BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

Old Fashioned Modernism

PAGE ONE

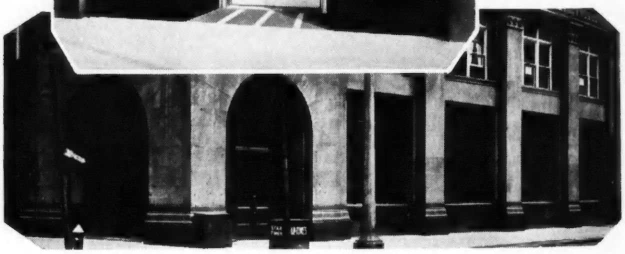
OCTOBER 1935

The Improvement of Living Standards
A Bank's Public Appearance
Pension Plan for Small Banks
American Character Loans
Protection for Farm Land Values

PUT NEW LIFE INTO UNPRODUCTIVE PROPERTIES WITH PITTCO STORE FRONTS

AFTER: *It was decided to remodel this property with a new Pittco Store Front, dividing the space up into seven individual stores. Here is how the property looks today . . . modern, easily rented, bringing in satisfactory revenue to the owners and attracting profitable business for the tenants.*

A close-up of one of the store entrances, elegant, dignified and sales-drawing, thanks to its Pittco Store Front.



BEFORE: *For several years before remodeling, this store space on a busy, downtown corner in St. Louis, Mo., lay vacant and unproductive. Attempts to rent it were unsuccessful.*

If your real estate or trust department is faced with the problem of handling properties which are old-fashioned, unproductive, hard to rent or sell . . . we suggest that you investigate the advantageous possibilities of remodeling with Pittco Store Fronts. These modern, revenue-renewing fronts have proved their value conclusively to banks throughout the country which have used them in "Modernizing Main Street".

They transform a property which has been totally or partially unproductive into one which not only pays its own way, but usually produces unexpectedly high and consistent revenue. They make "white elephant" buildings once more easy to rent or sell.

We invite you to write for our booklet on Pittco Store Fronts. You will find a perusal of it very much worth while . . . for it contains complete information, many pictures of Pittco-remodeled properties of all types, approximate costs of such remodeling, and many instances of how modernization has affected the revenue-producing power of the properties pictured. Merely sign and mail the coupon below for your free copy of this valuable booklet. We'll send it to you by return mail.

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PITTCO STORE FRONTS

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Street ____________________

City ____________ State ________

PAGE ONE

Regulations

EARLY Autumn days will witness the appearance of a new batch of rules for bankers to ponder over. The Federal Reserve Board must soon issue regulations:

To govern four months' advances by the Federal Reserve banks on other than eligible paper.

To govern open market operations.

To fix reserve requirements of member banks in the Reserve System.

To allow security company officers to serve as officers of banks.

To govern the refunding of money due a bank on leaving the Reserve System.

To define various classes of deposits for reserve and interest payment purposes.

To fix the limit of interest to be paid on various classes of time deposits.

To permit bank officers to serve in such capacity in more than one bank.

To regulate capital requirements for the admission of small state banks to the Reserve System.

To regulate the granting of voting permits to security affiliates.

To govern member bank amortized loans on real estate.

The Federal Deposit Insurance Corporation must issue regulations:

To determine the daily total of uncollected items to be counted as deposits.

To prescribe the manner of reporting and depositing trust funds.

To prohibit the payment of interest on demand deposits and limit interest on time and savings deposits.

To define demand, time and savings deposits for reserve and interest payment purposes.

Regulations must cover the same subjects in a number of cases, but it may be depended upon that the two authorities will not conflict.

*

Constructive Credit

Many of the agencies established by the Government as emergency organizations must continue to function until bankers take over the facilities these agencies now offer, wherever this can be done soundly, said Robert V. Fleming, First Vice-President of the American Bankers Association, in an address to the Financial Advertisers Association convention at Atlantic City.

"We often hear complaints against the Government participating in business; let us, therefore, make it possible for the Government to get out of business," Mr. Fleming said. "I do not advocate the making of unsound loans, or engaging in any practice contrary to sound banking principles, but I do believe that with the broadened facilities now available through the Federal Reserve System, and the fact that public confidence in the safety of banks has been restored, there is no longer any need for banks maintaining a high percentage of liquidity, and bankers can adopt a broader, long-range viewpoint in dealing with their customers. . . . It is my belief that the people prefer to deal with private institutions, carefully supervised by national or state authorities, rather than directly with governmental agencies which cannot function as elastically as the private organizations. Therefore, I believe bankers should explore the possibility of handling these credits at a reasonable rate of interest to the public, thereby helping the Government to reduce its expenses and, in turn, augment their own earnings."

*

Socialization of Banking

R. S. Hecht, President of the American Bankers Association, recently expressed concern "over the prospect that the supposedly temporary activities of the Federal Government in practically every phase of the banking business threaten to become permanent." Addressing the 22nd Annual National Business Conference at Babson Park, Massachusetts, Mr. Hecht said:

"There are more than a dozen Government lending agencies which have assets of about 10 billions of dollars. Many were necessary to bring about safe adjustment of the nation's financial and banking structure, shattered by the forces of the depression. Still, we seriously question whether it is desirable that so large a part of our credit activities should remain permanently under the control of these government agencies instead of being gradually taken over by the private instrumentalities which, under the changed conditions, should now be able to carry on their proper part in the nation's economic life.

"When President Roosevelt a year ago addressed the convention of the American Bankers Association in Washington he made it quite clear that he favored curtailment of activities on the part of some of these Government financial agencies as rapidly as private banking would demonstrate its willingness and

(CONTINUED ON PAGE 5)

OLD FASHIONED MODERNISM

Long before the late N.R.A., the automotive industry in general had put into operation standards of working conditions and wages that surpassed even the Recovery Administration's requirements. Henry Ford is a notable example of this progressive attitude. It has recently been pointed out in connection with wealth sharing agitation that the Ford company, for 32 years up to last June, had received from the public $12,500,000,000 and had paid out in wages, materials, taxes and plant the sum of $12,395,000,000

ACME

HOIT

UNEMPLOYMENT PROBLEM

"The increase in the quantity of useful labor actually employed within any society must depend altogether upon the increase of the capital which employs it; and the increase of that capital again must be exactly equal to the amount of the savings from the revenue, either of the particular persons who manage and direct the employment of that capital, or of some other persons who lend it to them."
—Adam Smith's *Wealth of Nations*

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Bank management topics in this issue: Identification of New Depositors; Building and Modernization Activity; Banking-by-Mail; Clearinghouse Coincidence; Records of Foreclosed Property; A Centralized Stenographic Unit; Reconciling Correspondent Accounts; It Might Have Been Prevented; Bank Forms; Personal Loans; The Mechanization of Trust Work; Director Audits; Mutual Savings Deposits.

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(CONTINUED FROM PAGE 1)

ability to resume its normal functions. We believe the President was quite sincere in this statement, but it behooves us to bear in mind that there are in the President's entourage as well as in Congress many who do not share this point of view, and who not only believe that the operation of these Government agencies should be made permanent but should be considerably expanded, while some even go so far as to argue openly in favor of the socialization of our whole banking and credit system.

"Against this ultra-modern philosophy of complete Government control of credit the bankers will necessarily put up strong resistance because it strikes at the very foundation of their business."

*

Housing

The Government has moved to coordinate the activities of all of its agencies concerned with housing. These agencies include the Housing Administration with its insurance or guaranty of mortgage loans; the P.W.A. in its low cost housing financing; the Emergency Relief Administration in its rehabilitation program; the Home Owners' Loan Corporation with its loans on homes; the Federal Savings and Loan Associations with other loans on homes. Even the Farm Credit Administration has been mentioned in this connection. Coordination might or might not work. Consolidation is a better idea.

Bank Stocks

The fact that a number of great metropolitan banks have reduced their dividend rates this year naturally has affected the prices of their shares, since the *prima facie* test of the worth of a bank stock from a stockholder's standpoint is the dividends it represents. It is rather clear, however, that this superficial test is not altogether sound. A bank stock may be intrinsically worth more through the conservation of a bank's assets than in the immediate return represented by dividends. Drawing down dividends which have not been earned may be permissible for a time, but in the long run values and ultimate profits can be conserved only by limiting dividends to what has been earned over and above proper maintenance of reserves and surplus funds.

*

Automobile Losses

Two and a half billion dollars is the estimated total annual monetary cost of automobile accidents in the United States at the present time. The cost in lives blighted or ended is immensely greater. These facts present a challenge to the American people which can be answered more by their self-control and good sense than by any schemes of traffic control or road improvements.

*

Potatoes

Given the soundness of crop control of any sort, the proposed control of the

ADVERTISING POLICY

Charles R. Gay, president of the New York Stock Exchange, urged before the Financial Advertisers Association a policy of public education characterized by the "utmost candor." He said, "There is no magic that I know of that can either successfully or honestly be invoked as a substitute for a policy of public education." In the photograph below, Mr. Gay (center) is talking with members of the S.E.C.

WIDE WORLD

potato crop is logical enough, but its effects are to demonstrate that crop control is hardly a sound proposition in the first place. The humble tuber may not have much dignity or majesty, but as one principal element in the food of the American people it may be found to have abundant power, political and economic.

*

Stabilization

The international movement for the stabilization of currencies is again said to be growing, but inasmuch as this has been a monthly report for the past two years or more the rate of growth is considerably less than impressive. The fact of the matter seems to be that, while the need of stabilization is greater than ever, the internal condition of most countries which delay stabilization is worse than ever. Until there is internal stabilization there can be no external adjustment of currencies, prices and all that goes with the term "stabilization."

*

Working

The exchange equalization fund in Great Britain and the stabilization fund in the United States work in mysterious ways, but there is abundant evidence that they are at work and, one may be permitted to think, working together.

*

Excess Reserves

Excess reserves have become an old story, but the higher they mount the more difficult becomes the problem of controlling them through the Federal Reserve or otherwise. The sale of Government securities by the Reserve banks as a means of taking up some of these unused funds is unthinkable in view of the Government's borrowing program and the effect of such a policy on the country's banks in lost Government bond values.

On the other hand the raising of member bank reserve requirements by the Reserve Board under its new power involves inequalities as between member and non-member banks which threaten trouble. In other words, there is nothing to indicate that either the open market committee powers or the control of reserves will be invoked to interfere with the credit situation unless and until there are runaway credit conditions which threaten trouble. Easy money is likely to be with us indefinitely.

INTERNATIONAL

Sir Samuel Hoare, British Foreign Secretary (at right; Anthony Eden at left), said at Geneva that Great Britain stood behind the League covenant "in its entirety and particularly for steady, collective resistance to all acts of unprovoked aggression." Meanwhile the British garrisons at Malta and other points were being strengthened

Underwriting

The manner in which the banks have accepted the decision of Congress not to permit even limited underwriting of security issues by them seems to indicate that they really were not anxious for the permission. As a matter of fact, the vast majority of banks in point of numbers and the greater part in point of resources have never used such powers and have no other interest in the matter than to keep the banking business sound and in a wholesome condition.

*

Russian Gold

Russia's production of new gold this year is expected to reach a value of $400,000,000 and the Russian Government's gold stock may reach $1,500,000,000. This is just so much more reason for the gradual change of the Soviets from a communistic to a capitalistic state.

*

Agreement

The American people are agreed as to one thing in regard to Senator Huey Long and his spectacular career. An assassin's bullet is no way to settle political controversies.

*

Foreign Funds

Funds from abroad continue to flow into the United States, mostly for deposit or short term loan account. The increase in bank deposits by foreigners in the country during the first half of the current year is estimated at around $600,000,000. The increase in excess reserves of member banks in the period was about the same. Available credit in the United States at the present time is governed more by foreign gold than by the Federal Reserve Board or any other Governmental authority.

*

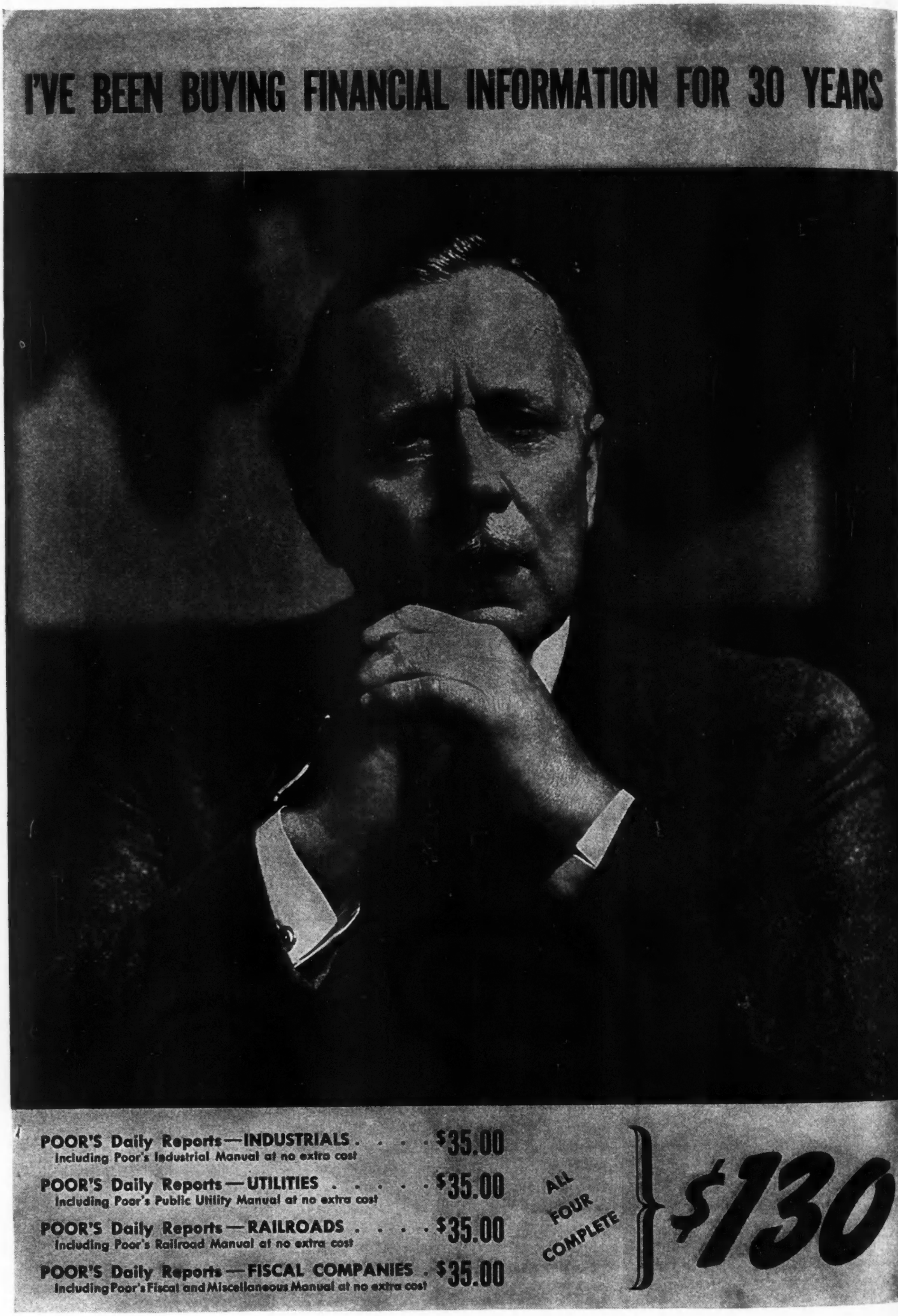
Racing

When the silver purchase policy of the Government was inaugurated it was estimated that the Federal Treasury would have to acquire about 1,300,000,000 ounces of silver to establish the mandatory 75–25 ratio of metal back of the currency. Since that time the Treasury has acquired approximately 600,000,000 ounces of silver, but because of the increase in the gold stock it has yet to acquire about 1,200,000,000 ounces of the white metal. Quite likely this race between the gold and silver stocks will prove one of the most exciting in history—and the most expensive.

*

Railways

It is somewhat uncertain how much the new railway reorganization act will speed up railway rehabilitation, but bankers and railway men are generally agreed that it will prevent the stalling on the part of groups of equity holders which has delayed reorganization of so many of the roads in difficulty. Railway security holders are to be allowed time in (CONTINUED ON PAGE 10)



I'VE BEEN BUYING FINANCIAL INFORMATION FOR 30 YEARS
POOR'S Daily Reports—INDUSTRIALS $35.00
Including Poor's Industrial Manual at no extra cost
POOR'S Daily Reports—UTILITIES $35.00
Including Poor's Public Utility Manual at no extra cost
POOR'S Daily Reports—RAILROADS $35.00
Including Poor's Railroad Manual at no extra cost
POOR'S Daily Reports—FISCAL COMPANIES . $35.00
Including Poor's Fiscal and Miscellaneous Manual at no extra cost
ALL FOUR COMPLETE
$130

KEYSTONE

F.H.A.

Stewart McDonald has succeeded James Moffett as Federal Housing Administrator

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(CONTINUED FROM PAGE 7)

which to complete plans for reorganization of the roads. If they fail to come to an agreement within such a period the Interstate Commerce Commission will draft a plan of reorganization that will be submitted to the courts for approval.

It has long been evident that the reorganization of most of the railways in difficulty will entail paper losses for security holders, and if reorganization is forced through at a time, and on the basis of, sub-normal railway earnings their losses will be real. It is unlikely that the I.C.C. or the courts will countenance reorganizations so drastic as to fail to allow for the influence of normal earning possibilities upon the interests involved, but it is also unlikely that they will permit mere possibilities of future earnings to interfere with a settlement on the basis of realities. The sooner actual conditions in the railways of the country are faced, the sooner will banks and other investors be able to know and use the real value of their railway securities.

*

Reserves

The net result of changes in the member bank reserve requirements under the Banking Act of 1935 is an estimated increase in reserves required of the large metropolitan banks and a decrease in the reserves required of country banks. The rule that banks shall maintain the same reserves for Government deposits as for any other demand deposits will result, according to estimates, in an increase in reserves of approximately $75,000,000. On the other hand, permission for banks to deduct from their gross deposits, in computing reserve requirements, demand deposits due from other banks and cash items in process of collection means a reduction in their reserve requirements of approximately $100,000,000. The result is a net increase in excess reserves of about $25,000,000. With excess reserves above $2,700,000,000 this means little, but in the case of some individual banks it may mean much.

*

Canadian Credit

Two reasons account for the fact that the government of Canada has been able to borrow $20,000,000 in this country for four months at the rate of ¾ of 1 per cent. One is an abundance of money seeking investment and the other is the high credit standing of the Dominion Government. Under present conditions high credit rating is about all that is necessary to secure loans on almost any terms.

*

Recovery

The last seven recovery agencies of the Government have been put under the control of the Director of the Budget as a matter of economy and as an indication that the peak of the depression emergency has passed. At first view the step might be taken as an indication of the permanence of these agencies. Doubtless the step in any event is to be approved, but pending developments it is likely to be regarded with benevolent suspicion.

LABOR RELATIONS

Joseph Warren Madden of Pittsburgh has been chosen by President Roosevelt to head the new National Labor Relations Board

HARRIS & EWING

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

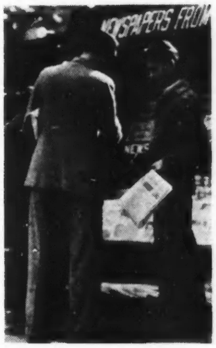
OCTOBER 1935

A Bank's Public Appearance

By WILLIAM DORSEY KENNEDY

Account Executive, J. Walter Thompson Advertising Corporation; former Assistant Dean, Graduate School of Business Administration, Harvard University

THE other evening I heard an advertising executive "telling off" bank advertising. It was dull, stupid, over-conservative. It lacked selling punch. It was a disgrace to the American standards of the advertising craft, which showed to its best advantage in commercial advertising—the promotion of such products as foods, cigarettes and automobiles.



Five years ago, when I was a copy-and-contact man working on commercial accounts, I should have shouted "Amen!" to such a diatribe. A year later, when I was undergoing my initiation as a specialist in bank advertising, I might have hung my head in shame. But now I am a little more inclined to come up on my toes and exchange a few punches on such occasions.

Let me admit first of all that there is plenty of weak, superficial bank advertising—just as there is plenty of bad commercial advertising. But it is probably safe to say that commercial advertising sometimes sinks to depths which bank advertising has never plumbed.

There is a vital and fundamental difference between the two types—a distinction which the commercial advertiser often fails to realize. The clearest and most satisfactory way of drawing the distinction involves the use of some simple percentages and their graphic presentation.

In all kinds of advertising it is sometimes helpful to define as accurately as possible the objectives of a proposed campaign—its target—in terms of the groups of readers whom it is intended to reach. In the case of a certain product in the automotive field, it was agreed that six classes of readers should be considered in planning a campaign: Prospects, Employees, Dealers, Present Customers, Stockholders, Competitors. Naturally, however, some of these groups were far more important than others; therefore, the list was "weighted" with percentages, with the following results:

Prospective Customers	75 per cent
Employees (chiefly sales force)	10 per cent
Dealers	10 per cent
Present Customers	3 per cent
Stockholders	1 per cent
Competitors	1 per cent

Presented graphically, these figures make a target that looks something like the one at the top of page 14.

In other words, the advertising should be aimed almost entirely at the prospective customer. A poor second and third in importance were the trade and the sales force of the advertiser. In this case, they were recognized merely by a sales portfolio and a dealer broadside describing the campaign. Present customers, competitors and stockholders were, for all practical purposes, disregarded.

When this particular target was worked out, the method met with some ridicule. "It may be absolutely correct," said the critics, "but what of it? Every experienced advertising man already knows what the typical target looks like, and it is practically the same for every product. At least, the possible error in making up any one target is as large as the variation between two targets would be."

This is a glib criticism and its plausibility helps to explain why many superficial commercial advertising men go astray when they try to create bank advertising. For my own interest, I recently worked out, very crudely, a target—similar to the other one—for a certain bank in a midwestern city which I know something about. It is above the national average in size, and there are other special features about it

Prospective Customers—75%

"IN all kinds of advertising it is sometimes helpful to define as accurately as possible the objectives of a proposed campaign—its target—in terms of the groups of readers whom it is intended to reach. In the case of a certain product in the automotive field, it was agreed that six classes of readers should be considered in planning a campaign. . . . Naturally, however, some of these groups were far more important than others. . . . Presented graphically" the campaign target looked like the one at the left.

which would prevent its being considered typical. However, bank executives may judge for themselves if their own advertising objective is not more similar to this than to the objective of the automotive product mentioned before.

Here is the weighted list:

Prospective Customers	25 per cent
Present Customers	25 per cent
Employees	20 per cent
Competitors	20 per cent
Stockholders	10 per cent

And at the top of page 15 are the figures, presented graphically, in the form of a target.

The man who has always planned his advertisements almost wholly around the prospective customer finds it difficult to adjust his thinking to this new emphasis of the various groups which must be considered in planning a bank campaign. A very brief discussion should be enough to suggest some of the reasons for the difference.

When a commercial advertising man plans a bank campaign his first thought is to give examples of unusual service rendered to present customers. "Just tell the public how your bank helped that American exporter get the big order from Rio. That will bring in your prospects in droves."

But if a bank accepts the advice and describes the Rio matter in its next advertisement the results will not be up to specifications. Such advertising is quite as likely to rub old customers the wrong way as to bring in new accounts. These old customers are quite likely to demand why they were not informed of that sales opportunity in Rio. Why the favoritism? By the law of averages, probably half of these old customers are also stockholders in the bank, and may make the added complaint that the advertisement had too much white space. What about that dividend cut at the last directors' meeting? Was it to save the stockholders' money only to squander it for this lavishness?

The commercial advertiser is not much worried about offending his competitors. Occasionally he may give a brief thought to the possibility that the Federal Trade Commission may penalize him for unnecessary roughness, and that is all. But it is different with the banker.

Naturally he wants profitable new accounts and usually the most profitable accounts are the larger ones. Unfortunately these big prospects may have banking connections already, perhaps three or four of them. In many cases the most a banker can hope for is a slice of the deposits and a chance to go in with a group of other banks on a loan.

In view of the fact that these other banks already have the ear of this prospective customer, and since a new bank in the picture must work harmoniously with them in this and similar situations, too aggressive advertising is out of the question. It is interesting how many of the banking institutions known for their ruthless methods of sales promotion found themselves in trouble during the depression.

All this may sound as if every circumstance conspired to hamstring the creator of bank copy. *This* would be in bad taste; *that* would be misunderstood. *Here* sound policy forbids the statement of a graphic, interesting fact; *there* we must qualify in the interests of strict accuracy so much that our sales argument is almost smothered. Isn't creating bank advertising a rather drab and uninteresting business?

Yes and no. It depends on the man who does the work. If he is primarily a showman, if he objects to patient revision and countless rewrites, he won't be happy in bank advertising. But there is a real challenge in the job to be done; bank advertising has a rôle to play as important as any commercial advertising, if the limitations and prohibitions which surround it can be overcome. And the material is almost limitless; few are well informed on banking, and almost everyone would like to know about it.

Here, for example, are a few paragraphs which suggest a type of advertising topic almost unheard of ten years ago, but accepted today as appropriate for public discussion:

> Changes in the American banking system are being widely discussed. Sound revision will be supported by all progressive bankers. Yet laws and regulations of themselves cannot assure safety, a high standard of service to customers or genuine helpfulness to the community. These are essentially products of good management.

Prospective Customers—25%

"FOR my own interest, I recently worked out, very crudely, a target—similar to the other one —for a certain bank in a midwestern city which I know something about. It is above the national average in size, and there are other special features about it which would prevent its being considered typical. However, bank executives may judge for themselves if their own advertising objective is not more similar to this than to the objective of the automotive product mentioned before." The bank target, at right.

The results of a conservative loaning policy and of a proper emphasis on profitable business are apparent in the atmosphere of a bank. Confidence . . . courtesy . . . calm and unhurried consideration of the customer's problems . . . these are all reflections of good management.

* * *

The good commercial loan is of *temporary* nature, *self-liquidating* in the normal expectancy of business, and *profitable* to the borrower. It is usually made to a reliable merchant, manufacturer or shipper to carry him over an ebb tide in ready money—which is a flood tide in inventory.

* * *

Every good loan gives a definite impulse to commerce and industry; every bad loan eventually acts as a drag on all business; for the total of bank credit available cannot be expended indefinitely.

"You couldn't hire me to do bank copy," a bright young man told me not long ago. "When you clear it with the advertising manager, it has to go through two committees, three vice-presidents and the president and the chairman. If it ever had any life in it, they take it out."

With this point of view, which is widely held, I violently disagree. It is quite impossible—for me at least—to get into a campaign any genuine sense or feeling of an institution—its special character and individuality—without running this gauntlet.

It is not enough merely to interview a number of officers as a preliminary to writing copy. It is not enough to "drench yourself in the spirit of the institution"—whatever that may mean. It is essential to give every piece of copy its baptism of fire from a group of officers representing varied points of view—loan, trust, business extension, research, branch offices—the more the better. Some opinions and criticisms may be overruled but all should be heard. In no other way is sound copy assured and in no other way is continuous improvement possible.

A banker once said, to a friend of mine, something that I have always remembered: "It's a very small world, this business of banking. We know each other almost too well. Living as close together as we do, the competitive edge in morale—even a very small one—counts tremendously.

"I want an advertising campaign that will make my average employee feel just a shade superior to the employees of other banks, and a little prouder of his institution than he ever felt before. I want this campaign as badly as any commercial advertiser wants an Amos and Andy or a Halitosis. Of course, any campaign that did that would also carry a feeling of confidence and an impression of leadership to my old customers, to my stockholders, and to the kind of prospect I want to reach."

This is a large order. Few bank employees—to say nothing of the public—know what constitutes leadership in banking. Size, the old yardstick, means little now. The new yardstick seems to be associated with sound traditions as much as anything. Good management, a spirit of trusteeship, a sense of public responsibility, plain business honesty—all these go into it.

But this is vague and hard to grasp. It must be defined, crystallized. Long hours of patient craftsmanship are necessary; every word must be weighed and measured. A hundred possibilities of misunderstanding and ridicule must be avoided.

Of course, the end result of all this does not look much like a cosmetics advertisement. But let's remember that in the old meaning of the word an "advertisement" was merely a public statement. We are inclined to think of it too much in its restricted modern meaning, as an offer of goods or services for sale. There is a place for both in banking. But the best bank advertising is a true chip off the old block.

One final word to our friend the commercial advertising man, a prophecy and a warning. The day may not be far off when the public will decide that the things that go to make up leadership in banking may also make up leadership in factory and store. Some day he may find himself studying bank advertisements for suggestions.

A Pension Plan for Small Banks

By T. P. CRAMER, Jr.

Secretary, Oregon Bankers Association

THE passage of the Social Security Act with its old age pension plan will, if it is upheld by the courts, establish the principle of retirement insurance for every employer of labor and each of his employees except agricultural, domestic, casual, governmental or charity workers. This applies equally to the employer of one or two and the employer of hundreds.

Manufacturing and industrial laborers, workers in mercantile and financial institutions, office and professional employees, whether they desire it or not, will be under the plan. It is one of the most far-reaching pieces of legislation enacted by a peace-time Congress. What its future effect will be, time only can tell. One of its immediate effects is to place the problem of pension or retirement insurance squarely up to each employer and each employee.

How does this affect the small bank? Practically all those companies engaged in group underwriting have plans available for banks or industrial institutions, manufacturers or similar employers of labor, having more than 50 employees. Few, if any, will underwrite a group of less than that number.

For small banks, and those not so small, but with less than 50 employees, the questions then are: Is any plan, other than the Federal plan, available whereby pensions may be provided for employees? If so, are they satisfactory as to provisions and are they workable? The answer to both questions is that bankers can find very satisfactory plans if the law permits. Let me illustrate by our experience in Oregon.

