cloud of mystery." That is why they are suspicions. It is only human nature to fear and be suspicious of that which we do not understand—that which we know nothing about—and it is only by educating women that you will be able to help them overcome this feeling.

Few women are aware of the advantages of investing through a bank. They do not know that a bank has nothing in syndicate, nothing to sell or unload, nor do they know that they have access to the services of the Security Analysis Department.

Bankers are a civic minded group, pride themselves on the welfare, happiness and intellectual standing of their community. Why wouldn't a program of education on banking services for women be a great civic service? Banks could do this either as units or in groups, and in so doing would accomplish two things—a service to their fellow citizens, and an increase in their own business, the ultimate desire of every banker.

There are many ways in which this educational program could be handled:

1. By the proper type of advertising. Because street car advertising is forced upon one's vision, it carries more of an appeal and is read by many more people than any other form of printed matter. However, the type used at present regarding trusts, carries only an appeal to married men with responsibilities. There will be a picture of a distracted widow clutching her children to her, with the words alongside the picture—A trust fund will prevent this, or something similar. If unaware of the functions of a trust, a woman would be led to believe that in order to benefit from a trust, one must be a widow with little children.

2. Then there is the radio. People will listen when they are too indolent to read, too thoughtless to inquire. A program arranged in the form of a duologue. A duologue is a relief from the monotony of a single voice and enables the advertiser to put into the mouths of the performers, the questions the audience would be likely to raise, much in the manner of informal conversation. If the lines are cleverly written, and expertly handled by competent performers, the duologue can retain much of the impulsiveness and spontaneity of informal conversation.

3. The third way, and unquestionably the best, because the direct spoken word is the most powerful of all, is by personal contact and lecturing to them in groups. Almost every woman belongs to some club or society, and these clubs are usually eager to have speakers address them.

The American Institute of Banking, sensitive to the slightest change in our financial world, and an outstanding exponent in the field of adult education, whether for the clerk, the senior banker, for whom they conduct the Graduate School of Banking, or the uninformed public, is prepared to supply speakers for the education of women regarding banking services. In almost every large chapter in the United States there is a public speaking club with qualified speakers ready to do this work. In San Francisco Chapter we have two clubs, one for the men and one for the women. It is about the women's club that I would like to tell you.

The club is called the Hypatians, after the brilliant woman scholar and philosopher of Alexandria, who was stoned to death by her fellow men because they thought she knew too much. At the present time there are 23 active members representing, with one exception, every bank in San Francisco. These girls are ready with a reasonable amount of notice to go out and address club groups on banking services. Several are already doing this very thing. The girl can either prepare her own paper and submit it to her bank for approval, or the bank can supply her with the material. By contacting clubs and letting them know that speakers are available, it would be a very easy matter to arouse and awaken women to the realization that a bank has many different types of services to offer. A woman is well qualified to do this type of banking missionary work, because in place of the technical and academic language of her brother banker, she talks plainly and simply; therefore, she does not confuse or perplex. A girl with charm and personality who has had faith and confidence enough in her organization to remain with it for a period of years would naturally have her spirit so imbued with the policy, background and ideals of it that she would be able to engender in her listeners the faith and confidence that she herself has for her bank. Personnel directors should endeavor to employ girls who with the proper training would be eligible for promotion to various departmental positions.

Men seem to believe—in fact, definitely say—that women would rather do business with them than with another woman. On what grounds they base their assumption it is difficult to determine, because there are no authentic statistics to be found. Of course there will always be some women who prefer to deal with men; no doubt this type of woman is already doing all her business with the bank. But what about the women who are not? With whom would they prefer to do business?

Most men readily admit that women are baffling; they are unable to understand them; they even admit that they do not understand their own wives. Wouldn't this lack of understanding on their part regarding the mystifying manner and qualities of women be a distinct handicap to them in dealing with her? If so, wouldn't a woman-to-woman business arrangement work out better? It should, because no woman is ever baffled or mystified by another woman. They all use the same type of artifice with which to intrigue their fellow men. One woman can see through another just as easily as the average wife sees through that old story about working late at the office.

Women have greater vision and are more sensitive to situations than men; more adaptable, better fitted to understand another woman's problems and requirements; quicker to recognize vulnerable spots and be guided accordingly. All women as potential mothers have the tremendous "power of intuition," a gift bestowed upon them by God, to aid them in guiding their children's lives. This power of intuition will help a woman see through circumstances and conditions that the average man would be unable to cope with, even if they were perceivable to him.

There are scores of reasons, some tangible, many intangible, why women clerks are better suited to deal with women clients. This doesn't mean necessarily that they should have a separate banking department, but there should be one or two women in a conspicuous place in the bank, or, better still, one woman in every department, who would be able to serve, explain and answer questions for women who may dislike asking a man's advice. Woman's vanity is such that she is reluctant to display her ignorance, especially before a man.

A great deal of stress is laid upon the reactions to color. Even hospitals have discarded the regultion glaring white walls and furniture in favor of warm, restful colors, because of the beneficial effect that color has on the patients. Banks as a rule are cold-looking edifices of marble (and a client endeavoring to borrow money often feels the same about the banker himself). The brightness and warmth of a woman's personality and costume could do a great deal to remove some of the chill. Dorothy Dix once said that what banking needed was more ruffles and less red tape.

Figures prove conclusively (and bankers are the first to say that figures do not lie) that women possess the greater portion of the wealth. Bankers admit that the majority of women need banking education. The American Institute of Banking is ready with qualified speakers to serve in this respect. It is up to the bankers to do the rest.

Customer Relations Inside and Outside the Bank

By Dunlap C. Clark, President American National Bank of Kalamazoo, Kalamazoo, Mich.

Public relations is perhaps one of the most neglected fields in bank management, and none is more important to financial institutions at the present time. While general confidence has returned markedly in the three years following the banking holiday, there is still much money hoarded in safe deposit vaults and other hiding places, and in Postal Savings, which rightfully belongs in the banks. This, however, is only one phase of the public relations problem. It is the duty of banks to help their communities to understand the importance of banks in their daily lives, and the many ways in which they can be of real service.

This is recognized by no one more than our able President, Robert V. Fleming, who consistently stresses it in his program. The Public Education Commission, headed by our past President, Rudolf S. Hecht, has projected important plans. They are well carried out under the direction of Dr. Harold Stonier, Educational Director, both in the American Bankers Association and the American Institute of Banking, and public relations was an important subject of discussion in the Graduate School of Banking this summer.

There is as much misunderstanding regarding the importance of public relations in large banks as in smaller institutions. True, the former have business extension departments whose prime responsibility it is to contact outside the bank customers as well as prospective customers. But even there these departments have difficulty in getting the officers, especially the seniors, away from their desks and into the offices and plants of their friends. And there seems a natural antipathy between credit departments and new business departments of most banks, particularly on the part of the credit men. They take the attitude that they are "watchdogs" of their bank's funds, which they must guard against the would-be sallies and depredations of the new business department rather than extending full cooperation. I speak of this not from hearsay but from experience, having been connected with one of the largest banks in this country for some 13 years until three years ago, when I assisted in the organization of the American National Bank of Kalamazoo.

Since large institutions, because of their size, can afford a staff of "specialists" in the public relations field, they actually do far more cultivating than the smaller institutions, where contract work must rest primarily on the active officers. Most bankers, large or small, agree to the desirability of such activities, but how many direct to them a proper amount of thought and effort? I present the challenge "Are we bankers lazy?" I think, by and large, we are.

Perhaps, though we profess otherwise, we have too deeply inculcated the old "pedestal complex," that business should come to us. We must realize that we are merchandisers of a commodity—Credit. As this commodity is an intangible, it is the most difficult type to sell. Our money is no better or more desirable than another bank's. We cannot compete on a quality basis, therefore, and should not, save perhaps in rare instances, attempt to do so on a price basis, that is, undercutting rates. I am naturally assuming in this statement that the fundamentals in sound credit are not overlooked.

In the several papers on public relations compiled in that excellent book, "Present Day Banking," which, incidentally, should be in every educational library as a complete and up-to-date survey of banking, no reference was made to increasing loans through customer contact. Certainly with the dearth of desirable paper of which we may all justly complain, this important angle cannot be overlooked. In our bank we increased our local loans $1,013,258.25, or 181%, between June 29, 1935, and June 30, 1936. No small part of this was directly traceable to our policy of keeping eyes and ears open and then soliciting the credits. Evidencing that this does not merely represent our share in a general improvement in demand, it may be observed that in the same period one of the two other commercial banks in Kalamazoo showed an increase of 25%, and the other, actually a small decrease.

The specific subject assigned to me in this clinic is "Public Relations Inside and Outside the Bank." Logically, the first step in any bank would seem to be the determination of a policy with respect to public relations.

Let me deviate for a moment to sketch our own problem in this regard. We opened for business Nov. 1, 1933, one of the few banks in the country organized entirely new following the banking holiday, and in Michigan, the most severely involved of any State. Declining a set-up under the so-called "Spokane Plan," we started literally from "scratch" with no deposits and no earning assets. We were capitalized, therefore, from new money, independent of a pay-off from a defunct institution.

The only other National bank in Kalamazoo, then 70 years old, had resumed unrestricted operations immediately after the holiday. A commercial State bank reopened under the "Michigan Plan," i.e., with half its deposits available and half deferred, a few months after our inception. Our problem, patently, was to present our true picture to the community—as is it not in truth the problem of any sound bank?

It is our premise that there has been too much mystery in the banking business, too much aloofness on the part of bankers. This seems an admitted fact from many articles in banking publications. But we capitalized definitely on it—that in a nutshell is our "Public Relations Policy." We have tried to make the public understand that we have no "secrets"—that it is entitled to information concerning our condition and operations as complete as we demand from our borrowers. That we are succeeding is perhaps best indicated by a growth from nothing to total resources over $5,000,000 in less than two and one-half years after our opening.

"Public Relations Inside and Outside the Bank." The latter is admittedly the more spectacular of the two, developing present accounts or attracting new business through personal calls. This might be compared to the cavalry sallies in earlier warfare or the activities of the air force in modern military operations, but it is an acknowledged fact that it is the infantry, day in and day out, whose success or failure determines the trend of battle. So in banks, the brunt of daily customer contacts falls upon what we term the operating personnel, particularly the tellers. At least 90% of such contacts are theirs. It is their province to provide the "service" upon which banks pride themselves. Obviously, therefore, their understanding of the bank's policies and condition is of utmost importance.

Since our inception frequent meetings of the staff have been held. Our cashier and I, the only officers at the start, came to Kalamazoo from outside, and the personnel was almost entirely recruited from the closed bank in whose quarters we operate. All were strangers to us and many had the "defeatist" attitude engendered by the few years prior to the holiday. Not only did they have many slipshod methods which had to be corrected as a matter of sound practice, but their very psychology required changing. Errors were noted and discussed in "case method," and the staff encouraged to refer them to the officers for general discussion for the benefit of all.

