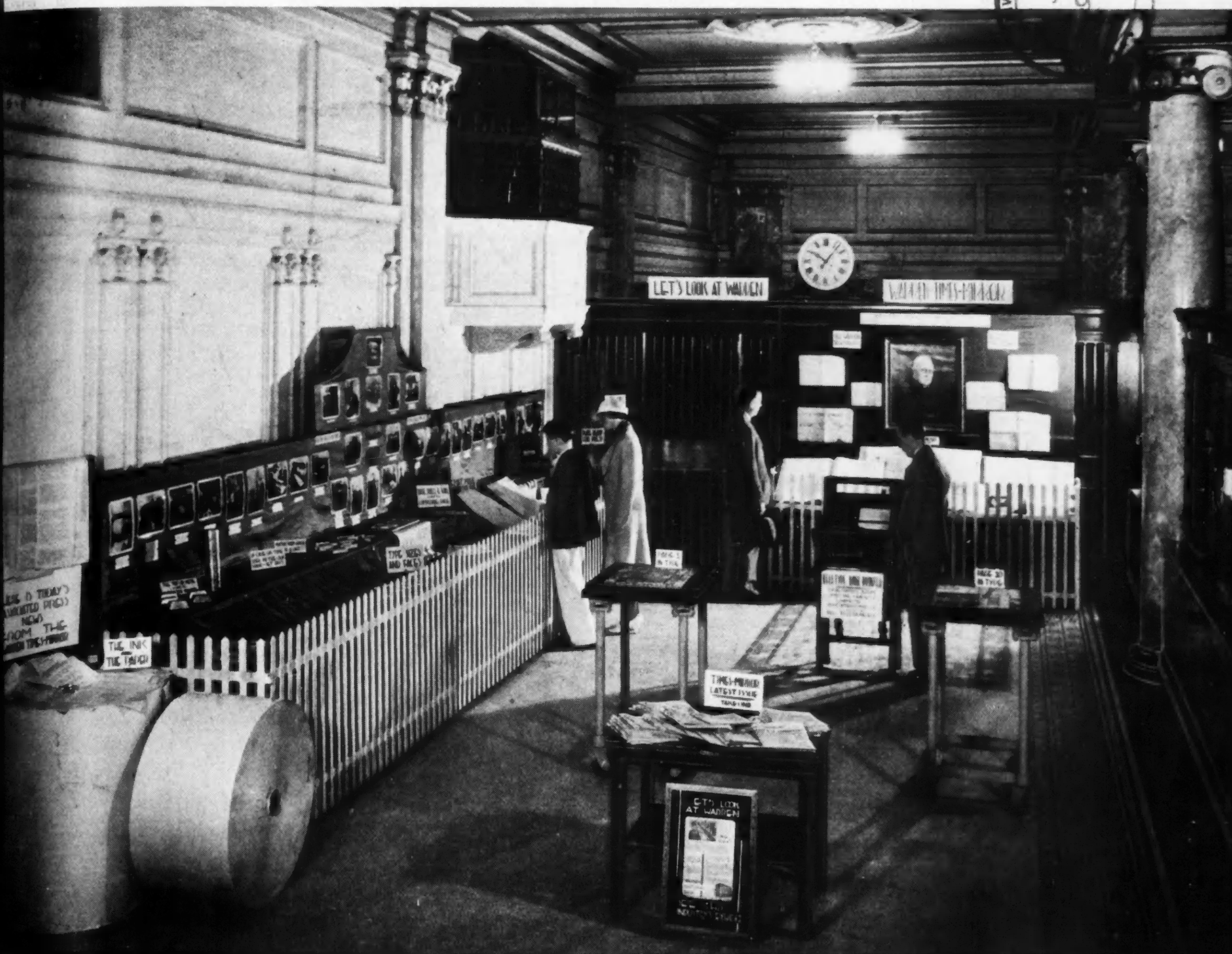
BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION



PAGE ONE

JULY 1935

Business Prefers AMERICAN Banking

Bank and Newspaper Cooperation

The Political Virus in Central Banks

The Capitalistic Masses

The Uses of Fair Competition

PAGE ONE

The Power to Tax

IN his tax message to Congress, the President said: "Ultimately, we should seek through taxation the simplification of our corporate structures through the elimination of unnecessary holding companies in all lines of business. We should likewise discourage unwieldy and unnecessary corporate surpluses. . . .

"I renew . . . at this time, the recommendations made by my predecessors for the submission and ratification of a Constitutional amendment whereby the Federal Government will be permitted to tax the income on subsequently issued state and local securities and likewise for the taxation by state and local governments of future issues of Federal securities."

*

P.W.A.

The President has widened the authority of the P.W.A. instead of limiting it as had been anticipated. The Administration will be allowed to use all the funds it has had and more funds on new accounts. It can sell state and municipal obligations direct instead of through the R.F.C., and it can be more liberal in its grants in connection with loans for public works.

*

Differences

The new work relief program starts out with differences, visible and audible, between leaders over the policies to be followed. Secretary Ickes says that the proposal to put 3,500,000 people to work and keep them at work by the expenditure of $4,000,000,000 upon useful public works is not practicable, in view of the large proportion of the expenditures which must go for the purchase of materials. He insists that it is a mere matter of arithmetic. In this, experience of the P.W.A. teaches that he is right. On the other hand, Relief Administrator Hopkins insists that it can be done and proposes to do it.

As a result of differences of opinion and arithmetic the indications are that a revival of the C.W.A. in some form will be the means taken to get out of the deadlock, and much of the useful public works part of the program will necessarily be abandoned. The C.C.C. has started enlistment of 328,570 new recruits to bring total membership up to 600,000. That program will make something of a dent in the 3,500,000 employables, but the main problem remains.

Arithmetic or no arithmetic, there will be no great occasion for complaint if the Government succeeds in securing employment for 3,171,430 persons directly on public works or indirectly on materials for public works or anything else. Since the money is to be spent to effect the employment of all employables, the manner of their employment is immaterial. Revival of the C.W.A., however, causes many misgivings. Waste and extravagance were a little too common in the former C.W.A. to give any solid satisfaction either to the unemployed who received or the taxpayers who paid.

*

AN official survey on June 10 indicated that the Government of the United States, through its loans, was the potential owner of more than half of the existing world stocks of American cotton.

*

Officers' Loans

On June 11 Congress adopted a joint resolution extending for three years from June 16 the time in which officers of Federal Reserve member banks can repay outstanding personal loans from their own institutions. Provision for the extension is contained in the banking bill of 1935, but the delay in enacting this measure prompted special action on the loan matter.

Robert V. Fleming, First Vice-president of the American Bankers Association and president of the Riggs National Bank, Washington, D. C., speaking to the Indiana Bankers Association on June 6, referred to the efforts which the Association had made to obtain the extension.

"I think we all agree," said Mr. Fleming, "that it is a sound policy for bank officers not to borrow from their own banks. On the other hand, when so many steps have been taken to assist other debtors of every class and description, it is manifestly unreasonable to single out one class of debtors and expect them to liquidate their obligations when the trying conditions resulting from the depression have been common to all classes."

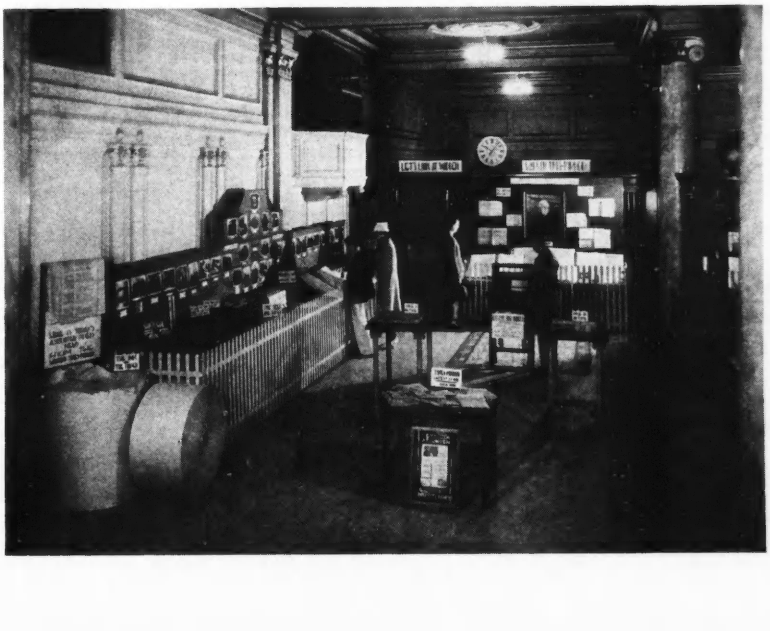
Mr. Fleming said he had found the Administration and the leaders in Congress sympathetic toward the extension.

"The Comptroller of the Cur-

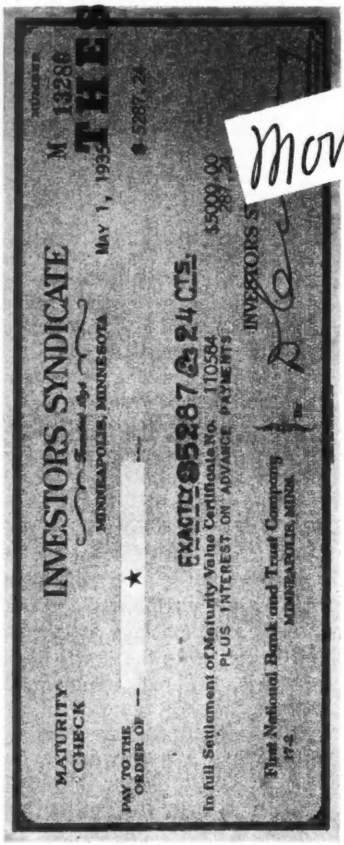
(CONTINUED ON PAGE 5)

COOPERATION WITH LOCAL INDUSTRY

The picture on the July cover, reproduced below, shows the lobby of the Warren National Bank, Warren, Pennsylvania, during a newspaper exhibit. Robert W. Mackay, cashier of the bank, describes this particular exhibit and others on page 14 of this issue



CHECKS REPRESENT THESE *Money that was not unwisely spent*



Responsible men and women who can qualify as bonded representatives are invited to apply for a position.

IN entire sympathy with the growing interest in "Money Management" education, Investors Syndicate commends the building of a Living Protection reserve as an aid in stimulating stricter supervision over the spending of money.

The dollar of income that knows no control is as likely to go wild as any other ungoverned force. Rightly controlled, it provides *first* for necessities. Experience has proved that *provision for the future* ranks high among "necessities."

The semi-compulsion afforded by an Investors Syndicate Contract — and the representative's personal encouragement—serve well to emphasize the importance of fulfilling this obligation to future *living* needs.

Consequently, certain fancied "needs" of the moment must give way. The result is a better managed budget that provides for whims only *after* essentials have been taken care of.

Nor is this merely a financial discipline. Proof is abundantly evident that a keener sense of *real* values is a character developer which reveals itself in a restraining influence on the children, as well as on their parents. Such families raise the standard of communities—build better homes, maintain their properties in better condition, interest themselves in civic welfare, and are in a better position to be financially independent in old age.

Every Investors Syndicate maturity check identifies a man or woman who has taken a voluntary "course" in Money Management education, self-imposed by a desire to get more lasting benefits out of money earned. And when a check like this—or a part of this money—enters your bank, you can confidently believe that much of this fund now available for *living* needs would not now be available without so well-ordered and executed a plan of procedure.

INVESTORS SYNDICATE

Founded 1894

LIVING PROTECTION

★ *Reproduction of an actual maturity check. Name deleted for obvious reasons.*

Offices in 53 Principal Cities . . . Representatives Throughout United States and Canada

NEWELL

Miss Elizabeth Langford, winner of the A.I.B. national public speaking contest at Omaha. An account of the Omaha convention is given on page 50

Bank management topics in this issue: Liability Under Blanket Bonds; The Bond Account; Note Auditing; Purchase of Common Stocks by Trusts As Inflation Hedge; Centralized Purchasing; Credit File; Wholesale Service Charges; State Bank Earnings; Modernization Loans; Income Advances; Forgery Detection; Economies; Modern Real Estate Records; A Personal Loan Department.

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Help Wanted—Male.

INVESTMENT EXPERT to manage bank's bond account. Must be a man of mature experience in every branch of this work. Must have an intimate knowledge of rails, utilities, governments, industrials, foreigns, real estate and other bonds. Must be thoroughly posted on the economic, social, political situation in every land. Able to follow every development in science, finance, business, politics and interpret each in terms of its financial significance. Must be able to anticipate basic changes in money rates and investment values, and have ability to formulate investment policy to meet this bank's needs for liquidity. Must show results by keeping bond account in good financial health, minimizing depreciation in times of deflation, producing highest income consistent with safety. Address Box 77.

The Man who can fill this bill doesn't live

That's what your directors ask for, when they expect one man single-handed, to manage their bond account. Yet many banks expect an officer to shoulder this burden in addition to his regular duties of bank management.

Years ago, Moody's recogniz... of one man's maste... ago ... only ... tive ... dy's ... ce ... o...

Today the truth of this message is even more apparent than when we first ran it, exactly three years ago. Today the bond account carries a heavier responsibility than ever before, for contributing to the bank's income. Yet the supply of bonds offering security plus a reasonable return is far more limited. Are you still expecting one officer to handle this tremendous job? We repeat, with greater emphasis today: "The man who can fill this job doesn't live!"

"Managei... Bank's Boi...

Here is a complet... requirements and... good secondary res... achieve these ends.

- Bank Investment ...
- Liquidity, varying ...
- Quality of holdings...
- Marketability and Price Stability,
- Sensible Diversification,
- Should banks buy Yields?
- Bank profit-ratios vs bond yields,
- The Liquidity Factor,
- Unit of Investment,
- Reserves for Depreciation

The result is an outline of the principles governing the ideal bank investment plan.

...onal copies wi... if you so desire.

MOODY'S
INVESTORS SERVICE

JOHN MOODY, *President*

65 BROADWAY NEW YORK CITY

(CONTINUED FROM PAGE 1)

rency," he added, "has been most helpful in this matter, and in his testimony before the House Banking and Currency Committee recently he pointed out that, in the little less than two years which have elapsed since the passage of the Act of 1933, bank officers have accomplished a rather remarkable feat by reducing the total of their loans in employing banks by one-third. He also called attention to the fact that in some cases this represents complete liquidation of certain loans, but the composite result is that the total of officers' loans is now but two-thirds of what it was in June 1933, despite the fact that the salaries of many bank officers have been materially reduced in that time."

At the conclusion of a letter to the Association membership announcing that the joint resolution had been passed by Congress and signed by President Roosevelt, Mr. Hecht wrote as follows:

"Whether or not any of the officers of your bank were directly affected by this legislation you will, I am sure, be pleased with the success of the Association's efforts in making possible the extension of such loans—a result which has been accomplished largely due to the splendid work of your 'Banking Studies' and 'Federal Legislative' Committees, as well as the untiring efforts of your first Vice-President."

Why Hurry?

Quite possibly a considerable proportion of the general public is in too great a hurry to do something about the collapse of the N.R.A. The facts of the situation are plain. The code system has been done away with and there is no other recourse than that which business itself may devise.

The response of business generally to this situation has been constructive. It is true that many lines of industry find themselves in a position where a continuation of practices established under the codes will subject them to the penalties of the anti-trust laws, but most business men in this position have been skating on very thin ice for some time and their present situation is not very different from what it has been.

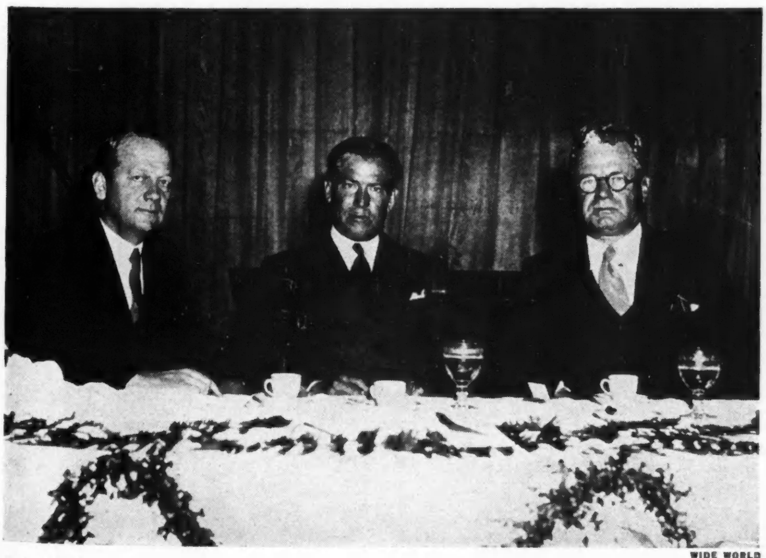
No doubt industrialists have realized this, and there are indications that they had already formulated plans against the day when they would lose the temporary protection of the code system. Accordingly, there has been little real emergency in the break-up of the codes.

*

ABOUT one out of every five C.C.C. camps to be operated this Summer will be engaged on public park projects. The ideas of work and ultimate recreation form a rather good combination.

SEAPORT CITIES

At the first national conference of seaport cities on international trade, held in New York, several speakers demanded lower tariffs and a greater volume of American purchases abroad. Below are, left to right, W. S. Culbertson, representing Mayor Rossi of San Francisco, James D. Mooney, vice-president of General Motors Corporation and president of the American Manufacturers' Export Association, and William H. Malone, mayor of Key West, Florida



WIDE WORLD

Silver

Mexico is reducing the proportion of fine silver in its peso from 72 to 42 per cent, so as to enable it to maintain the current rate of 3.6 pesos to the dollar without losing silver under the plan to raise the latter to $1.29 an ounce. This is a logical step but not one conducive to the increased use of silver as money.

*

Transportation

Coordination of the transportation agencies of the country has been postponed for a year. One reason is that the Government and Congress have about all they can handle for the present without the addition of any further legislative burden. Another reason is that the Coordinator of Transportation has so far been unable to coordinate congressional and administration opinion on the subject. Still another reason is that the holders of railway securities have been unable to coordinate their ideas of railway reorganization, which ought to precede any attempt at coordinating transportation facilities in general. In other words, the problem is something more than the coordination of physical properties.

*

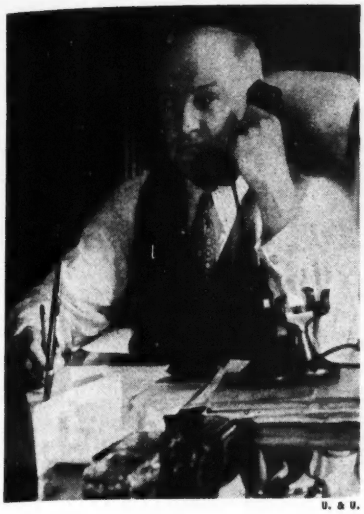
Speculation

The British Government has inaugurated a system of close scrutiny of

EXPENSIVE—FAST

Up to the time of her arrival in New York on her first crossing the *Normandie* had cost 800,000,000 francs. She was financed by the French Government. On her return voyage she beat all records for an actual crossing with an average speed of 30.31 knots

ACME


U. & U.


WIDE WORLD

POLITICS

Postmaster General Farley, chairman of the Democratic National Committee (and the New York State Democratic Committee), and former Governor Frank O. Lowden, keynote speaker at the Republican "Grass Roots" convention in Springfield. The 1936 campaign is under way

all transactions in international exchange for the purpose of curbing speculation. Stabilization of the value of the pound would be a short cut to the same result, but such a system does not fit in with British ideas of what is good for Great Britain.

*

Revenue Estimates

Considerable ado has been made from time to time over the wide variations between estimates of revenue made by Treasury Department experts and the revenue as actually collected. In the Coolidge administration the estimates were usually too low; in the Hoover administration, especially in the latter half, they were much too high. In the past year they have again been too low.

Invidious comparison has been made with the estimates put out by the British Treasury in the same connection. In 1931, for example, the actual revenue receipts of the British Treasury were 1.3 per cent below estimates; in the United States the difference was 21.6 per cent. In 1932 British collections were 0.3 per cent below estimates, American returns, 46.8 per cent below; in 1933 the British record was 3.6 per cent below, the American collections were 5 per cent below; while in 1934 the British returns were 3.8 per cent and the American returns 14.9 per cent above estimates.

Naturally it is exceedingly difficult to make accurate estimates of future revenue with business conditions in all countries changing so rapidly and so radically, but the British record is rather remarkable in its consistency. The chief explanation—and it covers a multitude of things—lies in the fact that the tax on incomes, inheritances and the like on which both nations now rely for the principal portion of their revenue, applies to practically all classes of incomes and estates in Great Britain, whereas the American tax applies chiefly to large incomes and large estates. The most stable incomes, those which change the least in prosperity and depression in both countries, are incomes of the middle classes of the population, the higher wage earners, small business men, the moderately well-to-do living on income from investments.

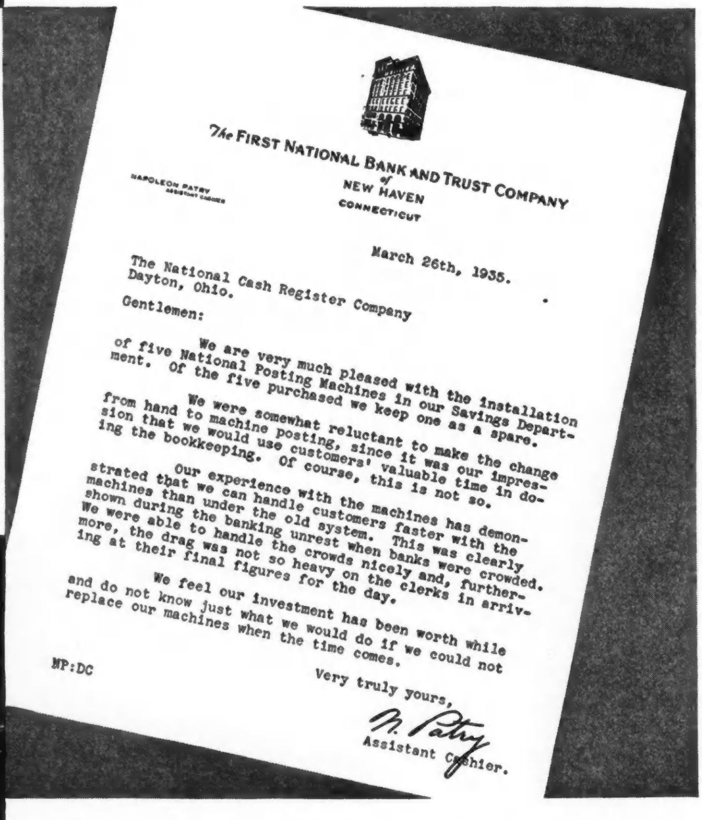
These classes are taxed in Great Britain at rates fairly proportionate to those on larger incomes. In the United States for the most part they are not taxed at all. The Federal Treasury can never have an income from such sources on which it can rely with any degree of safety from year to year until the basis of the income tax and, to some extent, the tax on inheritances, is more evenly distributed over all classes of the people.

*

IT seems to pay to stabilize even at the cost of devaluation. The Bank of Belgium gained $157,000,000 in its stock of gold in the two months following the revaluation of the Belgian franc.

Mr. Napoleon Patry,
Assistant Cashier

"We can handle customers faster..."



The FIRST NATIONAL BANK AND TRUST COMPANY of NEW HAVEN CONNECTICUT

NAPOLEON PATRY
ASSISTANT CASHIER

March 26th, 1935.

The National Cash Register Company
Dayton, Ohio.

Gentlemen:

We are very much pleased with the installation of five National Posting Machines in our Savings Department. Of the five purchased we keep one as a spare.

We were somewhat reluctant to make the change from hand to machine posting, since it was our impression that we would use customers' valuable time in doing the bookkeeping. Of course, this is not so.

Our experience with the machines has demonstrated that we can handle customers faster with the machines than under the old system. This was clearly shown during the banking unrest when banks were crowded. We were able to handle the crowds nicely and, furthermore, the drag was not so heavy on the clerks in arriving at their final figures for the day.

We feel our investment has been worth while and do not know just what we would do if we could not replace our machines when the time comes.

NP:DC

Very truly yours,

N. Patry

Assistant Cashier.

● Securing the second charter issued under the National Bank Act, The First National Bank and Trust Company of New Haven opened its doors on June 25, 1863.

Progressive in its policy and helpful in its dealings with customers, this long established bank has steadily widened its activities to include all phases of banking. And it has kept its service up-to-date by using the most modern equipment.

National Posting Machines are used in their Savings Department. The bank's complete satisfaction with the work done by these machines is clearly reflected in the letter from Mr. N. Patry, Assistant Cashier.

Wherever they are installed, National Posting Machines insure fast, accurate window service. They post entries simultaneously on depositor's pass book, ledger and journal . . . and all records are exactly alike. They force the posting of interest as it becomes due. They eliminate after-banking-hours' posting. They prevent mistakes and make departmental supervision easier.

We or our local representative will welcome an opportunity to tell you more about these machines and the increased efficiency they will bring to *your* Savings Department.

A section of the Savings Department, The First National Bank and Trust Company of New Haven, Connecticut

THE National Cash Register Co.

DAYTON, OHIO

Cash Registers ● Typewriting-Bookkeeping Machines ● Posting Machines ● Analysis Machines ● Bank-Bookkeeping Machines ● Check-Writing and Signing Machines ● Postage Meter Machines ● Correct Posture Chairs

Foreign

Finland pays the June instalment on its debt to the United States.—Moscow finds the United States plunged into an "industrial jungle" with "wild, anarchical competition" as a result of the collapse of the N.R.A.—Mussolini says Italy will brook no interference from Great Britain in its plans for an Abyssinian war.—Japan's assumption of practical control over north China is thought to mark the beginning of further decline of American and other foreign trade in that territory.

French financiers express the belief that the French franc will go up or down according to the prospect that the government will balance its budget and keep it balanced.—Canada is considering a renewal of its financing in the United States, and American financiers are much interested.—Argentina's new central bank is functioning.—Midway Island is now completely equipped and ready to receive the first trans-Pacific clipper plane.

Belgium is taking measures to deflate over-capitalized stock companies.—Italy has extended its license system to cut imports, thus contributing to world prosperity in about the same manner that its Abyssinian campaign contributes to world peace.—British financiers praise the restraint of American business in not allowing the collapse of the N.R.A. to go to its head; what they expected is not indicated.

*

Industrial Advances

Of the $28,000,000 or so of direct loans to industries by the Federal Reserve banks made up to the middle of June, about 44 per cent were reported in the Boston, New York and Philadelphia districts. This seems a high proportion, but by actual calculation it is in practically the same proportion as the assets of the Reserve banks in these districts bear to the total assets of all the Reserve banks. The New York district proportion of loans, 23.6 per cent, is below its proportionate share of assets. The Boston share is practically a standoff, the Philadelphia share of loans is above its proportion. The Richmond, Dallas, and Minneapolis banks put out more loans than their proportionate share based upon total assets, Atlanta also being slightly above the average. St. Louis was below its proportion, as were most of the other banks. The general impression that the South and West have been particularly heavy borrowers is fairly well sustained.