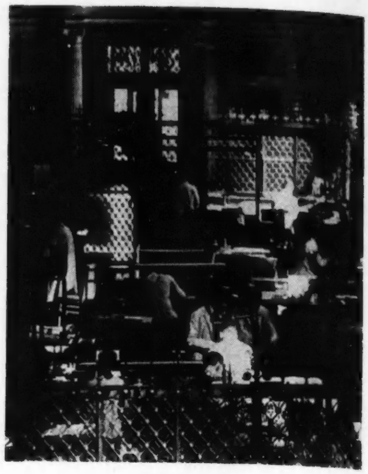
Over the past two or three years we have had several requests from member banks in the "less than 50 employees" class, to ascertain what could be done as an association of institutions. We received but little encouragement from underwriters.

However, late in 1934 in obtaining other statistical data for use in public relations work, we also obtained data relative to the number of active officers and employees in all Oregon banks and also the amount of the annual payroll.

Of the 112 Oregon banks, not including branches, two had pension plans in force and four others had sufficient employees, including those in branches, for operation of an independent plan. Of the total of 1,664 officers and employees, 1,052 were in these six banks. The annual bank payroll in Oregon is approximately $2,868,000, of which $1,929,000 was in these same six institutions, which had deposits of $166,668,000 out of the total in the state of $220,746,000. Therefore, 96 per cent of the banks in Oregon had 37 per cent of the total employees and 33 per cent of the annual bank payroll and were ineligible under any present plan for retirement insurance. These same banks had but 24 per cent of the bank deposits. These same figures in other states will probably not show such radical differences, because over 61 per cent of the total deposits of the state with a corresponding proportion of the employees and payroll are concentrated in two large banks and their branches.

A PLAN FOUND

THESE figures and the problem of the small bank in connection therewith were considered by our insurance committee, five of the six members of which came from the smaller banks. It was decided to call for help from insurance experts, and therefore we communicated with the Portland office of Marsh & McLennan, insurance brokers. They were of the opinion something could be worked out, though where or just how remained a question. More information was necessary, however, and with their help a blank was prepared and sent to each member bank. As returns were received, they were compiled and the information made available to some 20 underwriting agencies. Many were not engaged in group underwriting. Others were not interested in underwriting a group of this kind where there was no common employer. However, three of the outstanding insurance companies submitted proposals. These were analyzed and set up for comparative purposes, and our executive committee, which had been authorized to act by the 1935 convention, chose the plan submitted by the Aetna Life Insurance Company of Hartford.



"So far the Government plan is not the complete answer"

There is no need to go into the advantages of pension and retirement plans generally. That was ably covered by Fred B. Brady's "Bank Pension Blueprint" in the August issue of BANKING. As was so ably stated in a bulletin of the New York State Bankers Association, "Bankers in common with all careful and conservative business men set up reserves to meet obsolescence in building, equipment, possible or probable losses, and, in fact, nearly everything excepting that which represents the greatest outlay and the obsolescence of which is bound to occur, that is, in man-power."

The problem was one of acquainting member banks with the details of the available plan and answering their questions. Bulletins from the secretary's office set this out in as much detail as possible. A booklet was prepared by the Aetna Company in which the complete proposal was set out and copies, sufficient to allow one to each bank employee in the state, were prepared and distributed. Representatives of Marsh & McLennan and the Aetna Life Insurance Company called on each

	GOVERNMENT	OREGON BANKERS
RETIREMENT AGE	65 (First retirement in 1942. Cannot help any person born before Jan. 2, 1876).	Women 60, men 65
PAST SERVICE CREDIT	None	Full, none or part, at bank's option.
FIRST RETIREMENT	1942	As soon as any participants reach retirement age.
SALARY LIMITS	$3,000	$4,800 for past service; $4,560 for future service.
MAXIMUM PENSION	$85.00	No maximum.
ELIGIBLES	All employees.	Must have minimum of 100 employees from throughout the state, and ¾ of those in any one bank. This latter requirement will be elastically operated.
COST TO EMPLOYEE	Begins at 1% of salary or wages in 1938, and increases to 3% in 1949 and thereafter.	4% of salary or wages without increase.
COST TO EMPLOYER	Same as above based on payroll.	Varies according to age and sex of employees. Averages about 5% of payroll.

KEYSTONE

John G. Winant, designated chairman of the Federal Social Security Board

bank with figures worked out for that bank showing the cost to the bank for past service pensions if it chose to make that up; the cost to both bank and each employee for future service pensions; what was guaranteed each bank as the employer; what was guaranteed to each employee; and what options were available.

The plan is almost identical in most respects with those in operation in dozens of banks and industrial concerns. It differs somewhat in operation because there is no common employer. Briefly its provisions are as follows:

1. The plan is uniform for all members of the Oregon Bankers Association who join. It is not compulsory, but open *only* to employees of association members.

2. New employees enter the plan only on March 1 or September 1, with the further provision that they shall have completed a probationary period of one year.

3. Normal retirement age is 65 for men and 60 for women.

4. The pension credit for each year of future service is 1½ per cent of salary earned during that year and the accrued credit for past service is 1 per cent of present monthly salary multiplied by completed years of past service, less one year.

5. The employees contribute a uniform percentage of salary—4 per cent.

6. The employees are divided into salary classes for purposes of simplicity. All employees in one salary class contribute the same amount and get the same pension credit for that year of future service. Changes in salary classification are effective only on the contract anniversaries.

7. Accrued liability for past service is paid in a lump sum if possible at the installation of the plan; otherwise it is amortized over a period of years.

8. Each bank meets its own share of the cost for its employees, including the whole of the cost for past service. This past service cost or accrued liability depends upon the ages, salaries and years of service of the employees at the installation of the plan.

9. A death benefit to the employees equals the return of their contributions with 3 per cent interest. On withdrawal from service for any reason, a return of the employee's contributions to him together with interest is allowed.

10. An employee who withdraws after 20 years has the right to receive a deferred annuity for his own contributions plus the bank's contributions on his behalf.

11. A refund is made to the bank of the contributions made on behalf of an employee who withdraws with less than 20 years service. At the option of the bank, the bank's contribution on behalf of any employee may be credited to that employee upon withdrawal from service, even though he has worked less than 20 years.

12. The cost to the bank is a percentage of payroll and depends upon the age distribution in the various banks, but, normally, for *both past and future* service costs from 5 per cent to 7 per cent of payroll.

13. The bank has the option of making up all past service, no past service or part of the past service, except that all banks choosing the latter option must be uniform, viz.: 25 per cent of past service, 50 per cent—10 per cent or some uniform figure.

In accordance with paragraphs 9, 10 and 11, above, if an employee leaves the bank before retirement, he may elect either (a) a cash value or (b) a paid-up pension.

The cash value is based on length of membership and amount of contributions. The table below shows the cash value for each $1 of monthly contributions.

YEARS OF MEMBERSHIP	TOTAL CONTRIBUTIONS	CASH VALUE
Less than 4 years	......	100% of contributions
4 "	$ 48.00	$ 48.00
5 "	60.00	60.36
10 "	120.00	127.92
15 "	180.00	206.28
20 "	240.00	297.12
30 "	360.00	524.52
40 "	480.00	830.04
50 "	600.00	1240.80

EXAMPLE: If an employee has contributed $3.20 per month for 15 years, his total contributions amount to $576. His cash value would be $660.10 ($3.20 × $206.28).

The paid-up pension is the pension, commencing on normal retirement date, which the employee's contributions have purchased. If he dies or surrenders his paid-up pension before normal retirement date, the cash value he could have elected on leaving service plus any interest credited after leaving service will be paid to him or to his beneficiary.

An employee who leaves after 20 years of service and who does not take his cash value on or after leaving service is also credited with the paid-up pension which the bank's contributions have purchased.

The new Government plan not only does not interfere with this private plan, but an analysis of its benefits shows that the pensions are small, particularly so for the older and higher paid employees. It is, however, undoubtedly a step in the right direction and is possibly adequate for the lower paid group of industrial employees who are now young and who will contribute for some years to come.

The Oregon Bankers Association pension contract provides that after January 1, 1937, any bank so wishing can have its contract modified to the extent that a contribution is required under the Government plan, and therefore there not only is no conflict between the two plans but they are dovetailed together. After all, the general object is to put the banks in such a position that they will be able to retire employees with reasonable pensions when they reach retirement age. So far the Government plan is not the complete answer.

Congress eliminated the Clark amendment which would have allowed employers to maintain privately insured or trusted plans in the place of a Government plan if they wished; however, this has little affect on the Oregon Bankers Association plan, as there is nothing to prevent a corporation carrying on a private plan to supplement the benefits under the Government plan.

A comparison of actual pensions provided is the best method of understanding the difference between private and Federal plans. The amount of monthly pension will, under the Government plan, be based upon total wages earned from 1937 to age 65, and determined by the following table:

½% of first $3,000 of total wages.
1/12% of next $42,000 of total.
1/24% of all over $45,000 of total.

The maximum salary considered in any one year is $3,000. If anyone receives more than that amount, the excess will be disregarded. The maximum monthly pension possible is $85, and in order to receive the maximum a person would have to start at the age of 22 receiving $3,000 per year or over to age 65. (See the table at the left.)

Nothing is credited for past service under the Federal plan.

The problem of administration is the chief question after the plan is once accepted by the bank. This has been answered in our case by the Aetna Life Insurance Company's billing the Oregon Bankers Association once each month for the total contributions to be made by all participating banks and their employees.

The association office will draw sight drafts for the amount to be paid by each bank and its employees, and run them through the mail exactly as annual dues are collected, do the necessary bookkeeping and pay the total to the Aetna once each month. Details are simplified for the underwriting company and but very little more work is caused the association office.

As this is written, signed participation cards and contracts are being received with sufficient rapidity to insure the plan's being in actual operation with not less than the required minimum of 100 officers and employees before October 1. After the plan is once in operation, any member bank, large or small, can join at any time. While the Oregon Bankers Association pioneered this field, doubtless others will follow, judging from the interest our plan has stirred up.

MONTHLY PENSION AFTER AGE 65 UNDER THE SOCIAL SECURITY ACT

Average Monthly Salary	*Years of Employment after 1936* 5	10	15	20	30	45
$ 25.00	(*)	$15.00	$16.25	$17.50	$20.00	$23.75
50.00	$15.00	17.50	20.00	22.50	27.50	35.00
75.00	16.25	20.00	23.75	27.50	35.00	46.25
100.00	17.50	22.50	27.50	32.50	42.50	53.75
125.00	18.75	25.00	31.25	37.50	50.00	59.38
150.00	20.00	27.50	35.00	42.50	53.75	65.00
175.00	21.25	30.00	38.75	47.50	57.50	70.63
200.00	22.50	32.50	42.50	51.25	61.25	76.25
225.00	23.75	35.00	46.25	53.75	65.00	81.88
250.00	25.00	37.50	50.00	56.25	68.75	85.00

* Lump sum payment of $52.50

A man who has 30 years in the plan after January 1, 1937, at $2,400 per year, will have $72,000 in total wages. In accordance with the Federal plan, his monthly pension would be determined as follows:

½% of $3,000	$15.00
1/12% of $42,000	35.00
1/24% of $27,000	11.25
TOTAL MONTHLY PENSION	$61.25

Under the Oregon Bankers Association plan, this man would receive a pension of $90 per month. If the same man, assuming he is now age 34, has had 10 years of credited past service, his annuity resulting from the Oregon Bankers Association would be as follows:

Monthly future service annuity 31 years @ $3.00 (1½% of $200)	$93.00
Monthly past service annuity 10 years @ $2.00 (1% of $200)	20.00
TOTAL MONTHLY PENSION	$113.00

Bond Market Forecasting

By GILBERT HAROLD

The author is instructor in finance at Ohio State University

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MORE than a year ago in the AMERICAN BANKERS ASSOCIATION JOURNAL (July 1934), Mr. Harold presented for consideration the results of a statistical study of the advices of certain well known forecasting agencies. Entitled "Accuracy in Reading the Investment Spectrum", this article discussed the market's verdict of "buy" and "sell" advices advanced by these organizations during the third quarter of 1933.

WHEN a forecasting agency recommends the sale of one bond and the purchase of another, such a transfer of funds anticipates a probable decline in the one issue and a probable rise in the other. An important question, then, is whether the market justifies this expectation. If it does, presumably it would be wise policy to follow these advices rather generally; if not, then presumably they should be ignored or considered with greater caution.

Reference to the discussion in this magazine in July 1934 shows that, so far as the immediate term (10 days) and short term (about 3 months) findings were concerned, the record revealed scattered results, for it was found "(1) that in some cases the 'sell' issues fell more than the 'buy' issues, (2) that in some cases the 'sell' issues fell less than the 'buy' issues, (3) that in some cases the 'sell' issues fell while the 'buy' issues advanced in price, (4) that in some cases the 'sell' issues rose in price while the 'buy' issues fell, (5) that in some cases the 'sell' issues advanced less than the 'buy' issues, (6) that in some cases the 'sell' issues advanced more than the 'buy' issues. In other words, a great diversity of results was found."

Nevertheless, by the use of averages, the writer was able to specify with more or less exactitude to what extent the bond forecasting agencies had succeeded in their task. This was done, however, for only the immediate and short terms; sufficient time had not elapsed to permit the inclusion of a medium term (which we may designate as about a year and a half).

In order to simplify the statistical presentation of the resulting data, it was found advisable to state the extent of success in terms of "positive" and "negative" weeks. If the average of the "sells" of one week's advices for one agency dropped more or rose less than the average of the "buys", that week's advices were said to have turned out to be positive. Contrariwise, if the average of the "sells" declined less or rose more than the average of the "buys", the results were designated as negative.

On this basis it was found that for the most part the results for the immediate term (10 days) were positive. Over the short term (about 3 months) the results were mixed.

Since then, however, sufficient time has passed to show whether the bond forecasting agencies were more or less successful over a medium term (about a year and a half). For these purposes the quotations on all the 795 bonds involved in the tests were taken as of May 11, 1935. Each of the prices was converted into a relative, and the relatives were averaged. By this means it was possible to compute, as previously, the number of positive and negative weeks for each agency. The results, together with the findings for the immediate and short term data are shown on page 67.

It is seen from these data that the results for the immediate term were, on the whole, gratifying. For the short term, little could be said favorable to the forecasts, except for one agency. And now, for the medium term, the results are still lacking in decisiveness, although it must be admitted that there is some slight improvement over the results for the short term.

It is worthy of note, however, that over all three periods one of the forecasters (Agency A) was markedly superior to the others. And it is also a matter of record, as mentioned in the earlier article, that this same agency made, by far, the fewest recommendations—a fact which suggests that even a large statistical organization cannot have its energies and interests dispersed into too many baskets.

Of course, it is entirely possible that the apparently insatiable desire of investors to get into the market might force the forecasting agency to make definite recommendations at a time when, for one reason or another, no forecast was desirable. Thus the commercial problems of selling the advisory service and keeping it sold might easily, and probably do, lead agencies to make more recommendations than they would normally make if this pressure from customers did not exist.

The theory underlying the advice to sell specific bonds rests upon one of two bases: either that the bondholder has nothing to gain by their retention or that he risks a possible, indeed a probable, loss. Specifically, most reasons for a selling advice involve such matters as the probability of default with attendant consequences, or probable difficulties in refunding, or the fact that affiliated issues are yielding more with no substantial difference in quality, or the opportunity to obtain a higher degree of security, or the existence of one or more factors limiting future appreciation in the market price.

It is highly interesting, of course, to observe specific cases of the success and failure of this theory. A typical case of successful prediction, for example, is to be found in the advice of one agency to sell New York, Ontario & Western 4s of 1955 and to buy Erie general 4s of 1996. Aside from any other advantages in this switch, the market record, over the medium (CONTINUED ON PAGE 67)

The Education of a Banker

By LEWIS B. CUYLER
Personnel Department, National City Bank of New York

THE National City Foundation might be said to represent a departure from the orthodox in applied education for bank employees. But in a desire not to lay claim to any startling ideas in the educational field on the part of the Foundation, it should be pointed out that the phrase "applied education" is used in a strict sense and only as it relates to education or training having a direct bearing on the actual work an individual is doing or on other phases of the business wherein he is occupied.

In contrast to this the National City Foundation has placed more emphasis on the personal development of the individual, his sense of balance, his imagination, or, to cover a large number of intangible characteristics which make up a good personality and character, a broader and richer conception of the underlying values of life.

This does not mean it does not recognize the opportunities for development in studies directly bearing on a man's work. The contrast can be shown in the following supposition. If a man were sent out on a trip to study country-wide branch banking in England, Canada or California, the Foundation would be as much interested in the circumstances that would make that man meet new people, gain new points of view, express opinions, see a different part of the world, be entertained and, of more importance, be forced to entertain, as it would be in the possibilities of the man's bringing back a report or a knowledge that would be valuable to the institution.

It is in this conception of applied education that the work of the National City Foundation might be considered unorthodox. The purpose of the Foundation as stated in the articles of incorporation is "To assist voluntarily deserving young men and women employed by The National City Bank of New York or by any of its subsidiary or affiliated corporations to obtain better and higher practical and cultural education and training than their means or the circumstances of their employment make possible." It has been through the practical application of this purpose that the Foundation recognized, in its analysis of the conditions and circumstances surrounding the cases of individuals recommended for its consideration, the definite need it has been designed to satisfy.

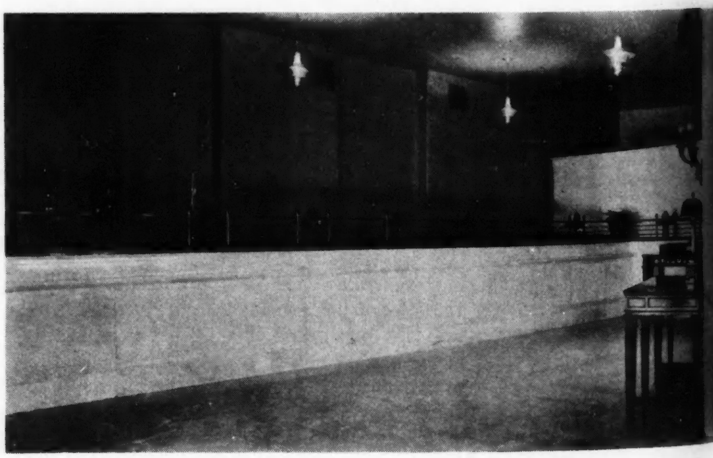
Let us briefly outline these circumstances. There was a time when the large city bank was like a huge family in its organization. The president as well as all the senior officers knew the employees personally, their faults and merits. Conversely, the entire personnel was brought under the influence of a personal leadership which now, in our modern complex organization, seems far removed.

In the last two decades, however, we have witnessed the transition of the banking organism from such a family-like atmosphere to a vast machine. We need only mention the part that the industrial growth of America, the liberalization of the banking system, the introduction of ever improving business machines, have played in this growth. To be sure, this trend has offered more and more opportunities to the individual with the right qualifications, but it is also true that it has become more and more difficult to supply in the operating departments, which are the natural training ground, influences which make for the development of these very qualifications. Once more, we are not speaking of training in the technical sense.

We mean rather that the actual limitations surrounding an individual in such an organization preclude many opportunities for a fundamental training which should be, perhaps, more personal and more inspirational. Certainly, an employee may become an expert in his job, may rise to a position of responsibility where the supervision of other employees is involved. Nevertheless, the very circumstances which brought about his advance may be the cause of certain personal limitations which, in turn, affect all who come under his supervision and who depend on him for leadership.

If a man with natural ability and an innate desire to learn can be given the opportunity to reach beyond the circumstances surrounding him in his work

The training needed for success in banking



BANKS have long been identified with efforts to provide educational and training facilities for employees. The American Institute of Banking is an outstanding example of cooperative endeavor in this direction. In addition, different plans have been evolved by different banks; the one described in this article operates through a foundation which is a membership corporation, the members comprising the bank's board of directors.

and gain a broader and more cultural point of view, such a man can, in later years, engender in his work an understanding of greater values which can go far to counteract the problems in personnel management which have arisen solely because of the complexity of organization.

The practical application of the Foundation idea is most elastic. While the same principle forms the underlying motive of each "award", which is the term used by the Foundation in its selection of an individual for the opportunities it offers, the actual form of the awards that have been made to employees shows considerable variation. The broadening experience which comes from travel is made great use of. Such trips vary, however, and in addition to studying the banking systems of other countries, men have been sent throughout the United States to gain a picture of American industry or, in still other instances, on a tour of the bank's foreign branches. In all such cases, however, the programs have been designed primarily for the broadening influence they would have on the individual. These trips generally have provided the medium through which the Foundation has dealt with the more mature men.

Another important outlet for the Foundation idea has been through the universities. This phase of the work has revolved about younger men, and the Foundation has concerned itself with offering opportunities to study the more liberal courses such as those in English literature, history, politics and even philosophy. This has been arranged on a fellowship basis; Princeton University, Dartmouth, Amherst and Rutgers have taken men as special students for one year. The object the Foundation has desired is to have these men recognize the restrictions that have heretofore surrounded them, learn how to set their lives on a more elevated plane, and see the channels through which this can be done.

It is all very well to talk about the advantages of a college education, but it is also most difficult to give to the high class college graduate a detailed and fundamental training in bank operations on which to base his career. The future of such a man is seldom identified with the actual operating division of any large bank, with the result that any refreshing influence or dynamic leadership he might have is separated from this side of banking. The Foundation, therefore, feels it is making no small contribution in approaching this problem from the other angle by giving to the outstanding man who has already been trained in these fundamentals an opportunity to absorb the best that the colleges have to offer not only from the study angle but from the angle of social relations that exist in campus life.

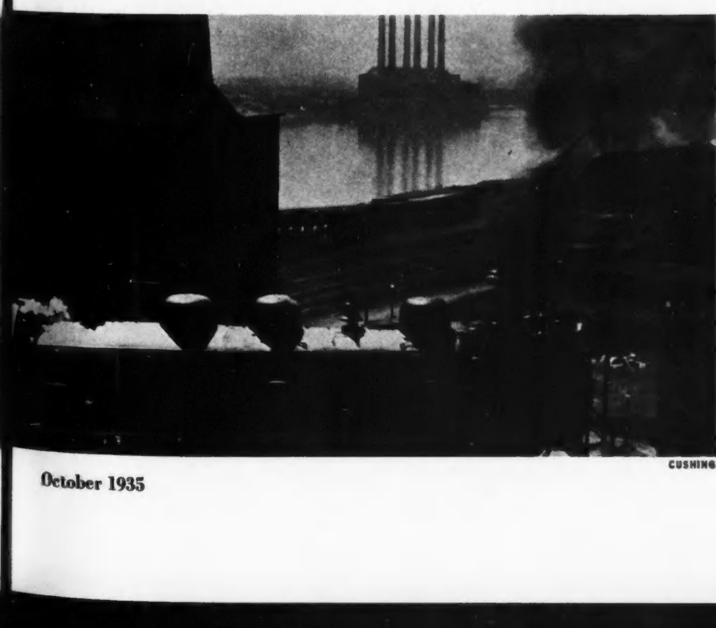
Everybody is interested in results. Without mention of the cases wherein the Foundation has failed through faulty judgment, the results are, with few exceptions, gratifying. The theory that a man who excels in one type of work is likely to excel in another has been substantiated by the record of the men who have attended college on this special basis. They have held their own socially and scholastically and, while not enough time has elapsed to prove their eventual value, many of them have shown striking indications of what it will be to the institution. In dealing with more mature men the results are correspondingly more tangible, as the cases of those who have been promoted into positions of greater responsibility will bear witness.

So much for the Foundation idea and the work it has been designed to accomplish. It will be agreed, however, that no idealistic attitude or philosophy toward employee training can be very practical if it is not based on practical operating methods. Also, there is the question of financing such an idea. As the element of experimentation is prominent, at least during the early years of operation, is the work justified on the basis of bank expense? Both operations and financing are so important to the success of the Foundation that what has already been described would hang in the air as vague theoretical meandering if they were not mentioned.

The National City Foundation is a membership corporation. Its membership consists of all persons comprising the board of directors of The National City Bank of New York. The affairs of the corporation are under the general supervision of a board of nine directors, who are or have been officers or directors of the bank or its affiliates, and who are elected to the board by the members. Through this structure the senior management of the institution is brought into direct contact with some of the personnel and the educational problems.

The actual operation of the National City Foundation, however, is lodged in an executive committee of three members which is (CONTINUED ON PAGE 75)

extends considerably beyond the inside of a bank



CUSHING

Protection for Farm Land Values

By DAN H. OTIS

Director of the Agricultural Commission, American Bankers Association

THERE are certain earmarks which may serve as indicators as to whether farm loans are wise and sound. Reasonable loans for improved seed, needed labor-saving equipment, quality livestock with special emphasis on good sires, properly selected fertilizers, prudent expenditures for the control of insects and plant and animal diseases, and for harvesting and orderly marketing of crops usually fall in the category of safe and desirable farm loans. Loans to pay for taxes, rents, expense of repairs, groceries, autos for pleasure, gasoline, etc., are more questionable in character and would be considered valid only after careful investigation showing good and sufficient reasons why such expenses have not been met out of current farm income.

Of all the earmarks, none is more fundamental and important than how the investment values in land are being protected. The top six inches of soil represent the farmer's productive capital. Upon whether this is being adequately protected from noxious weeds, from erosion and from depletion of plant food depends the wisdom of any farm loan. Excess credit on poor land that is becoming poorer is only prolonging the use of that which is, or is rapidly becoming, sub-marginal.

Farms badly infected with weeds are not in demand by intelligent buyers and may not sell for half their normal value. Some loan companies refuse to make mortgages on such farms, claiming that the weeds already have the first mortgage. Unless controlled, weeds will pile up heavy annual "tax" bills. Weeds rob plants of needed moisture and plant food. They greatly reduce yields and increase labor costs. Experts estimate that weeds in this country reduce crop yields at least 20 per cent and on some farms 50 per cent. The richer the soil the heavier the growth of weeds, and the poorer the soil the greater the competition for the crop.

Fifteen tests on 11 farms in one of our midwestern states gave yields on bindweed-infected land of 13.7 bushels of wheat per acre. On similar non-infected lands, wheat yields were 20.9 bushels. Another test showed 15.6 bushels and 30.9 bushels respectively.

SOIL EROSION

THE following figures are given by the Soil Conservation Service of the U. S. Department of Agriculture: Area with little or no erosion, 576,236,371 acres (30.3 per cent of total area); total area affected by sheet erosion, 855,260,347 acres (44.9 per cent); total area affected by wind erosion, 322,181,740 acres (16.9 per cent); total area affected by gullying, 864,818,281 acres (45.4 per cent).

Erosion damage in some form occurs in almost every state. Practically all of the states east of the Mississippi River are affected by water erosion. The middle tier of states from the Dakotas down through Texas are subject to both water and wind erosion. West of the great plains area the Coast states are affected by water erosion.

Some astounding facts are shown in the following statement from the Soil Conservation Service: "Three billion tons of soil—enough to fill a train of freight cars girding the earth 19 times at the equator—are washed and blown from the fields of this country every year.

"More than 300 million tons of the richest soil on earth—soil stripped from the fertile fields of the Mississippi Valley—are dumped each year into the Gulf of Mexico by the mighty Father of Waters.

"Four hundred million dollars is the estimated annual toll of erosion in terms of money value.

"Thirty-five million acres of once fertile farm land—an area almost equal to the combined extent of Pennsylvania, Massachusetts, and Connecticut—have been completely destroyed and abandoned.

"One hundred and twenty-five million acres more have been seriously impoverished by loss of productive topsoil.

"Two hundred thousand acres are being abandoned every year because erosion has rendered them barren and unfit for productive cultivation."

In the more level sections, water erosion may be in the form of sheet erosion, which may go unnoticed. Nevertheless, any mortgage loan can well be based on farm management practices which insure protection from permanent damage caused by erosion.

Destructive dust storms produce erosion on a large scale and tend to develop desert conditions. As a menace they compare with prairie fires and demand as prompt attention. They are becoming more serious in recent years since the plains region has resorted to more extensive cultivation. Damage is more apt to occur where the annual rainfall is less than 25 inches.

Wind transports soil in two ways—first, the finer and more fertile particles are carried off in the air; second, the coarser particles are rolled along and form drifts.

Any effective soil improvement program requires encouragement of education and leadership. There are 50 million farm operators who must become "soil conscious" and follow practices that will conserve and improve our soil resources. Since farming is a basic industry, the urban population also has its part to play. Anything that affects our soil for good or ill likewise affects industry and commerce. The welfare of each individual, as well as the nation, rests

In efforts to check and prevent further soil erosion, the Soil Erosion Service of the Department of Agriculture has undertaken extensive terracing work, which is one method of combating the annual toll in farm land values through the loss of topsoil. At the right is a terracing project in California

KEYSTONE

Another anti-erosion method being tried by the Soil Erosion Service is "contour plowing", illustrated by the picture of an Idaho farm at the right. In this particular field, strips of Winter wheat have been seeded in contour in a Summer fallow field. Forestation and crop rotation are also being tried by the S. E. S. in its program

KEYSTONE

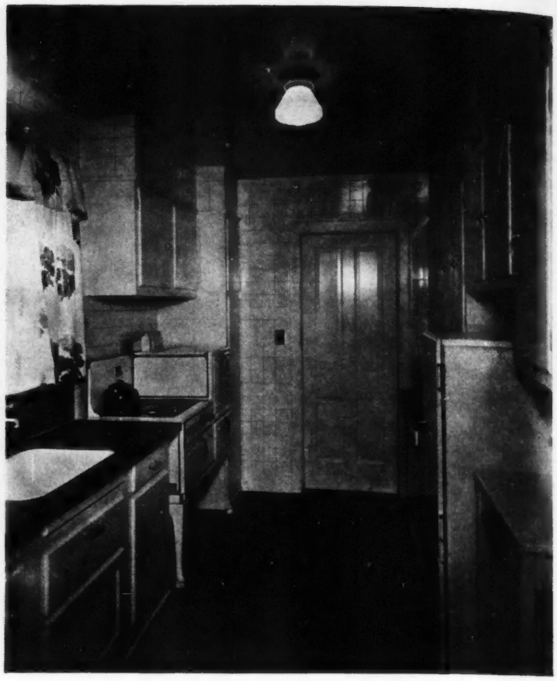
ultimately upon maintaining our soil resources.