These were taken up in a cordial, friendly attitude, and the staff came to realize that we are all working together for a common "boss"—our Board of Directors. In addition, of course, general policies were presented as well. Everyone was encouraged to present his own views, and I believe it would be difficult to find a more genuinely harmonious group of 28 than ours now. We have no spirit of false dignity within the institution, and I think that no member of our staff hesitates to approach officers on any matter. In spite of this, there has been no imposition by our personnel or lack of respectful attitude.

While originally two or three meetings a week were held, since our business has grown, these have been reduced to one a week, usually presided over by the cashier or a junior officer. With our doors opening to the public at 10:00 a. m., the meetings are customarily held at 9:00 for about 15 minutes. Every other week the American Bankers Association booklet, "Customer Relations," is used as the textbook, with discussions centering around the material provided, rotating the leadership among seniors of the staff. At other meetings, the "case method" continues with commendation on achievement or constructive criticism on errors, with personalities in the latter submerged as far as possible. This supplements rather than detracts from the educational activities of the local American Institute of Banking Chapter, participation in which we encourage through reimbursing half the tuition to those who successfully complete the courses.

The affairs of the bank are discussed intimately—far more intimately, I am sure, than even with the "official family" of many institutions. The staff understands that, having no "secrets" from the customers, we desire to go even further with them. This accentuates their pride in their institution and confidence in their officers, making them better able to "sell" the bank to the public both in the business day and in their own personal, social contacts. They are encouraged in a new business frame of mind, and many voluntarily make calls on their friends in stores and smaller business houses after banking hours, having checked the names with an officer for approval. While the staff does not discuss credit, save in general terms, it is patently unwise to make approaches without reasonable probability of willingness to loan.

The tellers were especially helpful at the start in introducing friends of the old bank to the new officials. This policy is assiduously pursued, with effort made to have new customers meet all the officers, and those tellers who will serve them, inculcating a feeling of institutional rather than individual contact.

Public relations outside the bank may be divided into personal contact work and general publicity. Calls are made with fair frequency upon the officials of our larger accounts and upon most of our customers at least once a year. The latter activity is based upon a periodic review of balance cards and assignment of names among our officers, who write memoranda for the credit file following their contacts. Acquaintance in the bank is noted, also with what institutions, if any, the business is divided, and any pertainent data regarding the progress of the business. In many cases these conversations have developed attractive loans either at the time or subsequently. One or more senior officers have been through the plants of all concerns to which we have lines of $5,000 or over, and in many smaller situations as well.

We found the practice of calling a real novelty in Kalamazoo and have received many favorable comments, not only from customers but from non-customers to whom our friends mentioned our contacts. When the initial inertia on the part of officers to get out and call is overcome, the work proves a source of real satisfaction to them, as they see present balances increased or new accounts opened.

From a new business angle, we keep in touch with the real estate men, the power company and the news columns to learn of new companies or individuals entering Kalamazoo. The companies are promptly contacted locally and followed up at headquarters, usually in New York, Chicago or Detroit, through our correspondents. Personal letters are written to those individuals we cannot conveniently reach. As nearly as can be determined, we have received over 80% of the new incoming accounts since our organization. Further, our present customers are found an excellent source of new business and, in the main, are glad to help us obtain accounts. It is estimated that some 90% of our new business comes through the recommendation or direct solicitation by customers who, familiar with our condition and progress through our public relations policy, know that they can without reservation sponsor us.

Calls regularly made upon our 20 smaller correspondent banks surrounding Kalamazoo have resulted in attracting desirable commercial business in their towns, with their help, as well as fostering closer relationship with the banks themselves.

Besides these individual visits, group contact work has been found beneficial—that is, addressing various bodies on banking matters. Talks have been made before the service clubs, trade associations and high school and college classes. The subject, "How to Analyze a Bank Statement," presented in a 40-minute talk, using an enlarged exact reproduction of the latest called statement, has proven so poular that it has been given before all the local luncheon clubs and some in surrounding towns. This presents an unusual opportunity to discuss banking policies and ordinarily fosters a series of questions afterward. Other popular topics have been "Federal Deposit Insurance," "Loan Policies" and "Federal Housing Administration, Titles I and II."

The last was particularly welcomed at the start of the FHA projects, being presented before groups of painters, carpenters and builders, as well as the service clubs. Supplementing our talks, we concentrated our activities for several months on FHA, setting up in our lobby a model house front, behind which were dislayed types of equipment then qualified for FHA financing. This was without expense to the bank, as the local builders and merchants gladly displayed their wares. We subsequently maintained in the bank an "Architects' Advisory Service," in which five local architects donated an afternoon a week each to discuss home building with the public at large. During this period the bulk of our newspaper advertising was devoted to the subject. As the result, we have created over 75% of the Title I loans made in Kalamazoo by the six qualified institutions and well over 50% of the Title II loans—an unusual example of specific and profitable return on a consistent publicity "drive."

In addition to talks before the schools, no less than 50 groups of students have been conducted through the bank. After observing operations, they are given the chance, in an informal discussion, to ask questions. The place of banks in their communities is stressed, and we feel that, beside inculcating correct ideas into future business men and women, we gain the interest of their parents through their comments at home. A year ago we conducted an essay contest in the two senior high schools in the city on the subject "Federal Deposit Insurance," following talks before the students. There were over 100 entries, and cash prizes totaling $50 were divided among the winners. The FDIC took a real interest in this, supplying booklets for distribution in the schools and requesting submission to Washington of the winning essays.

A most unusual ramification of group contact work was our sponsoring the personal appearance in Kalamazoo of John Y. Beaty, editor, Rand McNally's "Bankers Monthly." He spent two days, addressing two luncheon clubs, one high school class, the entire body of the local leading business college, and our own employees, over 400 persons in all. Before speaking at the Rotary Club he circulated questionnaires which he had prepared covering fundamental points of banking. After collecting them he gave his talk, "What You Are Entitled to Know About Your Bank," in which the questions were answered. The following week, without previous notice, the same questions were submitted to the Rotarians. Their preliminary grades averaged 37%, and on the subsequent test 80%! Query—Are eductional talks needed and are they well received? We followed this plan before other groups locally to good advantage, as has Mr. Beaty elsewhere.

In "General Publicity," advertisements in local newspapers might first be discussed. Our advertisements run regularly each Sunday. The policy of "white space" is usually followed, with one thought tersely expressed, presented over our logotype or "tailpiece," that "he who runs may read." From observation and inquiry, we feel that lengthy ads, overburdened with copy, are less impressive. Our standard size is 2-column 5 inches, save when our called statement is published, or some particular feature requires additional space.

While admittedly it is difficult to trace returns from advertising, voluntary comments make us feel that our presentations are read, and in a few instances new customers claim that they came to us because of the attitude reflected. Except for periodic publishing of our statements in specialized papers (one published in the Dutch language), we restrict our newspaper advertisements to the one daily paper in Kalamazoo.

In the building lobby, just outside the entrance to the bank, a bulletin board is maintained into which is inserted weekly an informal letter dealing with current topics of interest in the banking field. Illuminated from behind, the letter is easily read, and attracts gratifying attention, reaching those who come into the building, even though they do not enter the bank. This has been in operation over two years and is maintained at negligible expense.

In a prominent place in the bank lobby a large board is exhibited, headed "Trend of Deposits." Here the deposits at each month-end are charted since our inception. It is interesting to see how this is watched by our friends, who not only follow our growth but learn that seasonal declines are only to be expected and are no matters of concern.

At each call date we circulate not a "condensed statement" to supplement the prescribed official form, but rather an elaborated type, in which the content of each item is explained. The fly-leaf is utilized for discussion of important trends in the figures or other matters of interest to customers.

It can be readily observed, I believe, the consistent manner in which we attempt to follow out our expressed policy of public education—of making our friends know that we want to deal with them frankly—that unless we understand them and they understand us, we cannot fill our proper place in the community. If they progress with us step by step in these times of increasing deposits and good earnings, is it not likely that they will have greater confidence in us and be more appreciative of our problems when conditions again reverse themselves—as they are bound to? Is this not an intelligent way of "in times of peace preparing for war?" If banks generally would do this, would it not go far to divert another such debacle as the recent "banking holiday," which we know was not precipitated by the bankers but by the public because of loss of confidence? Is this not the most lasting benefit from constructive customer relations?

It has been a rare privilege to a small city banker to have this opportunity to present in this clinic a few all-too-rambling thoughts. If our experiences can be adapted elsewhere, the effort in preparing this paper will be well recompensed. It will be a pleasure to share with you copies of Mr. Beaty's questionnaire or any other material mentioned, if upon your return you will drop me a line. You have been most indulgent with your time and attention, but if there are any points which you would like to discuss further, I shall gladly attempt to do so.

Opening Remarks of Rudolph S. Hecht, Chairman of Public Education Commission and Chairman of Board Hibernia National Bank, New Orleans, La.

In opening this year's Clinic I should like to take the opportunity to pay my personal tribute to the Association's comprehensive program of public education.

It is unfortunate that the 50,000,000 bank customers in America are almost totally uninformed as to the essential functions which the bank performs in the business and economic and financial community. This lack of knowledge of basic facts concerning the banking business is largely responsible for the prevalent atmosphere of popular antagonism, which remains more or less dormant during good times, but exhibits itself in a most militant manner during bad times, or whenever banking relations, for one reason or another, become strained.

Now the banker, of course, knows intimately all about the purpose and practice of banking, and the constructive part that banking plays in the business and social life of the people. The public does not know these facts. Obviously, it is the banker's job to correct this situation, not only from a selfish standpoint for the purpose of comfort and profit for himself, but from an altruistic standpoint for the general good of the community.

Our Association, in a masterful manner, has taken hold of this man-size job of preaching the gospel of business and banking relationships, and it is fortunate that we have as our leader a man like Robert V. Fleming, who heart and soul is back of this significant campaign of public education, and who personally has given a tremendous amount of his time and ability and effort in advancing so worthy a cause.

The American Institute of Banking for more than a third of a century has been training and educating thousands of bank employees in the fundamentals of banking and economics, and thus has made them better-equipped interpreters of the banking business to our customers and to the general public. And now, within the last two years, the Institute has inaugurated the Graduate School, which in cooperation with Rutgers College is providing higher banking education for the benefit of bank officials.

The Publicity Department of the Association is supplying more than 6,000 city and country daily and weekly newspapers with accurate and authoritative articles on banking, and the constructive activities of bankers and the Association for improving banking and business conditions. These newspapers reach a total reading public in excess of 25,000,000. The Department is also furnishing an intelligently prepared advertising service to more than a thousand member banks, who in turn are spreading this material throughout their respective communities by means of newspaper advertisements, posters and direct-by-mail pamphlets. The value to the banks and to the community of the quiet and effectively efficient work of this Department cannot be over-estimated.