*

Farm Values

Both the Farm Credit Administration and the Department of Agriculture report, as a result of the annual survey in March, that farm land values have reached an index point of 79 of the 1912–1914 average, as compared with 74 last year and 73 in 1933. The reports attribute the increase to greater farm income. The increase is promising but it would have been more promising if it had been based upon farm income not boosted by artificial means at the expense of consumers.

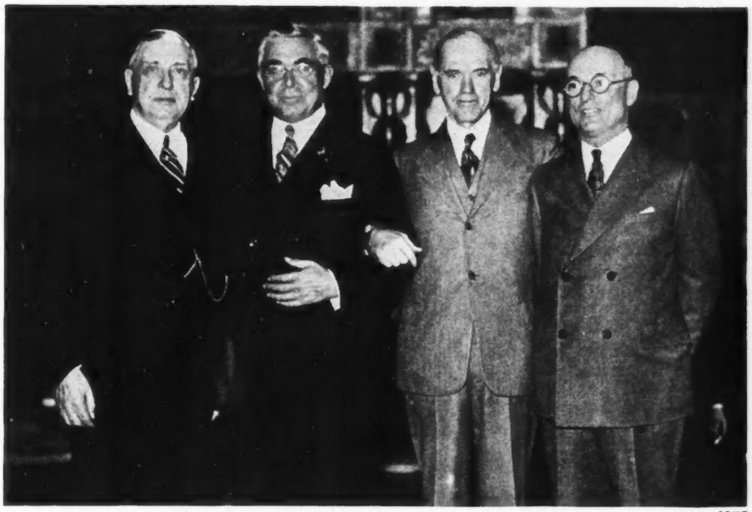
*

Cotton

A commission of Japanese business men has visited Brazil, investigated its cotton possibilities and has decided that for the present the Brazilian output does not successfully compete with that of the United States either in the matter of price or the volume of supplies. Perhaps the accent should be put on "for the present."

BUSINESS AND GOVERNMENT

At top, left to right, Charles M. Schwab, chairman of Bethlehem Steel, William A. Irwin, president of United States Steel, Eugene G. Grace, president of Bethlehem, and T. M. Girdler, president of Republic Steel, at a meeting of the American Iron and Steel Institute. On June 6 Mr. Grace stated the industry would maintain the wage and hour provisions of the former steel code. In the lower picture photographers and reporters are meeting Administration and Congressional leaders after one of the White House Conferences that occurred after Supreme Court frustration of New Deal plans



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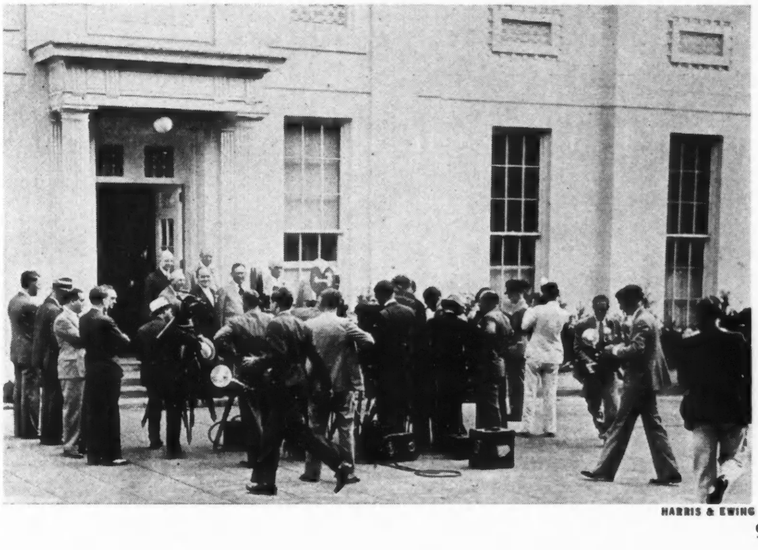


HARRIS & EWING

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

JULY 1935

Business Prefers *American* Banking

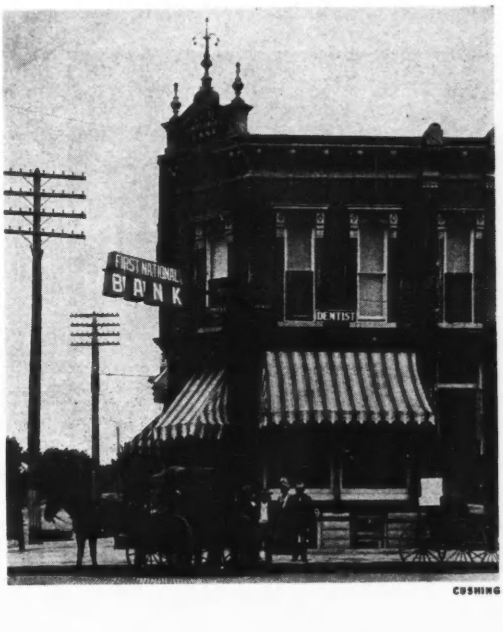
By VIRGIL JORDAN

President, National Industrial Conference Board

SOMEONE recently suggested that, as one consequence of the past depression, psychiatrists will have to include in their list of distinguishable types of mental aberration a separate category for monetary and banking theories. This suggestion may seem a bit rough on Mr. Keynes and other eminent economists who have ventured into the field that has always been a crank's paradise; but it is a familiar fact that recent depressions have been accompanied—one might almost say characterized—by increasingly severe and widespread epidemics of this form of mental disturbance.

Although there are many depressions of record before the invention of the modern banking system, in the most recent case the banker has been promoted to first place among their causes, outranking "The Machine", the captain of industry and even the sunspots as the prime disturber of economic stability. Among the diagnosticians of depression today, the root of our economic evils is now traced most commonly to defects of our monetary and credit institutions; and remedies therefor abound in the greatest profusion and variety, ranging from the great panacea of "nationalization" to specifics of elaborate complexity to be applied to reform of numerous weaknesses in bank practice.

Without a system of private enterprise, a horse and buggy era could have continued indefinitely



CUSHING

One may leave to some future Freud to explain fully why matters of money and banking invariably arouse such violent emotional reactions and are so rarely amenable to reason and practical experience. There is one aspect of mass psychology in the present situation which is little understood and deserves great emphasis. The popular movements toward more or less complete establishment of government banking systems, through outright nationalization or direct state control or operation, which have reached an advanced stage in Great Britain and are rapidly growing in strength here, are an expression of a deep-seated struggle which will be decisive for the future not merely of banking but of the economic and political system.

The current agitation for governmental ownership, or centralized operation, control or direction of the commercial and investment banking machinery is one phase, but the crucial phase, of this struggle between two deep-rooted conflicting impulses in the public psychology of all important nations, which finds its reflection in many other types of political action and legislative enactments. What is the essential nature of this conflict?

It revolves around a clear-cut choice between two profoundly opposed principles of economic and political organization. On the one hand is the personal competitive enterprise system, commonly but mistakenly called capitalistic, under which most of the Western nations, especially the Anglo-Saxon peoples, have developed with such spectacular rapidity during the past 200 years. On the other hand, clearly outlined for us in Germany (beginning with the Bismarckian paternalistic state), and in Italy and Russia, is the compulsory state collective security system, already far advanced in the United States by the Federal legislation and executive policies of the past two years.

Much needs to be said about each of these systems, the basic conditions out of which they arise, the forms of economic organization and political institutions in which they express themselves, for there is little clear understanding of their implications. The important thing to realize is that they involve fundamentally different and irreconcilable principles of human conduct and philosophies of life, and the conflict between them is the key to the economic, social and political struggles of today.

The enterprise system, of which the development of the United States has been the unparalleled example, depends for its motive power of progress upon the inexhaustible reservoir of energy implicit in the individual desire for personal advancement in prosperity, power, security and prestige, and it mobilizes and releases this energy for the fullest use of natural resources in raising the general standard of life. In return for the rewards of individual prosperity and personal security which it offers for enterprise, industry, thrift and foresight, it imposes the penalties of sacrifice and risk of loss; but it guarantees nothing to the individual save freedom of opportunity to use his creative powers, and the functions of the state are limited to the minimum essentials of protecting life and property and preserving public order. The philosophy beneath the enterprise system is that of the moral responsibility of the individual human personality, which it conceives as the source of all progress and puts above the state in importance.

The collectivist security system places all emphasis upon the maintenance of a minimum standard of living for the mass without regard to the creative power of the individual. In order to guarantee this minimum to vast populations in face of inadequate natural resources it must invest the state with absolute authority for control and direction of all economic activity and compel complete subjection of the individual to the will of the state. By extracting from each individual under such compulsion the required minimum of creative effort, and expropriating and distributing the product of all individual effort above the minimum, it can, theoretically at least, assure a certain degree of economic security to all. The wastage of unrealized creative power is enormous, but the conception of life upon which the collectivist security system rests is that the security of the mass represented in the state is of superior importance to the development and advancement of the individual personality.

THE SEARCH FOR SECURITY

QUITE simply the security system involves the modern form of the philosophy of the slave society, and its most penetrating and clear exposition has been given in Hilaire Belloc's book, written many years ago, called "The Servile State."

Whatever the pros and cons of these contrasting conceptions of life and the economic and political organization which grows out of them, it is evident that everywhere in the important nations of the world today there is in process an irrepressible search for security among the masses, and what is more startling, among the men in management of business, industrial and financial organization also. Stimulated by political leaders who have readily appeared with promises of perfect, permanent security combined with unlimited prosperity, many important groups of the public—workers, farmers, business men—have lost faith in the possibilities of the enterprise system and turned their backs upon its potentialities as well as its penalties in quest of a less exacting road to security and prosperity.

Suffering under the distresses and disillusionments of a severe, world-wide depression—not essentially different from any other, but more spectacular—they have tired of the rigors and risks of the competitive struggle which has been the price of progress in the past, and have turned to the magical image of the state, that comforting mother who, in the voice of the politician, promises permanent security and abundant prosperity for all with a minimum of effort on the part of each. Few sense the price of such security; few understand the measure of such prosperity; fewer still are able to detect, behind the image of the Mother State, the stern figure of the Father State—the paternalistic collectivist dictatorship that is compelled to set his spoiled children goose-stepping in labor battalions under the sharp lash of the bread card in order to provide that minimum of security which they seek.

The many-sided movement toward governmental banking, deposit insurance and currency management is the most direct and decisive expression of this universal instinctive search for security which is the sign of the times. In America our agricultural price guar-

Owen D. Young (standing) gives his banking bill testimony to a Senate committee. Left, Senator Townsend; right, Senator Glass

HARRIS & EWING

antee devices, our N.R.A. structure of wage, hour and price stabilization, our so-called social security legislation, are other important indications of the drift away from the enterprise system toward a collectivist security system, with concentration of authority in a central federal government.

Those who are advocating, encouraging or conducting the movement in that direction understand that for the full establishment of a security system, modeled as all the devices of such a system are, on European political and social institutions, nationalization of power, transportation, agriculture and labor are necessary ultimate objectives; but the nationalization of credit is crucial and indispensible for complete state control of the complex industrial and business structure of this country.

The drive toward government banking and monetary control is most determined because the relation of the state to credit goes to the root of the enterprise system. A collective security system is inconceivable without nationalization of credit; an enterprise system is inconceivable with it.


U. & U.

Adolph C. Miller, left, as he testified before a committee of Senators on the banking bill. Mr. Miller has been on the Reserve Board since its inception. At the right is Senator Couzens

Curiously enough, many of those in the business world and elsewhere who have a persistent faith in the enterprise system do not fully understand the inseparable relationship between private banking and the system for which they have a lingering sentimental affection. It is true that both a competitive enterprise system and a collective security system are necessarily capitalistic, because any modern economic system must be if it is to be productive enough to meet even the minimum requirements of the vast populations of today. Both inevitably involve credit and investment machinery. Both must have some means of making advances out of savings from past production or against future production wherever tools and equipment are used and labor is specialized and subdivided in the productive process.

THE RISK OF ENTERPRISE

BUT under an enterprise system the risk and reward of such advances are shared by those directly interested as individuals or in groups formed by mutual agreement, and their enterprise and thrift make possible a much larger and more flexible application of credit to the increase of production and trade, from which the whole community of consumers benefits, while the competitive process insures that savings and credit will be directed to the most economic uses. Undoubtedly the free operation of competitive effort among borrowers and lenders in the market for savings and credit implies instability and loss to individuals; but this is the essence of the enterprise system. The constant dissipation of individual savings involved in it is the safety valve of the system and ensures a steady and rapid rise in the general standard of living of the community. Constant access to credit on a competitive basis is an indispensible stimulus to enterprise which promotes expansion of productive power; and the natural relation between the volume of credit and the volume of real savings out of past production which serves as the basis of credit under a competitive enterprise system acts as a constant check upon its overextension and uneconomic use.

Under a collective security system, based as it must be upon government banking and investment, the picture is quite different. The controls lie no longer in the close and constant checking of the borrowers' capacity to produce and the lenders' capacity to save, under the continuous play of competitive force in the market. They lie solely in the hands of the few persons who in practice constitute the state, and depend upon their judgment, will or caprice. It is they who must determine, upon the basis of some predetermined plan or upon pure political expediency of the moment, what lines of industry and even what individual enterprises shall have access to the credit reservoir; and the size of that reservoir itself is determined not by the volume of actual savings of the community but by the unlimited power of the state to lend or compel its citizens to lend against the future productive power of the community. Not only has the state the power of life and death over all enterprise that utilizes credit, but it has the power to compel the community as a whole to bear the risk of loss inevitably involved in the extension of credit.

It has often been pointed out that no group of humans can have wisdom, knowledge or energy enough to administer any aspect of the affairs of a hundred million people more effectively than those people can do it for themselves. But it is unnecessary to labor the point of the capacity of any body of public officials with all the good will in the world to administer successfully the vital and infinitely complex credit machinery of a great nation. The simple fact is that every government is an organ of party power and must respond to the will of the party that put it in power.

Under unchecked government operation it is an inescapable tendency of every currency to depreciate and for credit to expand. However much it may (CONTINUED ON PAGE 65)

Bank and Newspaper Cooperation

By R. W. MACKAY

Cashier of the Warren National Bank, Warren, Pennsylvania

ALTHOUGH printer's ink and bank credit may seem to live at opposite ends of Community Street, they meet a dozen times daily and in a dozen different places.

They are symbols of such widely separated businesses that at first thought their only mutual interest might appear to be the profit motive: both journalism and banking have to earn a living. However, it is apparent that basically they are not so different, after all, and that they have one fundamental similarity.

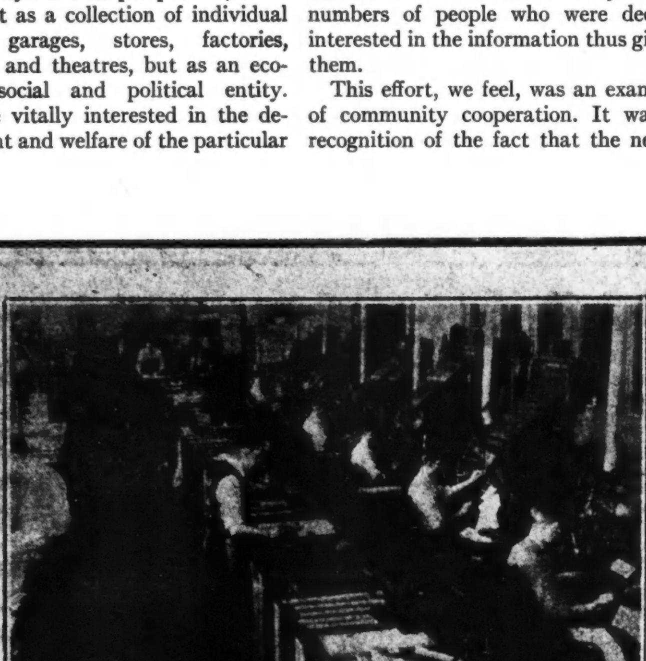
Briefly, it is the fact that they see Community Street in perspective, viewing it not as a collection of individual houses, garages, stores, factories, churches and theatres, but as an economic, social and political entity. Both are vitally interested in the development and welfare of the particular town or city in which they happen to be located, and both work toward the common goal. In effect, the profit motive is secondary.

The affinity between press and banking was brought to mind in an exhibit which the Warren National Bank recently held in its lobby. This display, concluding a long series of similar exhibits featuring local industries and their products, concerned the local newspaper, the Warren *Times-Mirror*. It traced, through photographs and actual materials, the many processes that go to make up a newspaper, and attracted to the bank lobby large numbers of people who were deeply interested in the information thus given them.

This effort, we feel, was an example of community cooperation. It was a recognition of the fact that the newspaper is as much interested as the bank in local industry, and it offered a forceful summation of the bank's whole lobby display campaign. The Warren National and the Warren *Times-Mirror*, it suggested, were institutions which represented two important channels of growth.

The newspaper is history's diary. It records national and international events almost as fast as they happen, presenting them accurately, lucidly, quickly, pictorially. But at heart the newspaper is a local enterprise. Its essential mission is to tell us what is happening to the folks next door, what business changes are occurring, what our city or town government is doing, who is moving in and who is moving out, who has met with good fortune and who with ill fortune.

On occasion it criticizes, but more



Composing Room of the Warren Times-Mirror

"Acta Diurna"

In the days before printing, the earliest equivalent of the modern newspaper was a series of public announcements called "Acta Diurna", issued during the Roman Empire, posted up and copied by scribes for dispatch to provincial subscribers. With the invention of the printing press some 500 years ago, Germany, Britain and other countries made rapid progress in the dissemination of

often it boosts. Its chief concern is the welfare of Community Street, and it puts the whole force of a powerful position and personality behind the promotion of that program.

Banks, it would seem, occupy an analogous position. The banking institution, too, is interested in the community and although its forms of service are different, the principle is essentially the same. In the extension of credit, the encouragement of thrift, the protection of valuables, the financing of home ownership, the provision of facilities for paying by check, the bank provides constructive avenues to progress. Sharing with the newspaper the advantage of perspective, the bank, either consciously or unconsciously, is constantly cooperating with the press in the interests of community welfare.

A national forest exhibit in the bank lobby, one of the industrial series

The Warren National Bank conducted its series of industrial exhibits for a period of 20 weeks. The purpose was not only to feature the principal commercial enterprises of the community, but to express some degree of appreciation for the courage shown by these businesses and their success in meeting conditions of the times.

The exhibits were diversified. They included oil refining and distribution, wood and metal furniture, shelving, steel plate construction, special equipment for the chemical and electrical industry, valves, faucets, cigars, patent medicines, furnaces, tank construction, and even the recreational and commercial facilities offered by the Allegheny national forest.

The industries in the program represented nearly 2,000 employees, although they did not include, by any means, all of the employees of Warren and Warren County. It was especially interesting to see the loyalty of employees and the pride of workers in their products, coupled with the enthusiasm of the management in this program. In starting the plan, we had the additional purpose of "cheering up the town" by showing people the products made here and how they are distributed—literally, to all parts of the world. We wanted to show, also, that here are men with a fighting spirit, the sort who sweat to keep the wheels of business and industry moving.

Needless to say, out of the average of more than 6,000 visitors to the bank each week during the series—the town's population is 15,000—hundreds had never been informed in detail as to the varied and extensive manufacture and distribution of their own community's products.

We arranged to have the local newspaper as the last exhibitor in the series. This paper had furnished the greatest cooperation during the entire period. We ran a four-column advertisement on Saturday of each week, featuring the following week's industrial exhibit, and a three-column ad, using the American Bankers Association advertising material, on Wednesday of each week.

The newspaper accepted willingly all the news items we sent it in reference to the industrial exhibits and, altogether, supplied more than 800 column inches for this purpose without any charge whatever to the bank.

Its exhibit in our bank lobby was perhaps unique in bank advertising. The principal feature was a teletype page printer, installed by arrangement with the Bell Telephone Company and the Associated Press, on which there was received the Associated Press news each day during the week. As the news came in it was taken from the machine and posted on a bulletin board, where it was read eagerly by visitors at the bank.

The processes of printing a newspaper were shown effectively by some 40 photographs throughout the *Times-Mirror* plant. These covered every step from the editorial and business offices, through the composing room, casting room and printing presses, to the delivery of the daily paper. Captions under the photographs explained the intricate features of the linotype, inter-

At the left, part of an advertisement by the Warren National Bank. It appeared in connection with the lobby display that described the Warren *Times-Mirror*. A picture of the display appears on this month's cover. Below: The *Times-Mirror* comments in an editorial on the series of bank exhibits

"LET'S LOOK AT WARREN"

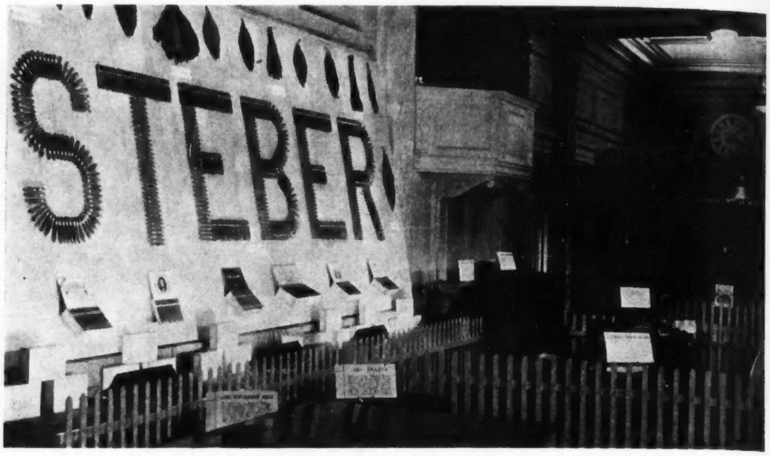
A visitor in Philadelphia several years ago had considerable difficulty finding Independence Hall, simply because a great many Philadelphia folks didn't know where their famous national shrine was located. It would probably not be so difficult now since it is the scene of frequent demonstrations, but a few years ago there were many native Philadelphians who had never seen the building in which the nation was born.

As the Warren National Bank's series of industrial exhibits nears an end, one thing is certain: a lot of Warren people know a lot more about Warren than they type, stereotype and other printing machines.

Wherever possible, materials were displayed showing, for example, the metal used in casting, with numerous type sizes and faces, complete pages set in type, the mats made from these type forms, and the castings used on the press cylinders.

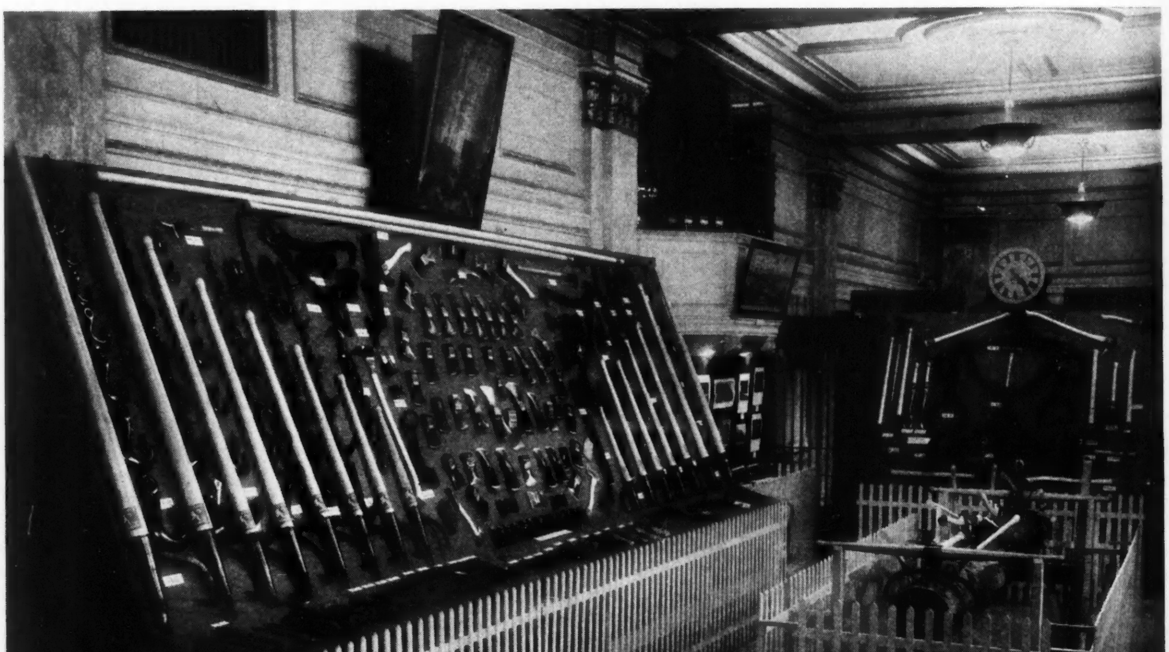
One section of the exhibit contained files of the newspaper referring to interesting events, such as those of 1917, the then current War news being shown for the corresponding days of June that year. Files of former newspapers and old copies dated back to 1839. On a table in the lobby were copies of the latest issue of the paper for free distribution daily.

The importance of the daily newspaper was mentioned briefly in the advertisement announcing this exhibit, and as many factors as possible were included with reference to the local paper. Early in our program, the city editor suggested that it would be well to have representatives of the factories address the weekly meetings of Kiwanis, Rotary and Lions clubs, coincident with these industrial exhibits. This was done to quite an extent, with added impetus to the plan.



Display of a cigar maker's products

Altogether, we found that this has been one of the most interesting advertising programs we have ever attempted. We got enthusiastic expressions of appreciation from the entire community, and we believe constructive results have been achieved. We think the attitude of the Warren *Times-Mirror* has been most helpful in making the program a success and that this is an excellent example of the friendly personal relations which should exist in every community between banks and their local newspapers. Both share a duty in creating and maintaining community effort, achievement, and pride.



Lumbering equipment manufactured locally

The Political Virus in Central Banks

By GEORGE E. ANDERSON

NOWADAYS a government which goes into the market for a modern central bank—streamlined, 1935 model—has a wide choice. It can make its selection from 42 varieties and can combine any number of them into a new variety in the old Luther Burbank method, or it can create a new model along the line of experimentation which has been so popular of late all over the world.

In all this wealth of selection, however, it will conform to several essential principles. Among these an easy flow of credit comes first. Cooperation between government and banking is a second principle, and control of credit and currency in relation to inflation or deflation is a third. In these and similar phases of the matter the question of model or method is largely one of degree. The range is from such an institution as "The Old Lady of Threadneedle Street," which stands in theory as the classical model of an independent bank of rediscount and note issue, to a central bank owned outright and operated entirely by the government—operated in theory for the benefit of business and the general public, operated in practice largely for political purposes. Yet even the most political of these central banking institutions must of necessity give strict heed to the needs of business, while the most conservative, privately owned and operated among them must and do give strict heed to governmental policies.

In a colloquy which took place in the hearings before the Senate sub-committee which has had charge of the proposed banking act of 1935, Governor Marriner S. Eccles of the Federal Reserve Board made the statement that there was no central bank not under control of its government. He was interrupted by Senator Glass who said: "On the contrary, I heard a man in New York, who is thoroughly familiar with the British system, say that the Premier of England would not dare tell the Bank of England what to do, but, rather, the Bank of England tells the Premier what do do." In response Governor Eccles quoted Viscount Snowden to the effect that the Bank of England "would not think of undertaking any major policy without consultation with the government."