Primary responsibility for soil conservation rests upon the shoulders of the farmers. Their aim should be to leave their farms at least as productive as when they were started. By good management, soil saving and improvement practices can be made to contribute to the economic welfare of the farm family. Because of the interdependence of agriculture, industry and commerce, representatives of each group can well confer with each other on such a vital problem as the conservation of our soil resources.

Individuals with a vision of the problem, who are in touch with farming communities, have a responsibility and opportunity to aid. The landlord, banker and the supply merchant are in a position to influence largely the type of farming to be followed in their respective communities. There are those who feel that bankers lead in their influence upon the agriculture of their respective communities. To them is presented the unique opportunity for national service in this important field of soil conservation. Farmers in the need of credit are likely to be more attentive to their bankers than to others. Through personal individual contact bankers' efforts are likely to be more fruitful of results. Bankers who know (they can know by contacting the college of agriculture in their respective states) and direct their knowledge through credit channels can exert a powerful influence in a soil conservation program.

Because of its importance and general application the Agricultural Commission of the American Bankers Association has voted to make the subject of "Protecting Investment Values in Land" a national project for the coming year. A booklet giving facts, figures and illustrations on important phases of this subject is being prepared and will soon be available to banks at a nominal cost for distribution to farmer patrons.

AERIAL EXPLORATIONS



An Alliance for the Improvement of Living Standards

By ALBERT JOURNEAY

Vice-president, The Purse Company, Chicago

IN Rochester, New York, a new financing plan, worked out by the Rochester Gas and Electric Company and the Lincoln-Alliance Bank and Trust Company, enables electrical and gas appliance dealers to sell load-building appliances on a most attractive budget plan of small monthly payments.

This plan is designed to accomplish several worthwhile objectives. It enables families to buy certain major appliances, which will increase their comfort and modernize their homes, at a cost that can be met out of income with a reasonable charge for the privilege of deferred payments. It frees the dealer's capital by enabling him to get his money without the element of recourse as soon as the sale is consummated. By making it possible to increase the number of appliances in use, it increases the load of the utility company. It gives the bank employment, at fair interest, for a part of its idle funds. Moreover, it brings the bank into direct contact with an increasing number of up and coming people, and the fact that "bank traffic" is just as important in selling other banking services as "store traffic" is in increasing the sales of retail stores must not be overlooked.

The plan is soundly based. Economists agree that prosperity depends upon achieving a higher standard of living for the majority of the people. This higher standard comes with the possession and use of more of the so-called good things of life. A wider distribution of these things comes not from the curtailment of production but rather from its increase, provided that increase is accompanied by a lessening in cost that makes it possible for more people to enjoy the benefits thereof. We need look no further for an example of this than to the automotive industry.

The Rochester Gas and Electric Company recognizes clearly that a wider use of power will come from lessening the cost of that power to the consumer. The customer and prospective customer, told by a paternalistic government that it is his inherent right to possess modern electric devices and to secure power to run them at a low rate, is insisting that present rates be lowered. The company knows that the only way it can reduce its rates substantially and still earn a profit is to increase the amount of power used.

Faced with this necessity for greater load and lower rate, the utility companies are moving to effect both. One of the main ways of accomplishing it is by increasing the use of electrical or gas appliances. Moreover, the utility company, like the automobile company, knows that its success depends upon the prosperity of the community. The increased sale of appliances means work for the manufacturer and added wages for his employees. It means better business, steadier profits for the distributors

Producer—Banker—Dealer—Consumer

and dealers and those who work for them.

The banker, on his part, is faced with the problem of causing money to circulate. Unemployed money is as unprofitable as an unemployed horse. Both must be put to work in order to pay for the food they consume—in the one case, oats—in the other, interest.

The banker is also directly concerned with the prosperity of the people. He is in just as bad a fix if too much money comes in as if too much goes out. Failure of the circulatory system brings hardening of the arteries to banks as well as to men. Deposits and loans are the vitamins essential to a bank's existence. Those who think a banker doesn't welcome good loans should sit in at a meeting of the committee on loans. If a bank can help to stimulate business, it helps the production of both of these life-giving elements. Consequently, in a plan such as we are discussing, the bank has much more at stake than the amount of interest it will earn through its participation.

The plan became effective on March 25 of this year. It does not cover all appliances, but for the time being is confined to those which, according to Joseph P. Haftenkamp, vice-president and general manager of the power company, "alleviate to the greatest extent the more burdensome and more time-consuming operations in the home. These also contribute most to the well-being and health of the occupants." These appliances, all approved by the Electrical Testing Laboratories, the American Gas Association Laboratory, the R. G. & E. Laboratory and other recognized testing agencies, are automatic gas and electric ranges, water heaters and refrigerators.

Other appliances will be added to the list as the plan progresses. The plan is set up for a trial period, the duration of which will depend on its cooperative acceptance and use. Tentatively, a 3-year program has been agreed upon with a sales objective of 25,000 electric refrigerators, 3,000 electric ranges, 2,000 electric water heaters, 1,000 gas refrigerators, 10,000 gas ranges and 8,000 gas water heaters. If these objectives are carried out, it will mean sales of between five and six million dollars. While the plan is but a few months old, the initial acceptance is such that all parties are willing to forecast its success. Sales are already showing the benefit of stimulation. The cooperating bank reports a substantial amount of accounts in operation.

As with any other plan, the chain is no stronger than its weakest link, and the ultimate success depends upon each factor performing its function efficiently and with honorable intent as follows:

The purchaser must agree to pay instalments promptly.

The dealer must properly inform the purchaser of the plan. He must furnish former credit experience with the purchaser if no former experience furnishes a basis for credit. When notified that the customer is in arrears, it is up to him to make every effort to collect the past due payments before the finance company (the bank) takes action. He must make a 2 per cent deduction (minimum of $1) from cash price for bad debt reserve.

The distributor must agree to build dealers of quality and assist dealers and salesmen.

The utility must agree to assist in training dealers' salesmen, assist in window displays, keep dealers advised of campaign activities and furnish domestic science service to insure proper use of appliances.

The bank must agree to supply contract forms, rate charts, terms of sales, etc.; furnish personnel to accept instalment payments as due; make final check of credit, and purchase the dealer's contract at cash price less 2 per cent ($1 minimum) for bad debt reserve.

Not all dealers will be permitted to participate in the plan. It will be confined to those who are deemed bona fide appliance dealers, and every effort will be made to exclude the numerous fly-by-night organizations and distributors who will try to take advantage of this plan, especially because of the non-recourse paper. The selection of dealers will be left to (CONTINUED ON PAGE 60)

Bank credit is an essential instrument in the improvement of living standards. Not only are individual borrowers benefited, but also dealers, manufacturers and the banks themselves. The illustration below is an excerpt from one of a series of advertisements of the Marshall & Ilsley Bank, Milwaukee

American Character Loans

WHEN the National Housing Act was passed on June 27, 1934, not over 150 banks, it has been estimated, including the Morris Plan and industrial banks, were making "character" or "personal" loans. Even these banks were not making them for longer than 18 months in special cases, and usually not more than 12 months. Finance company loans on automobiles and equipment paper rarely exceed 18 months. One year after the organization of the modernization credit plan under the Federal Housing Administration there were over 5,000 commercial banks which had reported for insurance at least one modernization loan. Hundreds, of course, had reported a large number of loans.

The plan called for the extension of credit by private lending institutions under an insurance feature sponsored by the Government, whereby the lending institutions were guaranteed against practically all loss.

The opinion was expressed very shortly after the plan was inaugurated that it would revolutionize banking policies, and that prophecy is well on the road to fulfillment, judging by the number of personal loan departments which have been started within the past year not only to extend credit under the modernization plan but to make loans for all purposes on the monthly repayment basis.

A brief review of time-financing in the United States prior to the passage of the National Housing Act will illustrate to some extent the strong drift of this type of credit in the direction of the commercial banks.

Before the collapse of the credit structure in 1929 bankers, in general, considered producer credit, that is, money loaned to the manufacturer or business man for production, as the soundest type of credit. Because banks were not particularly interested in consumer credit as such, finance companies, small loan companies and other organizations grew up and flourished. These concerns, of course, obtained the necessary credit to do business from the banks.

Many major business concerns in the United States learned that they could increase their sales through the monthly instalment plan and either financed their time sales themselves or sold the paper to a finance company. It is true that companies which sold automobiles, oil-burners, refrigerators and other equipment retained title in the merchandise sold on time until the debt was liquidated. This type of security was not sufficient inducement to the banks.

The experience of the private companies handling the time-financing paper during the boom and depression years has shown that the loss ratio was better than bankers' experience with producer loans.

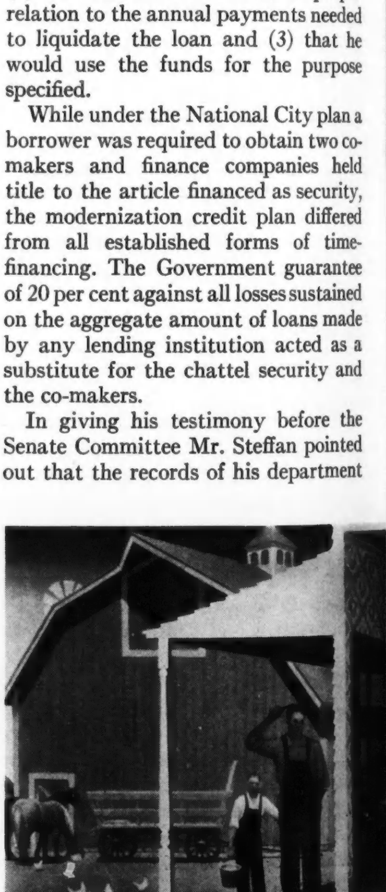
Roger Steffan, who is head of the personal loan department of the National City Bank in New York, stated before a Congressional committee that from his experience the average American citizen was probably the best credit risk in the world; that the record of losses during the two so-called "boom years" and three or four years of depression had been far smaller than the record of losses in national banks for all purposes.

Upon this astounding success and that of some of the larger finance companies already active in the field of time-financing the theory of the modernization credit plan of the Federal Housing Administration in Washington was developed. The essential credit requirements under this plan were (1) that the borrower have a good reputation locally for paying his obligations, (2) that he have an income in proper relation to the annual payments needed to liquidate the loan and (3) that he would use the funds for the purpose specified.

While under the National City plan a borrower was required to obtain two co-makers and finance companies held title to the article financed as security, the modernization credit plan differed from all established forms of time-financing. The Government guarantee of 20 per cent against all losses sustained on the aggregate amount of loans made by any lending institution acted as a substitute for the chattel security and the co-makers.

In giving his testimony before the Senate Committee Mr. Steffan pointed out that the records of his department

". . . that . . . the average American citizen was probably the best credit risk in the world; that the record of losses during the so-called 'boom-years' and three or four years of depression had been far smaller than the record of losses in national banks for all purposes."



"Dinner for Threshers", by Grant Wood. Courtesy, Ferargil Galleries, New York

By D. A. REINBRECHT

The author was formerly in the Federal Housing Administration as Director of Modernization Credits and later as Director of Financial Relations

showed that 99¼ per cent of the loans were collected from the borrowers themselves, leaving only about ½ of 1 per cent collected from the co-makers. He stated the important factor that the amount of a loan must be relative to the borrower's earnings, so that monthly payments can be met out of such earnings.

The time element was the next important factor. Because the Government plan called for a longer period for the repayment of the loans the belief was expressed that the losses to the Government would run higher than any previous experience in time-financing, possibly exceeding 5 per cent. A year of operation has proved, at least so far, that the loss to the Government will be small, for out of approximately 250,000 loans totaling over $105,000,000, the amount of claims paid by the Federal Housing Administration for losses to financial institutions is less than ⅒ of 1 per cent. Some institutions have made insured loans up to a total of $5,000,000, thus creating a reserve of one million dollars or more, and yet have not found it necessary to make a claim for loss up to the present time. This seems almost phenomenal, but it is a fact. It must be realized that banks have 13 months after default in which to make a claim, but with the average duration of the loans being less than 30 months, it is hard to conceive that losses will reach the 5 per cent mentioned above.

The modernization credit plan was drawn up by Mr. Steffan and another leading proponent of time-financing, Albert L. Deane, who is an official of the General Motors Corporation, with the help and legal advice of Frank Watson, one of the drafters of the act. Their object was to make available to every deserving property owner, with a steady income and a good reputation for paying his bills, the credit needed to preserve his property from deterioration. This credit, which would not have been available but for the plan, was to be extended over a longer period of time than bank credit had heretofore been granted, and at a rate lower than the rates prevailing in the existing time-financing field.

The soundness of the plan was quickly realized by a good number of the commercial banks but it required considerable education to get the program of Title I under the National Housing Act into full swing.

After the bulletin had been issued explaining the purpose of the modernization credit plan and giving the rules and regulations under which the participating institutions were to operate, an operating and credit manual was prepared and mailed to all the financial institutions. This manual showed how simple the plan was and how it could be adapted to the accustomed procedure in any bank.

The plan permitted loans up to five years' duration, which was decidedly an innovation for practically every bank in the country, whether or not it had previously had a personal loan department. At first there was some apprehension as to the attitude of bank examiners toward long time loans for commercial banks, but this was overcome as quickly as the examining agencies understood the workings of the plan under the Government guarantee.

Another obstacle to overcome was the question of usury raised in some states because of state laws not permitting commercial banks to do a small loan business, although authorizing specialized lenders to make loans in small amounts at rates running up to 42 per cent. Consumer finance companies have been more or less unlimited by law as to their charges, which of course not only include the interest on the money advanced but also the extra financing costs of handling and collecting the monthly repayments.

The cooperation of the various state legislatures was soon apparent in the passing of special acts to exempt loans made under the Federal Housing Administration program from all existing statutes having to do with interest rate, term or security. State banking superintendents were also very helpful in reassuring bankers as to their attitude toward the plan, and in aiding with the drafting of needed legislation.

Another means of educating the banks was through articles by officers of the leading banks in various states on how and why their institutions were making modernization loans, carrying illustrations of forms used in extending this credit. These stories were printed and distributed to the other banks in the same general territory as a stimulus to get them to make F.H.A. loans.

The results of this educational program through the Fall and Winter months began to be very apparent as the Spring building activity commenced. The number of participating banks, which had been increasing slowly but steadily from the start, commenced with the first week in March to grow at the rate of between 50 and 60 new reporting institutions a week, so that, with over 5,000 commercial banks in the country having reported at least one loan for insurance, more than one-third of the banks of the country have ex-

tended credit that is being repaid on the monthly repayment plan. That in itself may not seem a large proportion, but upon further analysis it will be found that the 5,000 represent over 80 per cent of the total resources of all commercial banks of the country.

The success the commercial banks are having in the collection of the F.H.A. loans and the ease with which they are handled is certainly having its effect on the lending policy of these institutions.

A considerable number of loans are being made today by banks according to the method outlined by the modernization credit plan, but they do not meet the requirements of the plan for one reason or another and are therefore ineligible for insurance. While the character loans under the plan were originally limited to $2,000 and now insured loans up to $50,000 may be made to improve certain types of property, some banks have been known to extend credit as high as $250,000 on the monthly repayment plan.

The amortization of mortgages by monthly instalments has been adopted by several large insurance companies and at least one of the larger western banks with a wide branch organization. The insured mortgage advocated by Title II of the Federal Housing Administration requires the liquidation of principal and interest by monthly payments.

With personal loan departments being established it is conceivable that a large part of the time-financing of paper for the purchase of automobiles, machinery and other equipment will be handled eventually by the commercial banks. In fact, certain institutions, leaders in new methods of banking, are already showing the way. It is reported that on the west coast over 30 per cent of the automobiles sold on time payments are being financed through commercial banks, and that within a few years the percentage will go over 70.

The railroads, public utility and industrial companies will, in the future, more and more be required to provide sinking funds for the retirement of their bonded indebtedness. Thus the tendency for the liquidating of debt out of income will be the rule rather than the exception.

We may, moreover, expect business practices to reverse themselves. Instead of the manufacturer or distributor financing his customers through the usual method of "datings", the retail buyer of goods will finance himself through the personal loan department of his own bank on a monthly liquidating basis.

Judging from their correspondence, it is apparently the intention of many banks throughout the country to continue lending money in the same way, after the expiration of the insurance under the Government plan. Some banks state definitely that they are building up a personal loan department, while others indicate that they will continue to carry this type of loan in their regular loan department.

Banks have used the Federal Housing Administration program to help reestablish a friendly feeling in their communities, and to build up good will which will last long after the expiration of the Housing Act. Loans have been made to non-customers of the banks as well as customers, for the modernization credit plan aimed to make available to every deserving property owner the credit needed to improve his property, regardless of whether or not he was a depositor in any institution. Through personal loan departments this policy will continue to a great extent, for bankers are learning that legitimate borrowers even without bank accounts are good credit risks and an outlet for bank funds. They also realize that depositors do not always borrow, and certainly there are very few communities in the United States where the local demand for money exceeds the local deposits. Very often a satisfied borrower, even though a non-depositor, is a firm friend of a bank and later becomes a depositor in either a checking or savings account.

With the expansion into the personal loan field and the extension by commercial banks of consumer credit direct, over a reasonable period of time, based on borrowers' ability to pay, the evils of time-financing will be greatly eliminated. The costs to the consumer will be substantially reduced and high pressure salesmanship will not sell unnecessary articles to people who cannot afford to buy them.

During recent months the return on bank investments has dropped so low that an outlet for funds is very welcome to most institutions. Bankers throughout the country, stimulated by the success of modernization credit plan loans, realize that just as the profits in merchandising depend on the turnover of goods in stock, so does the turnover of a bank's funds govern its profits. The larger and quicker the turnover, the larger the profits in the long run, and the less the likelihood of losses. The more loans made on a monthly repayment basis to deserving, hard working people the more friends a bank will have. A personal loan department is a service to the community.

"Arbor Day", by Grant Wood. Courtesy, Ferargil Galleries, New York

The R.F.C. Mortgage Company

By JAMES N. MACLEAN

The author is chairman of the New York Municipal Committee for the Relief of Home Owners

THE R.F.C. Mortgage Company is the latest of the lending agencies established by the Federal Government for the purpose of aiding in the restoration of mortgage lending. This corporation is designed to enter a new field not hitherto touched by the lending facilities of the Reconstruction Finance Corporation or by the Home Owners' Loan Corporation or the Federal Housing Administration.

The company was recently organized under the laws of the State of Maryland with a capital of $10,000,000 furnished by the Reconstruction Finance Corporation, from which it may borrow any additional funds required.

The only information at present available regarding the proposed activities of the R.F.C. Mortgage Company is contained in its Circular No. 1, which, after reciting the various credit facilities furnished by the Government in other fields, states that there remains a number of income-producing business properties such as apartment houses having more than four apartments, hotels, business and office buildings, etc., present mortgage loans upon which are in default or are about to mature, and which cannot be refinanced under any of the legislation referred to.

The loans which the R.F.C. Mortgage Company proposes to make are upon properties of the kinds above enumerated, and are as follows:

1. Loans secured by first mortgages on income-producing properties of the types referred to, where financing is necessary and cannot otherwise be obtained upon reasonable terms, and where the income from the property is sufficient to pay operating expenses, taxes, insurance, interest on the indebtedness and reasonable amortization.

2. Loans to distressed holders of first mortgage bonds and first mortgage certificates upon their notes secured by such bonds and certificates, provided sufficient information is available to the company to enable it to determine that the income value of the property or properties securing the bonds or certificates warrants the loan.

3. Loans in aid of the construction of new buildings, for which there is an economic need, provided the mortgagor's investment in the completed project will be substantial in relation to the amount of loan applied for, and his resources sufficient to indicate that he can finance the operation of the completed project on a sound basis. Upon the basis of such applications the company, if it approves the loan, will make a firm commitment to the applicant that upon completion of the building in accordance with plans and specifications approved by the company, it will make a loan of the amount approved upon the security of a first mortgage on the completed property.

All mortgages and loans will follow the principle of long term amortization, insisted upon by the Administration in all of its lending activities. Those to be made by the R.F.C. Mortgage Company are to pay off one-half of the loan in 10 years.

It is obvious that the above classifications are very general and leave much to be determined in each case. The company is no doubt now in the stage of formulating definite principles which may later be crystallized.

Beyond the circular issued there is little to be learned as yet except that the progress of applications filed indicates that loans for new construction will not exceed 66 per cent of the appraised value of the completed building. This, together with the rate of amortization above mentioned, is designed to create sound investments which will be attractive for later purchase by private lending agencies.

The necessity in this class of loans of meeting an "economic need" will naturally present the greatest difficulty. As the company is debarred from lending on low cost housing projects, slum clearances or the like, it does not touch the fields usually associated with the term "economic need."

The requirements for the other classes of loans to be made are equally impossible of exact determination in advance, and as the company is not under the same legal mandate to make loans as in the case of the H.O.L.C. and the F.H.A., the amount of business which it will actually transact will depend upon how liberally its affairs are administered. At the present time it does not appear likely that it will engage in any reckless orgy of lending Federal funds, and its principal difference as a source of credit from any existing private institution is that it will not be frozen into inactivity by current conditions which make it impossible to obtain loans even upon the soundest realty values.

ON August 27, in a letter to Stewart McDonald, F.H.A. Administrator, Chairman Jones of the R.F.C. wrote as follows regarding insured mortgages bought by the mortgage company and then available for resale:

"Under the new Banking Act banks may invest in these mortgages, and such investments will not be regarded as real estate loans. We feel that these mortgages also offer a desirable form of investment for institutions and fiduciary trusts. The greater their distribution, the more home building we will have, and the more we will contribute to national recovery."

Statements for Directors

THE board of directors is the final court of appeals so far as a bank is concerned. It is made up of the elected representatives of the owners, who are responsible for the progress and policies of the bank. Management's responsibility is merely to adhere to such policies as the board of directors decides upon. The policies upon which the board decides are based on the information received, much of which comes in the form of figures. It is therefore essential that such figures be complete and illuminative. Since there is not time at a directors' meeting to analyze statements, they must be presented so that "he who runs may read."

Realizing the importance of this, one bank has a personal loose-leaf binder for each director, with the director's name embossed on the front. These binders, which contain copies of the various statements described below, are handed to each director by the secretary before each meeting and are taken up when the meeting is closed. They are not permitted to leave the bank under any circumstances.

The first statement is the daily statement as of the close of business the previous day, which is merely a copy of the statement used daily by the executive officers. Such a statement enables the directors to ascertain quickly the position of the bank. It is divided into three main sections of assets and liabilities, namely: cash reserves, earning assets, fixed and sundry assets, deposits, sundry liabilities and reserves, and invested capital. A percentage is shown for each division, which is the percentage of that division to total resources.

The earning assets are divided between local loans and outside investments, and the deposits between demand deposits and time deposits. This arrangement of the daily statement, since it segregates important points such as cash position to deposits and the ratio of local loans and outside investments to those deposits, is a very logical grouping for the accounts of a bank. (Copies of a sample statement can be obtained from BANKING on request.)

Another tabulation is given on the reverse of the daily statement, so as to concentrate daily reports rather than have them coming to the executives on various small pieces of paper. The information given on this reverse side would, of course, vary somewhat in different banks. Much of it, however, is fundamental and is needed by executive officers every day. Headings include reserve with Federal Reserve bank, liquidity, assets readily convertible, overdrafts, new loans, renewals and loans paid, activity, cash over and short, accounts opened and closed and bonds purchased and sold.

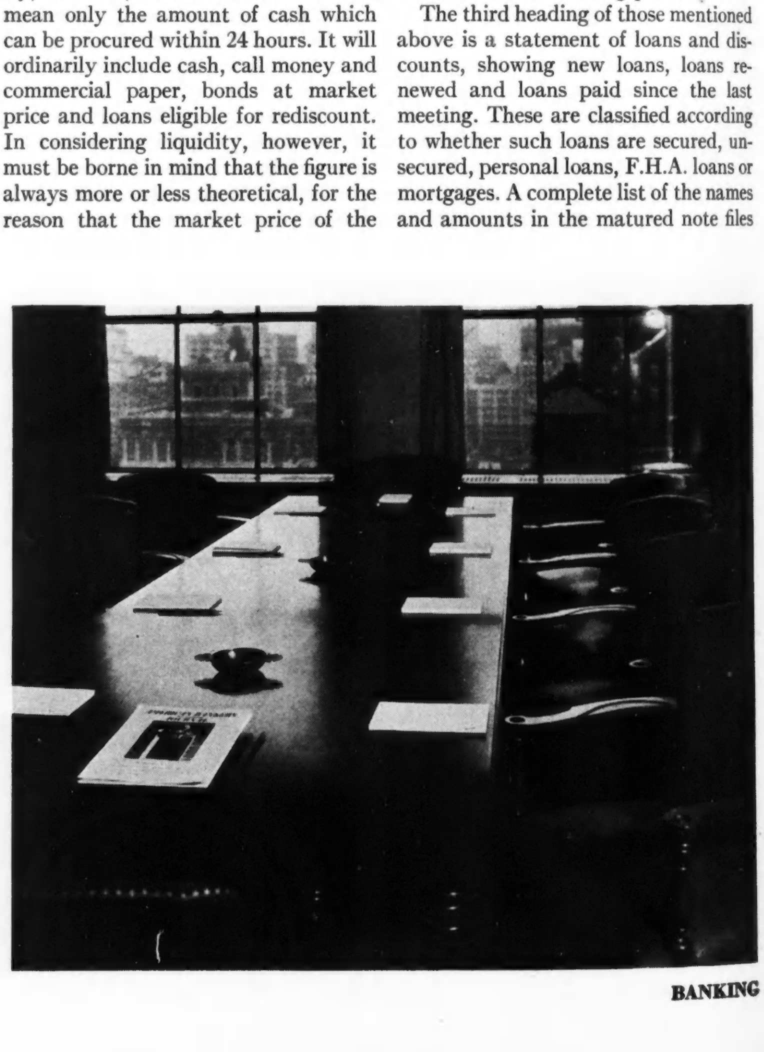
The second item in this list, liquidity, is an important one to directors. Liquidity, however, should be understood to mean only the amount of cash which can be procured within 24 hours. It will ordinarily include cash, call money and commercial paper, bonds at market price and loans eligible for rediscount. In considering liquidity, however, it must be borne in mind that the figure is always more or less theoretical, for the reason that the market price of the bonds would be affected by an immediate sale of any large amount.

METHODS AND OPERATIONS

EACH month BANKING publishes the best available information on current problems of administration. The purpose is to furnish timely management counsel which can readily be adapted to the needs of individual banks. Discussion is invited on subjects considered.

One of the principal objects of maintaining a desired percentage of liquidity is the adoption and continuance of the investment and lending policies.

The third heading of those mentioned above is a statement of loans and discounts, showing new loans, loans renewed and loans paid since the last meeting. These are classified according to whether such loans are secured, unsecured, personal loans, F.H.A. loans or mortgages. A complete list of the names and amounts in the matured note files



as of the date of the directors' meeting is also included.

The credit files of all loans made and renewed are in the directors' room for reference. These credit files are complete and include, in the case of business organizations, analyses of both balance sheets and operating statements. In the case of secured loans the market value of security as of the previous day's closing is given. The subject of credit files, although too broad to be considered here, is mentioned to emphasize the fact that directors need complete and detailed information on all points. The mere reading of a list of loans made and renewed is certainly not sufficient. It has often been proved a mistake to believe that complete facts about certain borrowers are familiar to all the directors because such borrowers are well and favorably known.

A complete statement of the bonds bought and sold since the last meeting is also included. It gives the names of the bonds, par values and costs in the case of purchases or proceeds in the case of sales. In addition to this there is a complete list of all bonds held, divided according to the classification shown on the daily statement—U. S. Government, Federal land bank bonds, public utilities, railroads, equipments, industrials, municipals, foreign, investment trusts and defaults.

This report shows the rating, book value and market value of each bond. If these bond statements are mimeographed according to bond classification, it is only necessary then to type in the book and market values when needed, involving very little clerical work. A recapitulation of the classifications, shown on the first page of the bond statement, summarizes the amounts held in each classification and gives the total appreciation or depreciation from book value of the entire list. It also shows a comparison between the actual holdings and those which had been established by the board, the excess or deficiency for each classification being shown. The form of this recapitulation is shown on this page.

This first recapitulation sheet also shows the maturities of the entire bond account in dollars and cents. Examinations can be made of the detailed list for any point upon which further information is required. Since the bond market changes rapidly, eternal vigilance is needed in order to maintain desired ratios. Upon the directors evolves the responsibility for setting up those ratios.