Our magazine, "Banking," which has developed into one of the great periodicals of the country, and which commands the best editorial talent in the field of economics, banking and business, has a circulation of more than 30,000, most of whom are business, banking and industrial executives, who naturally are the leaders of thought and accomplishment.

The Foundation for Education in Economics, whose fund amounts to more than $600,000, "was created to establish scholarships in economics and promote economic research for developing a sound public understanding of the business questions which underlie and vitally affect our material welfare and prosperity." This Foundation has assisted worthy students to the number of 415 in obtaining college educations in accordance with its purpose, and more than 300 of these are now actively engaged in business.

It will be unnecessary for me to say very much about the work of the Public Education Commission, as this Clinic will afford a practical demonstration of a major feature of the Commission's program. Suffice it to say that, building on the sure foundation established by John Puelicher, the Commission is going forward with a deliberate but continuously definite program, which has for its objective a comprehensive public understanding of the bank and its functions and which will make for the maximum measure of genuine benefit to the banker, his customer and the community in general.

STATE SECRETARIES SECTION

AMERICAN BANKERS ASSOCIATION

Annual Meeting, Held at San Francisco, Calif., Sept. 21, 1936

INDEX TO STATE SECRETARIES SECTION

Summary: Study of Government Lending Agencies

By WOOD NETHERLAND, Vice-President Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.

In introducing Mr. Netherland, President Auch said:

"Mr. Netherland, as I understand it, is Chairman of a subcommittee of the Banking Studies Committee of the American Bankers Association. That committee has made a very complete study and tabulation of the setup and the activities of all of the various Government agencies which are in the lending business. A good many of you, I believe, have had the privilege of seeing and studying the very complete report of this committee.

The various State associations of the country have been asked to appoint committees on Government lending to cooperate in the program which Mr. Netherland's committee is sponsoring, and as I understand it, I believe 44 State associations now have appointed such committees which are ready to work and therefore we have asked Mr. Netherland to come here before this meeting to give an additional explanation to that which he made, I believe, at our spring meeting, of what the committee has in mind and what part he believes that our State associations, through these committees, can play in this very important piece of work."

Mr. Netherland's address follows:

Mr. Chairman, Ladies and Gentlemen,—In a study which has extended over a period of some eight or nine months—and which as a matter of course, must cover many broad phases—it has been rather difficult to condense it, but I have tried to do so, and I will give it to you in as brief a form as possible.

A good many of the members, or a large portion of the members of our fraternity, feel very deeply with respect to the threat of the Government agencies in the lending field. So we have endeavored to make a study, a factual study, in order to determine, if possible, in the course of time to just what extent, if any, the Government is competing, and I hope to be able to give you a tentative outline of a program this afternoon of what it is proposed that the State committees shall do on this work.

To do that, I think we must have the right attitude. I think we have to review something of the nature of the banking business with respect, or in relation to Government.

Since the time the goldsmiths first began to act as custodians of the wealth of the community, in the form of precious metals, principally gold, and began to lend it out when they found that all the people did not call for it at the same time—began to lend it out and charge rent or what we term interest—there has constantly been waged a controversy between two schools of thought, one of which has felt that the Government should own and operate the credit machinery, and the other which feels that it should be left to unrestricted private enterprise.

Throughout subsequent history, banking in practically every country has represented a compromise between these views, or a sort of conciliation of those two views. Any student of banking history, I think, would be inclined to suggest that either system would work. If the credit machinery were operated by mere automatons who were not influenced by the desire for profit and exploitation which too often accompanies the direction of the credit machinery by private individuals that would be one thing. Throughout all of these centuries of trial and error, however, and notwithstanding the abuse that creeps into the banking business when operated by private individuals, central governments have, for the most part, long since found out that the best way to run the banking and credit machinery was by privately chartered institution with strict Governmental supervision and control. Well, the reasons for this are obvious. In practically every form of society there are two kinds of forces, that is, the dynamic forces and the regulative forces, and by the very nature of banking, its fiduciary character, it is a regulative force.

Before the men in the banks are spread out all the plans of ambitious men and farseeing businessmen, all the schemes of economic planners, all the political schemes of government, and the banker is obliged to put the veto power on those he does not consider economically sound, and as unsound proposals constitute the majority, it isn't any problem, or it does not take any effort for the banker to become the most unpopular person in the community.

History shows that for centuries past older Governments have, for political reasons if nothing else, sidestepped the lending business and have been quite willing, in order to retain their own power and not to become unpopular with the people, that it should be operated by private individuals. It is obvious, of course, that there isn't any political administration, no matter how good their intentions may be, that is able to exercise the restraints and restrictions that are absolutely necessary for any sound credit machinery. Following this out to its logical conclusion, the Government in effect, is lending to the voters, and as a matter of course, they are forced by the people, particularly in a democracy such as ours, to follow the line of least resistance, and in the end, it resylts in inflation and chaos. Notwithstanding this well proven premise that most older nations have discovered, we asked ourselves the question—at least I did the other night—well, how is it then, that central governments for the most part have taken over the banking business? When you look over the world as exemplified by the recent nationalization of the Bank of France, you find that practically all the Governments in Continental Europe have taken over the banking business. There are two reasons for it, or a number of reasons, but one is the desire to finance themselves for extravagance, war; and the other is, I am sorry to say that in too many instances the privilege or franchise has been abused by the private individuals who had it.

I am giving you this background which I think is necessary as we approach the study of these Government lending agencies, as some of our folks become so bitter as to competition that we must know the background. We find in this country that the Government has seldom entered the lending business except because of some major crisis or because of some abuse on the part of those who had charge of it. Prior to the Civil War, when the State banks were in existence, the State banks loaned three or four hundred times their deposits, they issued State bank notes hoping (most of them) that the people wouldn't call for this money. We know what happened. They got into trouble and the Government taxed the notes out of circulation and destroyed that circulative privilege.

The same is true of the Banking Act of 1863. Both to finance the Civil War and to correct abuses, we had the National Banking Act. In 1907 we had inelastic currency. We hadn't provided any proper system as a banking fraternity, so the Government came in with the Federal Reserve Act in 1914. All of those things have arisen out of some national or economic crisis.

What has happened since the World War and since the depression of 1929 is contemporary history and I am not going to review that, but because the credit system broke down and we had no elasticity to it, then the Government entered the lending field with its emergency lending agencies. I might say here, as we approach this question and seek now to have the Government retire from the field, in many of its activities, at least where we find it competitive, we must bear in mind that they came in practically at our invitation, that is, the invitation of the banking fraternity, and we mustn't forget that.

They came in practically at our invitation, and supplied an elasticity to our credit structure. As a natural consequence, the banks got over the scare of the depression and want to extend their loans. It is perfectly reasonable that we find Government agencies somewhat in competition. As a natural consequence, in this procedure they probably took some loans that we would now like to have.

However, in putting forward our program, we must bear in mind, as a background, that the minute some bank protests about the Government taking away loans, you probably will find on file a request from that bank two years ago to "hurry up and make these loans so that we can get them out of our loan portfolio." So when we come into a court of equity we must come in with clean hands.

Many bankers claim they do not want to handle the type of loan that is handled by many of these Government agencies. On the other hand, no doubt there are certain sections of the country where the Government does actually compete with the private bank. Obviously through Congressional appropriation, capital stock contributions, free use of the mails and that sort of thing, these Government agencies can quote a lower interest rate, and commercial institutions who must pay their own operating expenses, have no subsidy in that sense, and that is wherein our job lies.

Some of these agencies are typical of agencies that have been in existence in older countries for two or three hundred years, and we may as well make up our minds to the fact that they are going to be in existence here, that our job is to insist that they stand on their own feet, the same as we do. Bankers have no right, people who own commercial banks have no right to insist that they should have the field. They haven't any divine right to the field of credit and banking so long as other groups that come in are subjected to the same type of supervision, are obliged to pay the same taxes, and otherwise stand on the same level as this group operating commercial banks.

Take, for instance, the field of farm mortgage credit, in this work that we have been doing in the last eight or nine months. I don't know what the figure is, but I should assume 85% of them, particularly the banks that handle only demand deposits, insist that banks should not be in the farm mortgage field. We all know well that these farm mortgages were totally unliquid, and real estate mortgage people have for 50 years tried to establish on the New York Stock Exchange, or some place on the curb exchanges a ready market for farm mortgages.

As represented by a Federal Land Bank system, so far as I know that is the only medium that a commercial bank with demand deposits has to participate in the farm mortgage business and do it safely, with the reasonable degree of irks, of course, as to market fluctuations as there is on any bond—I mean by buying Federal Land Bank bonds, until and unless we as private chartered institutions erect some other machinery in order to take care of that type of credit. We do have a right to protest against unreasonably low interest rates. It is perfect folly for the Government to supervise or sponsor—and this is particularly true in the short term credit field—one type of agency like the Federal Deposit Insurance Corporation and through that agency guaranteeing its deposits. And then, across the street, put a lending agency that might put it out of business

It just doesn't make sense. The people in Washington have said that they do not want these permanent agencies to compete with private banking, they want to supplement the private banking business institution or chartered banking institution. Well, then, it is our job, wherever we feel that they are to have that information and to see that they do not compete. I am inclined to think that if we can present our case intelligently and insist on it, and let the people of the country know what the subsidy is costing them, that we will find a sympathetic hearing in the country.

Another thing we have to bear in mind: the same thing is true on the farm mortgage debt and the same thing applies to the urban mortgage debt. There are about 18 billion dollars of urban mortgages of the type that might be handled under the Federal Housing Administration. One of the better ways is through the Federal Home Loan Bank System. If they should get to issue bonds as the Federal Land Bank System is doing, that enables a commercial bank with demand deposits to participate in the mortgage business and have a quoted security, without taking the risk of non-liquidity that exists if you have the direct type of mortgage, unless, of course, you make them under the FHA. There you have a rediscount preference. And we must watch these fields of credit, I mean, the field for investment that we must have if we are going to have earning banks.

I don't know how many of you have seen that recent study put out by Young & Ottley, entitled, "Merchants of Debt," and this is something to think about.

Prior to the Civil War, the banks loaned from 300 to 400% of their deposits, some of them. For a hundred years practically, the total loans of banks went down until just before the depression it was about 70% of deposits. After the crack-up, now we have about 40% of our deposits. But the significant thing about that is that in no instance, over any extended period of time, was the loan level improved. During the last hundred years, the total outstanding loans of commercial banks has constantly gone down.

Now then, the question as to how far the Government has gone into competition with the commercial banks has been a question for discussion and debate with the bankers' associations and particularly with the A. B. A. for the last 18 months. So at the spring Executive Council meeting last year they appointed this committee to study the Government lending agencies and see what they were doing and how they were competing, and for the first time, we have prepared a manual—most of you have seen it—a loose-leaf manual, in which we have studied 25 of these agencies, the source of their funds, the rates they charge, their profit and loss statements where we could get them, and the nature of their operations, the type of loans.