As a matter of fact, both gentlemen were right. It requires only the slightest review of the history of the relations of the Bank of England to the British Government to realize that the latter has always been governed rather closely by advice from the bank on which it is so completely dependent in its finances. On the other hand, no central bank could expect for a moment to make a success of any policy which ran contrary to the policies of the government under which it operates.

Hence government control of central banking, which has come to be such an outstanding issue in this and other countries, is a matter of degree. Legal restrictions upon the operations and policies of central banks are important only in the fact that to some extent they establish limits within which the respective central banks may freely operate. What is more important than

Hjalmar Schacht, Reichsbank

GLOBE

Montague Norman, Bank of England

WIDE WORLD

restrictions or extreme liberality in charter privileges is the spirit back of them, the general policy of conservatism or radicalism which governs not only the operations of the bank but the objects of the government and people. In the face of a tendency to misuse central banking for political or selfish business purposes, legal restrictions have comparatively little weight. When a nation is governed by conservative principles and its objectives in finance are conservative, liberal charters for central banks involve little or no danger. In short, a people gets the sort of central bank service it deserves.

The typical central bank is an institution which is privately owned but operated under government supervision and a varying degree of government control, in which profits are limited but more or less assured, with the evident intention of accentuating the public character of the institution and seeing to it that its operation is conducted for public rather than private benefit. The older forms of organization were those of private companies whose stock was subscribed by the general public. Later forms take on a cooperative character, such as that of the Federal Reserve System in this country. Few central banks are owned by their governments and in nearly if not quite all such cases the central bank has been established by the government as an emergency organization. The Commonwealth Bank of Australia, for example, is wholly owned by the government. It was organized as a means of effecting currency reform following the collapse of Australia's time-honored exchange relations with Great Britain. Another example is the State Bank of Soviet Russia, where the state owns everything—banks and business. The central banks of Latvia and Finland are owned by their governments and were established to bring order out of chaos in the postwar and depression period.

The outstanding example of the privately owned and privately operated central bank free of governmental interference or legal control is the Bank of England. Whatever may be its public character, it is in theory a private concern operated for the benefit of its stockholders, who are private persons. Its profits are not limited by law nor are they divided with any one. Limitations upon its operations are slight and are for the benefit of the bank rather than the public. In theory it is just as much a private concern as is a corner grocery store. The financial genius of the British people is such that this system can be operated successfully.

Hisaakira Hijikata, Bank of Japan

WIDE WORLD

In the case of central banks on the Continent, however, it has been found best to introduce the element of public interest by certain limitations and control of the organization—a formal recognition of the public character with retention of the private character of the organization. In most cases this has been done by giving the government—in the older cases usually the crown—some degree of authority in and over the organization. Of 28 European central banks the heads of all but three are named by the government. Great Britain, Albania and Denmark are the exceptions, the others being France, Germany, Danzig, Italy, Rumania, the Netherlands, Austria, Hungary, Spain, Belgium, Portugal, Switzerland, Turkey, Norway, Czechoslovakia, Yugoslavia, Lithuania, Poland, Sweden, Latvia, Russia, Bulgaria, Estonia, Greece and Finland. Fourteen of them permit the government to remove the management of their central banks more or less at will. This is true in France, Belgium, Turkey, Norway, Germany, Czechoslovakia, Lithuania, Yugoslavia, Poland, Sweden, Latvia, Russia, Bulgaria and Finland. Governments exercise more or less direct control over the banks through commissioners in Italy, Rumania, the Netherlands, Austria, Spain, Belgium, Switzerland, Czechoslovakia, Yugoslavia, Estonia, Greece, Denmark and Poland. Others exercise more or less control through other officers or by other means.

In most of these countries, aside from control exercised through the power to name the heads of the banks, the authority of the government is comparatively limited, but in some of them the private character of the institution is nominally retained while the head of the bank is not only appointed by the government but is subject to the vicissitudes of government.

In France, for example, the governor and deputy governors are not only named by the government of the time through the head of the state but, since their tenure of office is not indicated, they may be supplanted as a result of government changes. Such also the case in Japan, Belgium, Norway, Turkey and several smaller countries. In others, notably Poland, Lithuania, Yugoslavia and Czechoslovakia, the administration of the bank is frankly subordinate to the government of the time and usually changes with any change in government—in other words, the bank is directly in politics. In Finland the bank is owned by the state and is administered by parliament, which guarantees its operations. Australia owns and guarantees its bank. The banks of Sweden and Latvia also are state-guaranteed.

Newer forms of central banks are in what may be termed the cooperative class. They are institutions organized in large part, if not entirely, by private capital, in which commercial banks have a complete or dominating influence and to the support of and cooperation with which commercial banks are pledged, by law or otherwise. The Federal Reserve System in the United States is the outstanding example of this type, and most of the other concerns thus classified have been organized in part at least upon the American model.

The South African Reserve Bank is a good example. Fifty per cent of its stock is subscribed by commercial banks and the rest by the general public. The government appoints the governor and his deputy, but two-thirds of the directors are named by stockholders. Commercial banks are required to maintain in the central bank reserves of 10 per cent of their demand and 3 per cent of their time deposits.

The newly organized Bank of Canada lies somewhere between the Federal Reserve and the Bank of England. Its stock is owned by the public; its officers, after the first or organizing term is passed, are to be elected by stockholders subject to the approval of the government; the government has representation on its board of directors; but bank policy, in theory at least, is determined by the bank and not by the government. Commercial banks, however, are required to maintain reserves of 5 per cent of their deposits in the central institution.

INTERNATIONAL

Jean Tannery, Bank of France

"KEMMERER CHAIN"

THEN there is a class of reserve system central institutions which may be known as the "Kemmerer Chain." They are institutions founded in a number of Latin American countries as the result of investigations by and upon the recommendation of the Princeton professor. The Central Bank of Chile is an institution of this type. Its stock is divided into various classes of shares. "A" shares, constituting 7.5 per cent of the whole, are subscribed by the government but have no vote. "B" and "C" shares, each amounting to 10 per cent of the whole, are subscribed by native and foreign owned banks, respectively. The rest are subscribed by the investing public. Commercial banks are required to maintain reserves deposited in the central bank. There are similar central institutions in Peru, Bolivia, Colombia and Ecuador.

The rise of dictatorships in government has modified the theoretical organization of central banks, in some cases revolutionizing them in practice if not in paper organization. The German Reichsbank was organized as a private concern by private capital, and in theory it was to be largely independent of the government. Up to about two years ago it was managed by officers chosen by a general council, which in turn was chosen by existing officers of the bank in cooperation with the stockholders and in consultation with the government. Under the present political regime in Germany the general council has been abolished and the bank is directly controlled by the government through its president, who is appointed by the government and who at the present time is also a member of the cabinet. The influence of dictatorships is found in the present organization of the Bank of Poland, while the control of all business by the government of Italy gives the latter a control of the Bank of Italy which paper provisions do not indicate, though they go quite far in that respect.

It is significant, also, that governments exercise less direct control over the central banks in those parts of the world where nations in the past have been inclined to dictatorships or other manifestations of weak political systems. This is particularly true of those Latin American countries in which central banks have been set up under the influence of the United States. Apparently the very danger of a government's use of the central bank for its own purpose has led to charter provisions guarding against such an eventuality.

Whatever may be the theory of what is best in a central bank, especially in its relation to government and as an independent institution operating for the benefit of general business and free from political influence, the fact is that the tendency in recent years has been in the direction of a centralization of credit and currency control in such banks under increasing governmental supervision, if not outright control.

Reasons offered for this tendency are not far to seek. There is not much doubt that in the past many central banks have been managed largely for the few rather than the many and that their operations have been such as to compromise public interest and lead to abuses which in many cases have been responsible for the collapse of currency and credit systems. There are several examples of central banks which are absolutely controlled by their governments which are being operated not only in an able and efficient manner from a banking standpoint but also to the manifest benefit of their people at large.

That this general trend has been vicious in its influence upon world banking and world finance, however, admits of little question. The effect of increasing government influence with and control of central banking will not be fully registered until a rising demand for commercial and industrial credit discloses the danger of policies which some banks have followed under popular demand.

Three Banks in a Town

By FRED W. ELLSWORTH

Vice-president of the Hibernia National Bank in New Orleans

Except for a few trimmings, this is a true story. If you would care to confirm it, just refer to any of the bank directories and you will find Emmetville in the list of clearinghouse cities—only the spelling is somewhat different. —The Author.

A SNUG little town that nestled among the hills of an eastern state, Emmetville was an average community, proud of its handsome school buildings, proud of the new post-office, its cozy and well stocked Carnegie Library, the trim, white churches grouped around the public square with their slim spires piercing the heavens—and proud of the conservative, well managed bank, adequately serving the financial needs of farmer, merchant, manufacturer and housewife.

Shortly after the turn of the century, new factories came in, attracted by three railroad lines which provided especially advantageous transportation facilities. The new industries brought additional workers. Shops and stores multiplied. Emmetville expanded and prospered.

The Peoples Bank had been in existence for many years, and during all that time had enjoyed a comfortable monopoly of the local banking business. With the growth of the town, however, a group of active local business men conceived the idea that Emmetville should have a second bank. This sentiment grew, and eventually crystallized into the formation of a committee which, after several meetings, decided to go ahead with a preliminary organization.

Little difficulty was experienced in raising the capital. A board of directors was selected, and application was made for a charter.

Old Man Jealousy, however, at once got busy among the directors of the other bank. They tried to convince the authorities that a new bank was not necessary and that the older institution was well able to handle all of the local banking business, present and potential. There was a long wrangle about it, but the new Citizens Bank finally got its charter, opened its doors and started an active new business campaign, with the result that within less than two years it had accumulated more than $1,000,000 in deposits. The Peoples Bank, strange to say, had also benefited by the unusual activity.

The directors of the two banks, although they were neighbors and members of the same clubs, were pitifully antagonistic. They had to fraternize with each other on the school board and on local civic and social committees and at the country club, but there was always an attitude of cool stand-offishness. Needless to say, the competition between the two banks was keen, and, whenever a good account which had been solicited by both banks was finally captured by one of them, this circumstance increased the ill feeling. The two groups could not get along together.

Meantime Emmetville enjoyed continued development; the population increased; more factories came; new stores were added to the double row of two- and three-story buildings that lined Main Street for a matter of three or more blocks.

Before very long a third group, influenced by the growth of the town and the obvious prosperity of the two banks, began a quiet investigation and shortly reached the conclusion that there was room for still another bank. They made their plans, perfected their organization and sold their stock; but when they applied for their charter the two older banks actually joined forces to prevent the third organization from obtaining the necessary legal authorization. Their contention in this instance was exactly the same as when the Peoples Bank tried to keep the Citizens Bank from entering the field. After a long-drawn-out battle, the new aspirants finally obtained their charter, and the Merchants Bank was formally opened. Following the example of the Citizens, the new bank immediately made a strong bid for business. While its development at first was disappointingly slow, it gradually increased its deposits and prestige, and within two or three years was well established as a definite factor in the business life of the community.

Sad to say, however, bad feeling among all three institutions continued; competition was correspondingly severe and of that idiotic variety which multiplies free services and minimizes profits.

One night at a meeting of the school board, President King of the Peoples Bank, and President Jones of the Citizens were sitting side by side. While they were waiting for the late comers, King said to Jones, "Can't we do something to put a stop to these pesky N.S.F. checks? We have a dozen or more every day; they're a positive nuisance, as well as a very definite item of needless expense. I know that some banks have installed a 25-cent charge on them, and have cut them down to a minimum."

"NOT FOR THE PRESENT"

JONES agreed with King that they were a constant annoyance and said he would present the matter to his board. But when he called King the next day he said in somewhat frigid tones, "Our folks feel that they could hardly afford to run the risk of antagonizing our customers, and so we are not going to do anything about it. Perhaps later on we may want to take it up, but not for the present."

One day—and a happy day for Emmetville it was—a long, lanky, loose-jointed chap—Collings Childress by name—who had been invited by President Smith of the Merchants Bank to come into their organization as an assistant cashier, ambled into the office and, after meeting the other members of the "family", took off his coat and went to work. The president had met Childress at a bankers' convention and had been very much impressed by an address on bank management which the young man had made. After checking him up through the bank's city correspondent, the president decided that he wanted Childress to supervise the clerical management of his bank, so he made him an offer which was promptly accepted.

Childress was about thirty, and had spent some ten years or more on the various desks of a city bank where he had learned all the intimate operating details. Furthermore, he was of a studious, investigating turn of mind and had succeeded in modernizing several of the ancient processes which banks had employed without change since the days of the Venetian "bench-men".

For example, when Childress had been assigned to the transit department some years before, he had observed that the registration of country checks, which was made by hand in formidable volumes that weighed several pounds each, involved a complete transcript of each item, including the name of the depositor, drawer, payee, payor, the name of the town and state, date of check, amount, and any special instructions. All of this detail, most of which today has been eliminated, took so much time that one man could hardly handle a maximum of 300 items a day.

Childress worked out a system of abbreviations and deletions whereby a clerk could do three times as much work as before without in any way reducing the actual reliability or utility of the records. This was but one of a number of practical reforms by which Childress had minimized hours of labor, perfected records and materially reduced the opportunity for errors and dishonesty.

So when he came to Emmetville—and incidentally he snapped at President Smith's offer because he and his family had grown tired of the everlasting hubbub of the city and wanted to get back to a country town where they could really have time to enjoy life quietly and calmly—he knew from several conversations that he had had with the president just what his job was to be. The Merchants Bank employed the old system of copying letters, used the venerable Boston ledgers, had no adding machines, and but one typewriter, most of its correspondence being in longhand. Needless to say, within a few weeks carbon copies displaced the old copying press, a new stenographer did away with the pen, a couple of modern

WIDE WORLD

One day in the early Autumn . . .

. . . . after the new association had been functioning for about a year, Edwin Richardson, the prominent manufacturer, and Collings Childress, the junior bank officer, were seated side by side in the bleachers at the Tiger Park. The Tigers and the Mayfield Giants were playing the final game of the season's schedule in the state league. They were tied for first place. In the first half of the ninth inning, the Giants were at bat, and the score was 4 to 2 in favor of the Tigers. The bases were loaded, with nobody out. A base hit would tie the score, and a deep two-bagger would clear the sacks and put the Giants out in front. It was a tense moment. Smithson, the Giant's catcher, with a batting average of .342, was at the plate. Obviously the Giant manager had given the signal for the "hit-and-run-play," for each base runner was crouching for a quick getaway. Smithson selected one that he liked and soaked a screeching grounder down the third base line. The baseman fielded it perfectly, stepped on the bag, whipped the ball to short, who was covering the keystone sack, and in the fraction of a split second it was in the first baseman's mit, six short inches ahead of the runner—a triple play—the game was over—and the Tigers were the state champions.

"Did you ever see prettier team work?" excitedly shouted Childress.

"Only when those bank directors got together last year and started that clearinghouse; you see a baseball field is not the only place where team work counts, *and counts big*," said the "liaison officer".

adding machines took care of all the listing, cutting mistakes to the minimum; and all figuring of interest, which formerly had been confined to brain power, was diverted to an infallible calculating machine whose accuracy and industry were always normal and totally unaffected by late hours or mental fatigue.

Not very long after Childress assumed his new duties in the Merchants Bank he began to discover expensive and unnecessary practices which he found were common to all three of the banks, and which, by cooperation, could be done away with, thus reducing expenses, increasing profits, improving the service to the customers, and putting practically all the operations of the banks on a cost-plus basis—the safe and sensible principle on which any business should be conducted. In discussing these matters with President Smith and the directors, Childress modestly reminded them of the vital importance of adequate profits, and pointed out that these are a major factor in furnishing protection to the depositors' money, by materially adding to the continued solvency of the bank.

FREE SERVICES

ONE day after hours Childress went into President Smith's office and handed him a sheet of paper filled with figures.

"I should like to have you look these over," he said. "I have been analyzing and classifying our checking accounts, and I find that 36.4 per cent of our customers carry only $22,200, or .00888 per cent, of our $2,500,000 total deposits, and that practically every one of those accounts is handled by us at a loss."

"That's very surprising," responded the president. "Are you sure that your calculations are correct?"

"Yes," replied Childress, "I have checked and rechecked them, and am positive that they are accurate. Furthermore, as I see it, the only way that we can get rid of this constant loss is by installing a measured service charge on all small accounts, such as is being used by many banks in other cities; and while I have no access to the books of our neighbors, I am positive that a study such as I have made here would uncover the same condition with them. I wonder if we could get them to join us in correcting this condition, which is literally costing the three banks thousands of dollars every year."

"Let me keep this memorandum," said the president, "I want to talk this over with our board."

"Never in all my born days have I seen such perfect jackasses!" exclaimed President Smith a few days later as he was relating to Childress the details of his discussion with his board and with the other bank presidents. "Our board favored the idea instantly, but when we proposed it to our neighbors they hemmed and hawed and finally turned it down even though they admitted that it would save each of them at least $5,000 a year. I am confident that the only reason for their asinine objection is that *we proposed it*. I wish to goodness there could be some way to overcome this everlasting small-town distrust and jealousy."

And then came the miracle—only it was no miracle, for it came about in a perfectly normal, natural manner.

It happened that Emmetville was "baseball-minded", for the Emmetville Tigers won a majority of their games; in fact, they were hot contenders for the top place in the state league.

When Childress came to town he had devoted himself to the task of familiarizing himself with all the details of the bank's equipment, operation, and administration. This accomplished, he set out deliberately and systematically to become well acquainted with the bank's customers, concentrating at first on Edwin Richardson, who, as president of Emmetville's largest and most important manufacturing plant, was easily the outstanding citizen of the community. He was a successful business man, had made all his money in Emmetville, and, while not of the back-slapping, hail-fellow-well-met type, nevertheless was held in high esteem by his fellow townsmen. His factory carried accounts with all three banks, as well as with banks in the metropolitan centers.

Childress, who had held down first base on a "semi-pro" team in his late teens, learned that Mr. Richardson was a baseball fan, and so he decided to make his acquaintance by means of the informal freemasonry that prevails in the bleachers. One day Childress asked for an appointment at Mr. Richardson's office.

"I am glad to see you, Mr. Childress," was Mr. Richardson's greeting when the young man entered the manufacturer's sanctum. "What can I do for you?"

"You can do a lot," replied Childress, "only before I go into details may I ask that you hold in strict confidence what I am going to submit to you?"

"Certainly," agreed Mr. Richardson.

"Well," began the young assistant cashier, "here's the story: I take it you are familiar with the impassé that exists among our three banks, and of the consequent total lack of cooperation."

"Yes," responded Mr. Richardson, "and what a perfectly needless situation it is!"

"Since coming to the Merchants Bank," continued Childress, "I have given much thought to this situation, hoping that I might find a solution. You probably know that Mr. Smith has made several efforts to persuade the other two banks to join with him in effecting needed changes in what, after all, are minor details of bank operation. For example, on one occasion he suggested that the three banks change their hours to harmonize with those which are employed by practically all banks throughout the country, but he could get nowhere. Again, he proposed a plan whereby the banks could install a service charge on those accounts which are a positive expense, and thus annually save several thousand dollars. Likewise, the other banks now and then have made suggestions for mutual benefit, but with no results. I am convinced that the reason why these sensible and essential reforms have been abruptly turned down is the silly jealousy which exists among the three groups. Every suggestion which any of the banks makes is sat upon, so if we are ever to accomplish anything in the way of improved service, modernization of methods, economical short-cuts, benefits to our customers, reductions in overhead costs, increase in profits, and consequent strengthening of the soundness of our banks, some outside person must assume the rôle of 'proposer', and I should like to ask if you could take on such a responsibility. All the bankers in town have confidence in your judgment, and all of them will listen to you because of your position in the community. What do you say?"

NOON HOUR CHANGE

"YOU'VE handed me a rather large order," said Mr. Richardson, "but I can see the real possibilities in such a plan. If I can command the proper brand of strategy, I am willing to undertake the job, and perhaps some good for our banks and their customers and the town in general will result. You will have to coach me, however, for my knowledge of the details of bank operation is limited."

So Mr. Richardson became an altruistic diplomat, intent on performing a real service for the banks and the community.

Now in those good old days when

country towns had little need for pig stands, delicatessens, cafés or sandwich emporiums, it will be recalled that banks, as a rule, closed at noon and everybody went home for lunch. Thus for an hour right in the middle of the day, when it was most convenient for many customers to transact their banking business, the doors of all three Emmetville institutions were closed tight.

Mr. Richardson, on several occasions, had been mildly annoyed by the ancient custom which still prevailed in Emmetville, so he decided to inaugurate the "Childress Modernization Campaign" by seeing if he could persuade the three banks to get together and revise their hours. He discussed the plan with each of the bank presidents, and was surprised and delighted to find that each was enthusiastically for it. He invited them to meet in his office on a Thursday, and on the following Monday the local papers carried the announcement that "For the convenience of our customers and the general public the undersigned Emmetville banks will be open for the transaction of business from 9:00 A.M. until 4:00 P.M. daily except on Saturdays, when the hours will be from 8:30 A.M. until 12:00 Noon, and from 6:30 P.M. until 8:30 P.M. The banks will *not* be closed for the noon hour as heretofore."

Well, that was victory number one, and obviously it was successful solely because an outsider had made the suggestion which all the banks for a long time had wanted to adopt.

When a sufficient time had elapsed to justify another encounter with tradition, Childress suggested to the "liaison officer" that it might be well to start in on some of the expensive abuses which had been developed by years of stupid competition, and which were throttling the profits of all the banks.

"You see," said Childress, "banks in most of our cities are accomplishing these needed reforms by means of local clearinghouse associations, and the same thing is being done in the smaller towns and villages through regional groups which are formed by the banks in contiguous counties in the same trade area getting together and organizing what are known as regional clearinghouse associations. From my observation there is no good reason why the banks here should not form themselves into the 'Emmetville Clearinghouse Association'. They could then go right ahead in a systematic manner eliminating unprofitable services which constantly are eating into their reserves, and jointly putting into practice modern constructive programs which will mean better and more equitable banking for the customers, and a more conservative administration by the banks. I have a notion, Mr. Richardson, that if you can sit down with the boards of the three banks, and talk this over with them from your purely disinterested standpoint, you can readily convince them that the idea is a good one—only there must not be the slightest hint that the authorship of the plan rests with anyone but yourself."

"I can appreciate the logic and wisdom of such an organization," observed Mr. Richardson, "for there are similar regulatory and supervisory bodies in practically all lines of business—indeed the one in our own trade has proved invaluable.

So Childress and his pupil went to work preparing for the event.

"I feel that I am sufficiently fortified to go after this thing," said Mr. Richardson, after they had spent several evenings on the job, "and about next Wednesday I shall ask the members of the three boards to meet in my office, where I can make the proposition.

They met at the appointed time. Mr. Richardson explained that he wanted to confer with them in his capacity as a stockholder, for he owned a substantial block in each of the banks. Without going into too much detail he went right straight to the subject, and recommended the formation of a local clearinghouse, pointing out what most of them already knew, that many towns no larger than Emmetville had for years enjoyed the obvious advantages of such an organization, thus enabling the banks, without sacrificing their individuality, or their personality, or their private initiative in the least, to reduce overhead, cut out expensive and unprofitable practices, increase net profits, and provide a better and more satisfactory banking service to the entire community.

After a decent exhibition of conservative deliberation, various directors of the several institutions, one by one, began to express approval of Mr. Richardson's rather modernistic idea, and before the conference adjourned unanimous action was taken in favor of the proposal.

Within the month the three banks were working together with a harmony of purpose that was beautiful to behold, and before a year had passed they had effected more improvements in bank operation and administration than had been the case for three or four decades.

CLEARINGHOUSE ASSOCIATIONS IN THE UNITED STATES

As of March 25, 1935

	City	Regional	Total
Ala.	6	12	18
Ariz.	2	2	4
Ark.	4	11	15
Cal.	24	33	57
Col.	4	8	12
Conn.	9	2	11
Del.	1	–	1
D. C.	1	–	1
Fla.	5	10	15
Ga.	13	9	22
Idaho	1	–	1
Ill.	15	1	16
Ind.	11	8	19
Iowa	6	–	6
Kansas	15	1	16
Ky.	3	1	4
La.	3	6	9
Maine	4	3	7
Md.	4	–	4
Mass.	9	12	21
Mich.	8	3	11
Minn.	14	5	19
Miss.	5	10	15
Mo.	12	1	13
Mont.	4	–	4
Neb.	5	3	8
Nev	–	–	–
N. H.	3	4	7
N. J.	9	2	11
N. M.	–	6	6
N. Y.	13	23	36
N. C.	8	2	10
N. D.	4	–	4
Ohio	16	5	21
Okla.	6	16	22
Ore.	2	1	3
Pa.	31	5	36
R. I.	1	–	1
S. C.	4	–	4
S. D.	4	8	12
Tenn.	4	1	5
Texas	19	7	26
Utah	2	5	7
Vt.	–	1	1
Va.	10	8	18
Wash.	5	–	5
W. Va.	6	4	10
Wis.	12	1	13
Wyo.	3	3	6
TOTAL	350	243	593

The Capitalistic Masses

By ALLAN HERRICK

Advertising Manager, Security-First National Bank of Los Angeles

THE average person *wants* to save. He also has a great many other wants, as many as 90 per cent of which spring from unconscious promptings. Psychologists say that we act, not as the result of careful reasoning, but because of some elemental urge. Amid the strange surroundings of our modern civilization, our primitive instincts still control us.

Why do we like to watch a fire glowing on the hearth? Because for thousands of years man lived before an open fire. Centuries later the glow of the embers still stirs something within him. It is in his blood. Why do we take up golf? We tell others that the doctor ordered it. The psychoanalysts call such an excuse a "rationalization". They say we take up golf because we like to be considered among the successful group that has time for it. Why do we save? Few of us know. The reasons we give are not the right ones. We like to say we do it unselfishly to protect our wives and children. The psychologists tell us it is more likely to be for selfish reasons of our own—we like the sense of power that money gives us.

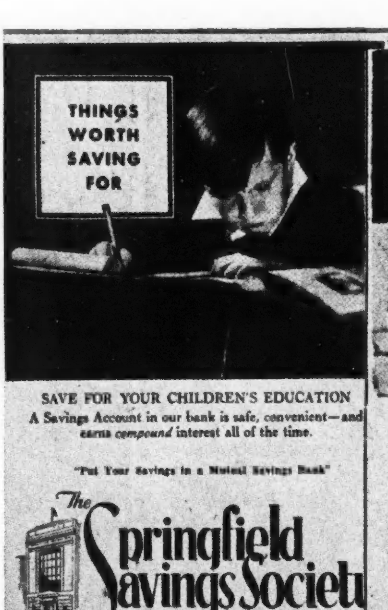
A great human propensity, loosely described as the instinct of accumulation, is responsible for much of our saving. Man, say the psychologists, did not need to be taught to seek shelter, to fly from danger, to enjoy leadership, to hunt, to find pleasure in craftsmanship, to found a home. These qualities were part of his original nature, his unlearned equipment with which he was endowed in his struggle for existence. Included in this great galaxy of instinctive capacities and interests is his accumulative bent, his desire to gather objects of value together, to collect a fund. In a very real sense, man cannot help saving. He adds to his account in the bank because of a satisfying glow it gives him to see the figures mounting in his passbook. His ancestors, some thousands of years removed, found similar satisfaction in viewing an increase in their flocks and herds, or supplies of fish drying on the beach.