Example of Bond Classifications

	STANDARD		ACTUAL		
	Percentages	*Amount*	*Amount*	*Excess*	*Deficiency*
U. S. Governments	35%	$2,100,000.00	$1,949,321.95	$	$150,678.05
Federal Land Banks	3%	180,000.00	183,885.00	3,885.00	
Utilities....	15%	900,000.00	1,180,552.00	280,552.00	
Railroads...	15%	900,000.00	1,217,446.25	317,446.25	
Equipments	5%	300,000.00	324,836.12	24,836.12	
Industrials.	15%	900,000.00	540,445.00		359,555.00
Municipals.	10%	600,000.00	485,822.63		114,177.37
Foreign.....	1%	60,000.00	112,710.00	52,710.00	
Investment Trusts....	1%	60,000.00	43,720.00		16,280.00
Defaults....			110,986.50	110,986.50	
Total.....	100%	$6,000,000.00	$6,149,725.45	$790,415.87	$640,690.42

This form of statement further emphasizes the point that the directors should be supplied with pre-analyzed statements, which will permit them to see the excess or deficiency from the standards which they have set up and therefore enable them to take such actions as they may deem advisable, either bringing their holdings closer to the established ratios or else changing the ratios.

The final statements included in these directors' books are those showing income and expenses. While the particular bank in question shows these in comparisons with pre-determined standards or budgets, other banks which do not work on standards could show the income and expenses in comparison with the preceding month or year. An important point to be covered in the expenses, particularly in banks working on the receipts and disbursements basis, is that any commitments be shown, whether or not they have previously been voted by the board.

On the form of daily statement mentioned above the tellers' overs and shorts are shown by tellers for individual days and for the period since last closing. The mere fact that it is known that such differences automatically appear in the directors' reports has been proved to have a very good psychological effect. The same thing might be said of overdrafts.

Recording the daily activity of the bank by number of items as well as by amounts permits the continual ascertainment of item costs of the various departments, in addition to showing the amount of the daily changes in the various classifications of deposits.

The use of individual books for the directors' statements has proved advantageous in obtaining the active cooperation of the directors. Unquestionably the best managed banks are those whose directors are the most active. The necessity for a good managing head cannot be overemphasized, but concentration of power in a single individual does not make for as strong a bank as if that individual is supported by a board of capable advisors. Giving complete statements to each director individually and keeping such statements bound in a personalized book creates a feeling of individual responsibility which makes for constructive work in the board.

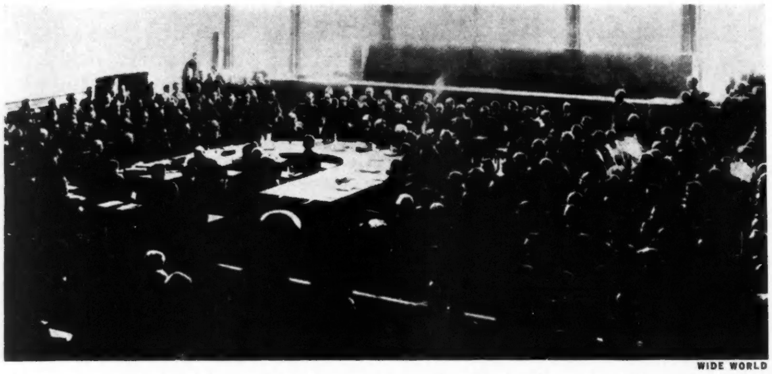
The forms of statements naturally will vary to some extent with individual banks. The principle, however, is the same—that directors should direct. Any board of directors which actually controls the policies of the bank must meet regularly at frequent intervals, certainly no longer than a week apart. In the large banks various committees, such as the executive committee, finance committee, etc., take care of the details coming under their jurisdiction. As a matter of fact, committees, particularly one for the loans and discounts, are desirable in even the smaller institutions. The use of committees, however, does not relieve the other members of the board from their responsibilities, for the object of committees is merely to facilitate action. The entire board should receive complete information even when committees function. An active and competent board of directors is one of the best assets of a bank.

The Month

On September 17 the new Philippine Commonwealth elected Manuel Quezon its first president. This is an important step in the withdrawal of the United States from the Far East. It was only a few years ago that Americans envisioned a colonial empire. The illustrations at the left and below are from *The Story of the Philippines* by Murat Halstead, written 37 years ago. General Wesley Merritt was the United States' first governor-general in the islands

in evidence, written in islands among the most gorgeous of those that shine in the Southern seas—islands that are east from the Atlantic and west from the Pacific shores of the One Great Republic—that we may personify hereafter, sitting at the head of the table when the empires of the earth consult themselves as to the courses of empire. Our Course of Empire is both east and west.

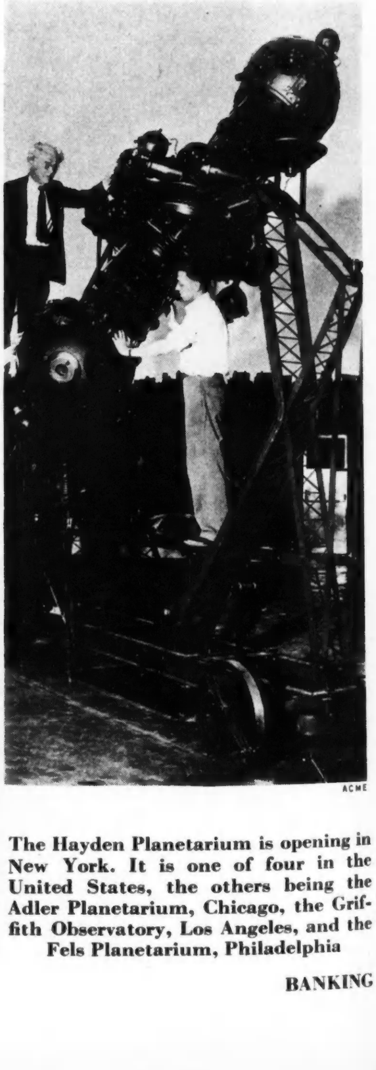
The contact of American and Asiatic civilization in the Philippines, with the American army there, superseding the Spaniards, will be memorable as one of the matters of chief moment in the closing days of the nineteenth century, and remembered to date from for a thousand years. It is my purpose to write of this current history while it is a fresh, sparkling stream, and attempt something more than the recitation of the news of the day, as it is condensed and restrained in telegrams; to give it according to the extent of my ability and the



WIDE WORLD

As America relinquishes her Asiatic colony, the desire for colonial expansion is an acute issue elsewhere. Above, the League Assembly at Geneva striving for a peaceful settlement with Italy. Below, a group of foreign military observers watching war games in France

WIDE WORLD



ACME

The Hayden Planetarium is opening in New York. It is one of four in the United States, the others being the Adler Planetarium, Chicago, the Griffith Observatory, Los Angeles, and the Fels Planetarium, Philadelphia

The Condition of BUSINESS

BUSINESS is taking full advantage of the respite between Congresses. With minor setbacks, the general movement in steel, building and other major lines is definitely upward. On the banking side, the amount of credit now available is truly prodigious, judged by all past history. If the questions of Government borrowing and the price of Government bonds and the abnormally low interest rates now prevailing did not intrude themselves so persistently the banking picture would be highly satisfactory.

A total of almost eleven and a half billion dollars in cash and reserves of commercial banks is shown by the latest call report. Aside from the impressive strength revealed in these figures, it seems impossible that such a vast quantity of pent-up credit will not, in time, have a profound influence on the future business of the country through sheer pressure of dollars seeking profitable employment.

Fear and uncertainty have almost disappeared, although they are probably dormant and may easily be aroused. In any event, they no longer dominate the thinking and planning of careful production managers and purchasing departments as they have for several years.

SEEMING PARADOXES Some thoughtful observers still find it hard to believe their eyes as they see confidence apparently rising like a phoenix from the Supreme Court decision of May 27. They cannot reconcile general recovery with a rapidly increasing Federal deficit, the existence of much vital legislation of doubtful constitutionality, the absence of a clear declaration of the purposes of the Federal Government, serious unemployment, the spread of social unrest, and the approach of an epochal election. They feel, under the circumstances, that bright business prospects, no matter how plainly visible, must be a mirage.

A great deal is being said about the natural forces of recovery, about demand catching up with supply, consumption outrunning production, and various tangible proofs of an expanding trade volume throughout the country. Yet, one of the greatest of natural forces at this time is a deep sense of relief and a disposition by business to take the President at his word and start breathing again.

There seems to be little inclination to distinguish between the forces which are said to be natural and those which are artificial. Actual developments in the industrial and financial world have been a potent reason for increasing confidence. Earnings of the principal manufacturing corporations for the first half of the current year have averaged about 18 per cent above the same period of 1934 although that part last year included a considerable boom which later collapsed.

A GOOD SUMMER This year industrial activity fell off during the Summer less than normally expected. Industrial activity in July was above that of June in spite of the season. Much of the increase, moreover, has been in the heavy industries. Building contracts in August were 61.7 per cent above those of August 1934. Residential building contracts in the first seven months of the year amounted almost to the total for the whole of last year. Machine tool orders in the month of July ran nearly 20 per cent over the 1926 index average, the highest since 1929, and 31.5 per cent over the previous month. The National Machine Tool Builders Association held what is considered the most successful exhibition in the history of the industry during September in Cleveland.

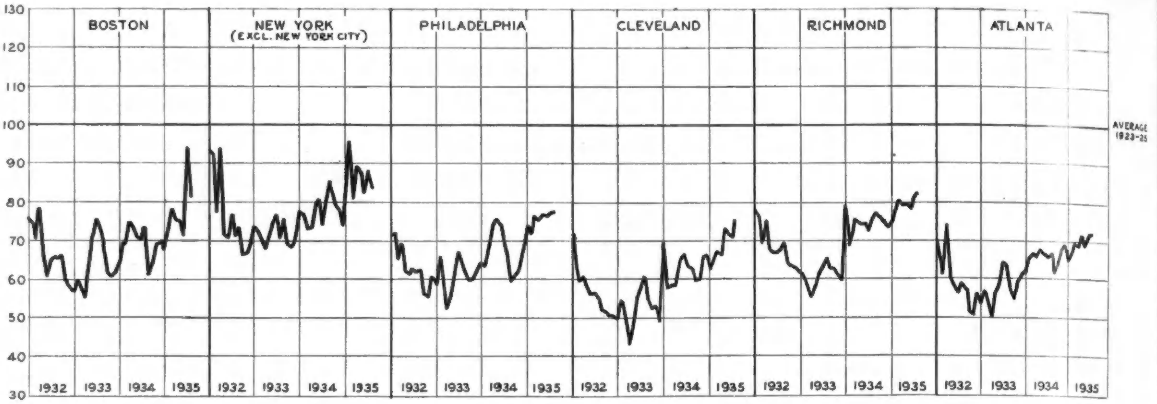
Steel operations have continued above the seasonal level and in September went above half capacity—a contra-seasonal rise forecasting increased activity in many other lines. In September the American Rolling Mill Company declared its first dividend in four and a half years and half a dozen other corporations resumed dividends after a similar period of dividend drought. Myron C. Taylor said at a meeting in Pittsburgh that U. S. Steel was spending $140,000,000 for plant betterments and changes.

Improvement in the statistical position of business has come in spite of many interferences and discouragements. To some extent, of course, it arises from the prospect of the highest income for agriculture secured in several years, due to artificial price and volume controls. Also, to some extent, business anticipates the relief and other expenditures of the Federal, state and municipal governments.

Particular Earning Assets as Percentages of Total Loans and Investments

(*Weekly reporting member banks in 91 cities as of September 4; 000,000 omitted*)

	Total	*Boston*	*N. Y.*	*Philadelphia*	*Cleveland*	*Richmond*	*Atlanta*	*Chicago*	*St. Louis*	*Minneapolis*	*Kansas City*	*Dallas*	*San Francisco*
Loans and investments—Total	$18,614	$1,135	$8,435	$1,081	$1,261	$352	$338	$2,178	$559	$342	$608	$427	$1,898
Loans on securities	15.9	16.6	20.8	16.8	13.2	13.9	12.1	10.5	10.5	9.6	7.6	9.8	9.0
To brokers, etc., N. Y.	4.4	.4	9.5	1.4	.2	0.0	0.0	.05	0.0	0.0	.2	0.0	0.0
To outside N. Y.	.9	2.5	.7	1.2	.5	.3	.9	1.4	.7	.6	.5	.2	.5
To others	10.6	13.7	10.6	14.2	12.5	13.6	11.2	9.0	9.8	9.1	6.9	9.6	8.5
Acceptances and commercial paper	1.6	3.3	1.5	2.0	.5	1.7	.6	1.3	1.8	1.8	3.9	.5	1.2
Loans on real estate	5.1	7.7	2.8	6.4	5.7	4.5	3.6	1.4	6.6	1.5	2.3	5.6	18.1
Other loans	17.1	24.5	15.6	16.1	11.4	21.6	30.5	14.1	18.1	33.3	19.9	26.2	17.9
U. S. securities	39.3	31.7	39.6	24.9	51.4	31.8	31.1	53.2	38.8	36.0	39.1	37.5	30.7
Securities guaranteed by U. S.	5.2	1.6	4.7	8.2	2.9	9.7	6.8	4.6	8.1	5.0	7.6	10.5	6.1
Other securities	15.8	14.6	14.9	25.5	15.0	16.8	15.4	14.9	16.1	12.9	19.6	9.8	17.1
Ratio of total net primary reserves to net demand deposits—Per cent	27.1	34.1	27.8	21.3	23.3	33.7	24.2	28.2	21.6	26.4	21.2	21.6	25.0



WIDE DEMAND From the widespread nature of the recovery, however, it is evident that it is coming more as a result of accumulated demand for goods after five years of self-denial and the gradual absorption of individual and public supplies of all sorts of goods than by reason of any special stimuli. This is indicated in part by the number of large concerns which have announced extensive replacement programs, but the more convincing feature is the demand from the public at large for all sorts of goods ranging beyond those for immediate consumption into the realm of long term buying, as in the case of new homes, the repair and modernization of existing residences, and in home and personal convenience equipment, such as refrigerators, air conditioning apparatus, oil burners, radios and automobiles.

Unemployment casts a sombre shadow over the whole picture. The report of F.E.R.A. for May released in September showed 16 per cent of the nation's population still on relief at the beginning of Summer although there had been a drop of 6 per cent in cases on the relief roll since the peak in January. This decline, according to the report, was due "primarily to seasonal factors." More unskilled workers have found employment, but the "white collar" group has been growing. Perhaps the most discouraging feature of this situation is a feeling on the part of the relief authorities that a considerable portion of the people now on relief will remain there indefinitely.

FEDERAL SPENDING From the standpoint of artificial as opposed to natural forces, business will receive a tremendous stimulus from Federal spending, within the next three or four months. One danger is that this may bring about a temporary boomlet followed by a reaction. The general disposition among business men seems to be to discount the probable stimulation of consumption resulting from the Government's program. While using it as far as it may go they take a longer and broader view and rely on fundamental conditions and long term prospects.

The policy adopted by the Federal authorities looks to the expenditure of a large part of the $4,880,000,000 relief fund in the course of the next five months very much along the lines of the Civil Works Administration of 1933–1934. According to the allotment of funds agreed to in mid-September the Federal portion of the public works program will be greatly restricted, the sum set aside for such purpose being placed at $427,000,000 instead of the $900,000,000 originally allowed for it. P.W.A. housing expenditures will be confined to projects already in hand.

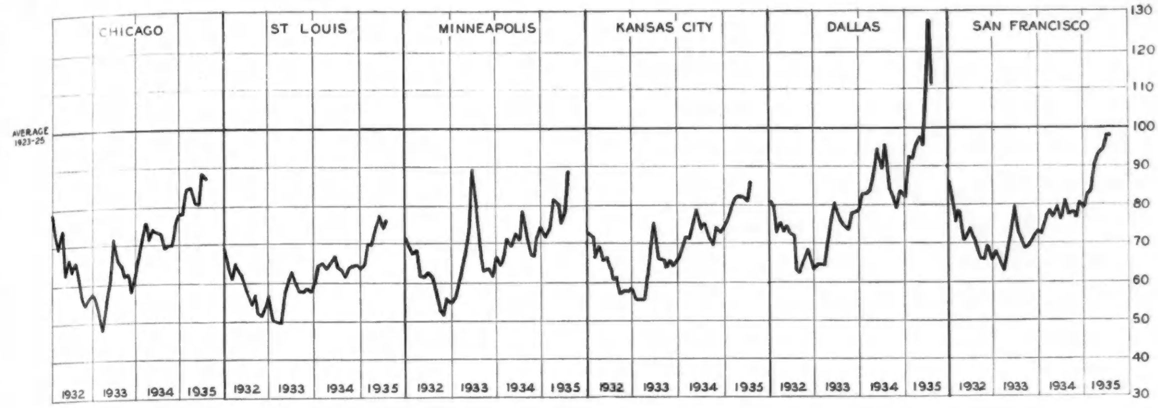
Roughly estimated, $2,700,000,000 will be spent at the rate of about $600,000,000 a month in addition to the slower expenditures upon public works. The P.W.A. program may be larger than is thus indicated since its expenditures are to be on the basis of 45 per cent contribution from the Federal Government as against 55 per cent furnished by the states or their subdivisions. P.W.A. projects submitted for a share of the great relief fund approximated 11,000.

FINANCING, REFUNDING There was a sharp drop in the activity of the capital market during August. In view of the fact that July was an exceptional month, the decline in August represented a digestive period. The let-down was also partly seasonal. The August financing appears low when compared with July, but it was by far the second best month for corporate financing since June 1931.

The outlook for new financing is good. Refundings will continue on a large scale. Industry is beginning to make investments in plant and equipment. No doubt, strong companies that have large cash balances created by the postponed replacement of amortized capital will finance themselves. But as business expands, the weaker companies who cannot sell securities now will improve their credit position and thus be able to obtain new capital.

There was no change in the short term money rate structure in August, except in the category of Treasury bills. However, Treasury bills really constitute the short term money market today, because of the failure of the commercial markets to revive. During the last month, the rate rose and stood at .18 on September 7, as compared with .07 on August 10. The avoidance of much competitive bidding, the failure of the F.F.M.C. issue, the weakness in Government bonds, and the rising volume of business are the basic factors responsible for the higher yields.

The most important feature of Treasury financing during August was the offering of $100,000,000 of 2⅞ per cent Treasury Bonds. Sales of United States savings bonds accounted for a further addition to the outstanding Government bonds. The past month in all likelihood marked the completion of the retirement of the circulation privilege bonds. Treasury notes outstanding showed a slight decrease and Treasury bills declined as the policy of retiring a portion of the maturing bills with cash continued. The Treasury balance declined during August by $314,000,000 as general expenditures exceeded receipts by $79,000,000, the expenditures of trust and contributed funds exceeded receipts by $148,000,000, and the gross debt was reduced by $87,000,000.



LOANS AND INVESTMENTS Total loans and investments of the weekly reporting member banks increased by $123,000,000 between the dates of August 7 and September 4. The Boston, Philadelphia, Cleveland, Minneapolis, and San Francisco districts recorded small decreases while the others increased slightly. Loans on securities, acceptances and commercial paper, and real estate loans contracted slightly, while other loans, U. S. Government obligations (direct and guaranteed), and other securities expanded.

The Chicago district reached a new high for United States securities expressed as a percentage of total loans and investments, the relative rising from 53.1 per cent to 53.2 per cent. The Cleveland district, which holds almost as many Government securities proportionately, showed a percentage contraction from 51.8 per cent to 51.4 per cent. The relative holding of Governments decreased in Boston, Philadelphia, Richmond, St. Louis, Minneapolis, while San Francisco, Atlanta, Kansas City and Dallas showed decreases, and New York remained unchanged.

The fact that Government direct and guaranteed securities represented 44.5 per cent of total loans and investments indicates the extent to which the banks have cooperated with the Treasury. Such a large stake in the Government's credit explains the concern many bankers exhibit because of the failure to balance the budget.

Loans on securities as a percentage of total loans and investments rose in Boston, Philadelphia, Cleveland, St. Louis, Minneapolis, and fell in New York, Richmond, Atlanta, Chicago, Kansas City and Dallas. San Francisco remained unchanged.

Relative to total loans and investments, obligations fully guaranteed by the U. S. Government increased in all districts, except Boston which showed no movement. Richmond showed the largest expansion from 7.5 per cent to 9.7 per cent. Other securities as a total showed no percentage change, but they expanded in New York, Philadelphia, Richmond, Chicago, Minneapolis, and contracted in Boston, Cleveland, Atlanta, St. Louis, Kansas City, Dallas and San Francisco.

OTHER LOANS In relation to total loans and investments, other loans as a whole increased. The expansion took place in Boston, New York, St. Louis, Minneapolis, Kansas City, and San Francisco. Declines were recorded in Philadelphia, Richmond, Atlanta, and Chicago. Dallas and Cleveland showed no change.

Acceptances and commercial paper as a percentage of total loans and investments registered only minor changes. The insignificance of these figures reflect the failure of the commercial paper markets to revive.

Loans on real estate showed little movement one way or the other. Their relative importance in total loans and investments is 5.1 per cent. Six districts show a higher figure and six are below the average. However, the San Francisco district with a percentage of 18.1 per cent reached a new high; this territory has more than twice as many real estate loans as any other.

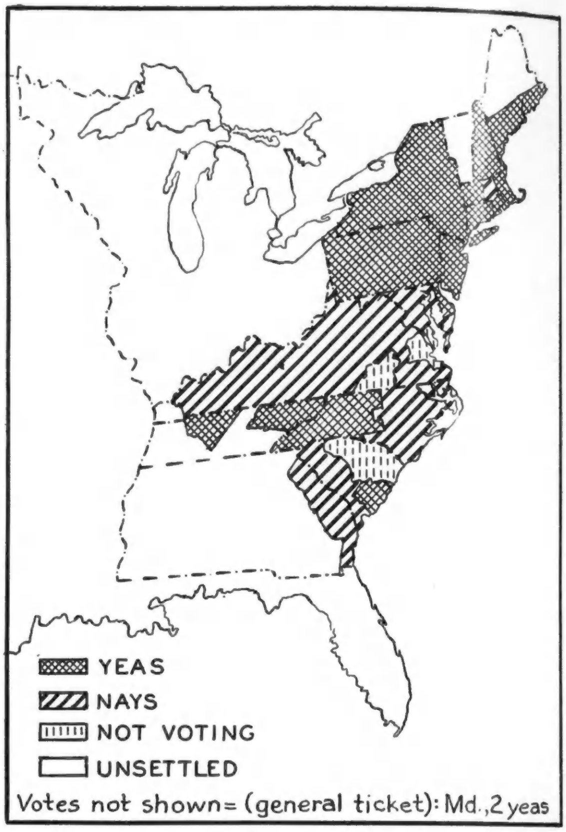
The ratio of total net primary reserves (cash plus member banks' balances) to net demand deposits indicates the cash base of the reporting member banks. For all banks, this ratio continued to increase, reflecting largely the influence of the Government's use of the gold profit in retiring the circulation privilege bonds. This figure is so high at present that it is practically nominal. With the exception of New York, which remained unchanged, the ratio showed increases in all districts, except Chicago, St. Louis, Kansas City and Dallas.

Bank Debits

THERE was a reaction in the bank debits index (see charts above) for the Boston district and also the Dallas district, principally as a result of the huge expansion which took place in July. There were quite sharp increases in the midwestern agricultural districts during August, as compared with July, principally as a result of the larger marketings of crops. Due to the fact that crops have been later this year than usual, marketings were smaller during July but have increased more than is seasonally normal during August. This situation was particularly reflected in Minneapolis, Kansas City and St. Louis. The principal factor causing the greater than seasonal decline in New York (excluding New York City) was the unfavorable weather conditions which handicapped retail trade.

The combined index for the United States as a whole remained practically unchanged from that recorded in July, but it is evident that were it not for the sharp reaction that occurred in the Dallas and Boston districts, the index would have shown a material increase.

Legislative Geography



FEBRUARY 8, 1791—THE U. S. BANK

Above is shown the vote of the House of Representatives of the First Congress, third session, on the "act to incorporate the subscribers to the Bank of the United States". The House vote was: yeas 39, nays 20, not voting 6. (From the Carnegie Institution's "Atlas of the Historical Geography of the United States")

IF Federal legislation on banking and kindred matters, as reflected by voting in the Senate, during the past score of years or so has geographical coloring, a composite map would certainly show all the shades of the rainbow. There is a general popular impression that most of this legislation has received its chief support from radical elements in the southern and western sections of the country, and to some extent such is the case. It is probable, however, that senatorial voting is more a matter of politics than geography.

Recurring swings of the political pendulum between sections of the nation bring into power new leaders favoring new legislation, although it may be uncertain whether leaders are the cause of new legislative movements or new legislative movements the cause of new leaders. There is no doubt that the two interlock and react upon each other and, whether cause or effect, there is a rather distinct geographical cast to the inception of banking legislation which reflects these political conditions.

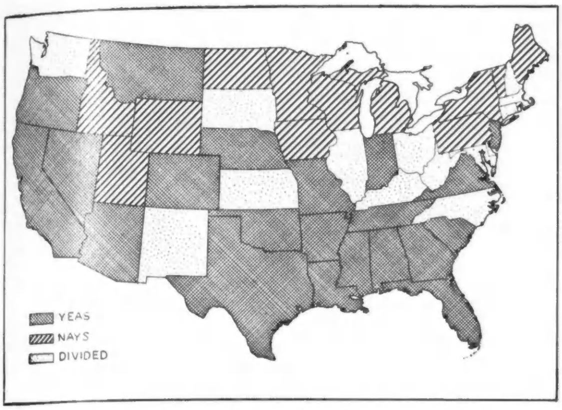
This geographical cast applies to the inception rather than the final enactment of financial legislation. It will generally be found upon examination of the record that while agitation for financial legislation has usually risen in the agricultural sections, the legislation as finally passed has been supported without much regard to geography.

In other words, in the cooling process of Senate consideration, conservatism has generally had enough influence to adapt radical agitation for conservative purposes, or at least for purposes reasonably acceptable to conservatives in view of the circumstances at the time. It is also to be noted that legislation which was considered radical at the time it was enacted has in many cases come to be considered conservative in the light of experience and in the face of new proposals.

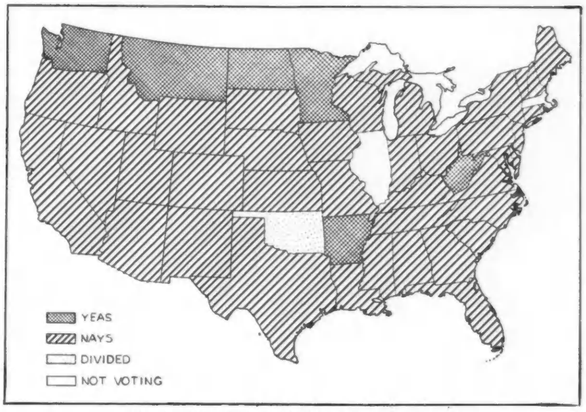
The original Federal Reserve Act passed at the end of 1913 is now considered a conservative piece of legislation, yet the record shows that it was passed largely through the support of the South and West and in the face of opposition from the conservative East and North. Most of New England and the northern states opposed the legislation outright or divided their support. Most of the southern and western states voted for it. Nevertheless there were holes in both support and opposition from a geographical standpoint. Such widely different geographical and political bedfellows as New Jersey and California supported the measure; New York and Pennsylvania and Idaho and Wyoming opposed it. When the original act for the establishment of the land bank system was passed in 1916, its support came almost entirely from the southern and western states, while the financial East held out against it. This might have been expected, but the peculiarity of the opposition was that it came mostly in silent disapproval. When the bill passed the Senate there were 33 Senators present who failed to vote either way, six states giving no voice whatever in the matter.

Probably no measure in Congress affecting banking provoked more heated discussion and opposition than the Banking Act of 1933 except, perhaps, its successor, the Banking Act of 1935. The act of 1933 in its final form, which involved the most controverted provisions, passed Congress without a record vote. There was no record vote in the Senate on any phase of the measure. The explanation for such a course of events lies in the methods by which controverted legislation is often handled in and between the two houses of Congress.

Support and opposition of and to various features of many measures fight their battles out mostly in committee. The positions of the several groups come to be definitely known and therefore become the subject of barter or log-rolling in reaching the compromises which characterize the final measures. In the Banking Act of 1933 the chief points of difference between the groups and, as it so happened, between the two houses, were with respect to the deposit



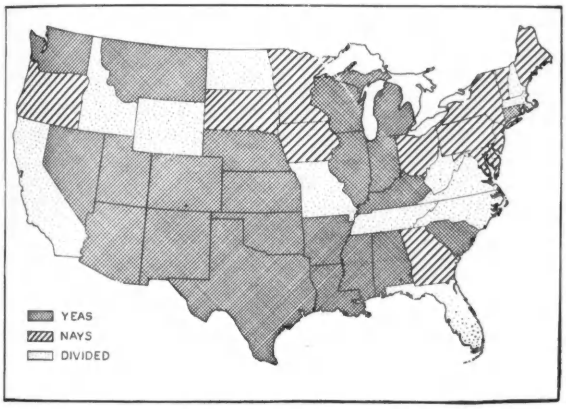
FEDERAL RESERVE ACT



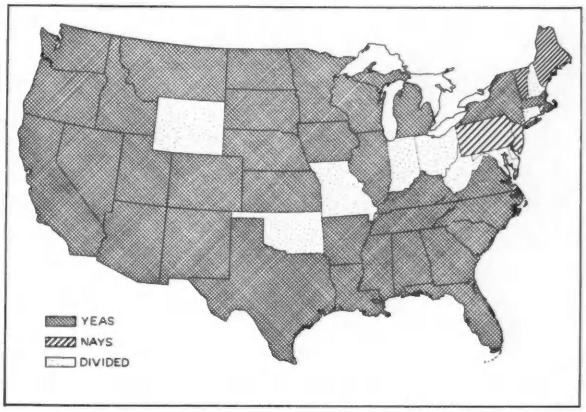
1935 CENTRAL BANK AMENDMENT

THE SENATE VOTE. In the maps on this page and the next, a state is represented as voting either yea or nay even if only one of that state's Senators voted, the other being absent. In the case of states shown as having a divided vote, one Senator actually voted for and one against the measure. No record vote was taken in the Senate on either the 1933 or the 1935 banking measures, but in the upper right-hand corner of this page is the vote on the Nye amendment for establishment of a central bank

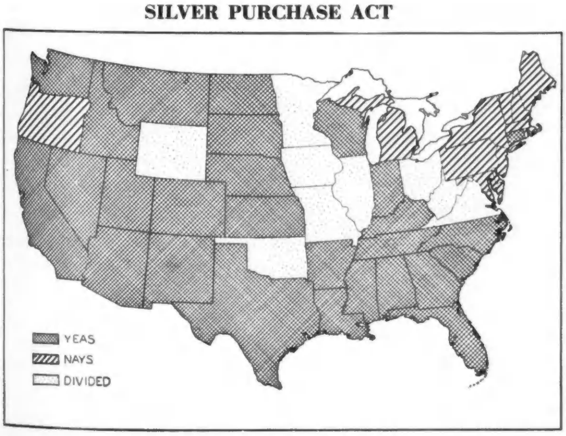
A.A.A.