Having assembled that, the question is how much are they competing in your State? We go into some States and we find the bankers there say, "Well, they are taking all of our good loans."

I sat across the table from the President of an association a few days ago who said, "We do not want those loans. We need that type of credit in this State. We want the Government agencies to continue."

The American Bankers Association represents a composite picture, all the bankers of the country, and so we propose to find out in each State just how much these agencies are competing and where individual instances can be cited, we propose to do our best to correct them.

I think it is quite remarkable that the States have appointed 44 committees since the spring meeting to cooperate in this work. Some of them have begun some work on their own account, but following this Convention—we got the approval of the Banking Studies Committee this morning—we propose to submit a program or to work out with each State a program for a survey of the Government lending agencies in each State, that is, the agencies that are particularly active in those States. Obviously, what will suit for one State will not suit for another and therefore what we ask you to do is to go back home with this thought: The A. B. A. office will take up with you the plan for this survey. They will, likely, submit to you—to each Secretary, and his committee, and the President—a list of the various agencies operating in your State and ask which ones you want us to make a survey of in your State. We will ask for individual instances you can cite where they are competing. Where they have put down a ridiculously low rate of interest we will ask what are your suggestions, and how we can cooperate in curing that situation.

Furthermore, bear this in mind: That in the next session of Congress—there is no question of this in my mind and I don't think there is any in the minds of the other members of the committee—there will be additional moves to further lower the interest rates, to further increase Government subsidies, and through this organization we must have the machinery to present our case to Congress, to the Banking and Currency Committees of the two Houses, and endeavor to show to them how they are driving private or chartered banking out of the field, and try to get together, if we can. It is simply unbelievable to me that business and Government cannot get together in some way or other.

Certainly there are some types of credit that the banks should not handle and there are some types that the Government should not meddle with, so where is the dividing line. It seems impossible to me that we can't get together on that situation. And certainly, in my judgment, unless the bankers show a disposition to do that sort of thing, and the Government people likewise show the same disposition, we may look for some major change in the banking and credit machinery of this country.

In getting up this manual which most of you received, we have attempted to set up these agencies in a uniform manner, but obviously that was not possible with all agencies. For instance, in the Federal Savings and Loan associations, all we could cover was the amount of Government contribution to the capital stock structure. In the matter of Federal Credit unions, there is no direct subsidy there, except promotional expense of $50,000, which was advanced by the Government.

But what we want to do is to find out within the States, by county setups, what your problem is with respect to Government competition, and then we expect to sit down with the boys at Washington who have this in charge and place our case before them. Having done that, we will have discharged our responsibility. And, instead of bankers just in a blanket way condemning every Government operation, we should seek to find those that we feel to be helpful, that supplement our banking system, and use our best efforts to keep those institutions properly managed, out of politics, free from subsidy.

I should like to say this and then I shall be through: This is the first complete survey of Government agencies that has been made by any group. I believe it represents the first complete handbook on the question. Several other agencies, including the Brookings Institution, the United States Chamber of Commerce, and I think the Government agencies themselves, have such a book now in preparation. But at all events it seems to me that if we will study the work that has been done down at Washington by our Committee, by Mr. Huff, under the direction of Mr. Needham, and then apply that actually to our field experience, certainly we ought to have a sufficiently well rounded program to know what our problem is, and then the courage to meet the problem that confronts us.

I might say—I think it is no more than fair for me to say—that the Government agencies have shown a very cooperative spirit in this work. They have given us much confidential information that has never been published before and we have tried to respect their confidence. And the fact that the American Bankers Association committee has undertaken this survey, I think, has had a wholesome effect on those individuals in the Government who would, if left alone, just bodily take over the banking business. And I don't believe that it is too much to predict that as the emotions that have been engendered by the depression somewhat fade into the background, we may find the Government retiring from many of its credit fields and leaving the direction of private banking to private enterprise.

Discussion Following Mr. Netherland's Address

President Auch: I am certain that I bespeak the sentiment of all of us when I say to Mr. Netherland that he had made a very interesting and instructive address here. In the course of it I believe he has said some things that may seem challenging to some of you, and some things on which you might desire further information. If so, I have Mr. Netherland's permission to tell you that you may ask your questions or submit your views, and he will do his best to give you the answers. Who has something to offer by way of a question, suggestion or comment?

T. P. Cramer Jr. (Oregon): I should like to ask if the committee expects these county study committees to be handled under the sponsorship committees that have been set up in the different States now.

Mr. Netherland: Yes, the procedure will be not to do it in a blanket way. We will communicate with each Secretary and ask him what the problems are in his State, what his idea is as to how this survey, for instance, should be conducted in his State, how his committee feels about it, and we will largely be guided by the views of the committee in that State. There are some States, for instance, where some of these agencies hardly operate at all, so obviously there would be no sense in making a survey of some agency that doesn't operate in the State. And we will have that information from our office as to what agencies do operate there. We haven't developed all of that. In other words, what we want is for each State committee, if it wants to make the survey, to do so. That is up to the State, of course. This is purely a co-operative proposition. If the State doesn't want to make the survey, that is all right with us. But if they want to make the survey, we will lend our assistance in doing it along the lines you want it done.

W. G. Coapman (Wisconsin): Would you want an identical sort of survey in the States, to make comparisons as to results, or is it just a blanket invitation to make any kind of a survey they want? You want definite information when you have a survey made, don't you, along particular lines?

Mr. Netherland: Yes, we want it as uniform as possible, of course. I will say, we will send out probably a couple of sheets with maybe 40 or 50 questions on them and ask you to select out of those 40 or 50 questions those most applicable to your State, those that your committee thinks should be undertaken in your State.

President Auch: Mr. Netherland, some time ago in talking with you, I got the notion that perhaps you wanted data from various sections of some of the States. In other words, have you in mind the value of a particular agency being in competition in a particular district of the State, and perhaps not in another district? Perhaps you can make that clear.

Mr. Netherland: Yes, I think that, too, would be desirable. For instance we had an instance quite recently of a cooperative which had a good loan. It was a good cooperative, financially sound, and the man told me, I believe, that they were making a 4% rate at this cooperative, and that one of the Government agencies came along and took it at 2 or 2½, I think—I don't recall the exact figure, 2½ probably. Anyway, he thought 4% was a fair rate in his country, and I think it is. There is a concrete case where that same bank may be furnishing the money with which to compete with itself. That is a typical case, Mr. President. That isn't applicable probably anywhere else. That is what we want to work out, if we can.

President Auch: Has anyone else a question or suggestion? This is your opportunity, you officers of State associations, to get an understanding of this thing in advance.

Mr. Netherland: Mr. President, we have some more members of my committee here that have shouldered this work—Mr. Mylander and Mr. Zimmerman. I shall be glad to hear from them, myself.

President Auch: I am sure we will, too, Mr. Netherland, if they have anything to offer.

C. F. Zimmerman (Pennsylvania): Mr. Chairman, I think one phase of this whole investigation which is bound to command attention among bankers is with regard to their own feelings that loans have dried up in their sections, without really knowing the reasons why. I am sure that is the case pretty much all through the rural sections of Pennsylvania, and I have the thought that when the local bankers find out the volume of loans that have been placed in their own counties by Government agencies and the rapidity with which those loans are being placed, we may get a background of public sentiment which will finally be felt at Washington.

Mr. Netherland has made a very fine interpretation of the aims of the committee. It is not a simple undertaking by any means. The application of any rule is bound to be qualified practically in every State in the Union. At the same time, when we see the—shall I say?—political trends on the part of certain folks at Washington toward lowering the rates of interest so that established banks may not compete at all, it is going to be very difficult to keep this whole question, finally, out of politics.

Those of you who have read the proceedings before the Senate Committee realize that some Senators have very extravagant notions as to how low the borrower ought to be able to get his funds at. We in Pennsylvania have always had a legal rate of 6%. That doesn't mean that all borrowers must pay the legal rate, but it doesn't mean that our banking structure has been set up on a basis of a going rate for rural banks of about 6%. And when they begin to discuss mortgages and loans to farmers at 2½, or 2% even, we know that they aren't talking the language of private banking in Pennsylvania.

So I feel that as we apply this whole research program over the United States and find out just what the local situation is, we will be able to make some suggestions that will be very helpful by way of getting the problems straightened out.

President Auch: Thank you. We have heard from one State Secretary, Mr. Zimmerman, who acts in that capacity, among other things. Let us hear now from an "ex," Charlie Mylander—my predecessor, by the way.

Mr. Mylander: I don't know that I can add anything to what Wood and Charlie have said. Some of these agencies of which complaint is now being made have been with us for a long, long time, and for a long time they didn't seem to bother the chartered banks very much. Then all of a sudden the chartered banks went out of the lending picture. The Government agencies stepped up and took up the slack. Now, when we are ready to go back in again we are howling about competition.

It seems to me that it is going to be the job of organized banking to attempt to see to it that these long established and permanent Governmental lending agencies—I don't like to call them Governmental lending agencies, because they are not, that is, the permanent organizations are not—practically every one of these that we think of as permanent Governmental lending agencies are not owned or capitalized by the Government, except as an emergency measure. They are privately chartered institutions, the same as many of our banks are. But they have been given, as Wood pointed out, certain privileges and certain things which are not given to the private banking institution. One of the largest of those privileges is the complete exemption from all taxation. Manifestly, it is unfair for the Government on the one hand to charter and sponsor a lending agency which pays no taxes whatever and place it in competition with an agency which is taxed by both State and Nation.

It seems to me it is going to be our job to get the facts and point them out to the Congress, in order that some of this unfair competition may be eliminated. I don't fear very much the result if both the so-called Governmental lending agencies and the chartered banks are on an equal footing. If we can't as individual bankers be smarter and more on our toes and more active and more familiar with the problems of our communities than the civil servant of the Government bureaucracy, we ought to be put out of business.

President Auch: Thank you, Charlie. I am a little bit surprised that Mr. Netherland didn't strike fire here with his statement in regard to mortgages, farm mortgages on the part of our chartered banks. I don't know his mind, but I surmise that he may wonder that there has been no comment on that. Does anyone wish to offer anything in that connection—a difference of opinion, agreement, or anything at all? Are there any other questions, then?

Mr. Welch (Connecticut): I should like to ask if the committee contemplates corralling figures relative to banking practices in the States, to compare those practices of rates and volume with the volume and activity of the Government loaning agencies, along with this survey.

[At this point, Mr. Netherland made a statement not for publication.]