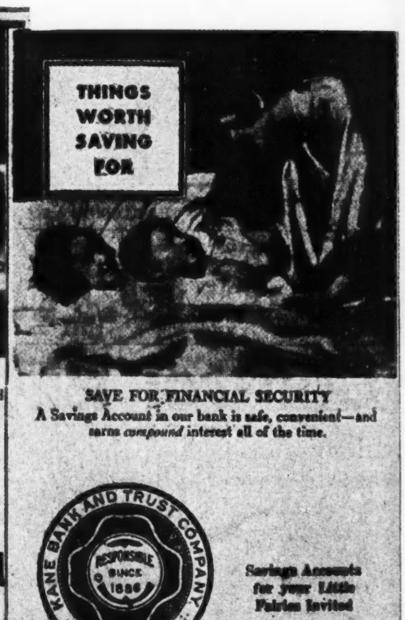
Next in importance among the factors that lead to thrift is our human desire to appear well among our fellows. Ambition, the urge to "step out from the crowd," to lift one's self to higher levels of attainment, to achieve a distinct and important personality and win recognition from the world—these lead millions to save. Many a writer, inventor and future captain of industry saved in his youth because slow and steady accumulation alone afforded an avenue of approach to his coveted goal.

The man with an inferiority complex makes a good saver. The feeling that he is not part of the group, that others ignore his talents, spurs him on to strive for the distinction that wealth affords. He finds satisfaction in the thought that while he may not be the social equal of his neighbors, at least he has money enough to buy them out.

At school the quiet, humble, retiring lad is most often the saver. The handsome, popular, brilliant boy feels no urge to thrift. Often middle age overtakes him before he realizes that lads he did not recognize at school have passed him in the race for business success. The underprivileged lad saves desperately for money to take him to college. Not studiousness, but the hope of attaining equality with those above him, leads him on. The physically handicapped turn to thrift and find in financial strength a measure of recompense for their misfortune.

The cave, the castle, the thatched hut and the tiny apartment in the modern skyscraper are but the outward sign of an instinct that has remained unchanged for centuries—home-making.





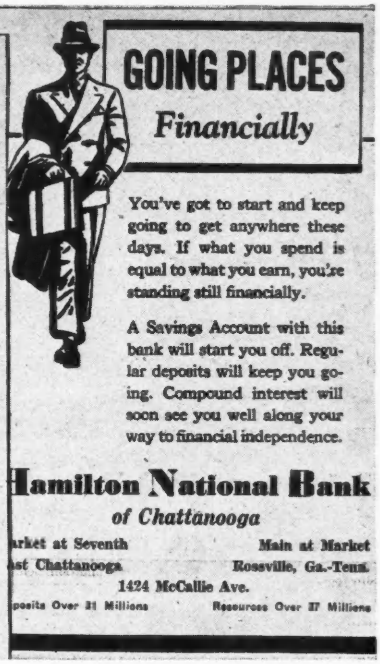
Russia is said to have experimented with a home-less society. Rousseau sent his children to a foundling institution and declared that they would fare better in hands other than those of their parent. But in spite of such experiments home-making continues to prevail. Around the family circle arises a multitude of wants and desires that require thrift in their satisfaction. The education of the children, their health, their future and their protection against financial need are almost universal objects of thrift. Instalment buying has not removed the need for saving in the home. The addition of a new rug, whether purchased on instalments or not, usually requires saving in advance. If the home is actually purchased, into it go the savings of months and years, perhaps of a lifetime; its equipment and furnishing require careful financial planning over a long period.

To the elderly couple, looking forward to years without earning capacity, the interest rate is important. To the corporation treasurer, who would put his funds in Timbuctoo to earn 1/16 per cent more, it is also important. But, to large numbers of depositors, interest is distinctly of secondary consideration. The classical economists, who were prone to look upon interest as the sole incentive for saving, would be surprised to see Christmas clubs operating without payment of interest to members. They would be startled to see savings deposits increase while rates decline, in direct defiance of economic "laws".

The facts are that much saving is based on instinctive desires other than the profit motive. Millions of depositors are "convenience" savers. They want a fund of money for travel, vacation, home improvement, marriage, education, blessed-events and what-not. If interest can be added, fine. But they do not cease wanting things, or saving for them, merely because the interest rate declines.

Although man, in both savage and civilized form, is inclined to be lighthearted and reckless in temperament, he was not created entirely without an instinct for forehandedness. The South Sea islander stores his food in anticipation of a bad season. The American puts a little something in a savings account "for a rainy day." Both act in response to a stimulus that is emotional and instinctive and as old as the race.

Unhappily, "saving for a rainy day" is tremendously difficult. Other objects of thrift can be attained within a few months or years, and are definite and tangible. "Rainy days" are uncertain and distant, and as an objective are negative in character. As a result, far less rainy-day saving is done than most people imagine. Such saving is more conspicuous by the need for it, and political discussion of its social implications, than by its practice. The social reformer who views the savings bank of today solely as an expression of the desire of the millions to protect their old age, or to provide for emergencies, is greatly mistaken. Other objectives of thrift have a stronger appeal, and saving to attain them is more widely practiced. The ability to save is greatest during the period of heavy earnings in middle life, when a home, education for the children and business advancement have first place in human aspirations. During this period millions of people avoid saving for emergencies in the hope that by some good fortune it may not be necessary.



Education of children, financial security, home-making, business advancement — the advertisements on these pages illustrate but a few of the motives for thrift

Fear is not the great incentive to thrift it is commonly believed to be. Fear is a powerful emotion, and the reaction to it is equally violent. Unhappily, however, the reaction to fear is worry, anxiety, nervousness, loss of sleep and, in extreme cases, flight and insanity, not thrift. "Fear never gave stable perspective in the life of anyone," says John Dewey, and life offers few examples of worthwhile constructive action as a result of it.

A moment's thought will show that thrift is born, not of fear, but of its opposite, courage. The resolute determination to face life and prepare to meet whatever financial dangers it offers, represents one of the highest attainments of the human spirit.

A review of the many factors that lead to thrift shows how closely it is interwoven in the pattern for behavior that distinguishes the human family. In the light of this relationship, how difficult, if not impossible, the task of uprooting the savings habit becomes. We do not save because of what economist A teaches today or professor B denounces tomorrow. We save because it is our nature to do so. Just as we have a leaning toward gregariousness and enjoy the society of our kind, so we have a bent toward saving. The practice of thrift is not universal, but it has found expression in many periods of the world's development, and in many a changing environment. That we will alter our conduct over night, abandoning habits, customs, aspirations and objectives as old as the race seems most unlikely. The development of man into an animal devoid of an instinct of thrift is not a task to be accomplished in a few generations.

Inter-Branch Interest

BY HOWARD WHIPPLE

Vice-president, Bank of America, N. T. & S. A., San Francisco

IN branch banking the problems of reserve maintenance and management of investible funds are peculiarly intertwined. A large branch system does not find reserve maintenance much of a problem in ordinary times. In no small number of localities and occupations the employment of funds by their individual owners is not active. This inactivity results in the piling up at branch headquarters of sums adequate for reserve maintenance. The wider and more diversely based economically the branch system, the more certainly and easily are reserves attained.

But in case this natural ease of reserve acquirement does not exist, what then? The branch system—just as a unit bank in similar position—may indicate to its branches the desirability of avoiding loan applications, or, more drastically, permit them to lend but a definite percentage of their deposits. The necessity for this latter practice occurs so rarely, however, that it may be treated as a theoretical possibility only and be hereafter disregarded in this discussion. At any rate, when it does occur, it is in the nature of an arbitrary command to the branches.

A more subtle and gentler way of attracting or acquiring head office reserves may be found in the practice of paying interest on branch surplus funds. This motive, while a powerful influence in the field of moral suasion, does not reflect the most fundamental reason of all for the payment of interest on head office balances, which is to return to the branches their proportionate share of the income derived from bond and security investment.

The need for manipulation of rates paid as an instrument of head office policy resolves itself very evidently into the question of the state of the money market. When times are difficult, reserves unduly low, demand for credit strong, deposits on a descending scale—in other words, when money is tight—it becomes head office's duty to take steps to replenish reserves. This it may do by erecting the automatic attraction of high rates on head office balances. Conversely, it may lower its rates when money is easy, in order to induce lending at the branches. To these attractions may be added the additional control of loan supervision, already referred to. It should be pointed out, however, that this latter remedy is more effective on the negative than on the positive side. Loans may be contracted —and reserves increased—more easily by denial of credit than they may be expanded by its proffer. Bankers are rarely able to induce patrons to borrow; and, when they are so able, they do not always get the pick of risks or enjoy the promise of favorable outcome. Such is the nature of bank lending, as some amateurs in the profession have recently learned.

DESIRABLE PRACTICE

BEFORE discussing the rate which would seem to satisfy most of the demands in the problem, we may point out that for other reasons the payment of interest on head office balances is desirable. In branch banking, deposits may be garnered in some points of accumulation and loaned out in others of more active demand. It would be wrong to assign all the earnings of a heavily overloaned branch to it and fail to charge it for the sums it had borrowed from associate offices. Should that occur there would be no incentive to the originating branches to gather deposits. This reason applies no matter in which direction head office employs its accumulated idle funds, whether in advances to branches where demand for funds is active or in the purchase of secondary and tertiary reserves.

A further consequence of the payment of high rates is that they frequently tend to deceive head office administration in its estimate of the earning power of a branch. Were computations made at a lower rate, say a rate which reflected accurately the actual earning position of the whole bank, the branch might be shown to be operating at a real loss instead of at the gain falsely indicated by the higher rate. Conversely, a too low rate would be deceptive in that it would indicate unfairly that the branch was losing money and therefore required special investigation as to whether or not it should be closed or otherwise drastically treated.

The greatest danger of a low rate is that it tends to force all branches into dangerous lending channels. Losses, often of greatly delayed realization, and interference with normal earning levels are almost certain to result. Similarly, the payment of high rates forces an undue proportion of funds into head office where, representing, in a sense, secondary deposits or redeposits, they must necessarily be employed more as reserves than as sinews for investment. When this situation occurs in any important degree, lower earnings again result, for such funds must be employed in large blocks as a rule, in the general or open money market and for short periods of time—in all of which circumstances lower rates usually prevail. Of the two sources of reduction in earning power, i.e., loan losses or low market rates of interest, it is axiomatic that the latter is the less undesirable because in the long run it is less damaging to profit account and reputation—and, of the two, the latter is the more important. In any event, large investment operations at head office should never be allowed to prevent the satisfaction of normal and legitimate demand for credit at the branches, for it would not do to starve the goose that lays the golden egg. The branches, and not head office, are the bank.

Since each branch office is but one part of a whole, it is easy to see that any rate allowed by head office is but an arbitrary one. It does not matter, as far as actual expense or eventual net profit go, what rate is paid. It makes no final difference whether it is 1, 5, 10 or 50 per cent. It is all a matter of bookkeeping, the charging of interest paid to head office administration and crediting the branch with a similar sum. It all washes out through a reversal of the process when books are closed and total earning balances of all branches together are struck.

THE RATE POINT

NEVERTHELESS, the point at which the rate is fixed is an exceedingly important one. As we have seen, it may be manipulated as an instrument of head office policy. It may also be fixed at a stable and unchanging level. It may fluctuate periodically with the rise and fall of the money market, or, to put it more accurately perhaps, with the actual earning record of the bank. Payment of a fixed and more or less unchanging rate has the attraction of being an easy way of measuring the comparative rate of earnings of the branches from year to year. Conversely, frequent changes in the rate prevent such comparisons. In addition they involve more labor and expense than that attached to an unchanging rate.

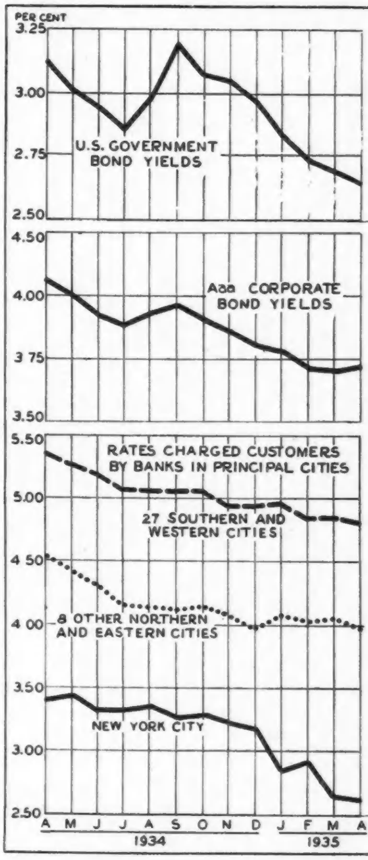
Should the rate chosen fluctuate with the level of actual earnings, a more accurate picture would be reflected at all times. Naturally it would involve frequent changes, and perhaps somewhat laborious accounting. Such a fluctuating rate may be based on the preceding 12 months' average, with adjustments month by month at the end of each progressive 12 months' period; or, while calculations may be made monthly, changes may not be necessary more often than quarterly or semi-annually, for market rates, since the establishment of the Federal Reserve System, do not fluctuate as violently as they did prior to its establishment.

The average rate has the disadvantage, however, of containing the element of bias, just as any other "planned" rate would have. This occurs through the fact that the average rate is higher than the investment rate and therefore represents a material deviation from the fundamental that the payment of interest is for the purpose of returning to the branches their proportionate share of bond and security income earned on their balances at head office. If we assume, for example, that the average rate on all earning assets is 5 per cent and on investments 2 per cent, the tendency under this variance would be to foster the accumulation of reserves at head office, for the reason that the average rate varies from the branch loan rate of 6 per cent by the narrow margin of 1 per cent, a margin so narrow that there would be no inducement to undergo the labor or risk of lending. Furthermore, if accuracy in cost accounting is to be attained the branch earning position would be reflected only by charging back to the branch the overpayment by head office, i.e., the difference between the 5 per cent paid and the 2 per cent earned, or 3 per cent. But if this were done the effect would only be the retracting of steps—to the bother of all and confusion of nobody—nor would bias be eliminated.

What rate then should be adopted? Opinions may well differ on this point. If a fixed and unchanging rate of interest is selected, it should be as closely intermediate over a considerable period of time as it is possible to calculate. It should never approach extremes in either direction—the lower levels of the general investment market rate or the higher levels found at the average branch. It should be established somewhere between the two. It should be less than the bank average rate in that that is prone to be too high, because of the infrequency of customer loan rate fluctuation in the branches.

It is for the above reasons that at this time 4 per cent would seem to be a fair and endurable rate of interest. It has the advantages of being reasonably "middle-of-the-road", fairly free from bias and, if unmolested, entirely free from manipulation. It would apply, of course, to those idle funds which derive from individual depositors only. Where public funds are valued and constitute any material part of a branch's surplus funds, a considerably lower rate, say 2 per cent or preferably less, should be allowed. Public funds are very often of doubtful value in a profit sense, do not possess a very satisfactory degree of permanence or stability, may be obtained by well-nigh any bank capable of lodging the required collateral and, accordingly, do not reflect skill or business-attracting ability on the part of bank operatives. They are, therefore, of lesser value as an instrument of gauging a branch's potential or real earning power.

The discussion so far has covered the subject of the payment of interest on head office (CONTINUED ON PAGE 62)



CURRENT MONEY RATES

The top chart shows U. S. Treasury bond yields; the second chart, yields on Aaa corporate issues; and the third, rates charged customers by banks in principal cities. All data is from the May 1935 *Federal Reserve Bulletin*. Mr. Whipple says:

"What rate then should be adopted? Opinions may well differ on this point. If a fixed and unchanging rate of interest is selected, it should be as closely intermediate over a considerable period of time as it is possible to calculate. It should never approach extremes in either direction—the lower levels of the general investment market rate or the higher levels found at the average branch. It should be established somewhere between the two. It should be less than the bank average rate in that that is prone to be too high, because of the infrequency of customer loan rate fluctuation in the branches.

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The Uses of Fair

County—BY RICHARD S. CRIDER

Simplicity of organization has been found to contribute greatly to the success of a regional clearinghouse association, according to Mr. Crider, secretary of the Westchester County Clearing House Association, White Plains, New York. He summarizes here the experience of the first three years of his association

A CREDIT bureau was established as part of the Westchester County Clearing House Association some time ago. Each bank sends to this office a list of all borrowers and endorsers of loans of $500 or more, although the amounts of the loans are not reported. When the original list had been made up, approximately 400 duplicate borrowers were disclosed. At the present time there are some ten thousand names on file.

These are checked daily with a copy of the court records of the county, which show judgments, lis pendens, mechanics' liens, bankruptcy proceedings, building loans, mortgages, releases of mortgages, assignments of mortgages, deeds, referee's deeds, conditional bills of sale affecting real estate and leases recorded. Any name in our credit file that appears in the record is immediately reported to the interested members only, with the necessary information in detail.

This credit bureau has proved a great service, and it is hoped that within a short time its scope will be enlarged. At the present time, since the original lists have been received, weekly reports are made by the members, which give the names on all loans of $500 or more made that week, and also the names on all loans paid in full during the same period. As each name is received at the clearinghouse office, a card is made out upon which the following information is given: name and address of individual, name of bank at which the loan was made, whether the loan was secured or unsecured and whether the person is a borrower, endorser or maker. It did not require any undue amount of work to set up the bureau originally; in fact no additional help was employed, the only cost being for printing, which amounted to approximately $15. It called for some work on the part of the member banks to compile their original list, but since then it has been a very simple task to send in the weekly reports. All members are privileged to ask the bureau for information pertaining to any of its prospective borrowers, i.e., whether any names in which they are interested appear at any other institution, etc.

The earliest activity of the association was the clearance of checks between member banks, which commenced on December 12, 1932, and still continues. It is a partial basis for distributing the cost of operating the clearinghouse. During 1934, total clearings amounted to $104,945,459.30, as compared with $84,229,065.67 the previous year. Although some of the messengers cover as many as 15 miles each morning to reach the central office, there has never been any delay in transmitting the balances to the Federal Reserve Bank of New York.

The exchange of communications between member banks as well as messenger service to the Federal Reserve bank is handled through the clearinghouse.

Quarterly statements of financial condition are submitted to the office in White Plains by member banks, and statements of comparative figures are prepared by the manager and distributed to the various members without disclosing the identity of the individual bank. The association has no examining system but the matter is under discussion.

Questionnaires are prepared periodically, usually (CONTINUED ON PAGE 64)

WESTCHESTER COUNTY CLEARING HOUSE ASSOCIATION

CREDIT INFORMATION

Week Ending..........193....

Name of Bank ....No..........

NEW BORROWERS

NAME OF BORROWER	ADDRESS	NATURE OF BUSINESS	OTHER NAMES	SECURED OR UNSECURED

INSTRUCTIONS:

1. Report all new Borrowers of $500.00 or over (Add unsecured and secured or total line of borrower to determine if $500.00)
2. Report unsecured and secured on separate lines.
3. Supplement "Other Names" by "E" if Endorser, or "M" if Maker.
4. Address as City or Town will be sufficient—abbreviate.
5. Abbreviate unsecured as "U" or Secured as "S"

WESTCHESTER COUNTY CLEARING HOUSE ASSOCIATION

CREDIT INFORMATION

Week Ending..........193....

Name of Bank ....No..........

LOANS PAID

NAME OF BORROWER	ADDRESS	NATURE OF BUSINESS	OTHER NAMES	SECURED OR UNSECURED

Two credit bureau forms used by the Westchester association. In the case of loans paid, only those paid in full are reported to the clearinghouse

Competition Among Banks

State—BY DAVID M. AUCH

Mr. Auch is Secretary of the Ohio Bankers Association

EVER since the measured service charge and account analysis system have become an accepted part of modern banking procedure, special but equitable treatment of larger and more active accounts has offered a problem.

At some time during the consideration or installation of such a system there arises the question of reduced charges for the account whose debit activity seems high enough to warrant some sort of a "wholesale" rate.

Sometimes this question is raised by the banker; on other occasions it is the depositor who makes the issue when adoption of the system is discussed with him. In either event it must be met and, if concessions are to be made, it is generally agreed that they should be on a sound and equitable basis.

Probably the most common procedure in attempts to handle the situation of the large and active account is the adoption of a sliding or graduated scale of item charges. This ordinarily consists of charging, say, 5 cents per item for the first 50 items debited during a given month, 4 cents each for the next 50 items, and so on.

Numerous banks have had such a system in effect for some time past and in most cases their officers profess to be satisfied as to its soundness and the results obtained in its application. However, there are others who believe that such a graduated scale cannot be justified from the accounting standpoint.

It is argued, by those opposing the theory of graduated scales of item charges, that, while quantity handling of debit items does bring some degree of reduced costs, it is very questionable whether the reduction actually exists to the extent recognized in the sliding scale schedules. It is held that, up to the time of sorting in preparation for posting, all debit items have incurred the usual types of expense, regardless of how many of them may be debited against a single account. It is true that in the so-called "quantity operation" all items are posted as one item. But this reduces the expense of only that particular operation and the cost of filing and returning the checks to the depositor with his statement. All other costs of handling remain practically the same.

Among those of the belief that graduated scales of charges cannot be fully justified is Harry W. Proctor, cost analysis counsel for the Ohio Bankers Association. Analysis of the costs of a number of Ohio banks has convinced him that expense does not decrease proportionately with the increase in number of items debited to one account. Mr. Proctor so advised the bank management committee of the Ohio association during its consideration of a system of measured charges and account analysis to be suggested to Ohio banks. The committee, however, recognized the popular demand among banks for some concession to be made to larger and more active accounts and requested that he submit recommendations for a reduced rate which would be warranted on the basis of actual costs.

The result was adoption by the committee of a course of procedure which it believes to be thoroughly justified and easily explained and understood. It is based on the theory that, if the bank is to make concessions in the charges assessed, the customer must make concessions in the service received. Otherwise the reductions desired by the customer are doubtful as to justification.

Under the Ohio plan, which is in effect in a number of banks, the depositor desiring a reduced rate on payroll checks or orders, or other items issued in volume, is required to sign an agreement relieving the bank from furnishing the bank checks or other instruments, waiving legal stop-payment, releasing the bank from responsibility for signatures, endorsements, forgeries or other irregularities in such items, specifying that such items shall not be charged against the drawer's (CONTINUED ON PAGE 64)

THE OHIO FORM OF AGREEMENT

Gentlemen:

Beginning .... 193.., and until further notice, we propose to issue ....
drawn on ....
but you shall not have authority to charge our account, as we propose to take up any such .... as herein outlined.

We request that you accept and hold any of our .... which you may receive in the regular course of business, and we agree to take up these .... by delivery to you of our check, drawn on yourselves, for the aggregate amount thereof, and in this respect we agree to make settlement with you on account of such .... at .... o'clock each day except ...., and on .... at .... o'clock .. M.

In consideration of your accepting and holding our .... and in further consideration of the reduction in analysis rate from ....¢ to ....¢ per item, we agree to and accept the following:

1. We will furnish the instruments ourselves, without cost to or allowance from you.
2. We waive our right to enter stop payment orders on any and all such items.
3. You shall not be held responsible for signatures, endorsements, forgeries, or other irregularities, in any such items.
4. These items shall not be charged against our account, nor shall you furnish any statement form, other than a plain adding machine listing tape daily.
5. We agree to take up all such items accumulated by you at the time and in the manner as above outlined.

If the Treasury Department should at any time decide that all, or any part, of above described .... are taxable, we agree to pay you the amount thus claimed, and this instrument is your authority to debit our account for the amount.

This arrangement is made subject to any change which may later be made necessary by regulation of the .... Clearinghouse Association or the Federal Reserve Bank.

We further agree that this arrangement which we have requested, may be modified, changed, or terminated by you at any time upon ten days' written notice.

Very truly yours,

....

In the United States there are nine cities in seven states where foreign banks have one or more of the various types of offices

Foreign Banks In the United States

MUCH has been written upon the theory and practice of international trade and its financing, the theory and operations of foreign exchange and the instruments of international banking. But no serious attempt has been made to analyze the international banking structure itself, although such a study would present a most desirable background for, or introduction to, the consideration of the subjects mentioned.

The present international banking structure has been built up mainly since the middle, and especially the last quarter, of the nineteenth century through the creation and development of foreign departments by the great banks of the leading nations and through the establishment of offices abroad by these banks.

Interesting data are obtained from an analysis of that aspect of the structure which is represented by the offices in the United States operated by foreign banks. As a result of the expansion into the United States on the part of foreign, incorporated commercial banks, there are in 1935 some 79 offices at nine cities in seven of our states belonging to such institutions. The 79 offices are maintained by 41 foreign banking establishments

By

CLYDE WILLIAM PHELPS

Head of the department of economics at the University of Chattanooga. The data in this article are taken from a nationwide survey which Dr. Phelps has recently completed

whose head offices are located in 14 different countries. These offices are engaged either in a commercial banking business or in directly facilitating such business for their parent banks. The following summary concerns general commercial banking subsidiaries only.

Foreign banks own 13 subsidiaries (state banks and trust companies) with 12 branches, a total of 25 commercial banking offices of this type, in the United States. About one-half of the subsidiaries and almost two-thirds of the total offices represented are found in the city of New York. The six New York subsidiaries with their 10 branches include: two trust companies belonging to British institutions; three trust companies of Italian banks; one trust company owned by a Greek bank. All 10 of the branches are owned by the three Italian trust

TYPES OF OFFICES OF FOREIGN BANKS IN THE UNITED STATES

THE author divides the 79 foreign banking offices in this country into five general groups:

GENERAL COMMERCIAL BANKING SUBSIDIARIES. These are state banks and trust companies owned or controlled by foreign institutions. There are 13 such state banks and trust companies in this country, and they maintain 12 branches, a total of 25 offices in this group.

DIRECT BRANCHES. These are branch banks in America directly controlled from head offices abroad. There are 7 direct branches.

RESTRICTED SUBSIDIARIES. These offices, 2 in number, are acceptance corporations organized under the laws of New York State but controlled by foreign interests.

AGENCIES. These are American offices of foreign banks that are prohibited by our laws from accepting deposits here but are allowed to transact an international banking business. Agencies in this country total 33.

NON-BANKING REPRESENTATIVES. This type of office does neither a general nor a restricted banking business but merely represents the interests in this country of its foreign parent bank. There are 12 representatives.

There are, then, in this country 25 general commercial banking subsidiaries (13 main offices and their 12 branches), 7 direct branches, 2 restricted subsidiaries, 33 agencies, and 12 representatives, making the total of 79 offices owned or controlled by foreign banks in this country.

It is with the general commercial banking subsidiaries alone that Dr. Phelps deals in this article.

companies, which thus possess 13 of the total of 16 general commercial banking offices operated in the city of New York by all foreign banks.