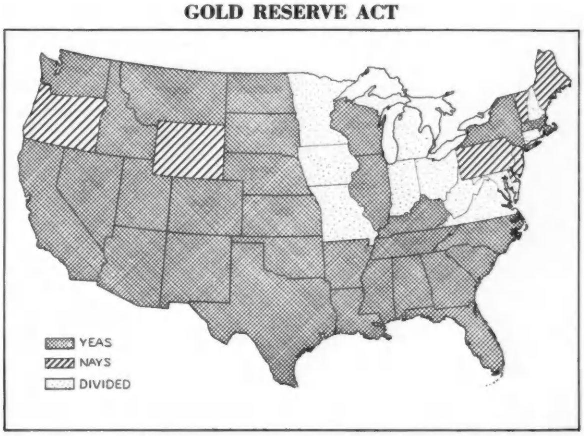
S.E.C.

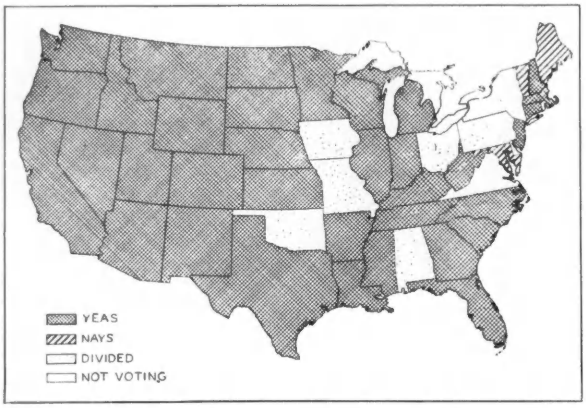


SILVER PURCHASE ACT

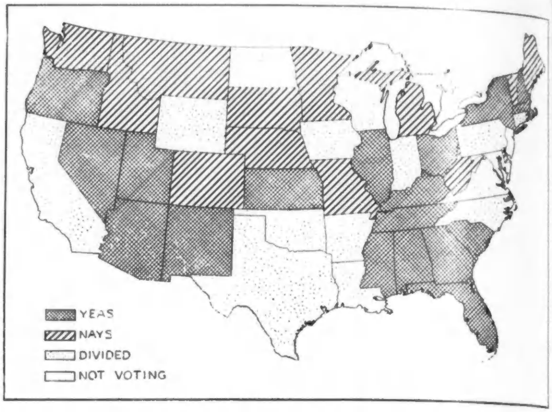


GOLD RESERVE ACT





FEDERAL HOUSING ACT



NATIONAL INDUSTRIAL RECOVERY ACT

As in the maps on the preceding page, a state's vote in the Senate is here represented as either for or against a measure if only one of that state's Senators voted for or against, the other being absent

insurance feature and those provisions which, in connection with deposit insurance, proposed to force all banks into the Federal Reserve System. These differences were compromised by arranging for a temporary insurance system in such a way as to postpone for a year, and later for still another year, the issue of compulsory Reserve membership, while other points not acceptable to certain groups were traded upon to reach a general agreement.

When the general compromise was reached by conferences between leaders and by the conference committees of the two houses the bill was passed *viva voce*. The bill as passed undoubtedly represented the desires of the South and West rather than the financial East, but any geographical representation of that fact would be difficult to present for the simple reason that the East finally quite generally supported the bill. Similar observations apply to the Securities Exchange Act passed in June 1934.

Such legislation as the original Home Loan Bank Act and later modifications in the Home Owners' Loan Corporation and the Federal Housing Act had no geographical significance. There was opposition to these measures but it was largely of the silent variety. The Home Owners' Loan Corporation Act was passed by the House of Representatives by 383 affirmative and only 4 dissenting votes—these widely scattered and representing local opposition to particular features of the bill. However, there were 33 Representatives present who did not vote. The bill was passed in the Senate *viva voce*. In legislation of this sort details are worked out and agreed to by leaders concerned and the two bodies of Congress accept the result. The housing bills were passed with only a little opposition, which represented some local interests without national significance. The vote for one of them was typical of all of them.

"EMERGENCY LEGISLATION"

IN such legislation as the Bank Conservation Act and the National Industrial Recovery Act, geography had little to do with the vote. The legislative situation was dominated by a national emergency or a national hysteria which broke down political and geographical lines, and opposition to the measures was scattered, depending more upon personal politics or idiosyncrasies than upon any geographical or sectional considerations. When it comes to a measure like the Gold Reserve Act of 1934, the consideration of a *fait accompli* influences action. Eastern interests generally opposed departure from the gold standard, but since the step had already been taken many eastern statesmen felt that the best course possible was to bring the situation to book and regularize it so far as possible. Hence an investigator finds conservative New York and Massachusetts supporting the passage of the act.

In other banking legislation support has been based on politics rather than on the merits of the case, and it has been geographical only insofar as politics has been geographical. In practically all cases opposition or support has been centered upon particular features of the bills offered rather than to the legislation as a whole. The real position of states and their statesmen on legislation affecting banks, banking or finance has been indicated more in the stand taken as to these particular features than upon the legislation as finally completed. Such position is developed in committee work or hidden in the personal conferences, trades, log-rolling and compromises which characterize the work of both houses of Congress.

VIVA VOCE DECISIONS

IT would be unfair to intimate that laws are enacted in Congress, especially in the Senate, without a record vote because of any desire on the part of legislators to avoid going on record. On the other hand it would be less than the truth to indicate that such a practice is not followed in many cases.

With respect to some measures the list of legislators present but not voting is rather impressive. Usually *viva voce* votes on bills are taken as a means of saving time. The position of Senators is known to their colleagues. In most cases it is known whether or not a measure will pass, and where the result is known in advance there is little advantage in insisting upon a record vote.

In some respects the Senate, as the final arbiter in legislative matters under present political conditions, is a gentlemen's club in which Senatorial courtesy rules in a manner to render legislation more a matter of a gentleman's agreement than a show of contending national political forces.

Government Banking

Washington, D. C.

ROBERT V. FLEMING, First Vice-President of the American Bankers Association, and Jesse Jones, Chairman of the Board of the Reconstruction Finance Corporation, are agreed that the Government must continue in the banking business until the banks of the country enable it to get out. Mr. Fleming regards the present Government banking situation as inevitable. Mr. Jones regards it as mandatory under the law. In an address before the annual convention of the Financial Advertisers Association in Atlantic City on September 10, Mr. Fleming said: "We often hear complaints against the Government participating in business. Let us then make it possible for the Government to get out of business. . . . The banks are now in a position to serve the public better than ever before. The Government necessarily took over some of their functions during an emergency, aiding the people of the country where private institutions could not. Many of the agencies established by the Government as temporary organizations are still functioning and will have to continue until we bankers take over their work."

R.F.C. VIEWPOINT

Mr. Jones ran up against criticism of an R.F.C. loan to establish a paper and pulp mill in Arkansas—a really notable undertaking which involves not only the construction of mills but the founding of a complete town of perhaps 3,000 inhabitants with all modern equipment and conveniences. The criticism was based on the idea that in making such loans the Government, through the corporation, was competing with private capital. "Every governmental loan competes with private capital," said Mr. Jones in reply. "It is for Congress to determine how long it wishes such loans to be made. There are always objections to loans. We administer the law and try to do it scrupulously." Asked the reason why private capital for such loans was not available, Mr. Jones said, "We wonder why ourselves. Banks do not seem to want to make industrial loans at this time."

In the meanwhile the banking operations of the Government, as distinguished from its outright grants or gifts for relief, public works, and rehabilitation enterprises, are increasing. Between the last of March, when what might be called the Summer schedule of loans begins, and the first of August loans of these Government agencies increased by $504,235,715 to a total of $8,147,398,644—equal to 54.3 per cent of the loans outstanding of all commercial banks in the United States at last accounts, or to 39.9 per cent of outstanding loans of all banks, including mutual savings.

It is uncertain how much of these loans might have been bankable. Nearly half of the increase—$241,718,604—was in loans of the Federal land banks, the Federal Farm Mortgage Corporation, the Home Owners' Loan Corporation and banks for cooperatives, most of which can be ruled out as bankable credits, although loans to cooperatives in large part might have been in the bankable class. Loans of the P.W.A. increased by $32,211,268 net, in which there was a slight increase in loans to railways which might be debatable as possible bank credit. The rest was in advances to states and their subdivisions, which may offer banks opportunities in other lines. There was an increase of $65,373,860 in loans to the Tennessee Valley Authority and its satellites and a half dozen other Government enterprises, most at least of which can be ruled out.

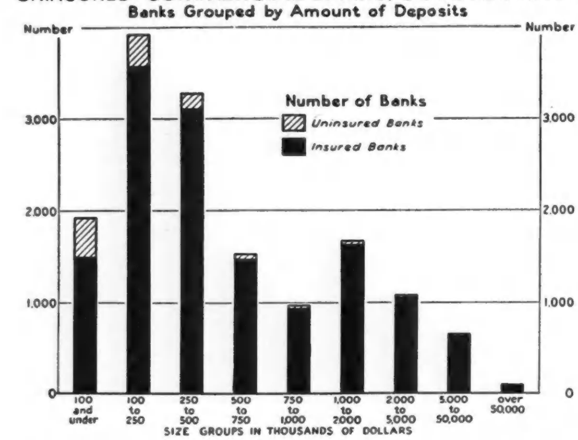
The other chief item of increase was in loans to the Commodity Credit Corporation, with which must be associated the Reconstruction Finance Corporation. Loans of the R.F.C. practically stood still in the four month period, an increase of only $112,096, but this slight increase was in the face of repayments of previous outstanding loans of $297,588,817. The largest single item in this total of repayments was that of banks, followed by mortgage loan companies, building and loan associations and insurance companies. The bulk of these repayments was applied to new loans to the Commodity Credit Corporation to cover advances to farm cooperatives on cotton, which increased in the period by $191,501,666. This increase represents business which, with a little foresight on the part of Government and banks, might have gone to the latter, as is amply demonstrated by the fact that it represents business taken from them.

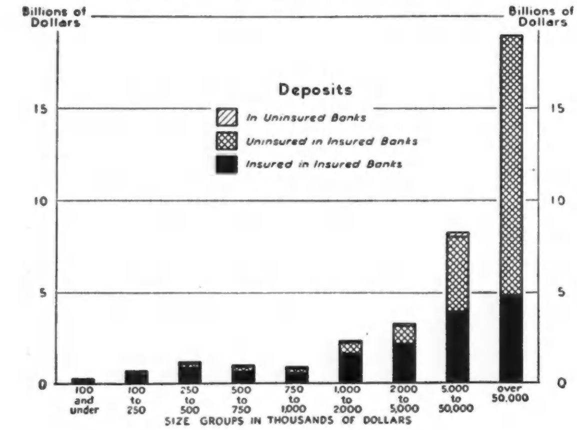
FEDERAL COTTON

At the beginning of the 1934–1935 cotton crop season the Government agreed to lend 12 cents a pound on cotton for the purpose of maintaining prices, but while it agreed to do so it was not called upon at once to carry out the agreement. The fact that the Government, through the Commodity Credit Corporation and the R.F.C., has been ready to lend at that rate has justified banks in making advances to farmers and their cooperatives on their cotton at substantial rates, and most of the time during the past year the banks have done most of the lending. In many cases banks made advances to owners of cotton which later were submerged in R.F.C. loans at a higher valuation of the cotton. At the close of last year's season in July 1934 the R.F.C. had approximately $140,000,000 outstanding on cotton which gradually increased to $148,000,000 at the end of October. Large sales, readjustments with banks taking larger loans and other arrangements brought its net outstanding advances down to $26,000,000 by the end of November and the net advances ranged between $30,000,000 and $50,000,000 until May. During this period, apparently, commercial banks carried upward of $200,000,000 in cotton loans. With the necessity of renewing all loans under the Government's 12-cent agreement in June, however, the R.F.C. advances suddenly shot up to a net of $144,000,000 with further heavy advances in July. Loans by commercial banks fell off accordingly. On September 1 cotton held under the 12-cent loan agreement amounted to 4,450,678 bales pledged for a total of $271,482,923. Of this amount 3,768,720 bales were held solely by the Commodity Credit Corporation for the R.F.C. and 681,958 bales were held by banks against loans of $41,422,393, which had the corporation's and therefore the Government's guaranty.

NUMBER AND DEPOSITS OF INSURED AND UNINSURED COMMERCIAL BANKS, OCTOBER 1, 1934

Banks Grouped by Amount of Deposits





This chart is taken from the annual report of the F.D.I.C.

COTTON LOANS IN BANKS

Possibly as soon as the Government's cotton loan policy is firmly fixed so that banks can rely upon it much of these loans will return to the banks. At all events it seems plain that with a little manipulation there ought to be perhaps $200,000,000 in cotton loans that would be available for bank portfolios.

The new crop arrangement may offer further opportunities. The proposal of the Government to lend up to 10 cents a pound on the new crop is likely to follow the same course as that of the past year. The R.F.C. has set aside $100,000,000 for loans on the new crop, but Chairman Jones has expressed the opinion that most of the fund will not be called for, since it is expected that this year's crop will move normally into consumption in view of the fact that the Government will hold all old cotton now under its control until it can be sold for 12 cents a pound plus carrying charges—at present approximately 13½ cents per pound.

The other phase of Government banking is of immediate bank interest. The small net outlay of the P.W.A. in the past four months is due to sales of state and municipal securities held by it to the R.F.C. as a medium through which they can be sold to the investing public. Altogether the R.F.C. had purchased from the P.W.A. up to the first of August 662 issues of state and municipal securities with a face value of $216,639,000. It had sold $85,902,100 of these securities at a premium of $2,657,066. Securities in the amount of $22,162,450 were collected at par, partly through refunding by the obligators, and $108,574,450 are still held for sale. The corporation has already agreed to purchase $112,030,250 of other such securities in the near future which it will also offer for sale. Banks, accordingly, can participate in this financing by the investment route.

With all the shifts and sharing of loans possible, however, the fact remains that the Government is increasing its loans to both public and private interests in the face of constantly decreasing volume of bank loans outstanding. It seems to be up to the banks to decide when and how they are to take over the far-flung banking business that is now being conducted by the Government.

CREDIT UNIONS

The Federal Credit Unions apparently were tied to the Farm Credit Administration as a matter of legislative convenience, since it seems probable that they will serve town dwellers more than farmers. They are cooperative thrift and loan associations designed to enable their members to save and borrow with a minimum of trouble in the one case and expense in the other. However, membership in a union is confined to persons having a common bond of occupation or association, and while this applies to farmers as well as others the former are not only individualistic but also scattered. At all events the union idea seems to be catching.

Up to the first of September 563 charters had been issued credit unions by the Governor of the F.C.A. They had over 60,000 members and in the nine months of their operation ending June 30, marking their start from nothing on the first of October last year, they had loaned $776,000. Their catholicity is indicated by the fact that among charters granted in August were those to local groups of employees of two great oil companies, a great department store, a rubber manufacturing company, a packing company, one of the greatest electric equipment companies, one of the largest chain bank organizations and the Farmers' National Grange in Chicago.

POSTAL SAVINGS

Since the banking authorities of the State of New York have ruled that no banks in that commonwealth may pay over 2 per cent interest on time deposits after October 1, the depositories of postal savings are up against a hard proposition—in fact, they will have to give up some $50,000,000 of postal savings funds which they have been holding. It is quite probable that most banks concerned will not worry about the matter very much, since the Post Office Department still demands 2½ per cent interest and 110 per cent collateral security for the deposits at a time when few banks can earn any money under the arrangement.

Banks in all parts of the country have been giving up their postal savings deposits for nearly two years. The situation is indicated by the fact that even as late as June 1934 all banks in the deposit insurance system held $661,327,000 of postal funds. On June 29 last they held only $372,941,000, —$242,300,000 in national banks, $64,303,000 in state member banks and $66,338,000 in non-member banks.

GEORGE E. ANDERSON

Social Security and the Banks

By GEORGE E. ANDERSON

THE Social Security Act passed by Congress has double-barrelled possibilities with respect to the banks, getting them both coming and going by taxing them and cutting into their business.

Every bank with eight or more employees is brought within the scope of the unemployment insurance feature of the new law.

This portion of the act is designed to encourage, if not to force, the establishment of state unemployment insurance systems, and the states are allowed the widest latitude in such enterprises formed with the aid of, and in accordance with, the general plan of the Federal Government. The latter's part in the plan is to collect funds on a national basis, apportion them to the states and grant the states subsidies for the administration of the systems they establish.

The amount of subsidy to be granted for the rest of the current year was to have been $4,000,000 and for next year and thereafter $49,000,000. These appropriations failed of passage because the third deficiency appropriation bill was talked to death by the late Senator Huey Long, but they will be made promptly upon the reassembly of Congress in January. Employers will pay the tax whether or not their employees are protected by a state unemployment insurance system. Naturally, employees will see to it that their respective states will soon have adequate unemployment insurance machinery to give them full advantage of the law.

OLD AGE PENSIONS

COMMENCING with 1937, banks and other firms employing eight or more persons will be called upon to pay funds into the contributory old age pension system. So also will their employees.

The particular rub in this old age pension system, aside from the tax upon employers who receive no benefit from it, comes in cases where employers have already established old age pension systems of their own. A large proportion of the great corporations now maintain some sort of a retirement system for their employees, some of them most liberal. Many moderate sized business organizations follow the practice. Most of the large banks have systems of this kind and even banks of medium size care for their employees in one way or another as they become superannuated in their service. The Federal authorities have no data as to how many banks have permanent retirement plans in operation, but it is known that the number is considerable. In many cases such plans represent an important investment on the part of the institution, and in the case of the large corporations these investments run into many millions of dollars.

It was the question of whether employers who have established such retirement systems should be allowed to continue their present plans or should be brought into the governmental system that for weeks divided the two houses of Congress. As the law was finally passed the private systems must give way to the Government system, but passage of the act was agreed to only upon the understanding that the question would be brought up for further consideration in the session of Congress which commences in January. It seems to be a fifty-fifty proposition whether the private pension systems will be given a chance.

If the law remains as it now is, banks and other corporations maintaining their own pension plans will be called upon to wind them up and pass under the Government plan. Where such systems have involved employee participation in establishing the necessary reserves this will be a difficult matter. In any event the liquidation of the private pension schemes will involve an important shift of bank funds in many cases which may or may not be of advantage to the banks but will certainly not give employees the benefit of their accumulated service. Perhaps the more important phase from the standpoint of all banks, however, is the fact that the break-up of these private pension systems will mean the break-up of large trust funds held by banks for corporations now maintaining their own retirement systems. Many corporations operate their own pension trust funds, others operate through the great insurance companies, while others prefer to delegate this work to their banks.

There is another aspect of the social security system as a whole which may well engage the attention of banks and all other financial institutions. The funds both for the unemployment insurance system as operated by the state governments and for the old age pension system operated by the Federal Government, are to be paid to the Treasury.

SIZE OF THE FUNDS

IT requires very little figuring to realize that these two systems involve immense trust funds centered in the Treasury. Excluding farm labor, domestics and casual workers who are not covered by the law, the old age pension system is expected to apply to about 25,000,000 persons and by 1950, when the system will be in full operation, to involve a tax of $1,877,200,000 annually. It is calculated that by 1980 when the full impact of the system will be felt in the attainment of the retirement age by young workers now being brought under the system, the reserve fund will amount to approximately $46,000,000,000. The unemployment system, with the exclusion of the classes above indicated, is expected to cover 25,744,000 workers and to involve an annual tax of $826,000,000 with a reserve fund which in prosperous years will reach an impressive total.

These funds must be invested, for the most part, if not entirely, in Government securities. The proponents of the law seem to have been rather optimistic in planning for an income of 3 per cent a year from such investments, but, aside from a little detail like that, an observer can only wonder at the probable effect upon American finance of a trust fund which in a few years will be sufficient to pay the entire public debt of the United States. Within the next two or three years these reserve funds will become competitors with the banks for the Government securities which are now not only the first line of reserves of the banks but also the immediate foundation for the greater part of the national currency.

The Mechanization of Trust Work

By WILLIAM J. WEIG

Assistant Secretary, Guaranty Trust Company of New York

SMALLER banks frequently report that it requires large activity to mechanize the trust department. This statement is not absolutely correct, for it is generally based upon the opinion that the equipment would stand idle for the greater part of the day. The secret of mechanizing a small trust department is in making one machine do more than one piece of work. Generally a minor change in the bookkeeping or accounting system would permit such a multiple application. To mechanize a department means to increase its efficiency of routine operations, and also to build a flexible foundation for future expansion.

It has often been said and written that we are living in a machine age, an era which has seen the development of machinery to a very high degree of efficiency. This statement is particularly true as it affects the manufacturing, merchandising and farming industries where rapid progress has been made in the development of machinery during the past 40 or 50 years. However, it cannot be considered as representative of the development of equipment to replace clerical effort. It has been only during the last 12 or 15 years that faster progress has been made in the development of accounting and bookkeeping machines.

Accounting equipment remained so far behind mainly because the conservative office manager believed machines could not replace human effort where figures were concerned. Until a score of years ago the mechanization of an office force consisted primarily of the typewriter, adding machine, and the simplest forms of calculating and bookkeeping machines. Since that time the development of office equipment has been much faster, until today the various accounting machine companies build machines which can be used on a great number of intricate problems of accounting and bookkeeping.

Among the many bookkeeping machines now manufactured are those which can be used for the posting of the trust department cash and security ledgers. Before these machines were developed the records were hand-posted, and, whenever it was necessary to have a transcription, a typist would copy the recorded information on a statement form. This, of course, meant a repetition of what had been done before and thus increased the possibility of error. Likewise, the hand-posting bookkeeper had no positive proof that everything was posted correctly or his balances extended properly, until the ledgers were proved to the control figure. The present day bookkeeping machines permit the preparation of any number of copies, and, as the operator records the description and figures, she automatically receives the new balance, and at the end of the ledger a total of the debits and credits.

The development of calculating machines during the past 15 years has been exceptional. The first machines of this nature were hand-operated and it required a thorough understanding of the machine in order to arrive at the proper answers. Even so, it was necessary to accumulate figures on a separate sheet of paper in order to prove percentages.

It may be interesting to know how some of this equipment has been developed—for example, the machines used in one stock transfer department. Many accounting machine companies build such equipment, each, of course, in its own individual way but all of them using the same fundamental principles.

Some 10 years ago it was decided to reorganize this transfer department and to replace the typewriters and adding machines with other equipment. The experiment began with all of the well known accounting machines, to determine which would answer the problem best in the minds of the reorganizers. At first it was thought that two machines would be necessary—one to do the stock transfer work, the other the stock registration work. This would have meant a considerable investment in equipment which would not be used to its fullest extent. In fact, it would have remained idle about 50 per cent of the time.

After a few weeks it was suggested to the accounting machine companies that the ideal machine would be one which could be used on both of these functions, carrying a double platen so that the new stock certificate could be superimposed upon the transfer sheet in order to assure exact registration of certificate and sheet. It was considered a gigantic assignment, but within a few months one of the equipment engineers solved the problem and the machine was built and installed.

FURTHER IMPROVEMENT

AFTER a few years the companies were again approached to improve the machine so that it could do the entire work of the department. Subsequently a device was attached to the machines of the original installation to accomplish a long awaited need. Had it not been for the insistence of the operating men that such a machine be developed, it is possible that this particular step in equipment manufacture would not have been made. It is unquestionably true that the operating man can give the equipment manufacturer valuable suggestions which, if they are basically sound, will help to speed up the development of accounting machines to the level enjoyed in the manufacturing world.

Among other equipment which can be used in the mechanization of the trust department are check cutting and signing machines. One check writing machine is particularly intriguing in that it cuts the amount into the check and simultaneously prepares an adding machine listing of the amount. The aggregate of all checks issued can be proved without a separate listing on an adding machine.

Mr. Weig states that "it has been only in the last 12 or 15 years that faster progress has been made in the development of accounting and bookkeeping machines." While the top picture opposite was made not so many years ago, clerical work was still being done by hand. Below is the transit department of the New York Federal Reserve Bank 10 years ago, shortly after office machinery had begun its rapid progress

A Bank's Operating Equipment

BANK forms are constantly in need of revision and must be judged on the basis of adequacy, adaptability and necessity. When forms are being re-ordered a central bureau should handle the details of reprinting with a view to combining forms, where practical.

Some forms are obviously duplications; others could be revised so as to have the information printed more completely, thus saving time in typing details of a transaction.

Where a bank is large and growing, having numerous branches, forms should be designed for uniformity throughout the organization. They can readily be made adaptable to the branch office operations as well as those of the head office. Since in branch banking the head office wishes to keep informed of certain transactions, particularly in the loan and foreign departments, an extra copy showing all the details can be incorporated in the forms of these departments, eliminating the separate report.

The same is also true where continuous audit control is the established procedure. An auditor's copy of the forms pertaining to foreign transactions, securities received and delivered, loan changes, collateral substitutions, etc., will serve as a check of the department and will furnish a permanent control for the auditors.

BROWN BROS.

Another possibility for saving is the cost of printing. The quantity to be ordered should be carefully considered. Competitive bids should be asked, in an attempt to secure the lowest price for a given quantity but not at the sacrifice of quality. It is often possible to order 10,000 or 100,000 units of an item for $10 to $20 whereas a smaller volume will bring the unit cost to an excessive figure.

Machines in banking are as important as in other commercial fields and industry. Obsolete equipment may cost the institution thousands of dollars in operating efficiency and time. It is not merely a question of installing new machines, but of adapting present equipment to new tasks. A change in some of the mechanisms suggested by departmental operating heads may permit one or two operations to be performed on the one machine. In one case, by supplying each bookkeeper with an individual light attached to the desk of his machine, a bank was able to cut the operating time for posting and to eliminate errors due to incorrectly written or badly written checks.

By a study of the newer models and new inventions for attachment to older machines, a bank may renovate its equipment and thereby increase its operations without adding to the payroll. New equipment is a large item of expense to any organization and its installation is predicated on the possible savings, earning power and increased efficiency. Proper amounts of amortization should be set up for each item of machinery and equipment, and upon the complete writing off of these items, studies can be made of the newer models. If a record has been kept of the operations performed by the machines, hours of use, items handled, etc., a basis for comparisons with the new models will have been established.

These points are essential to each bank, but its study should be in the light of its needs, operations and future growth. The question, "On the basis of present equipment and in the light of future business have we the machinery for efficiently handling volume?" should be considered by every banker.

HENRY F. KOLLER

CALENDAR

New Orleans Convention

SEVERAL special trains are being planned to convey delegates and guests to the Annual Convention of the American Bankers Association at New Orleans, November 11 to 14.

The Falltonic will leave Chicago on November 8, arriving in New Orleans Sunday morning, the 10th. The trip will be broken at Memphis, where the passengers will have the opportunity to attend an entertainment arranged for them.

A Missouri-Kansas special departs from Kansas City and St. Louis on November 8 and will reach New Orleans the following day. A stop has been arranged at Little Rock, Arkansas, on the 9th for breakfast and a sight-seeing trip.

A New York special, leaving on November 8, is scheduled to arrive in New Orleans the afternoon of November 10. It will stop en route at Chattanooga for a sight-seeing trip and at Pass Christian, Mississippi, for a visit to the home and Japanese gardens of R. S. Hecht, President of the American Bankers Association.

Reduced fares on the identification certificate plan have been authorized by the various railroad passenger associations, with the exception of the Southeastern Passenger Association, which now has in effect experimental rates equivalent to the reduced Convention rate.

The basis for the Convention round-trip rate is a fare and one-third of the current one-way fare. Travel will be permitted over direct or diverse routes, allowing 30 days to return to the starting point.

There are, however, reduced round-trip excursion rates in effect to New Orleans from some sections of the country, and these may be cheaper than the customary Convention rates. Therefore, it is suggested that bankers consult their local ticket agents for full information about rates, routes and stop-overs.

A large demand has already appeared for hotel accommodations in New Orleans, and those who have not made reservations are requested to do so promptly. Applications should be made direct to Dale Graham, vice-president of the National Bank of Commerce, New Orleans. Mr. Graham is chairman of the hotel committee.

Amendment to Constitution

A PROPOSED amendment to the constitution of the American Bankers Association, unanimously approved by the Executive Council and the Administrative Committee at Augusta, Georgia, April 14–16, 1935, will be recommended for adoption by the Annual Convention at New Orleans.