Eugene Gum (Oklahoma): I would like to ask Mr. Netherland a question, by putting a concrete case before him, and see if he has a solution for it, or if his committee would have one. A gentleman from Oklahoma said he had a cattle loan, and had had it for years, for quite a sizeable sum. He said he was getting about 7 or 8% for it, which is a reasonable rate in Western Oklahoma, and he said the Government came along with their credit association—their association that makes these loans out of Wichita on cattle—and loaned that fellow that money at 4 or 5%. He said, "I got to thinking about that. I followed it through." He said, "I had $100,000 on deposit in a New York bank. They weren't paying me any interest on it, and I found that they jumbled my market together with a lot of other mortgages up there at Wichita and issued 3% debentures, and sold them to that bank at New York where I had my money." I said, "What are you going to do about it?" He said, "I don't know yet, but I feel like writing the New York bank, asking them if they bought those debentures with my money. It looks to me," he said, "like the Government is in competition with me, making loans to my customers, in my own town, and with my own money, at rates that I cannot compete with." What would be the method of straightening out a situation of that kind?

Mr. Netherland: Well, I am sure you don't want to hear me make another speech but, in the first place, if that were checked through the chances are that man, the customer, could be convinced that he was not getting such a "break" on the interest rate as he thinks he is getting. Another thing is that the law of supply and demand, of course, in the investment field determines the ease with which the Intermediate Credit Bank markets debentures, and the rate. And the demand is so great, the truth of the matter is, I don't know, but I imagine the outstanding debentures is around 150 million now.

Well, it doesn't make much difference whether the bank takes them or not, Mr. Gum. There are plenty of people who will take them because every time an issue comes out it is considerable oversubscribed. And then, for political reasons, I don't think the banks should take the attitude that we are not going to buy securities of that type. That is the surest way for us to get put out of the banking business—by declining to buy securities from the Government, or its agencies. Don't think for a minute that that isn't true—that that is the surest way for us to get put out of the banking business.

Mr. Gum: This man wasn't so much concerned about the New York end of it, but he said, "How can I hold that cattle loan?"

Mr. Netherland: The banker, you mean?

Mr. Gum: Yes.

Mr. Netherland: He will have to make some concession on the loan, and the man who borrows from him would prefer to borrow from him than from the other agency, even at some additional cost.

Mr. Gum: He has to go out and meet the Government rate, though.

Mr. Netherland: Not necessarily. I believe a lot of your people can be convinced that it is better to borrow from you than from the Government agency if you will talk to them and tell them the situation, point out to them what share of the subsidy they are going to have to pay. To be sure, that man is getting a cheaper rate from the Government agency, but how much are his taxes going to be increased because of the rate he pays? There is, of course, in this country one great school of thought that want all business in Government, and we simply have to go out on the firing line and talk to our people and show them the unfairness of it.

H. B. Crandall (Utah): Mr. Netherland, I was just wondering if you can meet the Government lending agencies' rate. We cannot in our State.

Mr. Netherland: You can—if your program is pitched on the idea of doing away with the subsidy. Rates, after all, are a question of actuarial experience, just like your like insurance premiums. They are based on losses, and a certain degree of profit, and I don't believe that one group of men can do it much cheaper than another, whether they are in the Government agencies or in private agencies. And you cannot compete with them on rates, so long as they are subsidized. Our problem, I think, is to try to get the people of the country to help us do away with the subsidy, and I think when the taxpayers get to paying the bill we will have plenty of assistance.

Mr. Crandall: I know in my own individual case if we tried to meet the competition and at the rates given by the Government we could not exist. They have no taxes to pay. We are taxed heavily. They have just as many employees as they want, and all the help they can go out and solicit, whereas I have to stay at home, and it would just be immediate death for us if we tried to compete. If you say that we have to do it and it is just a matter of theory that we can't, you just try that theory in a country bank in Utah and see how long you will last. You would find out it wasn't theory, it was just simply suicide.

Mr. Netherland: Those are the very situations we want the State committees to develop, to actually investigate those cases, and put them in the hands of the central committee, if you want to call it that, or the A. B. C. committee. In other words, we want that sort of illustration for ammunition in our fight to keep as much subsidy out of these agencies as we can. That is exactly the thing we want these State committees to develop—individual cases. If you have ever had any experience before a Senate Banking and Currency Committee, you must know that you cannot just generalize. You must show them concrete things. You have to show them the proposition you have in mind. Otherwise, they won't give you a hearing.

Mr. Crandall: Do we take it then that you, as Chairman of the committee, have the idea that all the banks in the country can compete with the Government lending agencies—that we have to come to that? Is that it?

Mr. Netherland: No. I don't think that at all. I think that we are certainly competing with them now, or they are competing with us.

Mr. Crandall: You have to meet that competition.

Mr. Netherland: Yes. What we want to do is get them out of the field. There are several ways of doing that. One way is to register our complaint, just as you are doing now, and show those people in Congress how they are able to underbid us on rates and how their rates are not justified, and show them what they are doing to our earnings, and tell them it is questionable whether we are going to be able to stay in the FDIC if our earnings keep on going down. And we have to build up our case, because that is the only way we are ever going to get anywhere on it.

Mr. Crandall: I understand that. But I can tell you right now that you cannot run a bank and run it on those rates. It can't be done—I know that.

Mr. Netherland: No. But I do think this—I know there isn't any question about it—that we must be reasonable on those rates. You know what I mean by that. There are some sections of the country where they have charged, particularly on these small loans, 20, 30 and 40%. I know where those situations have existed.

Mr. Crandall: Our State is limited on that. We can't make any rate like that. I don't know of any bank in our State which has ever done anything like that. I don't think there is a bank in our State which has ever followed the practice of charging 30 or 40%.

Mr. Netherland: There are other types of credit besides the banks—merchants' credit and stuff like that. This is all bound up in the whole credit problem.

Mr. Crandall: This is a bank meeting—I wasn't referring to anything else. Well, I am glad to get your views.

Mr. Zimmerman: May I offer a suggestion, Mr. Chairman? In the hearings at Washington, there was a very significant phase of this whole matter which marks an inconsistency that we will never be able to meet except by attacking it, namely, that when the Government lending agency places a lien against a farmer's property, and he happens to have a year when he has no crop, he feels that because it is a Government lending agency he can put the pressure on in Washington and have his rate lowered, and the Government lending agency is apt to respond to that, because the foreclosure of the debtor's affairs is the last thing in the world they wish to have happen. That is why it takes on the political phase, and that is very clearly marked in the hearings at Washington. Private banking is in an entirely different position. When our creditor can no longer navigate, we have to see if we can collect. It works just exactly the opposite way in Washington—if he can no longer navigate, they try to give him a lower rate or an extension of his amortization program and thereby tide him over. That gap must be bridged in some way.

President Auch: We can allot a few more minutes to this subject. If you have anything further to offer or any further questions, please put them promptly. Has anyone else anything?

Haynes McFadden (Georgia): What are you going to do with your production credit agencies? Eugene Gum touched on that subject and everybody else backed off. That is a serious problem with us. The production credit associations are rapidly reaching a point where they are lending more heavily on commodities and things like that than the banks.

Mr. Netherland: The production credit agencies at the prsent time have about $120,000,000 supplied by the United States Government, for which they do not pay anything, and to the extent of the subsidy on that capital stock, it is unfair competition and should not be permitted. It is our job to place that before the Congress of this country and see that it isn't done. Moreover, unless we watch it, unless organizations such as these are on their toes, they will appropriate more money upon the same basis.

The present trend of the production credit agencies is to get on a self-supporting basis. Another year like this year, and they will not be very from it. Now then, I think this is a fair position—that wherever they are on a self-supporting basis, without subsidy of any kind, with the same type of supervision that we have to undergo in the banking business, and paying the same taxes, we cannot ask them to withdraw from the field.

Mr. McFadden: It seems reasonable to me that you could ask them to do this—they will lend a man money to produce a crop of cotton, and when he gets it produced and ginned and baled, they will lend him the money to carry it on, which was not the original purpose of the production credit associations at all—

Mr. Netherland: Yes, they have a perfect right to lend on commodities, the same as a bank has

Mr. McFadden: They have?

Mr. Netherland: Our banks there in the same field lend a man to produce his cotton and if he produces it and wants to hold it for awhile, they will lend him money to hold his cotton

Mr. McFadden: But the purpose of the Production credit associations was to enable a man who couldn't get money from a bank to produce his crop. After he gets that—

Mr. Netherland: I wouldn't say that—that he couldn't get the money from the bank.

Mr. McFadden: Essentially, that was it. If he could have gotten money from the bank there wouldn't have been any use for the production credit associations. He gets his crop produced and in marketable condition, and anybody will lend him money on it, and yet the production credit associations say whether they have the right to do it or not, they are going to do it.

Mr. Netherland: They can do it. They can make housing loans, for that matter, if they want to.

Mr. McFadden: Well, that is hurting worse than all the farm mortgages. They are welcome to them, in our country, if they want them.

President Auch: Is there anything else on this subject, gentlemen? If not, let me thank you, Mr. Netherland.

Mr. Netherland: Mr. Chairman, I have to go to another meeting but before I leave I want to say that our committee would like to know how the Secretaries and other State Association officers here feel about this program. We don't want any formal resolution or anything like that. The program is wholly set up to protect the lending field for commercial banks and we are going to have a lot of different views as to how that should be done. Now then, do the Secretaries feel that this program is worthwhile and do they want to go on with it? Do you feel it is a worthwhile program?

Mr. McFadden: I move we give them a formal resolution without asking for it.

President Auch: All right—What is your pleasure? I don't think it is necessary to be formal about it, but is it the feeling of not only you Secretaries here but of the other State association officers, Presidents and Vice-Presidents of State associations, that it is worthwhile? It seems to me, if I may offer this comment, that the information which is developed in some considerable detail by the various State associations is going to have an important and governing effect on the future procedure of this subcommittee. Is that not true, Mr. Netherland?

Mr. Netherland: That is right.

President Auch: In other words, if we differ with some of the things that have been said here, if we have the opinion that the situation in our own State is different perhaps from that presented here, then it is up to us to make a showing through research and the obtaining of data on our own situation. What is your feeling on this, gentlemen? Do you think that it is a worthwhile project? Are you willing to go ahead, get your committees to work, develop the information, and work along the lines that are desired by this committee?

Mr. Zimmerman: I move you that the Section express its approval of the program and pledge its full cooperation to it.

President Auch: Mr. Zimmerman has moved that the Section approve the program as outlined and extend its full cooperation. Is the motion seconded? . . . [The motion was seconded by W. F. Keyser (Missouri), put to a vote, and carried.] . . .

President Auch: Is there anything else, Mr. Netherland, from your standpoint?

Mr. Netherland: No. Thank you very much.

COMMITTEE AND OFFICERS' REPORTS—STATE SECRETARIES SECTION

Address of President David M. Auch, Secretary Ohio Bankers Association, Columbus, Ohio

The program of the State Secretaries Section this year has been based on the belief that it could serve most effectively as a connecting link not only between the various State associations, but between these organizations and the American Bankers Association.

Some of the functions formerly performed by the Section have been dropped, the number of standing committee has been reduced to avoid duplication of work done by other agencies, and attention has been turned more directly upon the possibility of coordinating the efforts of all organizations operating in the banking field.