In the operation of foreign subsidiaries in New York, the Italian banks are far in the lead not only in regard to number of offices possessed but also with respect to the importance of the offices as measured in terms of dollar volume. The Italian trust companies account for 65 per cent of the aggregate capital, 64 per cent of the combined deposits, and 64 per cent of the total resources reported by all foreign trust companies in New York as of December 30, 1933. The most important institution is the Banca Commerciale Italiana Trust Company with capital, deposits and total assets equal to almost three-tenths of the aggregate totals for these items reported by all foreign subsidiaries in New York.

In addition to the New York institutions discussed, there are two other foreign subsidiaries in the eastern states: the Banca Commerciale Italiana Trust Company, Philadelphia (which has one branch in the same city), and the Banca Commerciale Italiana Trust Company of Boston. In the interior of the country there is but one foreign subsidiary, the Banco di Napoli Trust Company, Chicago.

Contrasted to the eight foreign trust companies with 11 branches in the three eastern states, there are only four foreign subsidiaries, with one branch, in the Pacific Coast states. One of these, the Sumitomo Bank of Seattle, is in Washington, and the other three are in California.

The two state banks owned by Canadian institutions are located in San Francisco, and one of these banks, the Canadian Bank of Commerce (California), has a branch at Los Angeles. The Japanese owned bank is in Sacramento. The capital, deposits and total resources of foreign subsidiary banks in the state of California are mainly those of the Canadian Bank of Commerce (California), which reported more deposits and greater total assets than any other foreign bank or trust company in this country on December 30, 1933. This Canadian owned bank ranks tenth in amount of total resources among the 157 state banks of California. The Bank of Montreal's establishment stands twenty-second on this list.

The six foreign trust companies in New York City, with their combined capital of $10,804,000, deposits of $36,628,000 and total resources of $49,654,000, account for slightly more than three-fifths of the aggregate capital, the entire deposits and the total assets reported as of December 30, 1933, by all the state banks and trust companies in this country belonging to foreign banks.

In number and importance of foreign subsidiaries California ranks second to New York, yet it reports more capital, three times as much deposits and twice as much total assets in comparison with the combined figures for the four other states outside of New York. There are half as many foreign subsidiaries in California as in New York and one-fourth as many total offices of this kind of establishment, while the California institutions report three-tenths as much capital, deposits 47 per cent as high and total assets 42 per cent as great as the New York trust companies.

In the four states which have one foreign subsidiary each (Pennsylvania, Massachusetts, Washington and Illinois) differences appear in regard to capital, the subsidiaries of the first two having much larger capital funds than the others, but there are no great variations as to deposits, which stand around one and one-half million dollars, while the total assets run from about two to less than three and one-half million dollars.

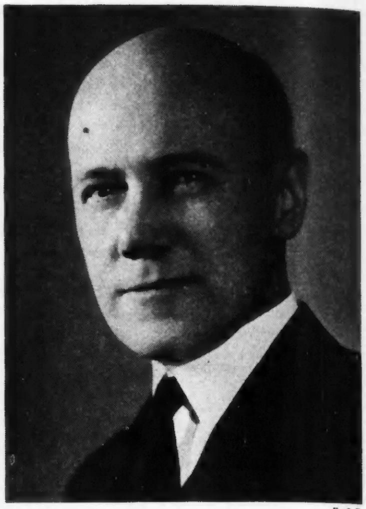
Distribution of the number of offices, the capital account, the total deposits and the total assets of all general commercial banking subsidiaries in the United States belonging to foreign banks, by nationality of parent bank, as of December 30, 1933

Nationality	Number			Capital Account	Deposits	Total Assets
	Head Offices	Branches	Total			
British	2		2	$ 3,016,000	$10,602,000	$14,407,000
Canadian	2	1	3	3,127,000	16,538,000	19,732,000
Greek	1		1	727,000	2,664,000	3,444,000
Italian	6	11	17	9,999,000	27,699,000	40,055,000
Japanese	2		2	499,000	2,278,000	3,029,000
Total	13	12	25	$17,368,000	$59,781,000	$80,667,000

The Month

WIDE WORLD

RELIEF—Care of employables will be in Federal hands under the $4,000,000,000 set-up. States will have responsibility for unemployables—a direct relief problem. Above, Illinois' Governor Horner talking relief with Administrator Hopkins



U. & U.

THIRD EFFORT—James L. O'Neill, above, is acting administrator of the skeletonized N.R.A. He is on leave from the Guaranty Trust Company, New York, where he is vice-president in charge of operations. Below, Mr. Richberg, retiring N.R.A. head

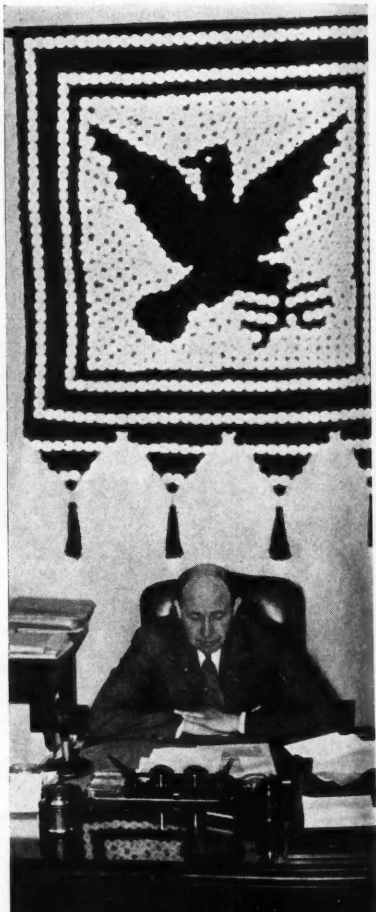
WIDE WORLD

PACIFIC—Admiral Reeves, on his return from solving Fleet Problem XVI, told reporters of the success of the mimic warfare in the Pacific "triangle"

ADVANCE ON A BROAD FRONT—The International Chamber of Commerce met in Paris from June 24 to 29. Below, a part of the announcement

A WORLD BUSINESS MEETING

For five years business all over the world has suffered from unparalleled depression. In spite of some signs of natural recovery here and there, conditions continue unsatisfactory. Confidence is lacking, monetary instability prevails, debts remain unpaid, taxation increases, and international trade is held



WIDE WORLD

The Condition of BUSINESS

THE unanimous decision of the United States Supreme Court on May 27 invalidating the code system in the National Recovery Act provided the first real nationwide test of whether business has recovered sufficient vigor to carry on without the use of crutches.

So far as the price-fixing provisions of the codes are concerned, few persons, probably, will regret their passing. The subject of the most widespread debate—a subject on which there is admittedly much difference of opinion—is whether the removal of the "floor" which the N.R.A. placed under the wage structure will invite a resumption of the competitive wage cutting that contributed so greatly to the spiral of deflation during 1931 and 1932.

WAGE CUTS Many feel that this will prove to be the case, pointing out that no matter how greatly the majority of business men are opposed to wage "chiseling", a resumption of the practice may easily be forced upon them if even a small minority of less scrupulous and less social minded persons resort to it.

Whatever business men may have thought of the original N.R.A., there is little doubt as to where they stand on the Supreme Court. The Supreme Court is much like the gold standard, in the minds of the conservative element of the country. It may work hardships from time to time, and may seem frequently to be a cumbersome and outmoded instrument, but the fact is that people have faith in it, and regard it as a bulwark against innumerable real and imagined dangers. The recent decision could not help, therefore, but be reassuring as evidence that the Court had no intention of standing by and seeing the country drift into socialism, fascism, or any other system of centralized government alien to the American tradition of federalism.

So far as the danger of the under-cutting of wages is concerned, it seems fair to say that, while it cannot be dismissed as imaginary, it has been considerably exaggerated. The danger is roughly comparable with the danger of bear operations in the stock market. There was a time when bear operations in stocks were a genuine social menace. That was in 1932, when the country was in a panicky mood and when there seemed to be no end of liquidation and price declines in sight. Taking action to halt bear operations at that stage might quite conceivably have been justified, because obviously bear operators were taking advantage of a demoralized public state of mind.

PRICES, PROFITS But to admit that there are times when bear operations are unsocial is one thing; to argue that bear markets are made by bears is another. And the same generalization holds true in respect to price and wage cutting. There are several differences between the present situation and that prevailing two or three years ago which, taken in the aggregate, tend to minimize dangers from this source. In the first place, there is no longer the wide disparity between prices and profits that there was at the bottom of the depression. Industry is in a much better position today to support the code scales. Second, there is a better balance among prices and among price groups than there was two years ago. Prices are substantially higher, not merely in this country, but throughout the world. In the fourth place, labor is in a better position to resist wage cuts. This is due to several considerations. One is that public opinion, thanks to the educational influence of the N.R.A., has been definitely mobilized against such practices. Another is that labor is better organized than it was prior to the enactment of the Recovery Act. A third is that in spite of the large number of unemployed, the worker is not so completely at the mercy of the employer as he once was. He now has the alternative of accepting "relief"—as the British worker does the dole—if he cannot obtain a decent wage, and this cannot but serve to place a cushion under the wage structure.

THERE is abundant evidence that banks are in an unusually favorable position to finance a period of industrial growth. Any analysis of the weekly condition statement of reporting Federal Reserve Member banks in 90 cities reveals the present strength of the banking system, particularly if the individual earning assets are shown as percentages of total loans and investments.

BANKING STRENGTH Using a recent statement as an example, it is found that 39 per cent of these assets for all reporting banks was in United States Government securities. Banks in the Cleveland district had the largest proportion of their assets thus invested, 49.6 per cent. Chicago was second, with 46.9 per cent, followed by Kansas City, 42.1 per cent; Minneapolis, 40.6 per cent; New York, 40.1 per cent; Dallas, 39.1 per cent; St. Louis, 38.9 per cent; Richmond, 35.6 per cent; San Francisco, 33.2 per cent; Boston, 31.7 per cent; Philadelphia, 26.8 per cent; and Atlanta, 25.8 per cent.

In addition, 3.8 per cent of the earning assets of all reporting banks was in securities guaranteed by the United States. In this category the Dallas district stood first with

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"We all hope there is going to be a very definite and distinct pick-up all over the United States. We are working slowly but very surely toward the elimination of the major unemployment problem we have had during these past few years. Of course, we always will have a certain number of unemployed with us, but nothing like the present scale, we hope. And this year, I believe, is going to be the beginning of the picking up of the greater part of this unemployment slack from which we have been suffering."—From President Roosevelt's informal talk to the State Works Progress Administrators on June 17.

U. & U.

NEW HIGH GROUND

Charles R. Gay (right), president of the New York Stock Exchange, recently had his first conference with the Securities Exchange Commission in Washington. At the left is Joseph P. Kennedy, the commission chairman. In June the stock market moved to new highs for the year

8.9 per cent. The others ranged as follows: Richmond, 6.4 per cent; Philadelphia and St. Louis, 5.5 per cent each; Atlanta, 5.4 per cent; Chicago and Kansas City, 4.8 per cent each; San Francisco, 4.1 per cent; New York, 3.3 per cent; Minneapolis, 2.9 per cent; Cleveland, 2.1 per cent; and Boston, 2.1 per cent.

"Other loans" accounted for 17.5 per cent of the total loans and investments. The Atlanta district was first in this respect with 36.5 per cent, followed by Minneapolis, 28.6 per cent; Dallas, 25.8 per cent; Boston, 23.5 per cent; Richmond, 21.8 per cent; Kansas City and St. Louis, 18.6 per cent each; San Francisco, 16.7 per cent; New York and Chicago, 16.2 per cent each; Philadelphia, 16 per cent; and Cleveland, 12.3 per cent.

REAL ESTATE LOANS

Real estate loans comprised 5.2 per cent of the 90-city total. The San Francisco district reported 17.8 per cent; Boston, 7.6 per cent; Philadelphia and St. Louis, 6.5 per cent; Cleveland, 6 per cent; Dallas, 5.9 per cent; Richmond, 4.5 per cent; Atlanta, 3.4 per cent; New York, 2.9 per cent; Kansas City, 2.2 per cent; Minneapolis, 1.8 per cent; and Chicago, 1.6.

A recession in business activity really began in January, if one takes the adjusted index of the Federal Reserve Board as a guide, but if one takes a more comprehensive index one finds that we have really had two "peaks" of business activity since the first of the year. One came in the middle of January, when the index of the New York *Herald Tribune*, for example, stood between 62 and 63; the other came the third week in April, when the index, after dipping to 59, recovered to 61 per cent of normal. In spite of seasonal considerations and in spite of the abandonment of the N.R.A., moreover, the general index of business was showing good resistance even in early June, when it clung around the 60 level. Building construction, coal output, and commodity car loadings have been holding up particularly well, making up in a considerable measure for the tapering off of automobile production.

The improvement in residential building is the most heartening sign on the business horizon. Residential building contracts in the first four months of the year totaled $113,000,000, according to the F. W. Dodge Corporation, against $80,000,000 for the corresponding period a year before. Even this showing was bettered in the first half of May. Of course, compared with pre-depression figures, the current ones are not very impressive, but their trend is altogether in the right direction. The lumber, plumbing supply, paint and varnish, and other allied industries have all profited from this improvement.

When and on what scale we may expect the Fall recovery to set in will depend to a large extent, it is now obvious, on the pick-up in the automobile industry, which is just now running at a considerably slackened rate compared with the Spring. Output of automobiles was 70 per cent heavier in the first quarter than it was a year ago and April provided the largest single month since August 1929, but May saw a substantial falling off in production.

Those who have made an analysis of the potential demand for new cars insist, however, that the "boom" in the automobile industry has by no means spent itself. There has been created in this country in the last five years, such studies show, a deficiency of some 5,000,000 units. The largest deficiencies, by regions, are in the east northern central states, with 1,384,000; the west northern central states, with 909,000; and the Pacific states, with 699,000. Under the circumstances, it should be fairly clear therefore that the Fall demand for new cars will depend in a large degree on the crop situation as reflected in farm purchasing power.

STOCK GAINS One of the most interesting developments in the field of finance in recent weeks has been the continued strength in the stock market, which in June moved into new high ground for the present year. This is partly a reflection of the better earnings of business in 1934 and the first quarter of 1935, partly in anticipation of possible inflation. This latter explanation would seem to be supported by the fact that most of the strength in the market has been in the so-called "rich men's" stocks.

Nothing has happened recently to strengthen the expectation of inflation; in fact, the only positive development of any sort touching on the question has been the rejection of the idea—at least of resort to the printing press—in the President's forceful message vetoing the Patman bonus bill. The truth is, however, that there has been a great deal of inflation talk, and that the speculative community seems to be taking it more or less seriously. And after all, no one will question the fact that the chief thing that has retarded some inflation up to this time has been public psychology. With the general level of stocks low—security prices are lower, measured against dividends than they have been since early in 1933—and with money begging, the raw materials are, of course, present for inflation in the security market, given the proper mood on the part of the public.

Prosperity continues, for this very reason, to elude the banking community; and it seems likely that it will do so until money rates stiffen considerably. When this will be is not easy to predict in the light of the figures of the Reserve System, with its picture of immense unused reserves in the hands of the banks. In the week ended June 12 these excess reserves reached a new peak for all time, crossing the $2,500,000,000 mark. Moreover, the outlook is for a still further increase in July, when the Panama Canal bonds are redeemed.

The chief beneficiaries of this unprecedented ease in the money market, of course, have been the Federal Government and other large scale borrowers. During the second week in June the Treasury was able to raise three quarters of a billion dollars for five years at the nominal cost of 1½ per cent. Thus far the glut of easy money has, however, attracted little new capital into industry.

FRENCH CRISIS One of the most unsettling events of the last few weeks was the crisis of the French franc, which began to make itself felt early in May and which was not terminated until the first week in June. In the course of this newest crisis two French governments fell and a third was formed only with great difficulty. This government, headed by Pierre Laval, was granted wide dictatorial powers to support the franc, but its task is a very formidable one.

BETTER HOUSING

This model of a prize-winning steel house that "breathes" by means of air channels in its walls is being shown in the better housing display at the San Diego fair. When the sun warms the walls a cooling draft is automatically started. An electric heating element is also provided. The architect, Richard J. Neutra, is shown in the picture

ACME

HARRIS & EWING

Above—H. B. Wells, director of the Indiana Department of Financial Institutions, has been elected permanent chairman of a standing committee to develop new forms for examination. In the April issue of BANKING Mr. Wells wrote an article, "Top Heavy Bank Supervision"

Below—Mortimer J. Fox, Jr., chief of the Division of Research and Statistics of the F.D.I.C., who is permanent secretary of the committee

Standardized Examinations

Call Report Recommendations

A CONFERENCE on bank statement standardization, held in the Washington offices of the Federal Deposit Insurance Corporation late in May, adopted resolutions which presaged the early creation of standard report forms to be used by all supervisory agencies.

The meeting, which lasted two days, was attended by representatives of the Reserve Cities Bankers Association, National Association of Bank Auditors and Comptrollers, American Bankers Association, National Association of Supervisors of State Banks, the Federal Reserve Board, the Comptroller of the Currency, the Reconstruction Finance Corporation, the Treasury and the Federal Deposit Insurance Corporation.

H. B. Wells, director of the Indiana Department of Financial Institutions, was elected permanent chairman of a standing committee to develop the new forms. Mortimer J. Fox, Jr., chief of the Division of Research and Statistics of the F.D.I.C., was made permanent secretary of that committee.

RESOLUTIONS

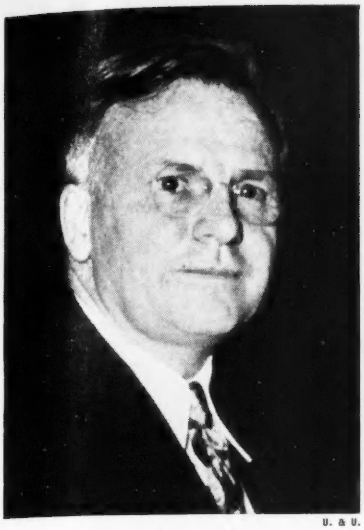
THE conference resolved that the call reports for supervisory purposes be as few as possible, consistent with existing laws, and that the reports for economic and statistical purposes, exclusive of the weekly statements now being obtained by the Reserve Board from member banks, and at the discretion of the Federal agencies, be on a monthly basis.

The conference also favored, so far as possible, separation of the supervisory aspects of the call from its economic and statistical aspects, advocating that this division be carried out as far as is consistent with simplicity and uniformity.

It was further resolved that the existing call report be used as a basis for the supervisory forms and that "the emphasis be to delete that material from the present form which is inserted solely for statistical purposes and which is not needed for supervisory purposes."

The conference also decided that the various delegates representing national groups should recommend to their associations "that aggressive and ambitious educational programs be outlined for the purpose of bringing about greater standardization in accounts and accounting terms", and that these programs, for the sake of uniformity, be cleared through the permanent standing committee created by the conference.

The standing committee is empowered to delegate performance of specific functions to subcommittees, the personnel of which need not be limited to members of the permanent group.



U. & U.

Comptroller's Office—
J. F. T. O'Connor

HARRIS & EWING

Federal Deposit Insurance
Corporation—Leo T. Crowley

U. & U

Treasury Department—
Henry Morgenthau, Jr.

U. & U.

American Bankers Association—
Rudolf S. Hecht

BLANK-STOLLER

National Association of Bank Auditors
and Comptrollers—Oscar G. Schalk

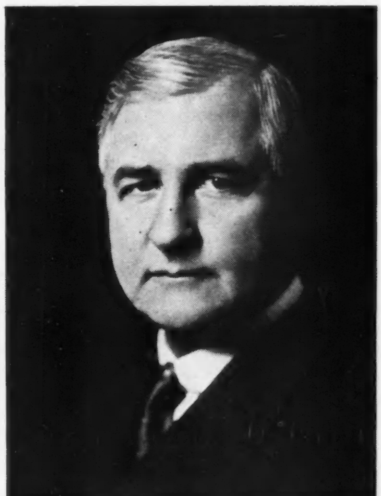
HARRIS & EWING

National Association of Supervisors of
State Banks—Rudolph E. Reichert

Reserve City Bankers Association—
Lyman E. Wakefield

INTERNATIONAL

Federal Reserve Board—
Marriner S. Eccles



BLANK-STOLLER

Reconstruction Finance Corporation—
Jesse H. Jones

Government Banking

DEPOSIT INSURANCE

WALTER J. CUMMINGS, late in December 1933, when he was Chairman of the Board of the Federal Deposit Insurance Corporation, discussed the inauguration of deposit insurance with a representative of BANKING, in preparation for the opening of business of the corporation on January 1, 1934. He said, among other things: "We do not intend to allow banks to enter the system which are going to fail. We are not going to permit them to fail. Banks whose assets are sufficient to cover their deposit liability are insurable under the law. We intend to have more than that. They must be sound".

He added, with significance which may soon be appreciated more fully than it was at the time: "Banks which are members of the Federal Reserve, of course, enter the system automatically. We have to assume, for the purpose of the temporary insurance fund, that they are qualified. When it comes to the permanent system, that will be a different matter".

Since that declaration was made, 18 months have passed; and, after the delay of a year, the time for the inauguration of the permanent system of deposit insurance and the "different matter" has arrived. In the course of these months the Reconstruction Finance Corporation has put into the capital structure of the commercial banks and trust companies a net amount of almost exactly a billion dollars. It has agreed to put in over $200,000,000 more. Early in June, however, the corporation announced that its program of purchasing preferred stock and capital notes and debentures in the banks would close soon after July 1, and it gave notice to all banks which have been in negotiation for additional capital, and to a "few" banks in the country at large which need additional capital but so far have not applied for it, that their arrangements for new capital must be completed by July 15.

Thus the bank strengthening campaign which was designed to fit the banks for entry into the permanent system of deposit insurance is to end with the inauguration of that system.

This, of course, is the reasonable and logical thing, but the implications of the termination of the bank strengthening campaign and the inauguration of the permanent insurance system is that banks which have not made due preparation for entry into the one by participation in the other will have no further opportunity to call upon the Government for aid in qualifying for permanent insurance. These banks, in short, are coming up face to face with the "different matter".

Banks which are yet to qualify in the manner indicated include not only those institutions which have not yet applied for additional capital but also many institutions which have received allocations but which have not yet taken up the funds.

There is also a considerable number of banks whose capital is insufficient in view of the great increase in their deposits in recent months. This number is increasing. There is something more in the announcement of the R.F.C. than a mere hint to the banks.

F.D.I.C. CONFERENCE

THE Federal and state supervisory authorities and the representatives of banking associations are attempting to secure simplicity and standardization in the call report forms covering condition and earnings and expenses only, limiting such forms to the commercial side of banking. Later it is expected that similar uniformity can be secured with respect to reports on the trust departments of banks, along the lines of the special trust questionnaire of the Comptroller's office. And still later the matter of uniformity in examination schedules will be taken up. The Federal Reserve authorities and the F.D.I.C. will make no call for more extended reports on trust matters until a standardized form can be agreed upon.

A standing committee authorized by the recent conference under the auspices of the F.D.I.C. to carry out these recommendations is now in the course of organization. Meanwhile the F.D.I.C. has attempted to secure some degree of uniformity in the June call report by recommending to state authorities the use of that corporation's forms, agreeing to furnish the forms for the purpose where the state authorities are willing to use them. About 60 per cent of the states replying to this suggestion up to the middle of June agreed to use the F.D.I.C. form, but in the course of this canvass it has been found that the laws of a considerable number of the

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DISBURSEMENTS and repayments under Section 5 by the R.F.C. to May 31 were as follows:

	Disbursements	*Repayments*
Loans under Section 5:		
Banks and Trust Companies (Including Receivers)	$1,867,973,053.93	$1,364,973,414.34
Railroads (Including Receivers)	485,092,692.11	71,654,411.44
Federal Land Banks	387,236,000.00	320,686,788.77
Mortgage Loan Companies	299,196,884.78	152,770,779.64
Regional Agricultural Credit Corporations	173,243,640.72	173,243,640.72
Building and Loan Associations (Including Receivers)	115,156,526.44	104,771,358.05
Insurance Companies	89,519,494.76	69,459,631.91
Joint Stock Land Banks	15,659,372.29	12,492,631.30
Livestock Credit Corporations	12,937,732.81	11,593,736.34
Federal Intermediate Credit Banks	9,250,000.00	9,250,000.00
State Funds for Insurance of Deposits of Public Moneys	8,387,715.88	8,387,715.88
Agricultural Credit Corporations	5,562,890.94	4,675,510.94
Credit Unions	600,095.79	258,970.63
Fishing Industry	75,500.00	
Processors or Distributors for Payment of Processing Tax	14,718.06	14,150.38
Total Loans under Section 5	$3,469,906,318.51	$2,304,232,740.34

A drawing of the design for the new Federal Reserve building in Washington

states call for information not included in the deposit corporation's form and in some instances require a report along rather radically different lines.

California, for example, requires a report based upon departmental returns. It has also been found that there is considerable difference of opinion between Federal supervisory agencies as to what the ultimate report form should contain, each agency now being engaged in working out its own ideas on the subject. Some of the proposed forms call for a breakdown of many figures now required, especially in the form for earnings and expenses. Doubtless such differences will be readily adjusted, but differences growing out of state laws will not be so readily composed, and complete standardization along simplified lines will be a matter of time and eventual state legislation. A standardized form will be adopted and used in a majority of states until necessary legislation can make it acceptable in all states. Possibly a standardized form with a supplement to cover special state requirements will be found practicable.

WORK RELIEF

THE Government is expecting banks and other investors in state and municipal securities to have an increasing part in its public works and work relief undertakings. For the purpose of stimulating local governments in the construction of useful public works the proportion of Federal funds which can be granted outright to states and their subdivisions has been raised to 45 per cent of the total cost of a project. This naturally reduces the proportion of funds to be raised by borrowing and increases the margin of safety for the loans placed for public works purposes.

After some vacillation between 3 per cent and 4 per cent as an interest rate on such loans, it has finally been decided to allow a rate of 4 per cent on all such securities for the purpose of inducing investors to take up the bonds and release more public funds for the works program. To further this plan the Public Works Administration has also been given authority to sell directly to investors the state and municipal bonds coming into its hands to finance public works enterprises instead of disposing of them through the R.F.C. as heretofore. This field of investment has already widened considerably and, of course, will be greatly extended under the work relief enterprises now about to be undertaken.

Up to June 1 the R.F.C. had disposed of state and municipal securities for the P.W.A. in the amount of approximately $55,000,000 at a premium of $1,094,000, in addition to some $35,000,000 handled for the administration in the way of collection or held for future sale. The recent trend toward lower prices for state and municipal securities, after attaining a rather uneconomical level, may reduce the premium on such securities earned by the P.W.A. but the retention of the 4 per cent rate on new securities is expected to assure a steady and satisfactory market for them at par or better, with the result that the investing world will have a satisfactory outlet for some of the surplus funds now glutting the investment market and the Government will have additional funds to pursue its public works policy.