The proposed amendment eliminates the last paragraph of Section 1 of Article X reading as follows:

"Members of the Association may enroll as regular members of but one Division in which they shall have full powers and privileges of membership; they may also enroll as associate members of any other Division or Divisions, but without power to vote or hold office in such other Division or Divisions; Provided that nothing herein shall prevent an individual regular member or an officer, director, trustee, manager or partner of a regular member of any division from being eligible to appointment by any other division upon any committee of such other division other than the executive committee thereof."

and substitutes therefor the following:

"Members of the Association may enroll as regular members of but one division in which they shall have full powers and privileges of membership; but may also enroll as associate members of any other division or divisions. An associate member of a division shall have no power to vote but an officer, director, trustee, manager or partner of an associate member of any division shall have such power to hold office or committee membership, including the right to vote as officer or committee member, as shall be granted by the By-Laws of the Division."

Building and Loan League

ONE session of the 43rd annual convention of the United States Building and

EWING GALLOWAY

Loan League, to be held in Cincinnati November 13–15, will be thrown open to shareholders and directors of the associations in Cincinnati and neighboring communities. This mass meeting, representing an innovation in the national organization's convention practice, will be addressed by prominent speakers.

The keynote of the convention will be national security through thrift and home ownership, with emphasis on the necessity for turning the average citizen's thoughts to self-help. Subjects of discussion from the platform and at round tables include insurance of shares in associations, more flexible lending plans, policies of liquidity, trends of interest rates, the problem of home taxation and its relation to the associations, model accounting methods and business development through newspaper advertising.

The Society of Residential Appraisers will hold its convention simultaneously. The National Association of Building and Loan Supervisors will also conduct its annual conference, which is customarily held in connection with the League meeting. I. Friedlander of Houston, Texas, is president of the League.

Mortgage Bankers Association

SPEAKERS at the 22nd annual convention of the Mortgage Bankers Association of America at French Lick, Indiana, October 3 and 4 include:

Governor Paul V. McNutt of Indiana, address of welcome; Owen M. Murray, Dallas, president of the association, speaking on the topic "Government vs Private Lending"; Colonel C. B. Robbins, Chicago, general counsel for the American Life Convention, "The Enduring Value of Farm Mortgages as Security for Debt"; William I. Myers, Washington, Governor of the Farm Credit Administration, "Permanent Sources of Cooperative Credit for Agriculture"; Silas H. Strawn, Chicago, former president of the American Bar Association and of the United States Chamber of Commerce, "Problems of Mortgage Bankers"; Marriner S. Eccles, Governor of the Federal Reserve Board; and former Federal Judge Charles I. Dawson, Louisville.

In this old New Orleans building, constructed in the early years of the last century, was once housed the Bank of the United States

Financial Advertisers

ROBERT W. SPARKS, first vice-president of the Bowery Savings Bank, New York, was elected president of the Financial Advertisers Association at the organization's 20th annual convention, held at Atlantic City, New Jersey, September 9–11. He succeeds I. I. Sperling, assistant vice-president of the Cleveland Trust Company.

The convention brought to the platform and conference table many stimulating speakers. Their discussions of the many services and phases of financial advertising emphasized the constructive nature of public relations activities and its opportunities, especially in the direction of educating the public along lines of sound economics and banking.

In his inaugural address Mr. Sparks pointed out that "defensive" public relations were fraught with danger.

"It is your job and my job," he said, "to convince the men at the top of our institutions that advertising works best when it is not emergency advertising, and that they have something to advertise today."

Other officers chosen were: first vice-president, Thomas J. Kiphart, publicity manager and vice-president, Fifth Third Union Trust Company, Cincinnati; second vice-president, William H. Neal, vice-president, Wachovia Bank and Trust Company, Winston-Salem, North Carolina; third vice-president, George O. Everett, assistant vice-president, First Citizens Bank and Trust Company, Utica, New York.

Fred W. Mathison, assistant vice-president, National Security Bank, Chicago, was re-elected treasurer, and Preston E. Reed, Chicago, was renamed executive secretary.

The 1936 convention will be held in Nashville, Tennessee.

Robert W. Sparks

Pacific Coast Trust Conference

THE program of the 13th regional trust conference of the Pacific Coast and Rocky Mountain states, to be held at Los Angeles, October 31 and November 1 at the Los Angeles-Biltmore Hotel under auspices of the Trust Division, American Bankers Association, in cooperation with the California Bankers Association and those of the other participating states, is as follows:

First session, October 31, 10:00 A.M. Chairman, A. L. Lathrop, president, California Bankers Association, and vice-president, Union Bank and Trust Company, Los Angeles; address of welcome, John F. Keogh, president, trust section, California Bankers Association, and vice-president and general counsel, Title Guarantee and Trust Company, Los Angeles; response, W. J. Kieferdorf, vice-president and senior trust officer, Bank of America National Trust and Savings Association, San Francisco; "Relations of Trust Companies with Federal Government," Henry A. Theis, vice-president, Guaranty Trust Company of New York; "Service and Responsibility as Basis for Trust Charges," Conner Malott, vice-president, Spokane and Eastern Trust Company, Spokane, Washington.

Second session, October 31, 2:00 P.M. Chairman, Albert L. Grutze, president, Trust Companies Association of Oregon, and vice-president and trust officer, Title and Trust Company, Portland; "Modifications and Additions to Trust Indentures Securing Bond Issues Bearing in Mind the Experiences of Foreclosures and Reorganizations in Past Five Years," Lorne L. Miller, vice-president and trust officer, Portland Trust and Savings Bank; open forum discussion, "Accounting and Auditing Problems Arising in Trust Department Operations," under leadership of T. F. Mullens, trust auditor, Security-First National Bank of Los Angeles; "A Customer Conference in 1935 Concerning a Will," a demonstration conducted by Alfred V. Godsave, vice-president, Pacific National Bank of Seattle.

Third session, November 1, 10:00

(CONTINUED ON PAGE 48)

School Savings, 1934-1935

By W. ESPEY ALBIG

Deputy Manager, American Bankers Association

SCHOOL saving in the United States celebrates its fiftieth anniversary, 1934–1935, with deposits during the year of $11,575,899.74 and net savings at the close of $2,337,616.38. The participants in this huge sum of children's savings number 2,826,388, located in 8,937 schools.

This is a gain of 7.9 per cent in deposits over a year ago and an increase in net savings, that is, the excess of deposits over withdrawals, of $962,308.52, or 69.9 per cent.

The development of school savings within the year is remarkable. Four years ago, 1931–1932, the withdrawals exceeded the deposits by almost three million dollars; the following year brought a slight improvement; last year the improvement was so great that deposits topped withdrawals by $1,375,307.86. This year affords proof that school saving is rapidly overcoming its first great depression.

These figures, impressive in themselves, do not reveal the whole story of growth. Of the sum deposited last year only 12.8 per cent remained as net savings. This year there remains from this year's deposits net savings of 20.1 per cent. This impressive gain can indicate but one thing, that the demand on the part of families for the aid of the children's savings in maintaining the home has been greatly decreased.

Those states which stand high in the volume of savings deposits in banks are leaders in school savings. Thriftiness has become ingrained in the thoughts and habits of the people. New York shows net school savings for the year of $548,759.80; California, $292,949.97; Massachusetts, $235,683.31; Pennsylvania, $212,264.94, and Connecticut, $206,959.60.

Of the 39 states affording opportunity for school savings, only in three were withdrawals greater than deposits. This excess of withdrawals depleted the resources set up in former years.

The vitality of school savings is demonstrated by its persistence through the troubled years since 1929 and its rapid upswing when once business tended to more normal conditions.

This year marks the fiftieth anniversary of the introduction of school savings into the United States. On March 16, 1885, Jean Henri Thiry, then a school commissioner of Long Island City, New York, began his experiment with the aid of the Long Island City Savings Bank as depository.

Mr. Thiry's interest and enthusiasm had been aroused through his contact with a fellow Belgian, Professor Francois Laurent, who had developed school savings in Ghent and who had won the Guinard prize of 10,000 francs for his lecture on savings. This treatise was regarded by the judges as constituting the best work for ameliorating the material and intellectual position of the working classes generally.

SUMMARY AND COMPARISON
1933-1934 and 1934-1935

STATES	Number of Schools		Number Participating		Deposits		Net Savings	
	1933–34	1934–35	1933–34	1934–35	1933–34	1934–35	1933–34	1934–35
United States	9,471	8,937	2,802,899	2,826,388	$10,727,505.33	$11,575,899.74	$1,375,307.86	$2,337,616.38
Alabama	65	67	23,084	26,935	119,638.98	188,384.56	28,251.60	60,593.82
Arizona	1	1	192	191	144.79	168.71	78.45	96.06
Arkansas(1)	...	...	...	...	...	...	...	...
California	2,391	2,340	430,592	373,386	969,463.24	1,109,580.70	356,875.26	292,949.97
Colorado	3	3	338	416	577.92	467.86	...	...
Connecticut	546	534	95,663	101,946	644,803.49	672,452.67	186,673.95	206,959.60
Delaware	56	38	30,218	26,340	82,211.82	88,406.94	**16,777.54†**	8,596.89
Dist. of Columbia	5	(1)	421	(1)	2,340.76	(1)	...	(1)
Florida	25	25	18,028	19,538	21,788.13	20,422.08	**5,615.03†**	2,578.94
Georgia	80	90	6,185	34,941	110,398.22	117,643.21	13,583.59	21,340.86
Hawaii	62	61	3,300	5,364	20,693.18	77,240.18	20,693.18	77,240.18
Idaho	8	8	1,640	1,866	6,715.79	6,877.77	3,228.86	1,472.09
Illinois	145	95	43,159	31,694	207,800.39	166,123.44	**18,341.44†**	21,407.33
Indiana	49	42	13,855	14,785	40,047.51	43,769.72	**13,609.16†**	9,500.09
Iowa	68	70	20,832	28,844	78,679.12	99,999.32	24,063.96	24,224.58
Kansas	15	14	3,914	3,935	27,980.34	28,690.55	1,814.52	3,471.34
Kentucky	25	(1)	1,526	(1)	4,241.05	(1)	**3,520.06†**	(1)
Louisiana(1)	...	...	...	...	...	...	...	...
Maine	251	232	25,472	23,535	149,956.31	130,307.65	51,823.48	32,183.93
Maryland	108	95	40,922	39,928	74,195.58	112,475.33	71,878.34	96,343.84
Massachusetts	735	713	131,236	124,158	598,246.12	624,004.88	198,301.46	235,683.31
Michigan	35	24	12,258	11,277	29,916.80	35,634.42	**7,829.95†**	**5,253.07†**
Minnesota	203	196	79,312	81,778	316,605.38	354,566.76	22,802.58	63,570.43
Mississippi	5	5	730	666	5,110.74	4,701.53	2,422.84	888.07
Missouri	108	102	33,108	34,118	157,259.06	165,612.62	5,460.65	25,037.46
Montana(1)	...	...	...	...	...	...	...	...
Nebraska	...	...	...	...	1,840.51	1,304.50	**434.96†**	**684.05†**
Nevada	(1)	2	(1)	425	(1)	2,157.75	(1)	401.20
New Hampshire	92	98	6,677	7,054	24,523.04	25,818.79	5,766.14	4,974.20
New Jersey	541	527	164,309	155,216	836,621.23	874,864.87	**13,449.49†**	129,975.35
New Mexico	6	6	2,178	806	11,381.82	13,173.51	4,503.93	3,532.25
New York	1,391	1,359	816,569	873,143	2,256,779.79	2,558,744.58	473,035.05	548,759.80
North Carolina(1)	...	...	...	...	...	...	...	...
North Dakota	14	15	487	594	2,405.70	3,555.39	829.95	1,109.86
Ohio	337	290	86,017	89,062	426,284.72	450,154.62	33,561.82	88,096.75
Oklahoma(1)	...	...	...	...	...	...	...	...
Oregon(1)	...	...	...	...	...	...	...	...
Pennsylvania	887	932	383,605	415,292	1,939,376.89	2,040,703.57	37,946.14	212,264.94
Rhode Island	473	338	119,376	127,706	634,233.29	656,444.62	**2,819.71†**	13,864.20
South Carolina	(1)	6	(1)	226	(1)	483.00	(1)	297.05
South Dakota	30	30	4,471	10,246	30,488.54	34,140.40	**19,175.81†**	4,650.45
Tennessee	33	36	5,491	6,277	80,897.18	86,989.88	19,487.02	7,143.48
Texas	212	145	68,436	58,108	228,075.29	249,050.97	52,859.43	83,076.71
Utah(1)	...	...	...	...	...	...	...	...
Vermont	4	7	280	299	422.60	1,167.62	**481.38†**	40.75
Virginia	42	43	11,219	10,151	48,363.36	27,039.91	**97,446.65†**	**10,707.34†**
Washington	123	111	59,108	49,205	307,944.75	306,718.15	**17,113.94†**	50,048.61
West Virginia	83	92	18,763	19,167	62,766.54	68,537.18	3,687.89	11,465.95
Wisconsin	212	143	39,928	17,770	165,253.10	126,259.25	**27,707.11†**	10,420.50
Wyoming	2	2	...	...	1,032.26	1,060.28	...	...

TOTALS—UNITED STATES	Number of Schools	Number Participating	Deposits	Net Savings
1934–1935	8,937	2,826,388	$11,575,899.74	$2,337,616.38
1933–1934	9,471	2,802,899	10,727,505.33	1,375,307.86
1932–1933	10,890	3,080,685	10,332,569.55	**2,315,252.21†**
1931–1932	12,686	3,106,510	17,680,364.92	**2,926,902.12†**
1930–1931	14,628⅓	4,482,634	25,977,216.41	2,167,499.58
1929–1930	14,610⅓	4,597,731	29,113,063.48	7,690,529.68
1928–1929	14,254⅓	4,222,935	28,672,496.00	10,539,928.46
1927–1928	13,835	3,980,237	26,005,138.04	9,476,391.32
1926–1927	12,678	3,742,551	23,703,436.80	9,464,178.93
1925–1926	11,371	3,403,746	20,469,960.88	8,770,731.05
1924–1925	10,163	2,869,497	16,961,560.72	7,779,992.55
1923–1924	9,080	2,236,326	14,991,535.40	8,556,991.27
1922–1923	6.868	1,907,851	10,631,838.69	...
1921–1922	4,785	1,295,607	5,775,122.32	...
1920–1921	3,316	802,906	4,158,050.15	...
1919–1920	2,736	462,651	2,800,301.18	...

(1)—No report this year. †—Loss

CALENDAR

(CONTINUED FROM PAGE 45)

A.M. Chairman, H. B. Whitney, president, trust company section, Utah Bankers Association, and trust officer, First National Bank of Salt Lake City; "The Future Trust Officer and His Requirements," J. W. Allison, vice-president and trust officer, First and Merchants National Bank, Richmond, Virginia; "Future Advertising of Trust Services in View of Past Experience," W. H. Loos, vice-president and trust officer, First Security Bank of Utah, Ogden; "How Lawyers and Trust Companies May Cooperate," C. W. Gibson, vice-president, The Valley Bank and Trust Company, Phoenix, Arizona.

Fourth session, November 1, 2:00 P.M. Chairman, H. L. Fletcher, president, Corporate Fiduciaries Association of Phoenix, and assistant trust officer, The Valley Bank and Trust Company, Phoenix; "A Comprehensive Liability Insurance Policy for Corporate Fiduciaries," William N. Martin, president, Bayly, Martin and Fay, Inc., insurance counsellors, Los Angeles; "A Customer Conference in 1935 Concerning a Living Trust," a demonstration conducted by E. T. Starbuck, manager, trust development division, Wells Fargo Bank and

(CONTINUED ON PAGE 50)

The Los Angeles-Biltmore Hotel where the 13th regional trust conference of the Pacific and Rocky Mountain states will be held, October 31 and November 1

CALENDAR

(CONTINUED FROM PAGE 48)

Union Trust Company, San Francisco; open forum discussion, "Management Problems Connected with Real Estate in Trust Accounts," under leadership of B. W. Utter, vice-president and trust officer, Title Guarantee and Trust Company, Los Angeles.

States included in the conference region are: Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.

CONVENTIONS

A.B.A. Meetings

Oct. 31–Nov. 1	Thirteenth Regional Trust Conference of the Pacific Coast and Rocky Mountain States, Los Angeles, California
Nov. 11–14	A.B.A. Convention, Roosevelt Hotel, New Orleans, Louisiana

State Associations

Oct. 24–25	Nebraska Bankers Association, Hotel Paxton, Omaha
Nov. 22–23	Arizona Bankers Association, Phoenix
Nov. 22–23	Florida Bankers Association, Miami Biltmore Hotel, Coral Gables, Miami

Other Groups

Oct. 3–4	The Mortgage Bankers Association of America, French Lick Springs, Indiana
Oct. 5–8	Robert Morris Associates, French Lick Springs, Indiana
Oct. 7–9	Morris Plan Bankers Association, Cavalier Hotel, Virginia Beach, Virginia
Oct. 7–10	Federation of Mutual Fire Insurance Companies, Hotel Fort Des Moines, Des Moines, Iowa
Oct. 26–30	Investment Bankers Association, White Sulphur Springs, West Virginia
Nov. 7–9	National Association of State Bank Supervisors, Henry Grady Hotel, Atlanta, Georgia
Nov. 10–13	Association of Bank Women, Hotel Jung, New Orleans, Louisiana
Nov. 12–13	National Association of Bank Auditors and Comptrollers, Hotel New Orleans, New Orleans, Louisiana
Nov. 13–15	United States Building and Loan League, Cincinnati, Ohio
Nov. 18–20	National Foreign Trade Convention, Houston, Texas
Nov. 21–22	New Jersey Midwinter Banking and Trust Conference, Alexander Hamilton Hotel, Paterson, New Jersey

Non-Governmental Philanthropy

WHEN a person makes a will he often assumes the rôle of a prophet. He attempts to deal with conditions which he imagines will continue long after he is dead. However, in these days of rapid changes in social, economic and industrial conditions, there is a strong probability that within a decade, or even a shorter period, new situations will make the administration of his fund either expensive and inefficient, or even absolutely useless.

Even Benjamin Franklin, one of the wisest men of his day, made bequests and provisions in his will which, within a few years, were impossible of fulfillment because of changed conditions which he as a testator was unable to foresee. There are said to be about 60,000 dormant trusts in Great Britain, and at least a third as many in America. These are trusts that have become inoperative because of changed conditions which the donors or testators were unable to visualize or imagine in their time. Two of these antiquated bequests are a trust fund to provide snuff for elderly females and a fund for the relief of "worthy, deserving, poor, white, American Democratic orphans and widows."

An English will left a large amount for the use of the poor in a certain parish. Within a few years local conditions had so changed that there were only 50 persons residing in that parish, all of whom were wealthy and well prepared to dispense rather than to receive charity. In 1626 Henry Smith left a large part of his fortune for the ransom of captives held by pirates.

But, to come down to more modern times, in 1851 Byron Mullanphy died in St. Louis, Missouri. He had been mayor of the city and a circuit judge. He left a large part of his fortune, including several pieces of real estate, to be used in relieving and aiding stranded immigrants. Much of his large estate has been spent in trying to determine who are proper beneficiaries.

Captain Thomas Randall in 1801 left 20 acres of farm land and $7,000 cash as provision for what in his day was a real need—a home for old sailors. Today that 20-acre farm in the heart of Manhattan is covered with skyscrapers and the land is worth at least $25,000,000. In the meantime, sailing vessels have largely disappeared from the seas, and it is difficult for the trustees to spend the income for the specified purpose, the Sailors' Snug Harbor.

REASONS FOR FOUNDATIONS

JOHN EDGAR THOMAS, an officer of the Pennsylvania Railroad, left money for an orphan asylum for girls whose fathers are killed while operating trains. Today safety appliances and "safety first" rules have reduced the number of such accidents so greatly that it is now necessary to advertise throughout the United States in order to find orphans that meet the conditions.

Other orphanages have been established for the orphans of a certain county or community. The value of the bequest increases and the number of orphans uncared for in the territory decreases, so that much of the legacy becomes useless. Thus again is seen how "the dead hand" is often the nullifier of good intentions.

These illustrations will suffice to show the reason for and the value of modern community trusts or foundations by means of which helpful ideas and philanthropic services can be projected not only through the years but throughout the world. These trusts are created to accept and administer bequests in the interest of philanthropy, following as nearly as practicable the expressed wishes of the donor, but with authority to meet changing social, economic and political conditions in harmony with the general purpose and spirit of the bequests.

There are over a hundred important foundations of this nature in the United States. The 20 largest, ranked in order according to the amount of their capital, are as follows: Carnegie Corporation of New York, the Rockefeller Foundation, General Education Board, Duke Endowment, Commonwealth Fund, Carnegie Institution of Washington, Carnegie Foundation for the Advancement of Teaching, Altman Foundation, Russell Sage Foundation, M. & L. Guggenheim Foundation, Julius Rosenwald Fund, Buhl Foundation, Carnegie Endowment for International Peace, Julliard Musical Foundation, Milbank Memorial Fund, Children's Fund of Michigan, Maurice and Laura Falk Foundation, Spelman Fund, New York Community Trust, and the Cranbrook Foundation. The total capital of these 20 foundations aggregates more than $725,000,000.

Objects of foundations are individual aid, research, health, child welfare, esthetics, social welfare, international relations, industry and business, religion, government, genetics, aviation, agriculture, publishing, public service, propaganda for social theories, legal aid, engineering, motion pictures, heroism in life saving, civil liberties, labor unions, birth control and strike relief. The work of the Rockefeller Foundation has been a large factor in eliminating hookworm disease and yellow fever from large areas of the world. Fortunately the Rockefeller money was not given specifically for the cure of diseases which have been pretty well eliminated. It was given "to promote the general welfare of mankind," so that the trustees of the fund can now use it in other equally important fields of service.

The community trust aims to receive and to safeguard donations in trust under state supervision and regulation; to employ the principal, or income, or

ABOUT half of the total amount of money distributed by American foundations goes into education. The Rockefeller and Carnegie benefactions are largely devoted to that purpose. The General Education Board disburses about $18,000,000 annually to the support of colleges, universities and medical schools, as well as to public schools and to Negro and agricultural education.—The Author

By T. D. MACGREGOR

The author is a member of the advertising firm of MacGregor & Woodrow

both, for educational and charitable purposes in a broader and more useful way in future years than it is presently possible to anticipate. Donors make general bequests and leave the detailed administration of the funds to the judgment of the directors of the trust, who, it is assumed, will act wisely in the light of changing economic, social, political and industrial conditions.

The funds of community trusts are usually held by trust companies, which are responsible for their investment and the collection of income. The disbursement of income is directed by a committee, a minority of whose members are appointed by the institution of trust. The rest of the members are chosen by designated local public officials, such as mayors, judges and educators.

AS TO THE FUTURE

AT this time, a question naturally arises as to what effect, if any, the Government's new social security plans will have upon the charitable and welfare trusts and foundations.

The new law provides for old age pensions, to be superseded eventually by old age insurance to protect from indigence all citizens of 65 years or older. It likewise provides for unemployment insurance to protect workers from poverty if they lose their jobs. The law also sets aside Federal funds to help states care for needy women and children; to help blind and otherwise disabled children and adults; and to maintain public health services.

Undoubtedly, in the future, if this most colossal welfare plan proves successful in operation, persons of great wealth—if there are any such left—will hesitate to make large bequests to charitable and welfare foundations. They may decide it is no longer necessary. However, there are still likely to be many special and worthy objects and institutions that will not be cared for under the Government's social security plan, and the trusts and foundations already established, at least, without doubt can still find suitable objects for their benefactions, inasmuch as their directors can always use their own best judgment and discretion in meeting new conditions.

Vigilance

THE incident here related occurred in a small community. A stranger entered a drug store and ordered an ice cream soda. While drinking the soda he asked the proprietor to introduce him at the town bank, as he desired to open an account. He represented himself to be a fruit broker and was soon presented at the bank. The cashier opening the new account asked for a bank reference, whereupon the "fruit broker" stated he never had a bank account and was just starting in business. The drug store owner innocently remarked that his new acquaintance looked like a reliable man.

THE RIGHT PRECAUTION

THE account was opened with $300 and was drawn down to $50 within 10 days. In the meantime the supposed broker had become friendly with the bank president. On the eleventh day the man walked up to the president with three checks of $1,000 each, payable to himself and issued by a well known fruit importer corporation. He said he needed half the money at once, and offered to pay the cost of a telegram to the bank where the checks were payable asking whether they were good. When the banker hesitated the "broker" pleaded an urgent need for half the money. The president, however, stated that no advance could be given, and returned the checks when the man declined to put them through the proper channels for collection. As he left he mumbled something about the small town bank's being unwilling to assist a business man and promptly withdrew his $50 balance. The "broker" was never seen again in that particular village.

Some months later the bank president was informed by the chief of police in a town 60 miles away that a passbook of the bank had been found in the effects of a man arrested for fraud. The president related his experiences with the "fruit broker" and was informed that the man was then a "shoe broker" and had defrauded the local bank of $500 which had been given him in advance on a $4,000 check of a large shoe corporation. Needless to say the check was a forgery. The culprit was caught in a hotel several miles distant. Fortunately he still had $400 on his person and this was returned to the bank.

Wariness on the part of bank officials will help greatly in reducing losses.

Director Audits

OPERATING a modern bank requires close cooperation of directors, officers and employees. There is a vast amount of detail operations that must be closely observed in order to reduce overhead costs and protect the bank from losses.

In many banks the practice of rotating employees has been found beneficial in auditing as well as furnishing valuable experience to the individuals employed in the work. Obviously, the value of the audits depends largely on the individual ability of the auditors.

When directors undertake an examination of the bank it seems that they should be compensated according to the time and work required in making the audit. Officers should supply each member of the auditing committee with copies of the banking laws and regulations and also some recommended auditing procedure, so that the directors may thoroughly inform themselves before making an examination of the bank.

Often it will be found beneficial to suggest a division of the work so that each member of the committee will know exactly what he must check and how the work is done. For example, if one person knows that his job is to prove the liability ledger and check the notes, much time will be saved and the audit will proceed in an orderly manner.

One of the most important features of a director audit is the fact that the committee is in a position to check carefully the collateral held by the bank. In many instances it is possible for directors to make inspections on real estate loans and place a value on the collateral. Bank examiners do not have the time to make such inspections nor are they familiar with real estate values in certain communities. Where directors are in personal contact with many of the bank borrowers, such an arrangement has many advantages.

Perhaps an inside look into operating methods will be interesting as well as instructive to directors who ordinarily see only the results.

GEORGE R. SMITH
Cashier
Commercial National Bank
Demopolis, Alabama

STEEL

Benjamin F. Fairless heads the combined Carnegie and Illinois Steel companies, subsidiaries of U. S. Steel Corp.

WIDE WORLD

Banks and Home Loans

THE banks of the country to date account for considerably more of the mortgages and modernization loans insured by the Federal Housing Administration than all other classes of institutions combined.

Information to this effect has been conveyed to members of the American Bankers Association by Robert V. Fleming, First Vice-President. When the F.H.A. began operations about a year ago, the Association designated Mr. Fleming as its liaison representative to cooperate with the Federal agency.

Writing to the membership under date of September 5, Mr. Fleming said the volume of credit extended for modernization of property and mortgages selected for appraisal to be insured on dwellings had then reached a total of $291,904,337, with the daily amount steadily increasing. "A very substantial part of the residential construction, the property repairs, and the manufacture of building materials, equipment and machinery, etc., thus stimulated," he stated, "is due directly to the active participation of our members in the insured mortgage plan and the modernization credit plan of the F.H.A."

"In view of the fact that we believe the provisions of the National Housing Act afford a medium whereby the banks of the country can materially assist in economic recovery and render a further useful service to their communities, as well as obtain a safe and sound earning asset," Mr. Fleming wrote, "I feel it is desirable to call to the attention of our members certain additional measures recently adopted by Congress, a summary of which is contained in the enclosed memorandum, which are designed to make the original law more workable and broaden the opportunity for service."

The summary listed nine principal amendments passed by the 74th Congress facilitating the administration of the National Housing Act.

"I am also enclosing," said Mr. Fleming, "a copy of a letter from the Chairman of the R.F.C. to the Federal Housing Administrator, from which you will observe that insured mortgages are given a degree of liquidity which should be desirable from the standpoint

COMMERCE

Ernest G. Draper (below), is the new Assistant Secretary of Commerce, replacing John Dickinson

HARRIS & EWING

An announcement by the F.H.A. states that an amendment to its rules permits "the prospective borrower to employ the services of a broker in arranging for an insured mortgage loan and to pay the broker such compensation as is satisfactory to the broker." Previously there was some doubt among real estate men as to whether such an arrangement was permitted.

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of the lending agency. You will note further that under the Banking Act of 1935 insured mortgages will be eligible as collateral with the Federal Reserve banks."

The letter referred to, from Jesse H. Jones to Stewart McDonald, Acting Federal Housing Administrator, follows:

"For the purpose of encouraging the construction of new homes and to assist in creating a more general market for mortgages insured under the National Housing Act, the R.F.C. Mortgage Company will, until further notice and to the extent hereinafter named, buy and sell these insured mortgages, without recourse.

"For the present the R.F.C. Mortgage Company will buy the mortgages at par and accrued interest, less a discount of ½ of 1 per cent, but will buy only from reputable financial institutions originally making the loans, who agree to look after servicing them.

"Any mortgages that we buy will be available for sale and when sold through qualified brokers and distributors, we will allow an over-all commission of ½ of 1 per cent to cover their compensation and cost of distribution.

"Under the new Banking Act, banks may invest in these mortgages and we feel they also offer a desirable form of investment for institutions and fiduciary trusts. The greater their distribution, the more home building we will have, and the more we will contribute to national recovery.

"Applications to sell and commitments for the purchase of these mortgages will be considered at the 32 R.F.C. loan agencies throughout the country.

"$10,000,000 has been made available to the R.F.C. Mortgage Company by the Reconstruction Finance Corporation as a revolving fund for this purpose."