Complete unification of the efforts of these various organizations, of course, is neither practicable nor desirable. Problems vary with geographical location of membership and regional or local conditions. Opinions on many issues are widely divergent. But there does exist a zone in which the interests of all bankers' organizations are either identical or sufficiently similar to permit a joining of forces. The writer holds the opinion that all concerned have a definite obligation to seek this common ground and to adopt unified programs in as many fields as possible. The value of this cainnot be doubted.

Cooperation between these various organizations requires reasonable adaptation of projects and ideas and a display of the spirit of give-and-take on the part of all concerned. The past 12 months have witnessed a growing tendency in this direction. There is ample reason to believe that this is one of the most significant developments of the year, and that it portends increased cooperation in the solution of the many banking problems which must be met in the future.

Probably one of the best opportunities for an effective joining of forces of State associations and the American Bankers Association lies in the government lending program sponsored by the Committee on Banking Studies. A subcommittee of this committee of the American Bankers Association has made a survey of the various agencies of the Federal Government which operate in the lending field. The results of this survey, which is complete in every respect, have been placed in the hands of State Secretaries, officers of State associations and special committees which they were requested to appoint.

The Committee on Banking Studies is of the belief that competition of the government agencies listed in its survey can only be eliminated when such necessary functions as they perform are taken over by the banks. The committee has requested action of various types on the part of State associations. A complete explanation of the activities and desires of the committee will be made later during the session and I should like to urge that everyone give full consideration to the merits of the suggestions advanced. This project is a part of the program advanced at President Fleming's regional conferences on banking at which the importance of State association cooperation was made entirely clear.

Other fields in which coordinated efforts on the part of both State and national organizations are essential to success, are Federal legislation and public education. It may be that the immediate future holds no threat of drastic revision of our Federal banking statutes, but let us not forget that the close understanding which developed between the State associations and the American Bankers Association when the Banking Act of 1935 was under consideration had a major and favorable effect upon the final form of this legislation.

Much uniformity has existed in the nation-wide program of public education which has been carried on during the past several years. This has lent materially to its effectiveness. With the betterment of conditions recently there has appeared a tendency to slacken our efforts to inform the public on banking. This, of course, is most unfortunate, for public education certainly is not an emergency proposition. If it is to bring results it must be a continuous process during good times and bad, for it is only when the situation is normal that the public mind can be prepared for the unusual conditions which arise from time to time.

At the spring meeting, at Hot Springs, our Committee on State Legislation submitted for your approval a rather ambitious project. This consisted of the assembling of certain rather detailed information on legislative activities and methods of the various State associations. At that time all present agreed that the project should produce valuable data and that it should be undertaken. As will be revealed in the report of the Committee on State Legislation, this work was started. However, full cooperation on the part of State Secretaries was not forthcoming, and as a result the data is not complete. Some of us, at least, still are of the opinion that the program of the committee should be completed either through continuance of its efforts or through adoption of the program by another agency. I commend this to your active consideration.

In a previous report to this section it was recommended that consideration be given to the organization of additional regional conferences of State association officers. Two of these organizations have been in operation for many years in the Midwest and South. There has been some conversation and correspondence on this subject, but no definite action. While it may not be officially within the province of this Section to organize or sponsor such regional organizations, they have proved themselves so valuable in sections where they exist that the recommendation is repeated with an offer of aid in the development of such conferences.

In closing, permit me to express appreciation of the splended cooperation which has been received during the past year. Such accomplishments as may have come are traceable to the valuable aid received by the officers of the Section from all concerned.

Report of Committee on Insurance and Protection, by Chairman William Duncan Jr., Secretary Minnesota Bankers Association, Minneapolis, Minn.

Mr. Chairman and Gentlemen—This Committee has no written report. At the time that the Committee was selected by the President, certain responsibilities were delegated to the Committee predicated on an unknown situation. Since the Committee was appointed, the A. B. A. Insurance Committee has formulated a change of forms and policies, and the companies have reduced their rates. So consequently there was little for this particular Committee to do.

I was interested in Mr. Netherland's talk [given in this issue among the addresses before the State Secretaries Section]. He made reference to two schools of thought. That possibly applies to governmental lending agencies and competitive interference on the part of commercial banks, but in this insurance controversy I discover many more than two schools of thought, with many suggestions as to how an apparently unsatisfactory situation that has existed in the rate structure should be adjusted. I just want briefly to give you my own personal opinion, and in any suggestions that I may make I am not speaking in behalf of the entire Committee.

I think that in settling upon any definite program, affecting a readjustment of rates, in an attempt to create or bring about a cooperative action on the part of the various States, we have to take into consideration existing conditions in those respective States, as to whether or not the States themselves operate insurance departments, whether or not secretaries are agents for companies writing that sort of coverage, and whether or not those facts have an influence on the attitude of secretaries in becoming more enthusiastic in criticizing interference on the part of certain companies.

I think that there can still be an adjustment of rates found in many States, and I appreciate that in many States the rates as now applying should be very satisfactory. I have my own personal opinion as to what brought about this great reduction. It is quite human for insurance companies, the same as any other business, to watch competition, and although we have been striving for many years to get consideration on rate readjustment, we were always combated with the suggestion that the loss ratio was such that a readjustment was not justified.

This may be of some interest to you: that State Secretaries had considerable to do with placing National banks, when the law was first passed, under the protection of the G-Men, and they had considerable to do with including FDIC banks when that law was amended. That is not generally known. But I know who the individual was who proposed the first legislation and exactly how it was accepted by the Attorney General in Washington. All of those things have made a better situation from the standpoint of companies, and have had a great tendency from a physological point of view, at least, to reduce daylight holdups.

We have had a very good experience in loss ratio, and although we are experiencing low rates, we want to show a justification of that situation by cooperation in keeping our counter cash down, in inaugurating protective devices, approved protective devices, and then following the instruction of the manufacturer who puts in those devices and showing in every possible way that the banking fraternity will do its part in eliminating this hazard.

The filing of rates by certain companies in this country in certain States had an influence on this reduction, whether the companies did or did not, and there are three or four States today enjoying a lower rate than the conference company rates under certain forms of policy, to the extent that in my own State in 20 months we have saved the banks $90,000 in premiums, and in two other States they have saved in like proportion, according to the number of banks.

Rates were filed in other States by the companies that are offering these rates, and undoubtedly it had an influence on the rate readjustment. As I said before, I feel that there still should be further reduction, and it should be brought about by intelligent action and cooperation on the part of the secretaries.

I am not convinced in my own mind—basing that on some experience we had a number of years ago—that the way to do that trick is the organization of mutual companies by the bankers themselves. It is a specialized business and one that I think we as bankers should keep out of.

We had an experience in our State with a mutual a number of years ago that cost us plenty of money. If you are fully convinced that the entire program of consumers' cooperators should be established as competitors with private business in your own communities, then from the standpoint of the banking fraternity that would be your first contribution to a consumers' cooperative.

I want to pay tribute to the work that the committee of the A. I. B. has done. I want to make one suggestion, however, that I think would be very much appreciated: that the various forms or information as to changes of the policies should be sent to the Secretaries so that they could post their member banks. If it has been done, I have never received any information, and a number of Secretaries have talked to me about it. That is just a suggestion for your committee. Frank, if you think it is the thing to do.

I believe that there is a possibility of further reduction in rates by handling this program intelligently, and I think as time goes on, if you are insisting upon your banks cooperating with the companies in exercising the caution that they should, that you will have ample ground, based upon loss experience, to ask for that reduction. I think, as far as protective departments are concerned, that the last one in the States was dispensed with this last year—the State of Wisconsin. I think that their experience possibly has been the same as that of the other States: that they are an antiquated part of the banking association, that the work that should be delegated to the associations can be done just as intelligently and more economically through the Secretary's office.

There is just one other suggestion that I want to make that is not in connection with this insurance talk: During the discussion of these governmental competitive agencies, My President, who operates a very successful country bank in Minnesota—a bank of $500,000 deposits—has set up a piece of machinery to compete with governmental agencies that has worked very successfully, and I was in hopes that he would enter into the discussion. But he came to me after that part of the program was closed and made the suggestion that he would be very glad if any of you men are interested in his scheme to go into the matter in detail after this meeting. He will be in the back of the room.

Report of Committee on State Bankers Association Management, by W. Gordon Brown, Executive Manager, New York State Bankers Association, New York, N. Y.

On Aug. 19, 1936, the Committee on State Bankers Association Management sent a letter to all Secretaries asking them to advise the committee what new activities have been undertaken by the various State associations since the committee last reported at the convention in Washington in the fall of 1934. Replies have been received from 43 States, and I shall summarize the information they sent to us.

Dues

The first question asked in the committee's letter of Aug. 19 was in regard to changes in schedules of dues. Five States have increased their dues and one State is studying the matter.

New Jersey raised their dues in August, 1935. The increase was accepted with practically no unfavorable comment. Their rates, however, are still lower than many other State associations.

New York increased dues in January, 1935, due to a decline in number of members and need for larger income to take care of increasing activity. The increases were only nominal for the smaller banks but the percentage of increase for the larger banks was considerable; the net result being the revenue from membership dues now amounts to about $45,000 per year, as against $34,000, or an increase of about 30%. No serious objection was raised by members and the loss of members amounted to less than 1%.

Michigan has a special committee working on a revision of their schedule which, in the opinion of some members, requires a further breakdown into a larger number of classes.

Mississippi raised dues in 1935. With a few exceptions members understood the ecessity for higher dues per bank because of the reduction in number of banks.

Oklahoma raised dues in 1935, shifting from total resources to capital funds as a base. Let me read Mr. Gum's comment:

"We raised dues in the Oklahoma Bankers Association last year pretty sharply. One hundred and twenty-one of our banks decided it was too much and didn't pay. That represented a little more than one-fourth of our banks. I called on those banks . . . and told them why they should pay it, and practically all gave me a draft. This year we did not have much trouble when we made our drafts. Such radical changes always need a little explanation.

"Under the old plan, we raised about $6,000. Under the new plan we raised about $20,000, which you will see is some raise."

Tennessee raised dues at their convention in May, 1936. The increase was necessitated by the decline in income over a period of years, due to the reduction in number of members. The new schedule was accepted without any serious question, only about six banks failing to pay their dues. Prior to the increase dues of this association were extremely low, and after the increase the average is about $20 per bank as compared with a nation wide average of $30 per bank.

The experience of the above five associations indicates that where dues are low and have not been raised for some years, it is possible to increase income where the need can be shown and the new schedule properly explained and sold to members.

New Committees

The second question your committee asked was whether any new committees had been added and, if so, for what purpose. To this, 29 States replied that they had appointed committees on Government Lending Agencies to cooperate with a subcommittee of the Committee on Banking Studies of the American Bankers Association.

Other new committees are reported as follows:

Arkansas has appointed a Committee on Bank Budgeting.