RAIL PLANS

GOVERNMENT anxiety to effect the financial reorganization of railways in distress has met with so little satisfactory response that the R.F.C. has announced that it will file its own reorganization plans with the Interstate Commerce Commission if the stock-and bondholders of the roads concerned fail much longer to get together on workable schemes. Such plans would be designed to protect all interests involved, including the Government's own interests, but action is contemplated only as a last resort; and in every case the corporation proposes to aid the roads, even by advancing more money, if and when satisfactory plans are adopted. The corporation continues to insist, as a permanent policy, that roads in difficulty shall cut their fixed charges even to 50 per cent so as to bring the latter within current earnings. The delay in filing reorganization plans by creditors and stockholders of the roads has been due partly to uncertainty as to legislation affecting railway interests which may be passed by Congress. Most of it, admittedly, has been due to the bickering of the parties in interest, but the progressive inability of many of the roads to borrow money to meet their needs—inability due to decreasing collateral and continued low earnings—is expected to bring matters to an early decision.

LOANS TO INDUSTRY

ACCORDING to a report by the Reconstruction Finance Corporation, 978 loans have been authorized to industry, aggregating $54,915,275.92. These loans are made under the provisions of Section 5 (d), which was added to the Reconstruction Finance Corporation Act on June 19, 1934.

Of the above amount, $9,159,904.19 was withdrawn or canceled and $29,402,333.35 remains available to the borrowers. In addition the corporation has authorized, or has agreed to, purchases of participations aggregating $8,151,935 in 170 businesses, $995,885 of which was withdrawn or canceled and $5,210,667.14 remains available.

THE campaign for the release of frozen real estate assets and the rehabilitation of the real estate mortgage market is assuming new aspects. The most significant development in recent weeks has been the turn from the emergency phase of the campaign to the permanent phase represented by the home loan banks and the subsidiary agencies created under them. Applications for refinancing distressed home loan mortgages through the Home Owners' Loan Corporation have been ended and that corporation is completing its final allotments. When the latter are finished its activities will be confined to the administration of the enormous volume of home loans it will then have outstanding.

H.O.L.C. PROGRAM

In other words, the task of the H.O.L.C. is one of collecting interest and amortization payments on something like one-eighth of all home mortgages in the United States. When it is realized that the holdings of the H.O.L.C. are, in theory, solely mortgages given by home owners in financial distress refinanced by this Government agency as a matter of relief, the nature of the task can be appreciated. It is probable that on the whole the mortgages held by the corporation are good insofar as they cover property worth more than the face value of the loan, although it is known that some of the mortgages taken in the earlier part of the refinancing process cannot qualify as sound on this basis. Refinancing the original mortgages has resulted in a lowering of interest and other charges upon the mortgagor, and in a vast majority of cases has brought the service of the loans within the present financial capacity of the borrowers.

The fact remains that for at least a large proportion of the latter the conditions of personal finance or otherwise which brought them into the distressed mortgagor class continue. Until employment and general business activity return to something like normal it is probable that the proportion of defaults on the mortgages held by the corporation will be large. So far payments have held up rather remarkably well. In the meanwhile the corporation must, of necessity, maintain a large field organization for collection purposes—probably as large as the field force which has been placing the loans and consisting more or less of the same personnel.

Activities of the entire home loan bank system hereafter will be devoted to increasing the facilities and easing the terms for the financing of home mortgages under the permanent system. Three hundred million dollars of the new $1,750,000,000 fund authorized by Congress will be devoted to the organization of and investments in the Federal Savings and Loan Associations, which have been given facilities and authority to furnish money for home owning at lower rates than ever. The home loan banks have reduced their minimum rates to member borrowers from 3.5 per cent to 3 per cent, thus enabling them to make a corresponding reduction in rates to original borrowers. The premium rate for the insurance of home mortgages under the Housing Act has been reduced from ¼ to ⅛ per cent.

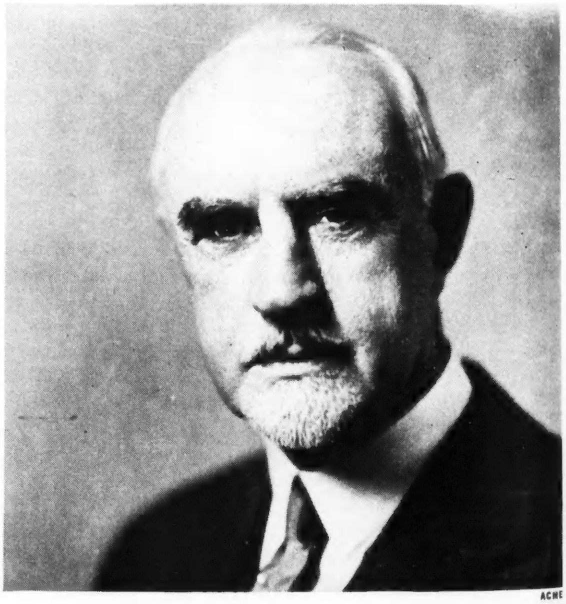
The home loan banks can now rediscount paper covered by mortgages up to $20,000 in the amount advanced, instead of $20,000 as the value of the property involved. Mortgages running up to 20 years amortization also are now accepted instead of those limited to 15 years. Four-family instead of three-family dwellings can now be financed. The Government's preferential accumulative 2 per cent dividend on its home loan bank stock has been abolished so as to give the banks greater freedom in their operations.

Perhaps the most significant change has been the result of the failure of private capital to organize national mortgage associations under Title II of the Housing Act. That Title provided for the insurance of home loan mortgages and the organization of these associations, which were to form a credit pool for rediscounting insured mortgages and thus standardizing the real estate mortgage market. The Housing Administration was, and still is, of the opinion that these associations could be made profitable concerns, but so far there has been no such association organized. Hope of the establishment of a chain of such institutions serving the entire country has become quite attenuated.

THE Federal authorities, through the R.F.C., are also increasing their efforts to thaw out real estate mortgage funds frozen in the many complicated real estate mortgage trusts and similar organizations in the larger cities. In addition to actually starting the business of its own mortgage loan company organized for this purpose under a Maryland charter, the R.F.C. has agreed to back a corporation formed in New York City under New York legislation to grant loans to holders of guaranteed mortgage certificates. This concern has been organized by 85 banks and life insurance companies under an agreement whereby the R.F.C. will advance $10 of capital for every dollar of capital furnished by the organizers up to a limit of $10,000,000 in advances by the corporation. Loans on certificates will be made up to 25 per cent of their face value for one year at 5 per cent plus a service charge of 1 per cent, and they may be renewed. The latter charge may be eliminated after the first year if the expenses of the organization can be met without it. Funds advanced by the banks and insurance companies as capital will draw 4.5 per cent; those advanced by the R.F.C. will draw 4 per cent.

MORTGAGE LOANS

John H. Fahey, Chairman of the Home Loan Bank Board. The home loan banks have been authorized to rediscount home loan mortgage paper for banks and other institutions when the mortgages are insured under Title II of the Housing Act



ACME

EDITORIALS

Simplified Examinations

FEDERAL and state supervisory authorities are moving slowly in the direction of simplified and uniform call and other bank reports, although complete standardization will not be easy. The general policy to be followed was discussed by representatives of the American Bankers Association, the Reserve City Bankers Association, the National Association of Supervisors of State Banks, the National Association of Bank Auditors and Comptrollers, and the various Federal supervisory agencies at a meeting in Washington late in May.

Among the stipulations approved by this conference was the recommendation that call reports for supervisory purposes should be as few as possible consistent with existing law; that the reports for economic and statistical purposes be on a month-end basis; and that, so far as possible, the economic and statistical aspects of the call should be separated from the supervisory aspects insofar as all this is consistent with simplicity and uniformity. It was agreed that the existing call reports should be used as a basis for the supervisory forms, with the elimination of the material sought merely for statistical purposes.

Loans on Commodities

GOVERNMENT loan agencies have been increasing their advances on commodities at the expense of banks and other credit agencies. The American Acceptance Council reported a decrease in outstanding acceptances in April in the amount of $52,487,245 of which $37,898,730 was due to the liquidation of acceptance credits based upon goods in domestic warehouses. Bills of this character are used principally in financing cotton and the liquidation reflected the transfer of such loans from private to Government agencies.

In the same month R.F.C. loans to the Commodity Credit Corporation increased by about $11,000,000 and loans placed by the Commodity Credit Corporation and the intermediate credit banks increased more than enough to make up the drop in acceptances. One reason for the transfer of these loans from private to Government account lies in the peculiar situation created by the Government's policy of lending 12 cents a pound on cotton at a time and under circumstances which do not justify banks or other private lenders making advances in the same amount and upon the same margin.

American Business Stability

REACTION from the rule of the codes, destroyed by decision of the Supreme Court of the United States, has been the first important test of the strength and stability of American business in its course toward general recovery. That this test has been successfully met on the whole is less an occasion for congratulation than one for determination to go ahead. Business now has full liberty of action and must stand or fall upon its own merits.

It was to have been anticipated that the condition of jitters which has affected some lines of business and some business men would be reflected in a fear that the sudden collapse of the code system would lead to wage reductions, price cutting and a let-down in the standards of business ethics and working conditions, but no one conversant with fundamental American business policies and the general state of business in the country at large has anticipated any other result than that registered.

As a matter of fact the demise of the Blue Eagle had been expected, discounted, and insured against for months. The decision of the Supreme Court, while perhaps more sweeping than had been expected, was no great surprise to business generally. The transition from the system of Government regulation to one of business freedom, accordingly, has been easy, natural and wholesome in its general effect. That wholesomeness will be more fully appreciated as business more fully realizes the benefits of its regained freedom.

The Recovery Tide

WITHOUT depriving anybody or any policy of any credit due it for improved business conditions, the commerce and industry of the United States have made progress toward recovery not because of any law, Government regulation or artificial aids, but primarily upon the basis of sound business principles and their own efforts. They had worked out of the most extreme of their difficulties before the collapse of the National Recovery Act through action of the Supreme Court and, in most cases, were already beyond the reach of any unfavorable effects of the change.

Their disposition to maintain standards of business ethics and labor conditions is founded upon their own strength and their own enlightened policies. Their new freedom means that the advances they have made in the past two years can be stabilized and established upon the basis of a natural equilibrium of prices, wages and other costs which will enable them to move a maximum amount of goods and give a maximum amount of employment. There have been and probably will be a few instances in which these principles are not followed, but they are exceptional.

The general rule is that American business is fully meeting its responsibilities and will continue to do so without the need of laws and regulations which always produce uncertainty and in the long run act as brakes on the wheels of industrial and commercial progress. It is now operating on its own authority and responsibility, must take the consequences, and evidences every indication that it proposes to do so with conspicuous success.

Court Decisions

A DIGEST BY THE LEGAL DEPARTMENT

American Bankers Association

Power of President to Remove Members of Federal Reserve Board

THE decision of the Supreme Court in Rathbun v. United States, popularly known as the Humphrey case, decided May 27, 1935, is of great interest in its application to the power of the President to remove members of the Federal Reserve Board. The Federal Reserve Act originally provided that such removal could be for cause only, but as amended by the Banking Act of 1933 it now contains no express provision with respect to removal.

The Supreme Court decision, which was unanimous, held that the Federal Trade Commission Act, which provided for the removal of a Commissioner by the President "for inefficiency, neglect of duty, or malfeasance in office", limited the President's power of removal to the specific causes enumerated and that the act was not unconstitutional as an interference with the executive powers of the President, since the Commission was created "to carry into effect legislative policies embodied in the statute in accordance with the legislative standard therein prescribed" and "cannot in any proper sense be characterized as an arm or an eye of the executive".

As stated by the Court, "the authority of Congress, in creating quasi-legislative or quasi-judicial agencies, to require them to act in discharge of their duties independently of executive control cannot well be doubted; and that authority includes, as an appropriate incident, power to fix the period during which they shall continue and to forbid their removal except for cause in the meantime. For it is quite evident that one who holds his office only during the pleasure of another, cannot be depended upon to maintain an attitude of independence against the latter's will".

Frazier-Lemke Act Unconstitutional

The United States Supreme Court held unconstitutional the Frazier-Lemke Farm Bankruptcy Act in a unanimous decision handed down May 27, 1935. This act constitutes subsection (s) of Section 75 of the Bankruptcy Act. The reason for the holding was the violation of the due process clause of the Fifth Amendment of the Federal Constitution.

The court found that the act had taken from the mortgagee of a farm the following property rights recognized under the laws of Kentucky where the mortgaged farm was located:

"1. The right to retain the lien until the indebtedness thereby secured is paid.

"2. The right to realize upon the security by a judicial public sale.

"3. The right to determine when such sale shall be held, subject only to the discretion of the court.

"4. The right to protect its interest in the property by bidding at such sale whenever held, and thus to assure having the mortgaged property devoted primarily to the satisfaction of the debt, either through receipt of the proceeds of a fair competitive sale or by taking the property itself.

"5. The right to control meanwhile the property during the period of default, subject only to the discretion of the court, and to have the rent and profits collected by a receiver for the satisfaction of the debt."

The court overruled the mortgagor's contention that the changes in the mortgagee's rights in the property, even if substantial, were not arbitrary and unreasonable, because they were made for a permissible public purpose in view of the emergency with respect to the widespread foreclosures of farm mortgages, with the danger that the ownership of farm land, in the absence of the relief provided for by the statute, would pass to great corporations, transforming farmer owners into tenants or farm laborers.

The conclusion of the court was that, although under the bankruptcy power Congress may discharge the debtor's personal obligation, the effect of the Frazier-Lemke Act is not the discharge of such personal obligation. It is the taking of substantive rights in specific property acquired by the mortgagee prior to the act and the bankruptcy power is subject to the due process clause of the Fifth Amendment.

Insured Loans for Alterations, Repairs and Improvements upon Real Property under the National Housing Act

By virtue of an amendment to the National Housing Act, contained in Public Act No. 76 of the 74th Congress, approved May 28, 1935, banks and other lending institutions approved by the Administrator may now obtain insurance of loans for alterations, repairs and improvements, including the installation of equipment and machinery, with respect to real property improved by or to be converted into apartment or multiple family houses, hotels, office, business or other commercial buildings, hospitals, orphanages, colleges, schools or manufacturing or industrial plants, if each such loan is not in excess of $50,000. The present limit of $2,000 is retained as to all other loans made for the purpose of such financing, and each and every loan, to be eligible for insurance, must meet the requirements of the Administrator with respect to interest, maturity and such other terms, conditions and restrictions as he may prescribe. Furthermore, the period during which such insured loans may be made is extended from January 1, 1936, to April 1, 1936.

National Mortgage Associations

Another Section of Public Act No. 76 amends Title III of the National Housing Act, reducing the minimum capital required for the organization of national mortgage associations from $5,000,000 to $2,000,000 and increasing the aggregate amount of the obligations which any such association may have outstanding at any one time from 10 times to 12 times its capital, but in no event to exceed the current face value of insured mortgages held by it, plus its cash and investments in obligations of, or guaranteed by, the United States.

(Continued on page 63)

$50,000 Modernization Loans

RECENT amendments to the National Housing Act open new markets for bank credit and for the durable goods industries.

Financial institutions interested in the home renovation and modernization campaign had been protected, under insurance provisions of the act, on loans up to $2,000 for the betterment of real property, principally private dwellings. They now have the benefit of insurance protection on loans up to $50,000 for improvements to income-producing and certain other large properties. Also, the time limit of the act, for both classes of credit, has been extended to April 1, 1936, from January 1, 1936, the original expiration date.

Thus the opportunities for making substantial loans and for the sale of supplies and equipment on a larger scale have been greatly widened. Inasmuch as it will now be possible to undertake projects of some magnitude, at least in comparison with the narrower scope of improvements formerly available, the number of industries in positions to profit is widened substantially and lending agencies have a larger outlet for some of their surplus funds. In the words of Stewart McDonald, Acting Federal Housing Administrator, the modernization market "has been increased so as to include practically every user of permanently installed machinery or equipment, as well as every property owner."

Under the amended act, says an explanatory statement made by the F.H.A. headquarters in Washington, the regulations governing modernization credit for improvement of individual homes, farm properties, churches, clubs, public buildings and similar properties remain substantially the same. The maximum limit for each piece of property in this group is fixed at $2,000. Credit of this type is being handled as a separate class and is being extended for the purpose of "making additions, alterations, repairs and improvement of real property, including also such new construction as garages and certain other similar structures."

"The class of modernization credit made possible by the $50,000 amendment also is being handled separately. This type of credit is extended for additions, alterations, repairs and improvement for 'real property improved by or to be converted into apartment or multiple family houses, hotels, office, business or other commercial buildings, hospitals, orphanages, colleges, schools, or manufacturing or industrial plants.' The maximum limit for each property is $50,000.

Many business groups and industrial concerns are cooperating toward the success of the modernization drive. For example, the Pittsburgh Plate Glass Company and the Westinghouse Electric & Manufacturing Company have prepared illustrated exhibits showing improvements to store fronts and to lighting facilities. These are intended for display to groups having real estate problems. The exhibits were shown at recent meetings of trade publication editors in New York and Chicago. A representative of the F.H.A. addressed each meeting

"Purchase and installation of machinery and equipment in the types of property mentioned in the preceding paragraph are eligible for modernization credit under the new regulations provided they are 'peculiarly adapted to the business conducted therein or necessary to the operation thereof.'

"All charges, including interest, for both types of modernization credit are to be determined by the financial institutions and the applicant for credit, the rates to be as low as is consistent with the character of business in the particular territory in which the loan is negotiated. Under no circumstances can the interest, together with all other charges combined, exceed the equivalent of $5 discount per $100 original face amount of a one-year note to be paid in equal monthly instalments."

The modernization and renovation campaign, now nearly a year old, has always been regarded as essentially a banking undertaking. The loan agreements have been, and still will be, drawn between the borrower and the lending institution, with the F.H.A. in the background, administering the insurance provision and providing the organization which is necessary to extend the drive into all parts of the country.

In general, it may be said that the recent changes in the law strengthen the conception of this phase of the national recovery movement as a private banking matter. A study of the regulations issued under the amendments reveals, in fact, a tendency toward even greater liberalization. In effect, the regulations emphasize that credit extension under the act is the function of financial institutions in local communities.

The amendments reflect, presumably, the experience of the Federal agency with credit problems since last August, and the implication is that such questions as to how much to lend, to whom and on what security are to be left to the lenders.

For instance, the regulations make no mention of security for loans in the $50,000 maximum classification. It is needless to say, however, that banking institutions will not consider such accommodations as character loans and that, generally speaking, they will require stronger protection than is afforded by the notes made in connection with the $2,000 loans.

Lenders, it is apparently assumed, are in the best possible position to examine the financial condition of a prospective borrower, and the granting of a loan under the act becomes merely a routine credit matter. Although there would seem to be no doubt but that the F.H.A. will watch carefully the collections of lenders, and that it will act promptly if it finds evidence of carelessness or loose lending, the fact that the banks and other credit grantors are to be free to exercise their own judgment in accordance with the principles of sound banking may be expected to assure a favorable experience.

There is still further evidence in the new regulations that lenders are to be free from official restrictions. Under the original act borrowers of funds for betterments were required either to own the property or to occupy it under leases obligating them to make repairs. Also, gross incomes of note makers had to be at least five times annual payments on the notes. No mention is made of these provisions in the new regulations.

"Income Advances"

By O. H. ODIN

Vice-president, Marquette National Bank of Minneapolis, Minneapolis, Minnesota

DURING the last couple of years our bank has suffered along with others in lack of earnings due principally to a large surplus of idle funds. The demand from industry, contrary to the popular notion, has been negligible and the yield from other investments such as bonds and commercial paper has been exceedingly low. We have, therefore, given considerable attention to developing new outlets for our funds.

For the past eight years we have been making personal, or co-maker, loans, limiting the amounts to \$300 and charging 8 per cent interest. While our experience with these was satisfactory we never developed any considerable volume.

Then along came the National Housing Act with its Title I for the repair and improvement of property owned by the borrower. We immediately launched a campaign and to date have made 800 of these Housing Act loans with a total original investment of approximately \$300,348. While the act permitted banks to charge 5 per cent interest, which, by the way, would be usurious in this state, we decided to make the charge 3 per cent per annum in advance on the whole amount for the entire time.

Some have questioned the wisdom of making the charge so modest, contending that we were depriving ourselves of a legitimate profit. In the first place, money does not cost us very much at the present time. No interest is paid on demand deposits and only 1½ per cent on savings accounts. We have funds to invest. We feared that the better class of risks would not want to make these loans unless the rate was exceptionally attractive and such has been our experience. Many of our borrowers have large balances in savings accounts, but prefer to borrow under this plan because of the rate and easy payment plan. Had the rate been higher, we feel that we would have been unable to attract the same class of borrowers.

In making these loans, we emphasize particularly a person's credit record and ability to repay. He selects the day of the month when he is certain to have the payment in our hands, and the loan is made accordingly.

Our experience with the loans under the National Housing Act, Title I, was so satisfactory that this Spring we launched another plan—making loans for the purpose of buying automobiles.

We limit these automobile loans to from \$100 to \$1,000 and permit borrowers to have 20 months within which to repay. Our charge is 5 per cent per annum in advance on the whole amount for the entire time, plus a \$2 investigation fee. The monthly repayments are made in a savings account in the savings department. We require fire and theft insurance to be carried through an affiliated insurance agency. We also require the borrower to carry public liability and property damage insurance, but this he may place wherever he chooses. No one seems to object to the fire and theft, although several object to the liability and property damage protection. This attitude, however, disqualifies prospective borrowers, as we believe an applicant is a better risk if he is concerned with these contingent liabilities.

While we take a chattel mortgage on the automobile, we do not attach much significance to this as security. We make these loans only to persons whose credit rating is clear and whose income is sufficient to meet the payments promptly. Our note forms provide for a 25 cent fee for delinquency the first day each payment is delinquent, and 10 cents for each additional day's delinquency. To date, however, we have not had occasion to impose any of these penalties.

All the above plans would ordinarily be called "character loans" but our president, Ralph W. Manuel, chooses to call them "income advances", which they really are. He says:

"Character, as a foundation for credit, is of the highest importance, of course. Unfortunately, there are many persons of the highest character, however, who have very limited or uncertain incomes. Bank loans are not paid out of character, but they are paid out of income. Assuming that the borrower's character is satisfactory, therefore, the amount of money that a bank may properly advance to him is determined by the amount of his assured income."

Below is an outline of the plan described by Mr. Odin. It is taken from a folder on the subject issued by the Marquette National Bank

	Income Advances Under the National Housing Act, for the Repair and Improvement of Property Owned by the Borrower.	*Income Advances for the Purchase of Automobiles.*	*Income Advances for Miscellaneous Provident Purposes.*
AMOUNTS	\$100 to \$2,000.	\$100 to \$1,000.	\$50 to \$500.
TIME	12 to 36 months.	Not more than 20 months.	12 months.
SECURITY	Insured by Federal Government.	Mortgage on car.	Two acceptable co-makers or acceptable collateral.
INTEREST	3% per annum in advance on the whole amount for the entire time.	5% per annum in advance on the whole amount for the entire time.	6% per annum in advance on the whole amount for the entire time.
SERVICE CHARGES	None.	\$2 on each loan for investigation and drawing papers.	\$2 on each loan for investigation and drawing papers.
PAYMENTS	Equal monthly payments, applied directly upon the loan without any credit for interest earned on accumulations.	Payable in a single payment at maturity but money for payment to be accumulated in a savings account by monthly deposits upon which interest earnings will be credited as in any other savings account.	Payable in a single payment at maturity, but money for payment to be accumulated in a savings account by monthly deposits upon which interest earnings will be credited as in any other savings account.

sible to provide Record Assurance which will assure against that loss. Since the amount of possible loss is known in advance, the cost of such Record Assurance can be made directly proportionate to the risk.

You will probably want to amortize that cost, premium-like, over a period of years.

A complete plan to increase present efficiency

Remington Rand maintains a staff of professional supervisors to study your individual problem and to guarantee that your installation is complete and accurate in every detail.

These experts will analyze your day's work, find out what records are used and where, help you decide how much risk is involved in having them unprotected during working hours, submit a plan for centralized housing . . . end all risk and at the same time actually increase working efficiency and convenience.

Take the first step now. Without obligating yourself in any way, write us to submit specimen Record Assurance Policy, enabling you to analyze your own needs. Or ask the Remington Rand man for a ten-minute explanation.

Many other Remington Rand services

Record Assurance and Record Centralization are only two of many valuable services Remington Rand offers to banks. The biggest service of all is that the Remington Rand man can safely be depended upon to make no sale without a net profit to the user! Phone him today or write Banking Department, Remington Rand Inc., Buffalo, N. Y. for expert analysis of your problems. No obligation, your inquiry is invited.

Rand

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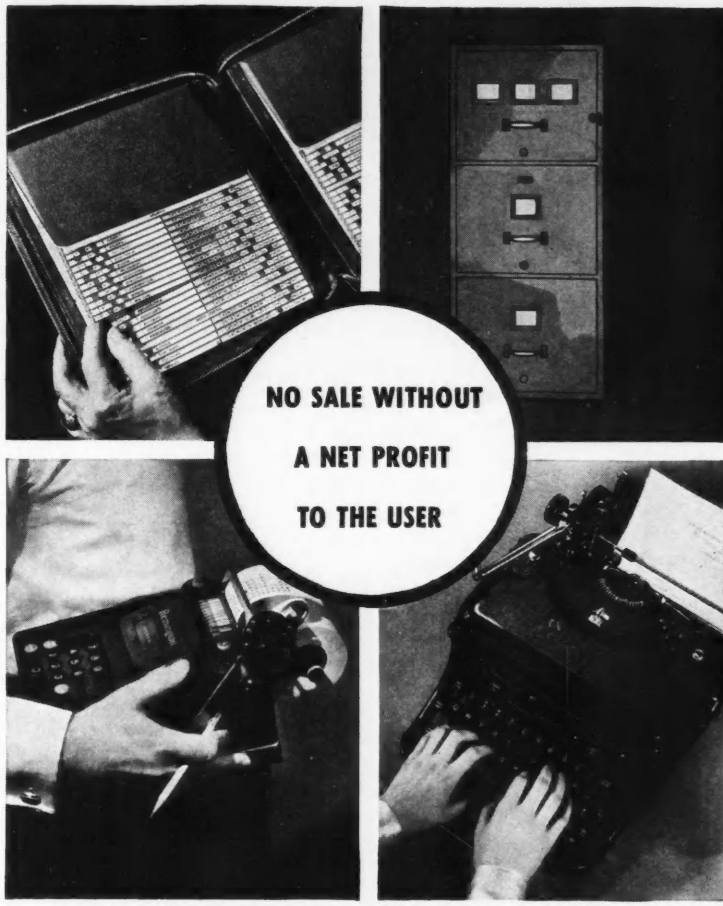
Kardex Zipper Book Unit, brief-case size, holds all vital security information. Individual card for each security. Visible margin shows: months coupons may be clipped; year of maturity; description of bond including rate of income; unique progressive signal indicates fluctuations in value.

Remington Rand Safe-Files provide one hour certified protection against fire, for correspondence, other valuable papers. Legal size shown below designed for filing bonds, mortgages, other investment records. Special check-size model for withdrawal slips, cancelled checks.