Mr. Fleming also called the membership's attention to a form of approved trust agreement, provided by and available through the F.H.A. offices in Washington, which is designed to encourage the purchase of insured mortgages by individual investors.

In conclusion he wrote: "May I urge your continued and active interest in the program of the Federal Housing Administration, which affords our members a desirable facility to offer to the communities which they serve."

WORK RELIEF

W. M. Cotton is head of the Projects Control Division of the Works Progress Administration

WIDE WORLD

Building and Modernization Activity

BASED on the building permits for more than 700 cities reported to the Bureau of Labor Statistics, Department of Labor, a chart published by the Federal Housing Administration illustrates the increase in the number and value of additions, alterations and repairs on home and business structures since September 1, 1934.

An analysis of the chart discloses, says an F.H.A. announcement, that starting in September 1934 the number of modernization permits increased each month over the previous month until January 1935, and the value increased up to December. From January of the present year the number of permits increased appreciably while values had an even greater proportionate increase, continuing through the first six months.

"Coincident with the effective beginning of the mutual mortgage insurance plan, just previous to January 1, 1935," continues the statement, "was the sharp rise in the number and value of permits issued for new residences. Even in the off-season months of January and February, the gains over the previous year were respectively 66.6 per cent and 102.3 per cent in number of permits; in value the increase was 104.8 per cent and 99.4 per cent.

"In March they continued to rise. During April and May the increases in both number and value were not quite as high as in March. In June, however, a new high point was reached—the number increased 157.3 per cent and the value increased 228.9 per cent. In July, when there is a usual falling off, the number of new residence permits increased 183.4 per cent but the value increase, 214.9 per cent, was slightly lower than June."

Modernization Loans

IN RESPONSE to a request for information on The Cleveland Trust Company's experience with modernization loans under Title I of the National Housing Act, I. I. Sperling, assistant vice-president of that institution, writes to BANKING:

"We did a nominal amount of advertising and found that most of the applications were acceptable—about 90 per cent, if you don't include the requests for equipment.

"We did not have a personal loan department to start with. Our repayment experience has been excellent. Of 968 loans to date (September 11), for a total of about $411,000, only one looks as though we'd have to claim insurance on it.

"It is of course very difficult to determine whether these loans have served as a feeder to other departments. However, we have had several cases where that has happened and, inasmuch as a fair percentage of our loans has been made to people whose properties are clear, we feel that other good business may follow.

"The advertising undoubtedly has public relations value in breaking down the notion that banks are not willing to lend and in evidencing the bank's willingness to help the home owner, the building trades employees and material dealers, and in stimulating recovery."

New F. R. S. Regulations

IT is improbable that the new Federal Reserve Board—all Governors—will be appointed much before February 1, at which time the new Board of Governors of the Federal Reserve System with the new Open Market Committee will commence to function. Even if all the present members were reappointed, which is not considered likely, there would be two vacancies to fill, caused by the elimination of the Secretary of the Treasury and the Comptroller of the Currency from *ex officio* membership.

Since members will be appointed for terms ranging from two to 14 years, so that only one member will be retired every two years after the Board is permanently constituted 12 years from now, there is considerable room for short term, long term and miscellaneous term appointments. Nevertheless names so far mentioned for membership on the Board promise a strong organization amply able to use the extended powers given it.

THE TENTATIVE DRAFT

CAREFUL reading of the Banking Act of 1935 will give a good idea of what the new regulations of the Federal Reserve Board based upon that law are likely to be. The tentative draft sent Reserve banks for criticism sticks very closely to the law and amplifies the latter only when amplification or explanation seems necessary. For example, advances made up to four months on other than eligible paper may be made on promissory notes payable at a definite date or payable on demand within a specified period. Provisions as to additional security which may be demanded by a Reserve bank in making advances or discounting paper limit the total collateral which may be required to 150 per cent of the advance or 50 per cent of the amount of the paper discounted. Regulations to govern advances to member banks on real estate papers carefully follow the provisions of the law permitting member banks to make such loans, particularly the new 10-year amortized variety.

The draft suggests limiting savings accounts on which interest is paid to $10,000, and where more than one withdrawal a week is made from a savings account the latter is to be classified as a demand deposit and interest upon it would be suspended for a month. In general the draft regulations suggest close drawing of lines separating the classes of deposit accounts and a determination to prevent the abuses of savings accounts prevalent during the past two years.

The Board proposes to prevent a bank from making loans or paying dividends so long as its reserves are deficient and sets up a more definite system of retiring Reserve bank capital owned by insolvent banks and by banks reducing their capital or surplus. Provisions of the law in regard to loans to bank officers are held to apply to the chairman of the board of a bank, the president, every vice-president, the cashier, secretary, treasurer and trust officer and every person who under the authority of the board of directors manages the affairs of the bank or any substantial part thereof, whether or not he has an official title or whether or not he receives compensation. It does not include a director who is not also an officer.

Improvement of Living Standards

(CONTINUED FROM PAGE 25)

a committee consisting of two retail dealers in gas and electric appliances, one distributor, the secretary-manager of the electrical association, and one utility representative. So far, over 60 dealers have been approved by the committee, and others are rapidly being added to the list.

Mr. Haftenkamp gives the following picture of how the purchaser will benefit: "The purchaser wants to buy a refrigerator having a cash selling price of $160.50. We have had a 24-month plan with a down payment of $10.50 and monthly payment of $7.32. We can now offer him this refrigerator for the same down payment and a monthly payment of $4.98, which is $2.43 per month or 33 per cent less than formerly. While the financing is continued for 36 months instead of as formerly, 24 months, the financing cost is increased only 42¢ for the extra 12 months.

"Your salesman, seeing that the customer needs other appliances badly, proposes that he add an electric range to his purchase. The range has a cash price of $150. The customer learns the down payment is still $10.50 and that the monthly payment is $7.74, which is only 42¢ per month over the former payment for the refrigerator alone. When the customer thinks of all the benefits and all the service he will get in terms of comfort and labor-saving, the sale is quickly made."

For the bank, this plan has all the advantages of the small loan department, without some of its disadvantages. While the officers of the bank were unwilling to commit themselves on the point, it may be assumed that any repossessions will be the responsibility of the utility company. The 2 per cent deduction is considered sufficient to care for any defaults in payment; but should it prove not sufficient, that part of the financing will also fall upon the utility. It is hardly to be expected that a bank could afford to enter that phase of financing in view of the possibility of creating ill will, the last thing that any bank wants today.

Primarily the bank's part in the plan is to supply the capital for the dealers' sales and to collect the payments in an orderly manner. The Lincoln-Alliance Bank is not a stranger to the question of small loans, as already 65 per cent of its loans are for less then $1,000. Obviously it will benefit from the profitable employment of its funds and from the before-mentioned bank traffic. Since its seven branches are conveniently located, it furnishes a ready means of payment.

It appears likely that the correlative benefits that will accrue are many. It is not difficult to understand that many of the dealers, benefiting from increased sales, will be brought into close contact with the bank. If they do not have accounts there, it should not be difficult for the bank to secure them. So also with the large number of people who at regular intervals will come into the bank's branches to make their payments. If they are served courteously and efficiently—if they are made to feel at home—it is logical that they will turn to this institution when they need other banking services.

Why, someone may ask, doesn't the utility company handle its own financing and thereby make a double profit? The answer is that that is not the company's business. It is not set up to carry out the functions of a financing agent. Nor does it wish to be, for there is plenty to do in the line of work for which the company is organized. Moreover, utility executives—a keen and intelligent group of business men—sense the value of a strong local bank's sponsorship of their sales plan.

Insurance Advertising Conference

IDEAS for furthering the interests of insurance companies were exchanged at the 13th annual meeting of the Insurance Advertising Conference, held September 16 and 17 at the Westchester Country Club, Rye, New York. The conference comprises representatives of the leading life, fire and casualty companies in the United States and Canada.

Speakers emphasized the financial soundness of the insurance business, stressed its service to society as an institution, and discussed trends and scope of insurance advertising.

The job that advertising may do for insurance at present, said Allen B. Sikes, eastern manager of the bureau of advertising of the American Newspaper Publishers Association, should not stop at proving that insurance and security are synonymous. It should also prove that insurance must be kept secure by the people who pay the premiums. Inasmuch as the policyholders constitute the majority of the population, the country's social and economic fate "may well be said to rest in their hands."

THREATENING LAWS

"IF people generally knew more about insurance, would they stand by and permit legislators to pass laws that threaten the security of insurance?" Mr. Sikes asked. "How many life insurance policyholders would continue to cheer schemes to put corporations on the spot, soak the thrifty and bedevil business generally, if they would be made to see that such schemes threaten to destroy their insurance savings?"

Arthur H. Reddall, advertising manager of the Equitable Life Assurance Society of New York, reported that the advertising of life insurance had shown continued increase and improvement during 1935.

"Today," he said, "there are 17 companies conducting national campaigns in magazines and weeklies, and a larger number than ever are using newspapers periodically or on a sustained basis.

"Copy shows greater freedom of treatment and broader scope. Getting away from the dull, dignified statement of fact formula and from the use of technical terms, it is reaching a much wider audience through the use of human interest appeal in its examples and descriptions, and through more latitude in expression and layout."

Attempts to regulate economic conditions by legislation have proved abortive in the past, as they will in the future, Howard P. Dunham, vice-president of the American Surety Company, told the conference. The fallacy that legislation is a cure-all is "gradually giving way to saner views of dealing with problems of government and business." The astounding growth of insurance "has been made possible by its great leaders who have met each problem as it has arisen with courage and in a spirit of cooperation." Mr. Dunham said the advertising men's job should be to "spread the gospel of loss prevention and to show the public that care means lower rates and carelessness higher rates."

Alfred M. Best emphasized that more than 95 per cent of the life insurance in force in this country was carried by companies "of undoubted solvency and responsibility."

Opinions on Banking-by-Mail

A CROSS-SECTION of opinion on banking-by-mail has been obtained by the Bank Management Commission, American Bankers Association.

The Commission asked representative bankers in various sections of the country whether their institutions encouraged this method of banking, whether the practice was general locally, whether the bankers believed it was an important and worth while development, and whether they thought promotion of the service through advertising would be helpful. Excerpts from some of the replies published herewith contain interesting reactions, comments and viewpoints.

The president of an eastern bank wrote: "There has been a question in my mind as to whether or not, with the development of banks and branches in recent years, banking-by-mail, particularly in the congested districts of the East, is an economical thing. Our cashier has given me an analysis which indicates that our banking-by-mail is really quite profitable. We are receiving an average of 10 deposits each day for various accounts, some of them representing substantial balances. I believe the banks in this territory have always encouraged the practice, but in recent years have not featured it in their advertising."

A southern banker expressed the opinion that probably the justification for banking-by-mail today "would be confined to that condition which exists in quite a number of our small towns where there are no present banking facilities." Aside from this, he could see no reason for emphasizing banking-by-mail, his opinion being that "the cost would probably more than absorb any profit that might accrue."

A banker in a South Atlantic state said his institution had run a few advertisements on banking-by-mail and had sent out some folders, "but the results have been very poor." Every community of any size in the state has its own local bank "and for the larger banks to flood the territory of the smaller banks with bank-by-mail advertising, I think would lead to a lot of resentment from the smaller banks."

PERSONAL CONTACT

AN Indiana bank executive, expressing doubt as to the value of advertising, pointed out that "in small communities the people are slow not to continue to have face-to-face contact in their dealings, and, furthermore, the distance to their trading center, where there is a bank, is not great. On the contrary, however, I can see that a mail development for rural banks would act naturally as a deterrent to branch offices of other banks."

"In our own case," wrote a Pacific Coast banker, "we do encourage banking-by-mail, particularly in connection with our branch banks. I believe that banks generally in our community advocate such a form of banking, although it has not come to my notice that there is any concerted drive in that direction. I believe the development is worth while, particularly now when so many communities are without banking facilities." This banker thought well written advertisements promoting banking-by-mail would be helpful to many institutions.

A Kansas banker reported that his institution encouraged banking-by-mail and that the results were satisfactory. Mail deposits, said a Wisconsin bank president, are less expensive to handle than window transactions, while, from the customer's viewpoint, bank-by-mail service is an added convenience. A banker in a Louisiana city wrote that his bank encouraged the practice, "but not too strenuously, for like all other banks in larger centers we enjoy deposits from banks in communities surrounding us and we don't like to be in too active competition with our customers."

A Nebraska banker raised the question whether city banks would undertake to solicit deposits in country neighborhoods, to the disadvantage of rural institutions. He also doubted whether the practice was worth while, pointing out that farmers, with automobiles and good roads at their disposal, thought nothing of driving 20 miles to their banking town.

MINIMUM OF TROUBLE

A BANK in western New York said it was encouraging customers to bank by mail and was doing considerable business in that way. It furnishes addressed envelopes and other materials which enable depositors to send the bank their business with a minimum of trouble.

The reply of a Connecticut banker stated that in his district most of the banking-by-mail was done by individuals. "For instance," he wrote, "we have quite a heavy mail each quarter caused by customers sending in dividend checks for deposit, but we have very few business accounts that use the mail. With the mutual savings banks and perhaps some commercial banks carrying savings accounts, the story is probably different."

A Montana banker said his institution had not encouraged the practice, and that there had been no disposition on the part of any banks in the community or territory to develop it.

A Chicago bank executive replied that while his institution did not have an active program to encourage banking-by-mail, because of a lack of demand from its more important customers and the expense incident to special supplies, the bank was glad to have its customers mail their checking account deposits, using duplicate slips.

"The operating procedure in our savings department," said this banker, "is somewhat more complicated, and as many small savings accounts do not justify the additional expense of handling by mail, this department does not encourage this procedure; in fact, when direct questions are asked by our customers we tell them that they may handle transactions by mail, but that it is more satisfactory for them to come in personally with their passbooks unless it is impossible or particularly inconvenient for them to do so.

"Disregarding the advantages and disadvantages of banking-by-mail from the standpoint of the banks, whether it is a coming and worth while development in banking, depends, in our opinion, upon the trend of branch banking. If branch banking comes, we see no great need for a general banking-by-mail movement, but if it does not come there probably are locations where banking-by-mail would serve a useful purpose."

A western banker believed that "every worth while customer, as he finds it necessary, is doing his banking business by mail" and that a "high pressure advertising campaign would bring in a lot of undesirable accounts." This, he pointed out, had happened before, and "when service charges were assessed to make these accounts profitable, a lot of ill will was engendered. People with unprofitable accounts claimed they started an account because of an invitation received from the bank."

The Volume of Commercial Credit

FOR nearly three years the commercial banks of the United States have been subjected to the most intense criticism to the effect that they have refused to lend money to business enterprises and have otherwise failed to give to commerce and industry that credit service to which they are entitled. The decrease in the outstanding volume of loans has been the result of writing off of bad loans and the disposal of sour real estate mortgage loans, both a phase of the tremendous liquidation of the accumulated results of the business boom of 1926–1929, followed by the inevitable collapse.

Between June 30, 1931, and June 30, 1933, outstanding loans in all commercial banks in the United States, as reported through the Comptroller of the Currency, decreased from $29,215,000,000 to $16,262,000,000, or by $12,953,000,000. But since 7,360 commercial banks were wiped out in this period it is impossible to measure the decrease in active bank credit put out in the form of sound loans, although the records show that in that period member banks in the Reserve System wrote off upward of a billion and a quarter dollars of bad loans.

Since the banking holiday of 1933, however, the record is fairly clear. In the 2-year period between June 30, 1933, and June 29, 1935, the outstanding loans of member banks in the Reserve System fell from $12,858,000,000 to $11,979,000,000, a loss of $879,000,000. The decrease in the volume of loans in non-member banks in the period was in larger proportion and probably amounted to around $500,000,000. Thus the apparent total decrease in commercial bank loans in the past two fiscal years was about $1,375,000,000.

The other side of the ledger provides full explanation for this decrease, with considerable margin to spare. In the calendar years 1933 and 1934 member banks in the Reserve System wrote off bad loans of $877,224,000.

Against these gross write-offs of loans in the two years there were recoveries amounting to $73,204,000, but these recoveries, in large part at least, went into cash and are not a proper set-off for the reduction in loans by writing off the latter. To the total of $877,224,000 written off in member banks must be added an estimated $200,000,000 written off in non-member banks which are members of the deposit insurance system, this estimate being based upon the loan losses for 1934 as reported by the F.D.I.C. Thus there is a total of $1,077,224,000 in the volume of outstanding loans due to losses written off in the two years.

In this same period the Home Owners' Loan Corporation has paid active commercial banks between $325,000,000 and $350,000,000 for home mortgage loans, in addition to approximately $401,000,000 paid to savings banks and substantially the same amount to receivers of closed banks to release funds for depositors.

In the 2-year period the Federal land banks and the Land Bank Commissioner have paid active commercial banks an estimated $415,000,000 for bad farm mortgages. The exact amount up to May 27 was slightly over $408,000,000. In both the farm mortgage and home mortgage loans taken over by the Government corporations from the banks there was considerable writing down of face values, so that the amount of mortgage loans disposed of by the banks was something like 15 per cent greater than the amounts paid for them.

The total reduction in the amount of outstanding loans due to losses written off or sour loans transferred to Government institutions is $1,827,224,000, against the decrease in the volume of loans of $1,375,000,000. On the face of the record, accordingly, banks now have at work in loans $452,224,000 more than the sound loans they had outstanding two years ago. The unavoidable conclusion is that the banks have been making new loans in increasing volume.

There is no question, of course, that the loan situation in commercial banks is abnormal, but business also is abnormal, and aside from the wreckage of the pre-depression boom the record of the banks indicates that their loan portfolios have contracted or expanded in fair proportion to the contraction and expansion of business. It is also to be considered that since the beginning of the depression and especially in the past two years Government lending agencies, particularly the Farm Credit Administration, have been placing loans with the farmers of the country which in large part represent business previously handled by the banks. Such loans are placed at rates and terms which banks are not in a position to meet with safety.

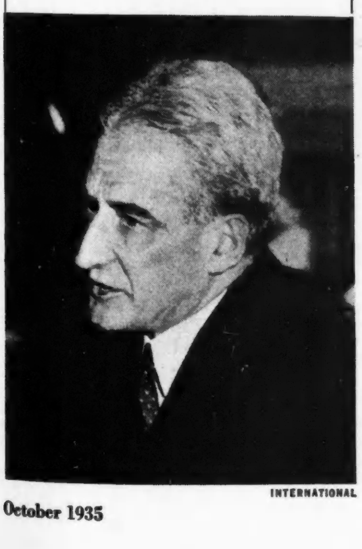
Government agencies, doing business on a wholesale basis in large volume and with loans spread all over the country in a manner to equalize and reduce risks on a national basis, have been able to handle business which the banks with their individual responsibility could not handle safely. Moreover, the fact must be taken into consideration that, in taking over nearly three quarters of a billion dollars in bad real estate loans from the banks, Government agencies have relieved the banks from probable further loss and have released bank funds for new loans.

Reviewing the record of the past two years, it seems evident that bankers as a whole have accepted, perhaps because they could not do otherwise, criticism which individually they realized was uncalled for and unfair and not in accord with their own activities. On the other hand, it is evident that much of the criticism of the lending policies of the banks which has come from both business and governmental sources has displayed a lack of knowledge of the real situation rather appalling in its depth and completeness. It is to the interest of the banks to lend money as freely as safety permits, and there is abundant evidence that they have done so and will continue to do so as the revival of business activity renders increased loans necessary and possible.

George E. Anderson

1935 DRIVE

Gerard Swope heads the National Citizens' Committee on Mobilization for Human Needs, which is urging cooperation with local community chest campaigns



INTERNATIONAL

Clearinghouse Coincidence

ON AUGUST 27 last a member of the Harrisburg, Pennsylvania, Clearing House Association brought in checks on other banks amounting to $18,822.68, receiving from other banks checks on it totaling exactly the same amount.

"In our 29 years of operation," writes A. K. Thomas, secretary of the clearinghouse, in calling the incident to the attention of the American Bankers Association, "this has never happened before. Do you know if it has ever happened anywhere else? It seems almost uncanny and I am curious to know."

The Association staff was curious, too, and did some investigating. A search through available records failed to reveal a similar circumstance, nor could the Federal Reserve Bank of New York or the *Commercial and Financial Chronicle* recall another example of an exact balance of clearings.

The New York Clearing House has a record of one bank which on September 22, 1862, came within one cent of a balance. On December 16, 1873, a bank brought in checks totaling $1,605,603.42 and received checks totaling $1,605,603.32, making a credit balance of only 10 cents. Again, on May 23, 1902, a member bank submitted checks totaling $661,847.01 and received checks aggregating $661,847.11, leaving a debit balance of a dime.

The most recent approach to a balance at the New York Clearing House was recorded on November 19, 1906, when a bank offered checks totaling $9,049,255.88 and received a total of $9,049,255.40.

Mutual Savings

SPEAKING before the Maine Savings Banks Association at Rockland, Robert C. Glazier, president of the National Association of Mutual Savings Banks, pointed out that the old-fashioned virtue of thrift was still manifesting itself in the stability of deposits and the large number of new accounts constantly opened. Total deposits held by mutuals throughout the country now stands at the new high record of approximately $10,000,000,000, divided among some 14,000,000 accounts.

Mr. Glazier found underlying conditions sounder than in a long time, and said there were many reasons for confidence in continued improvement. Although he took a cautious view of governmental spending and paternalistic plans, he emphasized that the natural strength of the nation and the enterprise of its people were beginning to exert a powerful influence in the right direction.

The adjournment of Congress, he thought, would not only give the country time to take stock, but would also provide Senators and Representatives with an opportunity to review their recent proceedings and to map out for the next session a course that would correct mistakes and perfect measures that were meritorious in principle but loosely drawn. Mr. Glazier expressed a hope that the next Congress would make it a first duty to restore confidence.

Mr. Glazier discussed the organization and operation of the Mutual Savings Banks' Central Fund of Connecticut, of which he has been president since organization. Additional powers recently granted to the fund by the state legislature have greatly broadened and increased its usefulness to the banks and the community.

Results of Advices to Buy or Sell Specific Bonds
(July, August, September, 1933)

	Immediate Results			Short Term Results			Medium Term Results		
	Agency			Agency			Agency		
	A	B	C	A	B	C	A	B	C
Positive weeks	7	5	9	6	4	6	6	5	7
Negative weeks	2	8	4	2	9	8	3	8	7
*Total weeks	9	13	13	8	13	14	9	13	14

*Omitting weeks for which averages were not obtainable because of lack of recommendations or unavailability of quotations.

Bond Market Forecasting

(Continued from page 19)

term, justified the procedure, since by May 11, 1935 the "sell" issue had declined to a relative price of 63.7, while the "buy" issue had risen to a relative price of 108.2. It is obvious that this switch would have been very profitable, for it avoided a very substantial loss in the issue which the forecasting agency recommended selling, and it achieved a profit in the issue which the forecasting agency recommended buying.

Another type of result, which has been called positive in these analyses, and is therefore to be considered as successful, is exemplified in the advice to sell West Penn Power 4s of 1961, and to buy Montana Power & Light 4½s of 1978. In this case the "sell" issue rose to a relative price of 113.3, while the "buy" issue rose to a relative price of 132.8. To have held either issue would have been profitable, but to have held the latter would have been substantially more profitable than to have held the former.

Still another type of successful advice is found, for example, in the recommendation to sell Illinois Central 4¾s of 1966 and to buy Gulf, Mobile & Northern 5s of 1950. Over the medium term period the "sell" issue declined to a relative price of 69.1, the "buy" issue to 90.1. It is clear, of course, that in either case the invester would have lost, but if he had held the issue which the forecasting agency advised selling he would have lost more than if he had held the issue which he was advised to buy.

Of the unsuccessful type of results there are likewise many examples. The advice, for instance, to sell Mississippi Power 5s of 1955 and to buy Central States Electric 5½s of 1954 was certainly not fated for celebration. In this case the "sell" issue rose to a relative price of 143.2, while the "buy" issue fell to 79.2.

An example of the type of unsuccessful operation in which the investor would have gained no matter which issue he had held is to be found, for instance, in the advice to sell Chile Copper 5s of 1947 and to buy Columbia Gas & Electric 5s of 1952, for, in this case, the "sell" issue rose to a relative price of 142.9 while the "buy" issue rose to 104.0. The investor would have gained in either case, but, on the market record, the two-way transaction would have to be considered unsuccessful.

It should be understood, of course, that during the period of one year following the issuance of these advices there may have been counter-recommendations to buy or to sell. That being the case, it must be understood that such in-and-out trading can be construed only as speculation and not as a normal investment procedure. It is obvious anyway that many of the bonds recommended for purchase were purely speculative issues even though they were rated as fairly good investments. However, if the investor—or the manager of the bond portfolio—is willing to affiliate himself with the speculative approach to portfolio management, there is much to be gained by careful study of the advices of organized forecasting agencies.

Of course, it is understood that the forecasting agencies realize that their subscribers, whether individuals, banks, or trustees, must take into consideration the special circumstances and requirements of their own funds. Such forecasts, therefore, cannot be acted upon indiscriminately. But from a closer observation of these recommendations than it is possible to describe briefly, it is clear that, if used judiciously and studied carefully, such advices may be made the source of much valuable information in the administration of the bond portfolio.

Three Suggested Record Forms

PROPERTY

TENANTS	LEASED FROM	LEASED TO	AMOUNT	DUE

PROPERTY OF

LOCATION

FORMER OWNER

VALUE CARRIED AT $ — ANNUAL INCOME $ — SELLING PRICE $

"Y AND E"

DATE	DESCRIPTION	EXPENSE	INCOME	BOOK VALUE	DATE	DESCRIPTION	EXPENSE	INCOME	BOOK VALUE

RENT

PROPERTY OF

LOCATION

FORMER OWNER

TENANT	LEASED FROM	LEASED TO	AMOUNT	DUE

DATE DUE	AMOUNT	DATE PAID	AMOUNT	BALANCE DUE	DATE	AMOUNT	DISTRIBUTION OF RENT

"Y AND E"

FHA

"Y AND E"

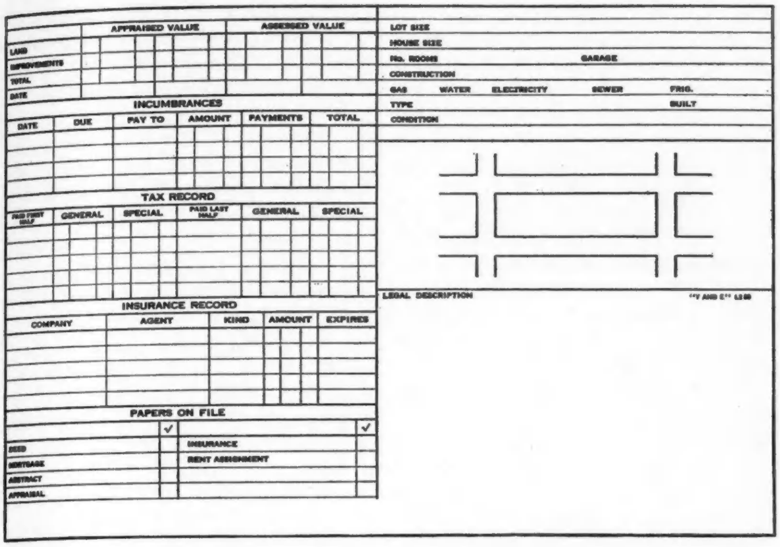
NAME — LOAN No

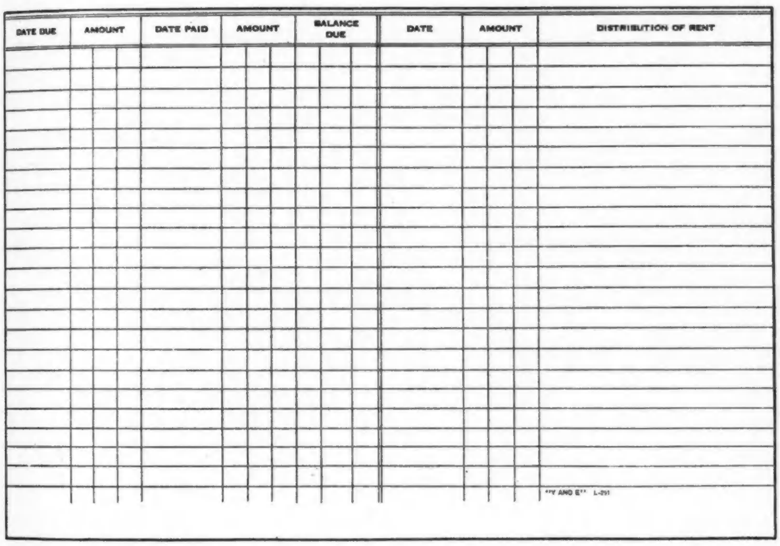
ADDRESS — AMOUNT OF LOAN

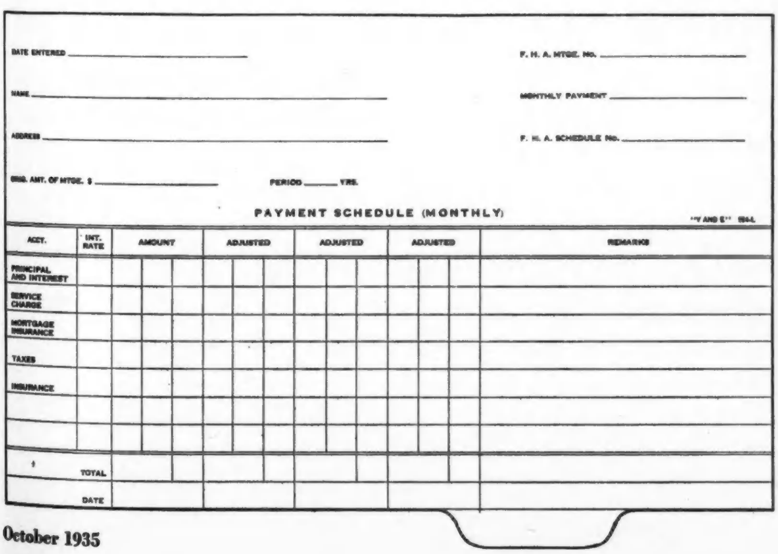
EXPIRES — FIRST PAYMENT DUE $ — MONTHLY PAYMENT $

DATE DUE	AMT. PAID	DATE PAID	BAL. DUE	DATE DUE	AMT. PAID	DATE PAID	BAL. DUE	DATE DUE	AMT. PAID	DATE PAID	BAL. DUE
JAN.				JAN.				JAN.			
FEB.				FEB.				FEB.			
MAR.				MAR.				MAR.			
APR.				APR.				APR.			
MAY				MAY				MAY			
JUNE				JUNE				JUNE			
JULY				JULY				JULY			
AUG.				AUG.				AUG.			
SEPT.				SEPT.				SEPT.			
OCT.				OCT.				OCT.			
NOV.				NOV.				NOV.			
DEC.				DEC.				DEC.			

for Foreclosed Property and F. H. A. Loans







IN recent years banks of all types have found it necessary to take over an increasing amount of real estate under foreclosures of mortgages. With possession came the necessity of keeping records of such properties until disposed of. While this was a simple task in normal times, the recent increase in the number of them made some standard form of ready record desirable.