California has added a Committee on Mortgage Loans, "due to the obvious desirability of standard practices in this field, one of the largest loaning outlets in California. The committee is studying the standardization of fees and routine operations, standardization of legal instruments, appraisal practices, real estate and improvement valuations, their stabilization within reasonable bounds, the study of existing mortgage loan situations, the maximum and minimum rates per square foot on buildings and per acre on farm lands loaned thereunder, the accumulation and dissemination of soil and water-table information, the education of bankers along the proper use-value of lands and buildings, in connection with the amount which may be loaned thereon, and last but not least, studies looking toward the devising of new methods of loaning which will enable chartered banks to compete to better advantage with government mortgage loan enterprises."

California has also added a State Bar Committee to deal with a question raised by attorneys as to whether banks are practicing law in the usual conduct of their business; also an Insurance Committee to study various types of insurance carried by banks, such as fidelity bonds, public liability and fire insurance; also a Committee on Bank Credits, appointed to develop uniform credit information and to unify bank requirements of borrowing customers respecting credit information; also a State Income Tax Committee to work with the State authorities respecting the new State income tax.

Georgia has appointed a Committee on A. I. B. Extension Work.

Idaho has appointed a Committee on Old Age Pensions, and a Committee on Public Relations.

Illinois has appointed a Committee on Trust Functions. Mr. Graettinger reports that "This committee has charge of all matters pertaining to fiduciary relations and activities of the trust departments of banks. It was thought advisable to add this committee because of the development of this specialized business, and its importance in the field of bank activities. This will probably develop into a trust division of the Association fashioned somewhat along the lines of the similar division of the A. B. A."

Indiana reports that it has added a Committee on Agriculture, which was dropped some years ago.

Iowa has appointed a Postal Savings Committee to investigate Postal Savings competition and work with similar committees of other State Associations and the A. B. A., looking toward getting remedial amendments to the Postal Savings Law.

Massachusetts reports that an Insurance Committee has been appointed to study matters of insurance and endeavor to obtain better coverage at lower rates; a Social Security Act Committee to study all matters pertaining to both Federal and State Security Acts and pass along information to members, and a Personal Loan Commission, which is a separate organization sponsored by the Bankers Association to point out pitfalls and undesriable and dangerous practices in connection with the making of small loans.

Missouri has appointed a Committee on the Sutdy of Adequacy of Banking Service, the object of which is to study the question of whether the existing banking facilities in Missouri are adequate and if found inadequate, to recommend the way in which additional facilities should be provided.

Montana has appointed a Committee on Public Relations.

New Jersey since our last report has added a Pension Committee which recently completed the organization of a Pension Fund now before its members for consideration.

New York reports a Committee on Pensions which has filed its report, as a result of which a Board of Trustees has been created to proceed with the development of a pension plan.

New York also created a new Committee on Activities at the Convention in June, 1936. The committee consists of six members with staggered terms of office. The purpose of this new committee is to initiate research projects in the interests of members, to coordinate the work of other committees of the Association interested primarily in new studies of developments in banking and to keep abreast of other research projects in the field of banking.

Ohio has added a Committee on Cooperation with the A. I. B. The work of this committee consists of interesting the senior officials in member banks in the organization of new A. I. B. Chapters and study groups.

Oregon appointed a Pension Committee resulting in the installation of a pension and retirement plan for officers and employees of member banks. The plan went into effect Jan. 1, 1936 and is working out staisfactorily.

South Carolina reports that the duties of the Bank Management Committee have been enlarged to include work on public relations.

Vermont added a committee to consider the list of bonds now legal investments for State banks and a committee to study service sharges and submit a schedule of charges applicable to Vermont banks.

Virginia has added a Pension Plan Committee.

West Virginia is endeavoring to develop more A. I. B. Chapters and promote group activities.

Wisconsin has added a Director of Public Relations to its staff. He will organize intensive training classes for bank officers, directors and employees, will cultivate better relations with the press, promote a program of talks before schools and adult groups and assist bankers in the preparation of timely articles and talks on subjects of interest to the public.

Research Programs

The answers to your committee's third question in regard to research programs indicate that 24 States now have committees organized to undertake this work, six States are planning to, or are considering it, and 13 States have taken no action for one reason or another. The comments of some of the States which have undertaken surveys are interesting, and the comments of several which have not, are more so.

Arkansas says: "The Committee on Banking Conditions and Trends has undertaken a survey of banking in the State of Arkansas. This survey is being conducted by Dr. Kenneth H. Hunter of the State College of Agriculture, assisted by members of the committee and officials of the State Banking Department, Federal Reserve System and Comptroller of the Currency."

Georgia's program includes (1) tabulation of rates of interest paid on time deposits, seeking to prove the advantage of a minimum lower than specified in regulations of the Federal Reserve Board and the Federal Deposit Insurance Corporation; (2) a study of bank portfolios with a breakdown of earning assets as complete as the source records make possible; (3) a study of the rates, recoveries and net incomes from each class of earning assets embraced in the above, and (4) an analysis of profits, dividends and service charges over a 12-year period.

Kansas says: "We are continuing our usual annual research survey in regard to bank earnings and operating costs conducted in connection with the facilities of the Federal Reserve Bank of Kansas City and the State Banking Department of Kansas; some additional research work may be entered into, including causes for bank failures in Kansas and limited banking facilities for non-banking points."

This would seem to indicate that in Kansas this work has been carried on for some years past.

Minnesota reports: "We have appointed a Reserach Committee and will have the cooperation of the School of Business of the University of Minnesota in making the survey."

Missouri reports that a Committee on the Study of Banking Developments was appointed "to make a thorough investigation of the banking structure of the State with a view to being in a position to recommend intelligent action as to improvements in banking methods. The committee will cooperate with the Association of Reserve City Bankers in its similar work of national scope."

New York at its convention in June, 1934 adopted a resolution calling for the creation of a Commission for Study of the Banking Structure to undertake a continuing research into the banking needs of the people of the State. Shortly thereafter, a statistician was added to the staff and he began the assembling of the balance sheet figures and earnings of New York State banks for the years 1923 to 1935. The report of the commission was published in December, 1935.

North Carolina reports that: "We have added a Bank Research Committee in order to be in line with the other associations throughout the country and at the request of the Association of Reserve City Bankers.

"The Bank Research Committee consisting of a Chairman and three members has begun making plans for their work after conference in a meeting at which Professor F. Cyril James was the speaker. They have secured the cooperation of the Department of Economics and Finance at the University of North Carolina and the State Banking Department has agreed to furnish a man for research work for as long as six months without cost to the Association, since the entire operating expenses of the Banking Department are paid by the banks."

What is being done in Arkansas and North Carolina may suggest a solution of the problem of several associations which have indicated a desire to undertake this work but have been unable to do so because of the cost.

Tennessee has appointed a Bank Research Committee. The first phase of their work will be a study of bank income and expenses and most of the work is now being done by the Secretary who is gathering statistics. After a compilation is completed, outside assistance will be engaged for statistical work and analysis.

Wisconsin has added a Committee on Bank Management which will make a study of Service Charges, Investments and Present Loaning Policies and Rates.

In addition to the above the New England States are working on a plan to make a survey of all banks in those States similar to the study made in New York State.

The comments of several of the States which have not undertaken research activities are as follows:

Oklahoma—Mr. Gum reports: "We have not organized a research department and do not know that we will. The proper kind properly operated would be a grand thing. I listened to Professor James's plea for a research department for Oklahoma and I thought I could see branch banking in the wood pile. I am often wrong. I hope when the chip is lifted they will find an independent bug under it."

Pennsylvania—Mr. Zimmerman reports: "No 'research' in Pennsylvania. Our Council of Administration threw this New York City banker's (note singular, meaning Guy Emerson) idea out of the window at the July meeting. Other States will follow suit as soon as they get the low-down. . . . It's a branch banking move and will die aborning."

Protective Departments

The answers to your committee's final question in regard to Protective Departments and your opinion as to their value show that 35 States have no departments, as such, three States having discontinued them in recent years, and only a few Secretaries seem to be in favor of them.

In conclusion, the fields in which State association activities seem to be expanding, in the order of their relative importance, are:

1. Research.
2. Pension plans.
3. Public relations.

These increasing activities are indicative of the growing importance of the varied services rendered to member banks and hence the increasing value of membership. They mark the trend of State associations away from social activities toward activities of more serious and practical value.

Respectfully submitted,

W. GORDON BROWN, *Chairman.*

Report of Committee on State Legislation, by C. C. Wattam, Secretary North Dakota Bankers Association, Fargo, N. D.

In presenting his report, Mr. Wattam said:

Mr. Chairman, Ladies and Gentlemen: For the benefit of those people present who do not perhaps understand this report, I might say that the report covers a questionnaire which was sent out to all of the Secretaries subsequent to the spring meeting, covering State legislative matters.

The report follows:

Since the meeting of the State Secretaries Section at the Executive Council last spring the activities of this committee have been confined to the legislative questionnaire, which was sent out to the Secretaries of every State association. To date only 18 Secretaries have replied. In some of the States the matters set forth in the questionnaire have not arisen recently and arguments either way were not available. In other replies there seemed to be a misunderstanding of the information required and instead of giving the arguments pro and con, only the results were shown.

For the purpose of indicating what your committee had in mind with reference to the information asked for in the questionnaire, and to enable you to form some opinion as to whether the idea of gathering and summarizing information on these subjects is worthwhile and of sufficient value to warrant a continuance of our efforts along this line, we desire to quote you the reply of the Ohio Association on the question of legislation providing for the elimination of double liability on capital stock of banks as follows:

"Double Liability on Bank Stock

"Double liability in Ohio is constitutional. Therefore, it requires a vote of the people to produce a change. Constitutional amendments may be submitted to vote either by resolution of the Legislature or by a petition filed by sufficient voters. The Ohio Legislature last spring voted to submit the question of elimination of double liability on State banks and building and loan associations. (Building and loans receive deposits in Ohio.) This question will be on the November ballot. Adoption of the necessary legislative resolution was accomplished through the cooperation of this office, the State Banking Department and State bankers throughout Ohio, who acquainted their legislators with the facts.

"The following arguments were used on legislators and will continue to be use on the public in an effort to obtain votes for the amendment.

"1. Deposit insurance protects fully 99% of all bank accounts in Ohio.

"2. The Ohio Bankers Association has agreed to enactment of a law putting 10% to surplus until surplus equals capital, before paying dividends (identical with Federal law). This would actually be more valuable to depositors than double liability.

"3. Double liability has been more or less a snare and a delusion. While its collection has worked untold hardship on numerous people, actual figures show that it has meant less than 5% in increased dividends from closed State banks in Ohio.

"4. Since national banks are relieved of double liability by Federal law, as of July 1, 1937, State banks must be accorded the same treatment.

"5. Increased capital works for the protection of depositors. With double liability existing, it is impossible for State banks in Ohio to sell stock and increase their capital.

"6. With largely increased deposits in prospect, it would be necessary for many State banks to obtain additional capital, if they want to continue in business. If they cannot do so as State banks, they doubtless will seek national charters and the State banking system eventually would be destroyed.