New Portable Adding Machine lists, adds, multiplies up to 10,000,000.00. Weighs only eleven pounds, takes up less space than a letterhead. Visible adding dials, correction key, automatic ribbon reverse. Ideal for teller's check of long deposit slips, proving of ledger and window postings against cash on hand. Manual model $75. Electrified model $125.

All Remington Typewriters may be equipped with special pin type for writing checks, vouchers, etc. Combination keyboard has pin type for capitals and numerals . . . regular gothic type for small letters. New Remington Noiseless offers 23 important new improvements including silence. Ask for free trial. No obligation.

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Modern Real

THE real estate burden placed on banks during the last few years has added greatly to operating routine.

To many banking institutions the unceremonious manner of their introduction to realty management on an important scale was no doubt rather bewildering; without benefit of extensive experience they found themselves in the real estate business. Some organized special departments to take over the work. Others adapted existing facilities to meet the demands of a situation which, however unwelcome, promised to remain with the banks for an indefinite period.

Generally speaking, the bulk of the burden was dumped on the doorsteps of trust departments. Trust executives, in addition to the worries caused by turbulent security markets, were confronted with a collapse in real estate values and a sweeping realignment of ownership. Trustees, becoming landlords almost overnight, were all but buried under the mass of unfamiliar work that was added to the responsibilities of conserving, to the best of their abilities, principal and income of estates.

The real estate problem entailed a huge volume of detail—the clerical work that must be done in connection with delinquencies, foreclosures, rent and interest collections, maintenance and innumerable other items.

OPERATING PROBLEMS

AS an operating matter, the situation presented a number of practical difficulties, not the least of which was the maintenance of adequate records to cover every real estate parcel. In many cases the systems in use by trust departments proved inadequate for an emergency period with its huge increment of detail, and it was necessary to make revisions which would assure completeness, clarity and accessibility.

One large banking institution whose trust department, in common with the general experience, had substantial holdings of real estate mortgages, has just finished the installation of a new record system. Although based on the use of punch cards, it has features that may be of interest to banks which have not mechanized their methods.

In setting up the system the bank's purpose was to provide trust administrators and real estate officers with a ready-reference file of information on all properties for which it, as trustee, was responsible. It has also provided an

Estate Records

arrangement for making available to both groups of bank officers monthly statements covering income from and charges against each parcel, and for affording an accurate picture of the exact status of any property. Special stress has been placed upon changes due to advances from or refunds to trust principal or income.

The change from the former system, which was less highly centralized, involved an enormous amount of work but the task was accomplished in the space of a few months. The first step in assembling material for the new file was to transfer all information on every property from existing records to the real estate ledgers—loose-leaf albums which the bank happened to have on hand. Arranged on visualizer sheets, the data were made quickly accessible to the personnel.

INSPECTION REPORT

WHEN the bank takes charge of a piece of property it sends its own inspector to look over the premises. From his report it enters, as the first item on the ledger sheets, a physical description of the building, covering such facts as location, exterior construction, interior layout, chimneys, fire escapes, heating plant, roof, stairways, etc.

The next steps are to enter information as to the mortgage record (extensions, assignments, etc.), taxes and assessments (outstanding taxes and valuation), special instructions (which may include a program of repair and renovation), and the statement of operation. Entries for this item are copied into the ledger semi-annually from figures provided by the punch cards.

Other ledger data include an annual estimate of the operating revenue, which serves as a guide to what the property may be expected to produce. Periodic tabulated statements can be used to substantiate the accuracy of the forecast. In the case of a multiple dwelling unit essential information on the lease of every tenant is briefly stated.

Every rentable unit is set up separately, whether the property is occupied or vacant. There is a master tabulating card for each tenant, and other cards for outstanding bills, tax and interest arrears, payments on principal of the mortgage, and the amount of taxes remaining to be paid during the current year. The operating profit or deficit is readily ascertainable from these records.

The A. I. B. Convention

THE 33rd annual convention of the American Institute of Banking, held June 10–14 at Omaha, Nebraska, saw high honors go to a young woman member of the banking profession.

Miss Elizabeth Langford, an employee of the Citizens and Southern National Bank, Atlanta, won the first award, $500, in the ninth annual national public speaking contest for the A. P. Giannini Educational Endowment prizes. The subject was "The Bank's Service to the Community." Second prize of $300 was won by James W. Dodd, Jr., Federal Reserve Bank, Richmond, Virginia; the third prize, $200, by Philip Sparling, The First National Bank of Chicago, Chicago, Illinois; and the $100 fourth prize by J. K. Ewart, National Bank of Tacoma, Tacoma, Washington.

It was the first time in the history of the contest that a woman had won first award.

Maynard W. E. Park, assistant cashier, Federal Reserve Bank, Kansas City, Missouri, was elected president of the Institute. During the past year Mr. Park has served as vice-president. Henry Verdelin, First Service Corporation of Minneapolis, was elected vice-president.

The following were chosen members of the executive council for three years: J. LeRoy Dart, Florida National Bank, Jacksonville; Adolph Lodmell, Security National Bank & Trust Company, Sioux Falls, South Dakota; Felix Montano, Hartford-Connecticut Trust Company, Hartford; Randolph Winfred Nuckols, First & Merchants National Bank, Richmond, Virginia.

Seattle, Washington, was selected as the convention city for 1936.

The convention debate on the subject, "Resolved, That the United States Should Adopt a Policy Tending toward Economic Self Sufficiency," was won by the St. Paul Chapter supporting the negative against the team of the Dallas Chapter supporting the affirmative. The members of the St. Paul team were Theophil Rusterholz, Federal Land Bank; Dorothy Goth, First National Bank of St. Paul; Malcolm Cutting (alternate), First National Bank of St. Paul. On the Dallas team were E. P. Neilan, Federal Reserve Bank; Herman W. Kilman, Federal Reserve Bank; Lloyd B. Loggins (alternate), Federal Reserve Bank. The decision was unanimous.

This debate was the climax of 294 national preliminary debating contests held throughout the country during the year and engaged in by 55 teams.

GIANNINI AWARD

President Hecht of the American Bankers Association handing Miss Elizabeth Langford the first award, $500, in the ninth annual national public speaking contest for the A. P. Giannini Educational Endowment prizes. Miss Langford is an employee of the Citizens and Southern National Bank, Atlanta

NEWELL

OTHER AWARDS

THE bowling trophy given by Henry M. Robinson, chairman of the board, Security First National Bank of Los Angeles, was awarded to the Cleveland Chapter by Bernard Vogelsang, president of the Los Angeles Chapter. As this is the third consecutive time the Cleveland team has won this trophy, it becomes the permanent possession of that team.

Russell C. Lemmon, Los Angeles Chapter, editor of the *Southern California Banker*, was awarded the prize for the best publication issued by a chapter of the American Institute of Banking having a membership of 300 or more for the year 1934–35.

Robert F. Roeber, Elizabeth Chapter, editor of *Profit and Loss*, was awarded the prize for the best publication issued by a chapter having a membership of less than 300 for 1934–35.

J. H. Saurman, Jr., chairman of the publicity committee of Philadelphia Chapter, was awarded the prize for showing the best publicity results for the year 1934–35 in a chapter having a membership of 300 or more.

Robert F. Roeber, chairman of the publicity committee of Elizabeth Chapter, was awarded the prize for showing the best publicity results for 1934–35 in a chapter having a membership of less than 300.

The convention program, as usual, was crowded with conferences and discussions of timely interest to bankers. R. S. Hecht, President of the American Bankers Association, headed the list of speakers with a talk on "The Bankers' Future".

"There is virtually unanimous agreement among bankers that our present regional system under private ownership is immeasurably better for the nation than a government owned and controlled bank," Mr. Hecht said. The Association has just completed a thorough study of central banking experiences throughout the world, he stated, adding that "we can say with authority that if history teaches us anything it is this: It is almost certain that a central bank owned by the government would be conducted to serve the strategic requirements of politics in the interest of the party in power, rather than to serve the commercial needs of the nation. . . ."

"I am firmly convinced," Mr. Hecht asserted, "that the bankers' future holds greater promise than ever before in the form of opportunity for rendering wise and efficient public service and in helping to mould proper legislation, not in the narrow selfish interest of banking alone but in the broad view of our national welfare.

"For banking to be truly a good public servant means that we must by voluntary action, and not merely by compulsion of law, develop changes and improvements in our daily practices and methods that will not only meet the problems which are confronting us today but will fit into the new era of economic adjustments that lies ahead of us.

"What form of banking will ultimately survive in this country no one is wise enough to predict at this time, but we as individuals must continue to broaden our social conception of banking and must fit ourselves for whatever new responsibilities the changed conditions may involve. It matters little whether we are entirely in sympathy with all the changes that are going on. The point is we cannot ignore them, and we must be prepared safely and soundly to carry on the banking business under whatever structural changes may be required."

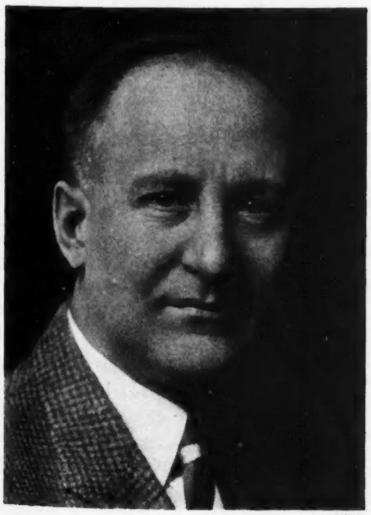
Following are excerpts from remarks of some of the other speakers.

Dr. Harold Stonier, National Education Director, American Bankers Association:

"As an organization we have been interested for over a third of a century in adult education. We have been a pioneer in this movement. We have seen many other organizations adopt similar programs. It is not generally recognized that today there are 24,000,000 people in this country interested in adult education. They are improving themselves at night in class rooms, in lecture halls, in libraries, in forums, in laboratories, in shops, and in many other ways they are taking advantage

A.I.B. PRESIDENT

Maynard W. E. Park, assistant cashier at the Federal Reserve Bank of Kansas City, was elected President of the American Institute of Banking for the 1935–1936 term



MOORE

of the possibilities afforded by adult education. These people do not scream out over the radio. These people do not make the headlines in our newspapers. They are the quiet, plugging, plodding type which has always constituted the bulwark of American character. Soon they will be called upon to speak. Soon we will have to determine this issue which is presented in this crisis of American character. Are we going to follow the demagogues, or are we going to carry on American life for Americans as it has been in the past?

"I feel that in the 52,000 members of the American Institute of Banking and the millions of others like them in other avenues of adult education you will find millions who have faith in themselves and in their mental powers, who want to work and improve themselves. . . . It is my contention that these 24,000,000 who are today exhibiting courage, faith, and hope are giving ample demonstration of American character."

Dan V. Stephens, president, Stephens National Bank, Fremont, Nebraska:

"So long as the banks and other financial institutions of the country have a great surplus of funds that cannot be safely invested, just so long will the conditions in the savings field be very discouraging. We must mark time until business activity returns, calling for use of the money we have on deposit. . . .

"The depression has been so great that people are still trembling with fear, still refusing to invest their money. The result is there is a flow into all of the banking and financial institutions in the country that cannot be invested to any great extent at the present moment, but the field is opening up gradually and there is reason to believe that in a very short time there is going to be a demand for investments on a huge scale.

"Business is picking up everywhere and investors are gradually creeping back out of the shadows, making preparation to meet the demand that is sure to follow business activity. The low rates of interest are not to be deplored because it is this low rate of interest that is going to stimulate business and bring us back to prosperity."

Frank M. Dana, assistant personnel director of the Bank of America National Trust & Savings Association, San Francisco: "Upon the proper selection of beginners, the success of the bank depends largely, and upon the suitability of the young man for this career largely depends his success or failure. It is our duty to society and to humanity to prevent the entry into banking of young men who do not have good prospects of reasonable success therein."

Joseph E. Parker, First National Bank and Trust Company, Tulsa:

"Banks and banking generally should be in better repute today than at any time in the history of this country because the upheavals of the past few years have eliminated the dishonest and incompetent banker from the picture, leaving only those who are competent and trustworthy in the position of management of our banks."

Pacific Coast Trust Conference

THE 13th regional trust conference of the Pacific Coast and Rocky Mountain states will be held at Los Angeles on October 31 and November 1, it is announced by Leon M. Little, President of the Trust Division, American Bankers Association, and vice-president of the New England Trust Company, Boston. The Los Angeles-Biltmore Hotel will be conference headquarters.

A. L. Lathrop, president of the California Bankers Association, is general chairman of the conference committee. The conference region embraces Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.

New Books

Regulation of the Small Loan Business. By Louis N. Robinson and Rolf Nugent. Russell Sage Foundation, 1935. 284 pages. $3.

This valuable book is the final volume of the small loans series published by the Russell Sage Foundation on the basis of a long series of studies. The present volume is somewhat in the nature of a summary of its predecessors, although the authors have used these "as the foundation," the foreword says, "for an independent study of a mass of material which was either beyond the scope of the other issues or not available to those who prepared them."

The book discusses a wide field of subject matter related to the small loan business, including the historical background of lending, the beginnings of small credit extension, early remedial efforts, development of small loan legislation, changes in the business under regulation, and the organization and procedure of a modern small loan office. There are also a chapter on expenses and profits and a discussion of the maximum rate of charge.

This study appears at a time when many banking institutions are considering the advisability of establishing small loan departments, and should be of considerable help to bankers interested in the subject.

The Great Change. By Richard T. Ely and Frank Bohn. Thomas Nelson & Sons, 1935. 373 pages. $2.

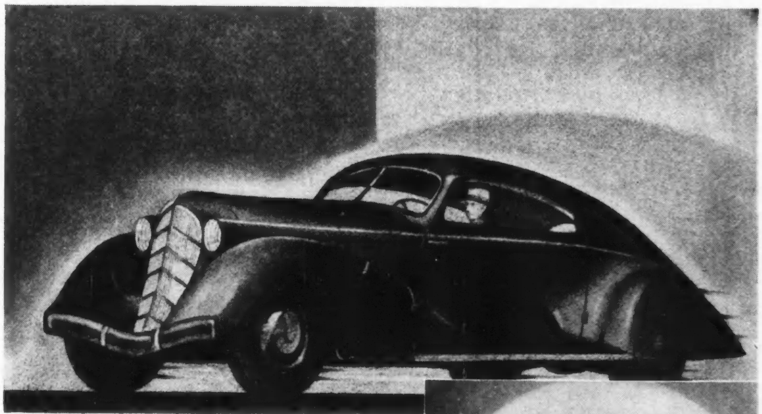
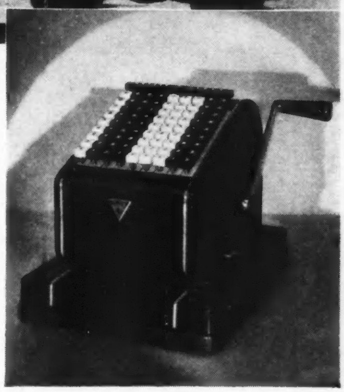
The turbulent modern era and its economic foundations are described in this volume, the authors' desire being "to tell the story of Work and Wealth in the New Age in its essentials, so that the reader may have a picture of the whole."

Considerable space is devoted to "the guiding principles of recovery and reconstruction," and Dr. Ely, in his contribution to this discussion, says a distinction must be made between "desirable *regulation* and undesirable *regimentation*." Dr. Bohn finds that the "gulfs between our economic classes must be lessened in depth and breadth until they cease to give cause for class jealousies and hatreds."

Both authors join in stating: "The first reason why the struggle for our survival as a great people and a sound nation has been so desperate and so doubtful is this—our more intelligent majority has been as an army fighting in the darkness and the storm. The simple old-fashioned guidance of human nature must now be replaced by the guidance of trained intelligence. . . .

"We must find new ways. We must write new laws. We must accept new disciplines. The conditions of our struggle demand the greatest restraint of self-command ever attempted by a democracy. The soul of our people must be aroused, and all our spiritual energies brought to support the conflict at every point of advance. 'Man does not live by bread alone.'

"There is no valid cause for pessimism because we have a good fighting chance for victory. To those that wage the battle our effort is the most thrilling adventure of our national history. Our strength is the greater and our courage the stronger because the issue is so doubtful."

Forgery Detection

IN the banks and trust companies of the medium and larger cities the daily inspection of thousands of checks is the ordinary routine for signature tellers. It is natural that the more care used in inspecting these signatures, the smaller the number of forgeries passed. The fewer the forgeries, the lower the insurance rate. The depositor is also aware of the capabilities of the personnel when no forgeries occur.

The signature teller must understand that while forgeries of large amounts are rare, every check must be examined carefully lest laxness result in a "bad one" slipping by. No teller can hope to be infallible, but he should try to reach very close to the perfect record.

New accounts open every business day, and the best way for the signature teller to learn these signatures is to keep the new cards on his desk before him for an entire day, glancing at the cards every half hour or so. After using the system for a while one unconsciously develops a habit of studying new signatures in this way.

The two important ways of forging a signature are freehand and tracing. Of the two, tracing is used more often because it duplicates all the characteristics of the hand, and thus is harder to detect. Usually the forger will attempt to simulate another's handwriting only in the signature, and he therefore will probably typewrite the remainder of the check. Thus it is of utmost importance that all typewritten checks be subject to a double inspection. Traced signatures can sometimes be picked out due to defects in covering the carbon copy of the signature. But sometimes the job is so carefully done as to defy detection by the naked eye. Should there be the least bit of suspicion it is best to use a magnifying instrument, which can detect some oddities unseen by the naked eye, such as slight erasures and faint carbon spots. These precautions are of course to be used when it is difficult to get in touch with the depositor.

There are five important tremors in handwriting: Tremors of age, illiteracy, illness, intoxication, and fraud. It may be interesting to consider them briefly in the order of their listing.

All banks have depositors who have been with them for many years, and it is natural for a change to appear in the handwriting of an individual over a long period of time. The least change occurs in a normal individual between age 25 and age 60. After age 60 the handwriting usually undergoes a tremor, the slightness or seriousness of which depends upon the health of the individual.

Tremors of illiteracy are usually a source of anxiety to the signature teller. While it is difficult for the adult illiterate to learn a new way to sign his name, he will appreciate being told in a tactful way that a legible signature is for his own protection.

All humans who undergo severe physical illnesses usually develop a tremor in their handwriting. While this may be either a temporary or permanent condition, the signature teller should use special care when inspecting these checks as they offer an opportunity to the forger.

Often an intoxicated person will attempt to sign a check when at a club or resort, and while the signature may be poor, certain characteristics of the handwriting will be present. It is also important to watch these checks because of the possibility that they have been raised by payee or endorser. Such checks should not be paid when any doubt occurs, without getting in touch with the maker.

In cases where signatures are forged without resort to tracing, the free arm attempt to simulate the original hand will sometimes result in slight tremors due to the anxiety of the forger. Sometimes these tremors are so slight as to be visible only under the magnifying glass. Usually one tremor can be observed with the naked eye, in which case the teller should immediately put the check under the magnifying glass, which will usually reveal whether the check has been forged.

It is desirable that checks being returned for questionable signature be photostated before returning, face and reverse. Thus the depositor may see for himself the bank's efforts to protect his interests. The depositor might also be able to throw some light on the forger, who may thus be apprehended.

REFUSED CHECKS

IN rare instances a depositor will refuse, for one reason or another, to recognize a check actually signed and paid. However, upon being shown the affidavit form for forged checks the depositor almost always relents and charges his or her loss to experience.

I distinctly recall a case which occurred some years ago. A feminine depositor purchased a $1,900 fur coat as a gift for her niece. This customer carried a fair account but drew it down below the face of the check the day before the check was presented. Upon presentation the check was slightly short, and as a courtesy to the depositor the bank asked if she would make a deposit to cover. She denied writing such a check and of course it was returned to the payee's bank. About two weeks later a check of equal amount and to the same payee came through. This time there were sufficient funds to meet it, but the bank, recalling the previous incident, telephoned her. She acknowledged writing the new check. It was, of course, duly paid.

Subsequent information showed that she had bought the coat for her niece, changed her mind and withdrawn most of her balance, but that two weeks later she relented and paid for the coat.

It is thus apparent that the signature teller must be prepared for all contingencies and be exceedingly careful of his daily task.

It is well known that the easiest signatures to forge are those that are more or less illegible. Many people feel that because their signatures are a series of meaningless pen tracks with outlandish flourishes, they cannot be successfully imitated. Experience has demonstrated that the easiest signatures to forge successfully are those that are illegible from either design or accident. The man or woman who sends his or her pen through a series of gyrations, whirls and twists and calls it a signature is making it easy for the forger to reproduce that signature. Every person should learn to write plainly, distinctly and legibly. The only signature to adopt is a legible one.

Banks might find it worth their while to print a circular to be sent to each depositor with his statement showing him how to draw a check properly. If all depositors knew how to draw a check, raising and other alterations would be rare. The bank would also create good will by showing that it was mindful of its depositors' best interests.

SAMUEL SMALL

Liability under Blanket Bonds

GENERAL observations intended to help bankers appreciate the difficulties in determining exact liability under the blanket bond were presented to the recent New Jersey Bankers Association convention by Charles H. McComas, manager of the claim department of the Fidelity and Deposit Company of Maryland.

"In the first place," said Mr. McComas, "it must be borne in mind that even though the forms of coverage rather seem to approximate insurance against loss, the similarity is much more apparent than real. In accident, life or fire insurance the gravamen of the loss is the physical happening of the event which causes the loss and which, of course, is immediately known. . . .

"Under bankers' blanket bonds, however, many and in some cases most of the elements necessary to a determination of liability are lacking when claim is first presented, and in many cases some of the essential elements are never ascertainable. Blanket bonds provide continuous coverage. Losses may not be discovered until months or even years after the occurrence of the acts which cause the loss. . . .

"In the intricate forms of present day banking it is possible for a bank to suffer very substantial losses under circumstances which do not mount up either to larceny or embezzlement, but which may amount to acts of 'dishonesty' or 'wilful misapplication' or 'wrongful abstraction'. In these circumstances the question of liability *vel non* is very hard to decide.

"For example: Is it a dishonest act, or is it wilful misapplication, or wrongful abstraction, for the cashier of a bank to permit a valued and supposedly solvent customer to overdraw his account on the promise that it will be made good in an hour? The term 'wilful' must imply some volitional action on the part of the employee; the term 'wrongful' connotes a deviation from the right.

"Here you will see we are dealing with phases of human motives and conduct which almost defy definition and evaluation, making the problem of adjustment of losses under bankers'

NEW JERSEY BANKERS

Leslie G. McDouall is the new president of the New Jersey Bankers Association. He is Trust Officer of the Fidelity Union Trust Company, Newark

WETTLIN

blanket bonds much more complex and difficult than where we are dealing with accident, fire, life and other forms of ordinary insurance. In dealing with these elements of human conduct, which, however elusive, are none the less essential in determining the true measure of the surety's liability, it is easily understood why surety companies are sometimes misjudged in cases of seeming delay and indecision. It is because of these circumstances that it is so essential for the surety companies to establish the confidence of their clients in their integrity and fairness. . . .

"The surety business, as a whole, and the blanket bond business in particular, are young, and in view of the extremely broad coverage which is extended under the present forms of blanket bonds and the multiplied avenues for loss which expanding banking methods and operations make possible, it is surprising that there are not more irreconcilable differences between surety companies and bankers on questions affecting the surety's liability. However, I think it is fair to say that all of the reputable surety companies endeavor to interpret their contracts fairly and even liberally to effectuate the intention of the parties, and decisions and questions of liability are made with all possible promptness considering the necessity of getting what might appear to be minute detailed information which is so necessary in weighing and deciding for or against liability."

BANK-SURETY RELATIONS

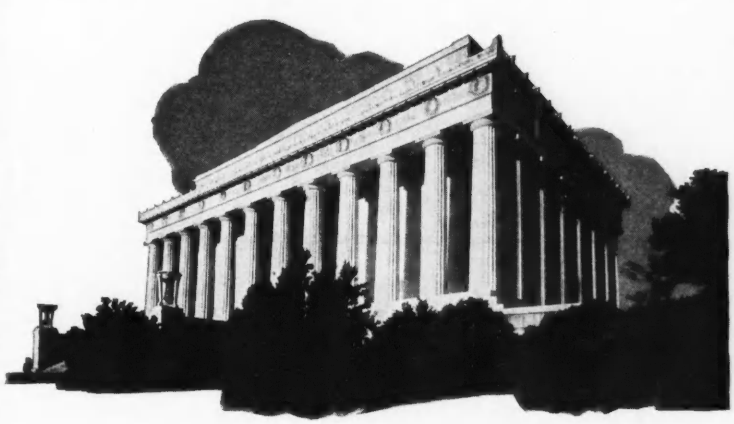
IN efforts to obtain and maintain helpful cooperation between the bankers and the surety companies, Mr. McComas said, it is essential that the two groups understand exactly what they are trying to accomplish.

"The surety companies should study to acquaint themselves with the hazards as well as with the methods of the banking business, and there should be full and frank discussion between the bankers and surety companies of the risks of loss to which the bankers are exposed. These discussions should be sufficiently frequent to enable the bankers and the surety companies to keep pace with the ever changing forms and methods of banking and the consequent new and increasing hazards.

"Along with this should be discussed forms of protection which can be provided, and out of the constantly accumulating experience of the surety companies should be formed a reasonable basis of compensation for the risks assumed. To this end the surety companies for many years have had in existence a committee whose business it has been to study and improve upon the forms of coverage available to banks. The American Bankers Association has a similar committee which, in cooperation with the committee of the surety companies, works to the same end."

As one who had had considerable experience with claims, Mr. McComas said he had sometimes been impressed with the thought "that there seems to prevail an apparent lack of mutual understanding of what the surety companies should and can extend, and what the banks need, so that the attempts to formulate adequate bank protection have not been uniformly mutually successful."

"Bankers are too apt to consider that the question of paying losses under bankers' blanket bonds is as simple as that of paying a loss under a fire or life insurance policy. The surety man, not being familiar with the details of the banker's business and the hazards to which he is exposed and against which he seeks protection, is too often prone to assume that the banker is endeavoring to collect losses under his bankers' blanket bonds for which the surety is not liable, certainly for which, he is sure, the underwriters never intended to extend coverage."



The Bond Account

A METHOD of handling the investment bond account of a banking institution was outlined to the 1935 convention of the Indiana Bankers Association by Henry Y. Offutt, vice-president, First National Bank-Kentucky Title Trust Company of Louisville. The convention was held in Indianapolis in June.

Unfortunate experiences with bond accounts during the last decade, Mr. Offutt said, had taught bankers that the casual use of surplus funds for the purchase of bonds was an unsatisfactory approach to this investment problem. Falling bond prices and panicky markets encountered in recent years, he asserted, had amply demonstrated that corporation bonds did not constitute a reliable secondary reserve. Rather, the bond account was a medium for the employment of time deposits, and the amount invested in bonds should bear a definite relation to the amount of time deposits.