To assist in supplying this need, the Bank Management Commission's Committee on Standard Forms, Reports, and Records, under the chairmanship of Arthur B. Taylor, president of the Lorain County Savings and Trust Company, Elyria, Ohio, has prepared the accompanying card forms. The Commission has, however, not followed its usual procedure of having a supply of such forms printed and offering them for sale to interested banks. Instead it simply suggests the forms, which are not copyrighted, and thus provides the opportunity for any bank which may wish to use them, to have the required number of cards printed by a local printing company.

The problem in connection with real estate was, of course, to include on one card all the pertinent data without making the card too large or too complex. The accompanying form headed "Property" is the solution worked out by the committee. When properly filled out it is believed that it will contain information which will supply the answer to virtually any question which a prospective buyer may ask.

Sometimes, however, real estate has to be held for a considerable time before a buyer can be found. In the meantime, the progressive bank will rent it, if possible, to bring in some revenue. The second form, headed "Rent" is designed for keeping account of such rented property.

The committee found that banks were also interested in a form for keeping a record of loans and repayments under Titles I and II of the Federal Housing Act. Such loans must be liquidated by periodic and rather frequent payments, which creates another problem in record-keeping for the banks which make F.H.A. loans. The committee has, accordingly, prepared a third form, headed "FHA", for this purpose, which is reproduced herewith.

All these forms are, it is believed, self-explanatory. The face of each card is reproduced on the opposite page and the reverse side is shown at the immediate left.

Centralized Stenography

By
WILHELMINE SCHMIDT

Head of the Trust Stenographic Department, The New York Trust Company

THE trust stenographic department of our personal trust division is required to perform the secretarial, stenographic and typing work for executives and administrative workers of the trust, investment and real estate units. Because of the personal nature of the correspondence, the character of the clientele, and the need for economy in handling this work, which represents an important part of the division's labor expense, the operation of the department must be so planned that:

1. Accurate, uniform and neatly typed material is always produced,
2. Executives and administrative assistants are never delayed because of lack of secretarial aid or dictating facilities,
3. Stenographic labor is utilized most economically.

Prior to the formation of our central department there was assigned to each specialized unit its own group of stenographers and typists. Executives who required secretarial service utilized the entire time of personal secretaries, whose activities were supervised entirely by the persons to whom they were assigned. Such an arrangement is satisfactory for the departments where there is a relatively small volume of stenographic work, where stenographers are required to perform both stenographic and clerical duties, and where various individuals require the entire time of secretaries. However, where there is a comparatively large amount of correspondence to be handled and a number of administrative units are to be served, each engaged in a specialized class of work, and where a number of executives require secretaries who are kept busy only part of the time, it is believed that the central department, with the secretaries, stenographers and typists grouped under one supervisor, affords the most satisfactory method of operation.

The central department described here was organized by placing in a single unit the various groups of secretaries, stenographers and typists formerly assigned to a number of departments and executives. The department consists of the secretarial group, the machine transcribing group, the typist group, checkers and the supervisor.

All departmental work for the investment, statistical, trust administration, real estate, income tax and business solicitation departments, as well as the secretarial work for the various officers of the personal trust and investment divisions, is handled by the central unit.

After almost two years of operation it has been demonstrated that the purposes for which this department was established have been realized. Close supervision and careful checking of the work have resulted in the production of a higher quality of typed material. Executives and administrative workers are provided with most efficient assistance due to the constant availability of sufficient dictating facilities and secretarial aid. The maximum of economy of operation is attained, since all workers in the department are always supplied with plenty of work to be done.

The records from dictating machines and other typing work are delivered from the various departments to the supervisor. She is responsible for directing the department, distributing the work to the proper groups, and seeing that it is completed in accordance with certain standards as to accuracy, uniformity and neatness.

Individual secretaries are assigned to various officers and executives, as required. The first consideration of each secretary is the requirements of the person to whom she is assigned. In the absence of a secretary it is the duty of the supervisor to see that a substitute is provided and that there is someone always kept available to answer immediately any calls of the executives. When officers are absent or, if for other reasons, the secretaries are not occupied with work for the individuals to whom they are assigned, they assist in handling the miscellaneous departmental typing, of which there is always much to be done. By having the secretaries in one group and responsible to one person there is afforded a flexibility and economy which would not otherwise be realized. The plan is not one of driving those in the department to get every minute of their day, but rather one which provides a continuous supply of work for all. It has been found that the secretaries and others in the unit are more content with a full day's work.

The greatest volume of work per-

The confidential nature of the correspondence handled by the personal trust and investment divisions, and the personal relationship of the company to its clientele, warrant the establishment of the central unit where all of the correspondence and other typed material can be more closely supervised.—The Author

formed is that of transcribing from records which have been dictated in the various administrative departments. Dictating machines are used in the specialized units where letters and reports are more or less routine in nature. The greatest value of this equipment has been found in the fact that dictators are never delayed or interrupted by the necessity for calling upon stenographers and are provided a means of dictation at any time and at a greater speed than would otherwise be possible. Since the amount of dictation varies considerably, the records form somewhat of a reservoir in which the dictated matter may be retained until it can be assigned for transcribing. Rush jobs, of course, are marked and given preference; but, as in any office, there is always a considerable volume of dictation which can be deferred to take its turn. This method provides a steady and continuous source of work for the transcribing group.

SPECIALIZATION

IT has been found desirable to have various machine operators specialize in a specific class of work. For example, a number are assigned to transcribe the work of the investment department and, by typing this matter continuously, become more proficient with the terms and character of work of that department. In a similar manner, transcribers of real estate letters or other specialized types become more familiar with the parlance and method of setting up a particular department's material. As the operators become more experienced, those of one group are trained to do the work of the other specialized groups, so that some degree of flexibility is maintained.

The typist group handles miscellaneous typing, such as statistical reports, copy work and all typing other than regular correspondence. When necessary, they also serve as substitute machine operators.

An important part of the plan is that of directing all finished material to a central point for checking and approval. The checkers compare all copy work and inspect letters as to spelling, punctuation, paragraphing and general appearance. In this manner, the output is kept uniform and within the standard required for the company's correspondence.

Another important feature of the centralized department is that executives and department heads are relieved of the detailed supervision of the secretaries and stenographers. Without such a plan the matter of providing substitutes, arranging vacations, distributing work and directing these workers would consume considerable time of individuals who could otherwise give their undivided attention to the specialized work in which they are engaged. The arrangement also permits the removal from the several departments of a number of workers, with the resultant elimination of the noise of the machines. The administrative workers handling similar work may then be more closely grouped and perform their duties with less interruption.

Monthly reports are made of the various forms of pages typed and records transcribed by the department. These statistics, in addition to reflecting the output of the department, also form a record of the volume of administrative work done by the various departments. It has been found that the number of letters written per month regarding real estate and investment matters, for example, forms a useful basis for comparison at future dates with which to study the trend of the division's business.

The plan's economy has been demonstrated during the period of unsettled business conditions which resulted in an unprecedented volume of work by departments such as those handling real estate and investment matters. As the personnel in the administrative departments was increased it was not necessary to add to the secretarial and stenographic forces proportionately, as would have been necessary under the former scheme, and the central department has thus resulted in important savings.

Reconciling

SOME years ago, when my job required that I balance correspondent accounts, I had to deal with a few statements where the correspondent bank did not list the number of drafts paid on the statement or describe the items. Today modern bookkeeping machines are equipped with symbols for this purpose, and they should be used by both correspondents and the customer banks for complete descriptions. Using the plan described in this article, I can balance a statement of several pages in less than 15 minutes.—The Author

BANKERS who have had experience in reconciling correspondent bank accounts know that accuracy and a clear record of all entries is essential if the work is to be done quickly. Balancing statements is a simple auditing procedure when a complete record and description of entries is kept.

The date of the entries should correspond as nearly as possible to the dates shown on the statement rendered. In order to avoid needless checking it is important that the customer bank describe the entries, using the same symbols employed by the correspondent bank, as well as crediting the items in a like manner.

To avoid a search for a number of items making up a single total credited by the correspondent, it is best to make a complete cross entry of the transaction and show the credit on the books of the customer bank in one entry that corresponds exactly to the credit advice received. The practice of lumping small cash letters to save posting time will often cause extra trouble in balancing statements at the end of the month.

Also, drafts entered against a correspondent account before payment is received often cause extra work on the part of an auditor. The correspondent bank may deduct exchange on a draft before it is credited, making it necessary for the customer bank to enter the exchange charge as a separate entry under a later date. Consequently it is best to employ the use of an account entitled "Due from Banks" for all floating items not only to facilitate reconciling statements, but also to determine the funds available for immediate use of the customer bank. By following such a plan and entering all collections and other items requiring more than two days to collect, a customer bank can transfer the paid items from the Due from Banks account and charge them to the corre-

Correspondent Accounts

spondent bank as credit slips are received.

Certainly member banks of the Federal Reserve System would be unable to determine their average collected balance unless a deferred credit account was used. The Due from Banks account referred to above is in reality another name for a deferred credit account except that the one account is used for all correspondents. To use the Due from Banks account as a collection account for correspondents, it is, of course, important that all credits made on the account bear the name of the correspondent opposite the amount. As the items are paid it is best that the corresponding entries be checked by pencil so that the outstanding charges will be noticed often by the general bookkeeper and traced when necessary. By merely adding from the general ledger the amounts shown in the credit column that have not been checked off, it is possible to prove the account whenever necessary.

It is annoying to check all entries on a statement, list the outstanding debits and credits, and find that the reconcilement is out of balance in the amount of 10 cents. Such an error may be difficult to locate and at times it is necessary to recheck the entire account before the difference is found. Frequently an error of this nature occurs in either the total of drafts entered on the register, or a mistake is made in the total of debits or credits on the cash book. It follows that if an error has occurred one of the tellers making entries on the correspondent's account must have failed to balance on some date during the period covered by the statement. A glance at the over and short account on the general ledger will reveal the date of the error. By referring to the cash book for that day's business an auditor may be able to locate the error quickly.

Often it is possible to balance a bank statement without checking all entries. By listing the balance, as shown by the statement received, on the debit side of the reconcilement register together with the cash letters in transit, and the returned items handled on the last two days of the period, we may assume that all debits are accounted for. The balance of the customer bank must be brought down on the credit side of the book and any credits described as collections that have been handled on the last two days of the month. It must be assumed that the transit time required is two days in the illustration described here.

Since it is impossible to determine the number of checks that have been paid, it is necessary that the paid drafts be checked off the draft register, and the outstanding checks listed in the column provided on the book. After the reconcilement is completed it is most important to adjust all items immediately, especially errors. Unless errors are corrected by the auditor when found there is a possibility that the correction may be entered on the wrong side of the book, causing a reverse error which will throw the account out of balance double the amount of the original error.

Reconciling statements is a method of determining a trial balance and merely a test of the completeness of entries. If credit and debit slips correspond during the month there is hardly a chance that the auditor will be troubled with small errors.

George R. Smith
Cashier
Commercial National Bank
Demopolis, Alabama

It Might Have Been Prevented

THIS is the second in a series of loss prevention articles which, by reporting actual cases taken from surety company records, endeavor to show how the robberies and hold-ups described could have been avoided

THE teller, as was his custom, arrived at the bank at 8:10 A.M., or about the hour the time-lock on the vault, which the night before he had set for 15 hours, would run down.

Relocking the front door behind him, the employee raised one of the front windows. When he turned from this task a man, wearing a handkerchief mask over the lower part of his face, edged from behind the door in a crouching position, pointed a gun at the teller and ordered him to put up his hands. The employee obeyed.

"Okay," said the bandit. "Now put 'em down and go open the vault."

As the teller reluctantly proceeded to carry out this command he saw another bandit standing in the banking rooms. The two unwelcome visitors escorted their prisoner to the vault and watched him swing the big door open.

While they were bundling up the available currency the cashier appeared. One bandit quickly took him in charge while the other completed the robbery.

Before leaving, the bandits forced the two employees into the vault, but thanks to the earnest pleading of the cashier they were not locked in. Ten minutes later a girl employee, reporting for work, heard their voices in the vault and opened the door.

When the bank premises were examined, it was found that the bandits had tried unsuccessfully to cut the bars from a rear window, although they had been able to force the frame and snap the lock. Evidently they had then abandoned their attempt to gain entry in this way, and had proceeded to the cellar. There they found a window which was covered with tin that had been nailed in place on the inside. It was a simple matter to gain entrance to the cellar and thence to the banking floor.

In this case, extraordinary precaution had been taken to guard the larger window, although apparently the means of entry through the cellar was a poor apology for protective equipment.

Another Case

BANDITS, leaving their car about half a block away, entered the bank while the assistant cashier, a woman, was alone. The cashier had gone home to dinner.

There were no buildings across the street and it was not difficult for the bandits to avoid being seen. The bank's cages were surrounded by bullet-proof glass and the door leading to them could be opened only by the pressure of a button controlled from within.

When the men, guns in hand, appeared at the teller's window, the woman was so frightened that she immediately complied with their command to open the door. Once inside the cage, one of the men knocked her unconscious with a blow behind the ear. They opened the cash drawer, took somewhat more than $1,100 in paper currency and coins, and fled.

The bank had taken the precaution to install bullet-proof glass, but the protection was rendered useless when the institution was left in charge of a woman who failed in the emergency.

Education of a Banker

(CONTINUED FROM PAGE 21)
authorized by the board. One member of this committee bears the title of managing director; he is also the personnel officer of the bank. It is through the dual office of this member that the educational program, as developed and financed by the Foundation, becomes closely allied to the general personnel and educational activity of the entire organization. In a broad sense he is responsible for educating all supervising officers to the Foundation idea.

The work of the Foundation is partly financed through the income from an endowment fund which was raised at the time of its inception in the Spring of 1929. As this fund is independent of bank expense and therefore in no way influenced by policy or attitude which may change in accordance with institutional earnings from year to year, it may, to some extent, answer the question as to how justifiable this work is on the basis of bank expense. Also, while this endowment fund will be perpetuated for some time and increased through legacies set up in the wills of some of its sponsors, we have used the word "partly" advisedly.

The Foundation finances only the cost of the actual award, whatever form it may take. The bank also has a financial stake in the program, although somewhat indirect, by carrying the salary of the individual while on a leave of absence from his or her regular duties. This policy has gone far to engender a great deal of thought and care before an individual is selected, and has kept, to a large extent, the ideal from running away with the practical in applying the Foundation philosophy.

But still the word "partly" is used advisedly, for in addition to the two sources of money mentioned above, contributions from interested persons throughout the organization play a most important, though perhaps not so great a material rôle in the annual income. The spirit engendered through such a principle reaches a high point in the case of an individual who, having risen to a position of prominence because of educational opportunities accruing to him through the Foundation, has arranged to make annual contributions prorated on a scale which will eventually repay the Foundation for the expense of the opportunities he received at a time he was unable to pay for them himself. As a matter of fact, this principle is so important that the expansion of the Foundation to a much larger sphere of activity in a great measure depends on the vision and unselfishness of a future generation. In other words, if the Foundation idea over a period of years to come has not demonstrated its practical worth to a point where it will attract the necessary financial support from either the institution or individual benefactors in some way connected with the institution, it will and should die a natural death.

This leads to several speculations. Many people will contend that the men spoken of in the above illustrations would have succeeded regardless of Foundation assistance. The Foundation does not disclaim this possibility. It does claim, however, that these men are better qualified for those positions, particularly from the point of view of their relationship to others under them, than they would have been. Also, no mention has been made of the possibility of errors in judgment that have resulted in the waste of money and the spoiling rather than improvement of men. Of course, this possibility is prominently in the minds of the active management and its presence there undoubtedly diminishes its chance of materialization.

It is impossible to answer these questions to the universal satisfaction of every man. It can only be left to each person, reading the story of the Foundation, to seek his own answer. In his quest, however, let him use his imagination. Let him picture the spread of this idea through the personalities of key men in any large organization. Let him picture the influence it has had on these men and, through them, on those who work under them.

Do Your Directors Read BANKING?

New Books

Embarrassing Dollars and Hints to Their Holders. By A. R. Horr. Harper & Brothers, New York, 1935. 239 pages. $2.50.

The theme of this very human, intelligent and intelligible book by the trust officer of the Cleveland Trust Company is financial conservation.

"Embarrassing dollars", as one readily surmises, are funds that must be put to work for their owner; the embarrassment arises, of course, when he endeavors to employ them. Although this predicament is hardly new, its intensification during the past few years has called for careful, capable investment leadership of the sort provided by Mr. Horr in this volume.

By virtue of long experience, not only in his present capacity but as former vice-president of the Equitable Life Assurance Society, in charge of investments, Mr. Horr strongly believes that group judgment rather than individual decisions assures the best investment results. He is not at all interested in "quick-rich" methods, but he has a great deal to say about the problem of providing income for the family. In effect, therefore, the book presents the strongest possible case for trusteeship.

The volume's primary aim is to help the inexperienced investor, especially the person who suddenly finds himself with funds. But there is also choice food for thought for the head of the family, for the person who is trying to keep his property intact, for those who seek protection against the future, and for those responsible for other people's money.

Mr. Horr bases his discussion on experience rather than research, and here, no doubt, is the key to its success as a guide to conservation. In addition, however, it must be said that Mr. Horr has the gift of self-expression. He writes freely, chattily and cheerfully, illustrating his points with frequent examples and taking numerous quotations from the opinions of others.

The formula best adapted to solving the problem of providing for the family seems to comprise three ingredients, the author says, listing them as follows:

"1. Providing income instead of principal.

"2. Giving elastic powers to the trustee, so that the financial needs of the family may be met as far as possible.

"3. Assuring group judgment instead of individual decisions in all important matters."

Group judgment, Mr. Horr finds, is "no good, unless the individuals who make up the group, or at least some of them, 'know their stuff'; it is equally important that they have time and opportunity to consider and discuss their problems." The exercise of group judgment "by mail, or over the telephone, does not get very far. Argument and debate are essential to the best results." Summing up the lesson of experience: "Expect no perfect solution of the problem of embarrassing dollars; rely upon group judgment to get the best results."

Specifically, the book discusses many media of investment. There is an excellent chapter on insurance wherein Mr. Horr refers to an address he made in 1921 to the Association of Life Insurance Presidents on the subject of cooperation between life insurance and trust companies. He then maintained that the two fields did not overlap, that the service of each was distinct from the other's. "In practical observance this means that each individual has his own financial problem, and an analysis of that problem will determine to what extent and in what manner he should protect himself and his family by the service which the life insurance company and the trust company, respectively or in collaboration, have to offer. He will almost surely need insurance for some purpose."

Mr. Horr makes much of "the Gift of Protection"—"the wisest gift a man can pass on to his family," although it is not always easy to buy. The embarrassment incident to the possession of property "can be reduced in no better way than through the Gift of Protection attained by naming the right kind of bank or trust company as trustee for property and the proceeds of life insurance, or through some other method of procedure, getting the benefit of the sources of information, the experience, contacts and specialized knowledge of the officers and staff of such a trustee." And the trustee, the author emphasizes, should have elastic powers so that the needs and comfort of the family can be adequately served.

This book is an admirable, readable presentation of the investment philosophy on which the principle of trusteeship has been erected. Mr. Horr has done more than aid the amateur investor; he has clearly and convincingly restated the principles of trusteeship.

Due to the shortage of office space in the national capital, the Washington Auditorium has been taken over by the F.E.R.A. to provide working quarters for some of the staff. Typewriters now clatter where audiences once applauded performances on the stage

There is a foreword by Newton D. Baker and a final chapter, "Rates and Risks", by Colonel Leonard P. Ayers. An unidentified "country banker" contributes a chapter on "The Golden Age of the Bond Salesman", an era that flourished not so long ago.

Rand McNally Bankers Directory. Published by Rand McNally & Company, September 1935.

This is the final 1935 edition of "The Bankers Blue Book", and the 119th edition since 1872. It is an authoritative compilation of banks in all sections of the world, together with valuable supplemental information, including a table of the latest mint parity values of foreign currencies computed by the Secretary of the Treasury. In the foreign section are up-to-date maps of Europe, Africa, Asia, England, Mexico, South America, Alaska, Philippine Islands and the West Indies. The information has been corrected to September 1935.

Stumbling Into Socialism. By David Lawrence. D. Appleton-Century Company, Inc., 1935. 196 pages. $1.50.

As its title would suggest, this book is a discussion of government and political tendencies. It is a frank and constructive criticism of the present Administration in Washington by a veteran newspaperman who does not hesitate to speak his mind.

The volume will interest all thoughtful readers, not so much for partisan reasons as for its lucid observations on American constitutional principles. The likelihood that the constitutional issue will be raised in some form during the coming presidential campaign makes Mr. Lawrence's discussion vital and timely.

Of special interest are the "Epilogue to the Spirit of George Washington" and an appendix including an analysis of the Senate and House election returns of 1934.

Bank Management. By J. Franklin Ebersole. McGraw-Hill Book Company, Inc., 1935. 508 pages. $5.00.

This is the second edition of a case book listed among Harvard University's problem studies. It is designed to provide banking students with "factual illustrations of the major problems which must be properly solved for successful bank administration." The cases are generally taken from actual banking experience, the names, dates and figures being properly altered to avoid any identification.

The author's method in listing and indexing the cases is very helpful. The text is grouped under headings of "Loans and Investments", "Liquidity", "Expansion and Development", "Cooperative Control and Public Supervision", and "General Administrative and Miscellaneous Groups". Added to each case are several questions.

This volume is useful by virtue of its practical approach. A possible drawback might be its exclusion of solutions to the cases.

American Bank Failures. By C. D. Bremer, Ph.D. Columbia University Press, 1935. 144 pages. $2.25.

Certainly there is nothing unusual about this topic, for bank failures have been the subject of much discussion. The Comptroller of the Currency and the Federal Reserve authorities have been devoting considerable attention to them, and the subject has provoked many heated debates in Congressional banking hearings. It is the old story of unit versus branch banking, of single versus dual control.

Yet this work is meritorious. Here, condensed for the first time between two book covers, is a fairly complete picture of this important, if unpleasant, matter. An effort has been made to sift a wealth of material into a simple, concise study.

Bank failures from 1865 to date are surveyed. The dark chapter in American banking history which culminated with the March 1933 collapse is recounted. Liquidation of both national and state banks is considered in some detail.

The work is concluded with an appraisal of present deposit guaranty plans. While they are steps in the right direction, Dr. Bremer holds they will not finally prevent the growth of careless and dangerous methods of banking. He writes:

"It should be apparent that only by unifying legislative control over the country's banks will it be possible to carry through the necessary reconstruction and reorganization of the banking system. Abandonment of dual jurisdiction will do away with the ruinous competition between the national and state authorities which has attended banking legislation in the past, and enable the national government to adopt a uniform banking policy for the entire country. This will permit the orderly elimination from the banking system of the multitude of small banks which are at present, and will continue to be, a threat to the safety of the guaranty fund."

Corporation Law for Officers and Directors. By William J. Grange. The Ronald Press Company, 1935. 904 pages. $6.

This volume provides useful knowledge on matters relating to corporate organization. Special features are its suggested forms on incorporation, stock subscription, securities, and directors' resolutions, and its recommended by-law provisions and procedures for directors' and stockholders' meetings. Cases are cited and indexed.

The BANKING Market

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

OCTOBER 1935

¶ Between January 1 and August 31, 1935, there were reported to BANKING details of 283 bank construction and remodelling jobs. Included in these items were 22 new bank buildings and additions of an aggregate value of $3,419,000—an average of $155,000. Cost figures on remodelling are incomplete but average over $8,000 each, or a total in excess of $2,000,000.

¶ Prominent in the records of equipment and supplies used are the following:

ACOUSTICAL EQUIPMENT
AIR-CONDITIONING
BRONZE DOORS
CAGES
COUNTERS
ELECTRICAL FIXTURES
ELEVATORS
EXTERIOR STONE WORK
GLASS
GRILL WORK
HEATING EQUIPMENT
INCINERATORS
LINOLEUM
LUMBER
MARBLE
PAINT
PARTITIONS
PLUMBING
PROTECTIVE EQUIPMENT
REFRIGERATION
SAFES
SAFETY DEPOSIT BOXES
SCREENS
STOREFRONTS
TILING
VAULTS

¶ These reports, covering only a part of the banking field, indicate a marked upturn in bank construction activities. They reveal a trend worthy of the attention of manufacturers of building materials, supplies and equipment. . . . . .

BANKING
AMERICAN BANKERS ASSOCIATION
22 EAST 40th STREET, NEW YORK CITY

Table of Advertising Contents

Success Insurance

A COMPREHENSIVE study of banking education, including an outline of present facilities and some suggestions for future development, has been prepared by the Bank Management Commission of the American Bankers Association.

Published as Commercial Bank Management Booklet No. 16, the study bears the title "Educational Policies in the Training of Bank Employees". It provides, as is stated in the foreword by Orval W. Adams, Chairman of the Commission and vice-president of the Utah State National Bank, Salt Lake City, "all the facts about banking education which any bank needs to know in order to give its employees the benefit of the best that is available at the present time."

The booklet emphasizes the importance of banking education and describes the channels through which it can be obtained. In an appendix are specific examples of successful educational plans now in use in banks of varying size, a feature particularly helpful to institutions which have not yet undertaken educational programs.

"In the past," observes the Commission, "it has frequently been charged that there were 'too many banks and too few bankers.' The depression has done much to correct this situation from one side, by a drastic reduction in the number of banks. It now remains for the banking profession itself to do its share in increasing, through training and education, the number of individuals worthy of being called 'bankers'."

In considering an educational policy, the Commission finds, thought should be given to a program which will train each person in a three-way point of view of his job. First, the policy should be designed to give the employee the best possible training for the work he is now doing. It should also encourage him to study the job ahead and, at the same time, make him realize his obligation to help teach someone else the technique of the position he now has. The bank's success over a period of years depends on the even flow with which it meets its responsibilities and carries on, regardless of what happens to any one of its employees.

As a result of its study, the Commission feels that "the best educational policies in banks have been those which have been predicated upon this threefold attitude of every employee toward his job."

The prominence given to intra-bank education apparently is warranted by the importance of this work. Notwithstanding the excellent services rendered by outside agencies, "what the employee learns in connection with his daily duties is by far the most practical, most useful, and most lasting training of any, for it is a well established principle of psychology that the best and most efficient time to learn is when one has need of information or training." However, intra-bank education is necessarily limited in scope because banks are "business organizations, not educational institutions," and if the employee is to get a well rounded education in banking it is necessary to supplement even the most complete intra-bank program with outside studies.

Facilities for banking education, the study points out, are available through several agencies, foremost among which is the American Institute of Banking. Considerable space is devoted to the work of this organization. Another chapter, devoted to advanced banking education, describes the Graduate School of Banking, and discusses courses offered in various other schools and universities, as well as the educational facilities available through trade associations and other channels.

Looking at the future, the study suggests that in making banking education more attractive and useful to employees, "certain reforms in educational methods are desirable." More use, it is stated, "might well be made in all the work of actual instances or cases", since subjects presented straight from a textbook are often rather dull.

Business education "needs also to be geared more closely to the realities which the student will have to face when he becomes an employee—especially if he becomes a bank employee." It is to be hoped that "college education for business in the future will take cognizance of the fact that for several years after graduation most alumni are destined to occupy subordinate positions." Therefore the college should prepare students mentally for this experience, and equip them to meet it, "not only by insisting that they acquire the habit of accuracy, but also by seeing that . . . they are able to write a legible hand, can operate the more commonly used business machines . . . with reasonable skill, and can express themselves in written English with clarity and brevity."

Many bankers feel that the educational program should be broadened to include the problem of the changing government-business relationship, public finances, business conditions, marketing, etc. The Commission says it is not prepared to express an opinion "as to whether and what courses should be added to the curriculum of banking education", since that is outside the field of its work and the scope of the study.

ADVANCEMENT

"Intra-bank education, of course, requires the cooperation of the bank's officers. It assumes that they will see to it that each employee is trained at least to fill the job next above the one he now holds. This means a little extra work for all. It carries its reward, though, in the future it assures to the employees, and in the fact that the bank knows that there will be available at all times employees prepared to take up the burden of running the bank when the present directing heads move on."—From a letter by James C. Bolton, President of the State Bank Division, to Division members, calling attention to the bank education study.

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