"7. An additional reason for increase in capital (now impossible) is the satisfaction of demand for loans. The amount a bank can loan of course is based upon its capital, and if State banks are not put into position to increase capital, loans will be restricted besides.

"8. Twenty-two other States now have no requirement for double liability on the shares of State banks.

"9. Our campaign for favorable votes on the constitutional amendment will be a quiet one. Our plan is to work through officers, directors, employees and stockholders of State banks, with some cooperation from national banks. We plan through a series of local meetings, to acquaint officers of State banks with what must be done and place on them the responsibility of saying that all connected with their institutions work in this campaign. Every person connected with the banks is to be given printed matter listing the arguments for elimination of double liability and he will be expected to work.

"Periodical reports from various banks are expected to reveal the amount of work done and to give opportunity for stimulation of those who may lag. The campaign contemplates no publicity until a late date. Opinion is that such publicity would do no good and tend to stir up opposition. (More details on this if desired.)'

We also give you herewith the reply of the Kansas Association on the question of proposed legislation looking to the reduction of contract rate of interest.

Contract Rate of Interest

"(1) The legal rate of interest in Kansas is 6%. The maximum contract rate is 10%. The proposal to reduce the rate on one or both has been advanced at almost every session of the Legislature, but has not prevailed. It is significant that the Legislature in its biennial sessions in good times and bad times and all kinds of times has never seemed to regard the mere reduction of the maximum contract rate as a matter of very great public concern. When the thing is thought all through and sifted to the bottom, it is readily discovered that the maximum permissible contract rate has little or nothing to do with the actual current discount or interest rates which are always prevailingly below the lawful maximum, and which for obvious reasons are regulated by local conditions and customs and not by statute. Were there no statutory limitations at all, current contract rates would regulate themselves or be controlled by the natural laws which govern the prices of all commodities. The prevailing contract rate on the entire volume of loans and discounts in Kansas banks is known to be well below 10% or 9% or 8%, and it is believed would not exceed and possibly not equal even 7%. The cases where 10% or a higher rate per cent has been applied represents for the most part small advances for short time when the interest yield at less than 10% would show a loss or at best a mere stand-off to the bank. It has not been difficult to convince the committees of the two legislative bodies that the actual prevailing rate is a most acceptable rate both to the borrower and lender.

"(2) Bill was before the Kansas Legislature of 1935 to reduce the contract rate from 10% to 8%. The K. B. A. Legislative Committee, this time, deemed it advisable not to oppose the bill. The House Committee on State Affairs, to which the bill had been referred, originally recommended its passage, but later in same session reversed their recommendation and reported adversely, when it was discovered that to have reduced the contract rate from 10% to 8% at this time would have interfered with the operations of the Federal Housing Administration in making amortized loans, the rate on which to the borrower would in the end exceed 8% and thus become usurious. Other reasons may also have entered in to govern the committee's conclusions.

"(3) Furthermore, other Commonwealths, many of them much older than Kansas, seem not to have been over-much excited in this matter. In six States, viz., Maine, Massachusetts, New Hampshire, Rhode Island, Colorado and California, any rate contracted for is lawful. In five States, viz., Connecticut, Nevada, New Mexico, Utah and Washington, 12% is the lawful contract rate. Thirteen States, including Kansas, have a 10% maximum; one State, North Dakota, 9%; 10 States 8%; two States, Illinois and Michigan, 7%; seven States 6%, and four States 6%, with certain modifications.

"It is interesting to note the status in the various States with respect to the legal rate as distinguished from the maximum contract rate. Four States, Alabama, Colorado, Florida and Montana, stipulate a legal rate of 8%. Nine States stipulate 9%, including California, Idaho, Georgia, Nebraska, Nevada, South Carolina, South Dakota, Wyoming and Utah. Thirty-two States, including Kansas, stipulate 6%, and three States, Illinois, Louisiana and Michigan, 5%."

Obviously some worthwhile information along this line is available from many States, and it occurs to the members of this committee that each Secretary might be furnished by some central clearing house with a list of the various subjects which may provoke adverse and antagonistic legislation, and that when such legislation is proposed in any State the Secretary, or Legislative Committee handling the matter of presenting the bankers' side, might forward to such central clearing house the arguments in favor of and against such measures, and this information, in turn, could be relayed to the various State Secretaries, either at once or upon request.

Should the continuance of this work meet with the approval of this organization it should, in order to facilitate the work, be carried on by some permanent section of the American Bankers Association where the personnel does not change from year to yer, and it is possible that the legal department of the Association might be induced to act as such a clearing house in the gathering, summarizing and distribution of the information.

In the meantime, it is the desire of the committee that such associations as have not as yet relied to the questionnaire do so at once, so that the replies may be summarized and such information as is available can be forwarded to all association offices prior to the time when the various Legislatures will convene.

Respectfully submitted,

C. C. WATTAM, *Chairman,*
THEODORE P. CRAMER JR.,
JOHN S. GWINN,
H. GRADY HUDDLESTON,
GEORGE B. POWER.

At the conclusion of his prepared report, Mr. Wattam made the following extemporaneous remarks:

I might say, for the benefit of the people present other than Secretaries, that we sent out a list of about 10 questions—including moratorium legislation, contract rate of interest, personal instalment loans, and matters of that kind—asking for a reply from each of the Secretaries, and it is our intention as soon as the information is all in to summarize this and see that each State Secretary has a copy of it.

President Auch: I believe we might say a word further about this program which was undertaken by this Legislative Committee. It was conceived on the idea that there were many types of adverse banking legislation which were common to a number of States, and that if we could, through a central office or central agency—that agency being this committee—obtain information as to the manner of handling these, the arguments which were used against them, and so forth and so on, and then compile them properly, they would offer a valuable aid to the various State Secretaries and their Legislative Committees in combating and forestalling the enactment of this unfavorable legislation.

It seemed to me from my own standpoint I would be very glad to have in my hands, for the suggestive value they might offer, a summary of the arguments and methods used by all of you men, for instance, in connection with legislation on deficiency judgments, or if the issue of a State bank were imminent or actual in my State, certainly it would be useful for me to know what had been done in the successful efforts of other States.

But perhaps the answer is—or at least it might seem so on the basis of our having received only 18 replies—that it is not of interest to you. I think that while determination of further procedure in this direction lies with those who succeed us now in office here, it would be interesting and instructive and desirable to have some sort of an expression of opinion as to whether this is worth continuing.

In other words, if we can hand to you State Secretaries and your Legislative Committees summaries of the successful arguments and methods which have been used in other States, would it be of value to the extent of your taking the time to send in a rather complete explanation and summary of the work which you have done on this thing? What do you think of it? Shall we continue it or shall we drop it? If you do not want it, that is the answer, of course.

T. P. Cramer Jr. (Oregon): I, for one, would like to see it continued.

Paul P. Brown (North Carolina): So would I.

Robert E. Wait (Arkansas): If we could get the results by the first of January—

President Auch: I am speaking collectively, not individually. If you are going to have any results from this thing by the first of January, the first thing we need is answers to the questionnaires, and they are not in.

W. Gordon Brown (New York): Why didn't the 30 States reply? Is it because these matters are not of interest to them?

President Auch: I do not know. Have you talked to anyone who has not answered? Have you have any indication as to why?

Mr. Wattam: Yes; I have had a number of apologies here from several Secretaries who have not answered, and they promised to get the information in shortly. I might say that so far as this questionnaire is concerned, we intend to send out a summary to the Secretaries prior to the first of January, whether we get replies from all the Secretaries or not, but we would appreciate having a full set of replies in from all of the States if it is possible to get them in.

President Auch: I wish that someone here—if there be such—who has a contrary opinion, who believes this would not be worth anything substantial, would express it, because if it is not, it is certainly useless to impose a considerable burden of work such as this on Charlie Wattam and his committee. Does anyone feel that this would not be of substantial value to him? I would like to have you express yourself if you do. How many, then, are interested enough to see that proper information in proper form from their State comes in? Can we have a show of hands?

[The great majority raised their hands.]

President Auch: I imagine that a good many of those here represented have already sent in their information. There seems to be very considerable interest, and I imagine that those who are in charge of this section as officers next year will welcome that.

Changes in Association's Fidelity Bond and Blanket Bond

W. F. Keyser (Missouri): I believe I should call attention to the fact that all of the Secretaries and all members of the American Bankers Association have been supplied with information that is quite complete as to the changes that have been made in the American Bankers Association copyrighted Fidelity Bond and in the Number 8 Blanket Bond.

At the time of the spring meeting of the Executive Council of the American Bankers Association last April the new copyrighted Fidelity Bond was an accomplished fact At that time the Number 8 Revised Blanket Bond was practically an accomplished fact. All of the changes had been agreed upon and it was simply a matter of adopting the new form of bond by the surety companies.

In the report of the committee which was delivered at that time, the changes in the copyrighted Fidelity Bond were stated; the anticipated changes, which proved to be the actual changes, in the Number 8 Revised Bond were stated in that report and the anticipated changes in the burglary and robbery policy were stated in that report. Every Secretary and every member of the American Bankers Association was supplied with a copy of that report in this form.

The July issue of "Banking," the Journal of the American Bankers Association, contained an article written by Jim Baum, as Secretary of the committee, which contained all the changes in those contracts. So all of the secretaries and all of the members of the American Bankers Association have been supplied with that information very specifically and very fully.

The report of the committee to the Executive Council this evening will refer to this report as containing the changes. There is no material difference in the final drafts of those two instruments from what is contained in this report. Those anticipated changes in the copyrighted burglary policy have not become effective yet.

Report of Committee on Nominations—Newly Elected Officers

Mr. McFadden: Now for the report of the Nominating Committee: As to the President and the First Vice-President, they were as good as elected before I was ever appointed to the Nominating Committee so, instead of nominating them, I present your incoming President, Theodore P. Cramer Jr. of Oregon, and your incoming First Vice-President, Gordon Brown, Executive Manager of the New York Association. And, of course, I had to put one of my own Southern buddies on as Second Vice-President, so I present the name of C. W. Beerbower, of Virginia, for Second Vice-President. On the Board of Control: The officers already named, plus the retiring President, Mr. Auch, and also William Duncan, of Minnesota.

The nominations were presented as follows:

For President: Theodore P. Cramer Jr., Secretary, Oregon Bankers Association.

For First Vice-President: W. Gordon Brown, Executive Manager, New York State Bankers Association.

For Second Vice-President: C. W. Beerbower, Secretary, Virginia Bankers Association.

Board of Control: David M. Auch, Secretary, Ohio Bankers Association; Theodore P. Cramer Jr., Secretary, Oregon Bankers Association; W. Gordon Brown, Executive Manager, New York State Bankers Association, and William Duncan Jr., Secretary, Minnesota Bankers Association.

[The report was duly adopted and the officers installed.]