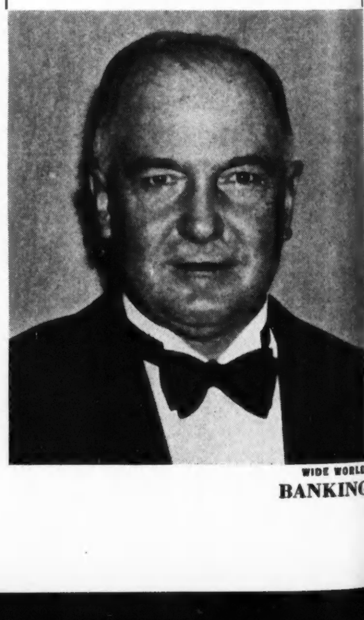
The first and most important element of the system followed at the institution represented by Mr. Offutt is that certain persons in the bank, either individuals or a group, must be made responsible for the handling of investments. This bank has found that a good working arrangement is something like the following:

Two investment officers have the primary responsibility for following the institution's bond investments. A larger group of executive officers meets with them and determines the general investment policy. The discussions and decisions of this larger group are concerned, first, with the amount of deposits which should be invested in bonds and, second, with such related questions as the intermediate and long term trends of the money market and of factors affecting such securities as Government bonds, municipals, rails and utilities.

The investment officers then have the duty of seeing that these decisions as to general policy are followed out. They are further charged with the responsibility of studying each individual security in the portfolio.

INDUSTRIAL RELATIONS

Arthur H. Young, vice-president, U. S. Steel Corp., was recently honored by the American Management Association for his "outstanding and creative work in the field of industrial relations"



WIDE WORLD

Note Auditing

PERHAPS any system may be found satisfactory for proving the liability ledger and notes when both are in balance and no mistakes are made in listing.

Bankers handle hundreds and even thousands of notes each year, depending upon the size of the bank. Many of these notes are paid in monthly installments. Credits on them are made by pen, after which the balances are brought down. Errors which occur in deducting credits from face amounts would not, of course, affect the balance as shown on the liability ledger.

To detect such errors each note upon which credits have been made must be checked until the mistake is finally located. In many instances it requires a great deal of time and extra work to find an error of this nature. There is also always a chance that note tellers may stamp a note paid and deliver it to the customer before the bookkeeper discovers that a balance remains unpaid.

In order to certify the liability balances of customers it is necessary to prove both the liability ledger and the actual notes at the same time. To save time and localize errors the notes must be assorted in alphabetical order before they are added. A sub-total is taken after each letter contained in the liability ledger and this sub-total is compared with the one obtained by the addition of the notes in the same manner.

An error occurring either on the notes, liability ledger or in listing will be immediately detected by a difference in the sub-total balance and can then be quickly localized.

For example: Let us assume that the liability and notes have been proved through the "C" letter and are in balance. After adding the "D" notes and the "D" ledger sheets we find that the sub-totals are out of balance in the amount of $1. We next divide the letter "D" into, say, five parts and take a sub-total from both the liability and notes comprising the accounts. One of the sub-totals will reveal the error, and since we have the actual notes the mistake can be found quickly.

GEORGE R. SMITH

BRITISH CABINET

Sir Samuel Hoare, new British Foreign Secretary, is spoken of by the press as more friendly to the United States than his predecessor, Sir John Simon

WIDE WORLD

Purchase of Common Stocks

DURING the past few weeks trust men have been discussing a decision handed down by Surrogate James A. Foley of New York County, denying the petition of trustees for authority to deviate from the legal list and invest 35 per cent of the principal of a $400,000 estate in common stocks as a hedge against inflation. The surrogate ruled, in brief, that any change in the class of legal investments open to trust funds must come through legislative rather than judicial action.

The case attracted particular attention because it presented, for the first time, the concrete question whether there was any justification for a trustee to depart from statutory standards even though the trustee, as here contended, believed that an emergency had risen due to possible currency inflation and to general financial and economic uncertainties. The answer of this court was "No".

Surrogate Foley's decision has circulated among trust men in representative cities throughout the country. Their reaction seems to be that he could not have ruled otherwise in view of the existing New York State law. Inasmuch as many states prescribe legal investments for trust funds, the issue had wide significance and its disposition by the court was of general interest. The question is being raised in some quarters as to the advisability of seeking changes in the statutes on the assumption that trustees should have greater discretionary powers in meeting their responsibilities during periods such as the present.

The petitioners in this case were the Central Hanover Bank and Trust Company, New York, and two individual trustees. They based their plea, Surrogate Foley noted, on the premises that (1) currency inflation was reasonably probable; (2) that only common stocks or commodities survive inflation; and (3) that during inflation elasticity of investment was essential and that the trustee should be able to act quickly.

In their argument reference was made at some length to post-war experiences in Germany and France, especially the former. One economic expert pointed out before the surrogate—to quote from the decision—that "the great mass of persons in the trusting and thrifty class (in Germany) were impoverished by the loss of their investments, their savings and their life insurance policies; that savings bank deposits were destroyed and that life insurance companies of that country were rendered insolvent by the governmental issuance of paper money without limit."

This witness demonstrated, said Surrogate Foley, "that the vigilant and shrewd possessor of property who shifted his investments into common stocks of well managed corporations, or into real estate, or into commodities, not only protected the value of his original holdings, but increased his resources by the enhancement of values. He showed that the owner of the title to real estate profited whereas the mortgagee suffered a serious reduction in the loan upon the very realty which his money had been used to finance. In Germany, despite the increase in the value of the realty, the value of the mortgages was reduced by legislation to 15 to 25 per cent of the original loan. The observations and conclusions of these witnesses are extremely illuminating, but not controlling here, in view of the law of our state."

Denying the application, Surrogate Foley stated:

"In certain extraordinary situations, in the case of wasting assets or to avoid a complete destruction of the trust the courts, in the exercise of their equity powers, have authorized departure from the terms of a will limiting the class of investments, and in certain cases even permitted a sale where the will directed the retention of trust assets. . . .

"Cases have also arisen in the present depression where directions in a will for investment in an exclusively limited class of securities, for example, guaranteed mortgages or mortgage certificates, justified a departure from the terms of the will because of the unavailability of sound investments of the specified class. Nevertheless, the new investment authorized by the court was restricted to one within the class of legal investments. In certain cases where assets left by the decedent were converted by corporate reorganization or changed from a partnership interest to corporate stock by the sale of the partnership assets, the new investments were permitted to be made and their

by Trusts As Inflation Hedge

actual retention without prior judicial authority was held not to be a ground of surcharge against the fiduciary. . . .

"Research, however, on the part of counsel for the petitioners and by the surrogate has revealed no case where a *new* investment outside of the class of legal investments has been authorized or countenanced by our courts. The situation in the estate in the present proceeding is no different from that in thousands of other trusts, testamentary or inter vivos. Any change in policy is of the utmost gravity because of the billions of dollars held within the class of legal investments not only by trustees but by guardians of infants and by committees of incompetents."

MATTER OF JUDICIAL POWER

THE Surrogate then commented upon the petitioners' contention regarding the probability of inflation.

"A definite program of immediate or impending inflation or the unrestricted issuance of fiat money," he said, "has been denied by the responsible Government officials of this country. The question, however, is not wholly within executive control, for Congress might embark upon a program of inflation despite executive disapproval. It is futile to indulge in the possibilities or probabilities of such a course. The question here is inherently one of judicial power. Should the courts be permitted to vary and amend the statutory class of investments by a process of judicial discretion upon the urging of executors, trustees or those interested in estates? Assume that the terms of the will do not authorize any departure in the making of new investments. The hope of a trustee of a rise in common stocks, as prophesied here by counsel for the petitioners, might move a court to act if power existed in the emergency.

"On the other hand, in other periods, for example, in the era of wild speculation and subsequent decline in value of common stocks between 1929 and 1933, such authorization would have led to the great impairment or destruction of trust estates. If investments in common stocks may be permitted in disregard of the law, trustees in other estates might well urge the grant of authority to invest in commodities, including wheat, cotton, coal or metals. Other trustees might find support for the rise in real estate values in inflationary periods in other countries, to urge the court to approve an investment in realty equities. Such a system would inevitably lead to instability of investments depending upon the speculative whims of trustees and the individual mental disposition of the court to which the application is made. To vest this jurisdiction in the courts and to permit departures from the class of legal investments would be extremely unwise."

Although this decision left the matter at issue in statu quo, trust men believe that the reaffirmation of a traditional and legal principle has provided them with an effective answer to possible future criticisms from beneficiaries. In the event that the country experiences a severe price rise, with the resultant decrease in the purchasing power of fixed incomes, the decision of Surrogate Foley will stand out as a landmark of the efforts made by trustees to foresee a condition and to take protective steps.

The whole question as to the investment of trust funds in common stocks, where the trustee has authority to do so, has come sharply into prominence in the last couple of years. It may be said fairly that the issue has been raised by the beneficiaries rather than by the trustees.

The course followed by fiduciaries has been determined in accordance with carefully considered policy. In the case of trust departments of banking institutions, the matter has been one of banking policy.

Many trustees have accumulated common shares for eligible trusts, beginning their purchases more than two years ago when the inflation psychology was so insistent.

On the other hand, there is strong sentiment against the purchase of common stocks. Numerous arguments are advanced against the practice, among them the responsibility it places upon the trustee, the difficulty of selection and supervision even by fiduciaries who have the best possible facilities at their disposal, and the judgment that common stocks are not, after all, an adequate protection against inflation, when, as, and if it comes.

Inter-Branch Interest

(Continued from page 27)

balances. It is patent that interest should be charged branches on their head office overdrafts. What rate should be charged? It would seem at first glance to be the fair and most convenient thing to charge the same rate that head office pays. But if that should be a lesser rate than that which the branch charges its customers—and the fact that a branch had suffered the necessity of overdrawing its account at head office would indicate a condition of either excessive local demand for credit or a scarcity of supply from one cause or another, in both of which events good customer rates would be indicated —the opportunity for profit such a condition would afford would scarcely fail to favor either unusually heavy lending operations at the branch or its desire to get money to work perhaps on dangerous risks.

The most natural cure for the latter disease is of course to select capable and reliable branch management and to supervise properly its activities, a responsibility of head office. On the other hand, it is the practice of most central banks—though not of our own Federal Reserve System—to exact a higher rediscount rate than that afforded by the general market. An automatic cure for the disease then would be to have head office charge a rate on overdrafts higher than—or at least equal to—the average normal lending rate of the branch. If a higher rate were chosen the procedure would discourage any possible mania for boom-time borrowing on the part of the branch's customers. A rate equal to the branch's average rate would nullify any speculative tendency of the branch manager, for it would effectively prevent all extra profit expectation or realization through the branch's borrowing cheaply and relending dearly.

It is obvious, of course, that the infliction of a rate so high that it would penalize a branch for having an over-loaned condition would work unfairly and disadvantageously at times. This would occur through the fact that a particular branch may have drifted into that condition through no fault of its existing management. Examples are the errors of previous managements, acts of nature, sudden and legitimate booms and so on. Particularly under booms are strong demands for credit likely to rise. If that demand is proper, it is right that it should be satisfied, that credit should flow, through the functional advantage inherent in the structure of branch banking, from crest of supply to trough of demand. In such cases penalizing rates would be ill-advised. It is probably more equitable and practicable all around to charge the same rate that is paid.

A.A.A.

Secretary Wallace, replying to newspaper publishers' criticisms of proposed A.A.A. amendments, said the amendments did "not give the Government authority to interfere with advertising." The picture shows Mr. Wallace at a conference with reporters

U. & U.

Court Decisions

(Continued from page 42)

Binding Effect of Bank Reorganization upon Dissenting Depositors

The Supreme Court of the United States in Doty v. Love (55 Sup. Ct. 558) held binding on dissenting depositors a bank reorganization plan, involving the freezing of deposits, worked out under a Mississippi statute enacted after the closing of the particular bank. The statute permitted "the reopening of closed banks upon terms proposed by three-fourths of the creditors in number or in value if the plan is approved by the Superintendent of Banks and confirmed by the Court of Chancery". The statute provided that dissenting depositors should be bound by a plan so confirmed. The court stated that the statute merely changed the method of liquidation by providing that it should be done by the reorganized bank, which the local court must find to be solvent and able to satisfy the obligations assumed.

The provision of the plan whereby stockholders contributing a specific amount to new capital of the reorganized bank were released from their stockholders' liability could not be objected to by non-consenting depositors; this was in the nature of a compromise which a liquidating agent might make. In addition, the payment in full of all deposits not in excess of $5 was also held to be binding on the non-consenting depositors, for the local court found "that it would be more economical to pay these accounts in full than to incur the bookkeeping expenses incidental to a calculation of percentages whenever dividends were paid to others".

This particular decision is limited as a precedent to the facts before the court. It is not precluded from holding ineffective against dissenting depositors another reorganization plan worked out under the Mississippi or another statute.

Protection of Security Holders by the United States Supreme Court

The United States Supreme Court in Worthen Co. v. Kavanaugh (55 Sup. Ct. 555) again gave assurance that a state statute cannot interfere materially with the rights of a security holder under the law at the time of issuance of the security. In the case before the court a municipal bond was secured by a mortgage. The court said: "Not even changes of the remedy may be pressed so far as to cut down the security of a mortgage without moderation or reason or in a spirit of oppression. Even when the public welfare is invoked as an excuse, these bounds must be respected. . . . What controls our judgment at such times is the underlying reality rather than the form or label. The changes of remedy now challenged as invalid are to be viewed in combination, with the cumulative significance that each imparts to all. So viewed they are seen to be an oppressive and unnecessary destruction of nearly all the incidents that give attractiveness and value to collateral security."

The statute held unconstitutional included the following changes of the prior law: (1) the lengthening of the interval between default and sale of the realty subject to the lien; (2) the lowering of the penalty for default in paying a special assessment; (3) the taking away of the purchaser's right to possession without accountability for rents during the period for redemption.

While the particular security involved was a municipal bond, the court made it clear that the same principles would apply to a private mortgage, distinguishing the decision holding valid the Minnesota mortgage moratorium.

Uses of Fair Competition

COUNTY

(CONTINUED FROM PAGE 28)

upon the request of a member bank which wishes to obtain some helpful information, and the statistics obtained are distributed to all members.

A junior officers' division of the association was created, which consists of all officers of member banks other than the executive officers. This group meets five or six times a year for dinner. The meetings have proved very successful. This is an opportunity for all these men and women to become better acquainted and to learn more of the methods employed by other institutions. A much friendlier, more cooperative spirit is the result. Worthwhile speakers, who talk on some pertinent banking subject, are obtained for these meetings, and their talks have always proved interesting. Open discussion usually follows.

Centralized purchasing is being studied and some progress has already been made in this direction. We believe that a substantial saving will soon be realized by the members through this medium. Although no large group purchase has yet been made, comparisons of prices paid for various articles by the members have made it possible for those institutions in the market for supplies to obtain a much lower price than that previously paid. It is thought the first group purchase will be made within the next few months, with indications that in some instances a 50 per cent saving will result.

WEEKLY BULLETINS

WEEKLY bulletins giving information of general interest to the banks are sent to the members from the clearing-house office.

This association has been of real value to its members, especially during the year 1933, when it took command of the situation in Westchester County during the bank holiday. It has served as a medium for the interpretation of new laws and the determination of the future practices of its members, and it has been constantly at work influencing state and Federal legislation. It succeeded, for example, in reducing interest rates on county funds. There has been much other constructive work along these lines.

Naturally, many obstacles had to be overcome before the organization was completed. It was found that plans for the association could not be forced, but had to be handled with patience and with the knowledge that they would finally work themselves out. The development has been slow but sure, and the future of the association is assured.

STATE

(CONTINUED FROM PAGE 29)

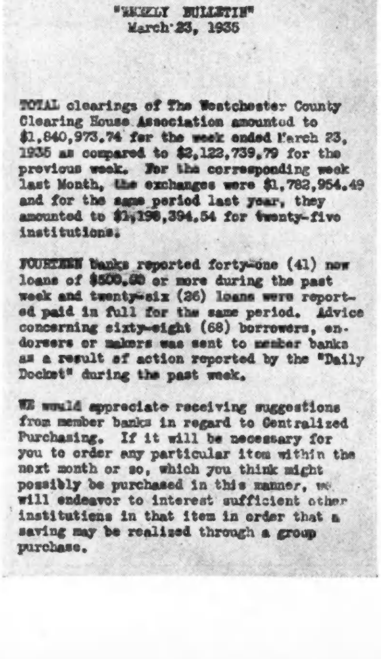
account and that no statement form shall be furnished the drawer by the bank other than a plain adding machine listing tape daily, and requiring the drawer to take up and pay all such items accumulated by the bank before the close of business each day.

When the depositor agrees to these provisions the charge for handling the items specified is reduced to that for local clearances. This cost under the Ohio plan is either 1 cent or 1½ cents.

The Ohio bank management committee is convinced that the system reduces the cost to the bank very sharply. In the first place, payment for checks by the customer produces an immediate saving in that standard checks cost the bank from $1.75 to $3.50 per thousand. Waiver of stop-payment relieves the bank of costs entailed in accepting, filing and daily examination of stop-payment orders, and elimination of examination of checks as to signature, endorsements, dates, amounts, etc., reduces expense. The posting of these items to both ledger and statement sheets as one item also reduces the expense very materially.

This system is in effect in Dayton, Middletown, Hamilton and other Ohio towns and cities and has worked admirably and to the advantage of both the customer and the bank. In each case in which the low rate is established the bank reports it to the local clearing-house association. This makes the proposition entirely open and above-board. Since a legitimate and apparently justifiable method is provided for a reduced rate of assessment for large and important accounts, it relieves the banks from much pressure and makes it much easier for them to live up to the spirit as well as the letter of their clearinghouse agreements as to the charges to be made.

Part of one of the Westchester Clearing House's weekly bulletins



"WEEKLY BULLETIN"
March 23, 1935

TOTAL clearings of The Westchester County Clearing House Association amounted to $1,840,973.74 for the week ended March 23, 1935 as compared to $2,122,739.79 for the previous week. For the corresponding week last Month, the exchanges were $1,782,954.49 and for the same period last year, they amounted to $1,198,394.54 for twenty-five institutions.

FOURTEEN banks reported forty-one (41) new loans of $500.00 or more during the past week and twenty-six (26) loans were reported paid in full for the same period. Advice concerning sixty-eight (68) borrowers, endorsers or makers was sent to member banks as a result of action reported by the "Daily Docket" during the past week.

WE would appreciate receiving suggestions from member banks in regard to Centralized Purchasing. If it will be necessary for you to order any particular item within the next month or so, which you think might possibly be purchased in this manner, we will endeavor to interest sufficient other institutions in that item in order that a saving may be realized through a group purchase.

Economies

VIRTUALLY every bank has found a number of simple ways to reduce operating costs. Here are two suggestions which may have escaped the attention of many banking institutions.

The first concerns a paper cutter. This homely but dependable tool may be employed to advantage in reducing the sizes of old stock forms, notices, carbon paper, second sheets and other stationery to fit new files and envelopes, thus salvaging considerable material. But perhaps the greatest saving offered by the cutter is in reducing the costs of customer statements.

As bankers know, these sheets are perforated so that the sides and bottoms may be torn off before the statement is sent to the customer. Inquiry will disclose that some banks are paying perhaps 50 cents per 1,000 sheets for the perforations. It is possible, however, to buy unperforated sheets and to perform the necessary separation with a paper cutter, saving the cost of the tool on the first order of statements.

The second suggestion concerns seals. Bankers for many years have sealed important letters and packages with wax, the weight of which, of course, increases the postage. As a substitute, strong gummed paper seals can be used at a saving of approximately three cents a letter as well as considerable time.

GEORGE R. SMITH

Business Prefers *American* Banking

(Continued from page 13)

be in the interest of the nation, deflation is too dangerous politically for any government to undertake deliberately. In the end government banking and currency management resolves itself simply into the use of credit as a political instrument of power, and this instrument tends to be used in the long run for expropriation of the savings of the community. Government banks have no other real reserves than those savings, and they can replenish them only by assessing their losses on the public, for there is no other source from which they could be met.

What is to be substituted for the working instincts and practical experience developed through scores of years by the banking profession no one knows. There are as many theories of credit policy and monetary management as there are academic economists or politicians who propound or promote them, and a few additional. It would be impossible today to choose a single expert to operate a government banking system in this country with whose theories or policies any other expert would agree.

How do the business men of this country feel about the prospect of such an expedition? Those in commercial and industrial life who have had no personal experience in banking and whose contact with banks has been confined to the rôle of borrowers and depositors must be set down as open-minded on the question of government banking, so far as anyone may risk a generalization. Perhaps it is fair to say that they are too open-minded for their own good, for relatively few have seriously considered the profound implications of the question for the future of the enterprise system under which they have grown up. Business men as a group have not interested themselves actively in the crucial questions involved in the current banking legislation before Congress. They have assumed too readily that these questions were chiefly affairs of the banking profession and only remotely related to their own concerns. This is an unfortunate fact, but it is a fact, and perhaps the banking profession itself is in some degree to blame, for bankers as a group have not been overactive in bringing these questions vigorously into public discussion.

In appraising the business attitude toward the movement for government banking several important factors must be considered. For one thing, business men have shared along with the general public a certain sourness of disposition toward the banking system as a result of the depression. Even though they may not have been directly affected by banking difficulties during the depression they have in many cases been inclined to criticise or lend an ear to criticisms of the banking organization on two grounds, one being the part which they imagine it has played in the cycle of inflation and deflation, particularly in the securities market, and another what some of them feel has been its inadequacy to meet certain types of credit requirement for business during recovery. The first of these in most cases was probably associated with some unfortunate personal experience in the stock market, and in that respect does not differ much from the reaction of the general public toward the consequences of excessive security speculation. The second was never a very serious or general basis for complaint, as an investigation made by the National Industrial Conference Board in 1931, during the deflation process, indicated. But the atmosphere has been thick with agitation and discussion of banking reform and proposals for radical change in banking organization, and it is natural that many business men have been persuaded, like other innocent bystanders, to draw near the eloquent orator on the soap-box and listen with mild curiosity to his pleas and his promises.

A second and more important factor in the attitude of the business community toward proposals for government banking has been the weariness of many business men themselves over the competitive struggle, so greatly intensified during the depression, and their own loss of enthusiasm about the enterprise system. The great seduction which the N.R.A. practised upon so many has made the business community as a whole much more disposed to look with complacency or even relief upon any type of proposal for government aid—whatever the price, and the price tag on such proposals is usually concealed. It has seemed more natural and less objectionable than heretofore, under the stress of depression conditions, for business to lean on government, and for government to undertake to do many things in aid of business which were unfamiliar functions in the past.

It would be misleading to imply, however, that these factors have had a dominant influence over the plain common sense and instinctive suspicion of government activity which have been characteristic of American business men for generations.

They sense the potentially dampening influence it may have on the vigor of enterprise, the menace of determining credit needs by political power or personal caprice of public officials. They know more sharply what competition supported by political favoritism in the dispensation of credit may mean. They understand better than they used to what dire effects inflationary credit and monetary policies directed by government may have on industrial stability and the purchasing power of consumers.

They may listen with approval to criticism of defects in the existing banking structure and management and play with proposals for more perfect credit control in the hands of wise and disinterested experts; but after the table talk is over and they ponder the practical realities of the problem, they have a profound and sobering realization that whatever the defects in the private banking system may be—and there are many in everything that humans have made—they would probably be worse under government banking than they are now. And on the whole they are disposed to take their chances—in the spirit of the enterprise system—on progressive improvement through experience of what they have now. In this they show their stubborn good sense and conservative instincts of self-preservation; for government banking means the end of the business system of which they are a part.

"HELP!"

A cartoon by Sweigert in the San Francisco Chronicle

A Personal Loan Department

There is a considerable difference of opinion among commercial bankers as to the small loan field, many believing that it should be left to the Morris Plan type of institution. This article describes an instance where the experience of a commercial bank with small loans has been satisfactory

•

SOME 20 years ago the State of New Jersey, seeking to curb the "loan shark" evil, passed a law permitting the establishment of small loan companies which could charge 3 per cent interest monthly on maximum credits of $300.

These were attractive terms—to the lender—but the legislature, in fixing this high rate, had acted on the then prevalent assumption that such lenders could not operate profitably if the return were smaller. Needless to say, small loan businesses sprang up everywhere. Many of them were rather casual affairs, formed by perhaps two men who would contribute a total capital of $5,000 and then open for business.

One evening early in 1924 a young clerk employed by the Hudson County National Bank of Jersey City called at the office of an acquaintance who was operating a small loan company. It happened to be the host's "night in"—his time for receiving repayments. The visitor watched with interest and surprise as working people of the neighborhood came to their "banker", either with their instalments or with excuses for not having the money. Delinquents were dealt with sternly.

On the way home the clerk had an idea. "Why," he asked himself, "shouldn't our bank go into the personal loan business on terms that would give the borrowers a better break? With funds available of around a million dollars, we could easily extend a large number of small credits, for the money would start coming back almost as soon as we put it out."

The next morning the clerk outlined his plan to a vice-president of the bank. That official received it enthusiastically and requested an outline of the proposal for further study.

Banking sentiment at the time seemed to look with disfavor on the idea. Also, the Russell Sage Foundation several years before had made an extensive study of the small loan problem throughout the country, and had concluded that 3 per cent monthly was the minimum rate commensurate with safety to the lender.

However, the Hudson County National, on October 1, 1924, opened a personal loan department which the bank believes was the first of its kind in an American commercial bank. It provided loans up to $300 at 6 per cent annual interest (discounted in advance) plus a service charge of ½ of 1 per cent on the principal to cover investigation costs. Loans were based on the borrower's character and earning power; it was also required that the note be signed by one or two co-makers. Repayments into a savings account were required on a weekly, semi-monthly or monthly basis, the maximum duration of the loan being a year. The account drew interest.

The bank's experience with personal

loans now extends over a period of nearly eleven years. In that time its percentage of loss has been negligible, although the total volume handled at head office and branches is in the neighborhood of $3,500,000. Its plan, particularly in recent years, has been widely adopted and copied by other institutions, and seems to be of special interest at the moment when many banks are giving serious consideration to similar ventures.

What are the fundamental principles to be followed in setting up a personal loan department? The Hudson County National, which is still following its original plan, finds that the requirements are relatively simple.

FIRST CONSIDERATIONS

IN the first place, a bank contemplating the establishment of a small loan business must decide whether its community needs such a service. It is essential that the institution be in an industrial district, for the bulk of the demand for such loans comes from wage earners and others who at times of emergency are not in a position to obtain credit through regular banking channels.

Secondly, some one on the bank staff must be qualified to handle the work. The Jersey City bank's experience has been, however, that a junior officer can serve in this capacity, subject to the supervision of a senior.

The bookkeeping involves use of a number of simple forms. The Hudson County National, for example, has an application form on which the prospective borrower sets forth facts as to his employment, income, property, and references, together with a statement as to the real estate owned by his co-makers. Then there are the note form, the signature verification for co-makers, the savings department records of repayments and names of principals, and notices of payments due and of completion of payments. Virtually all of the detail is handled by one man.

This institution feels that its department has been successful because it has given people in the community assurance that here is a bank ready to help them and that it will do business with anybody who can provide reasonable guarantees that the money will be repaid.

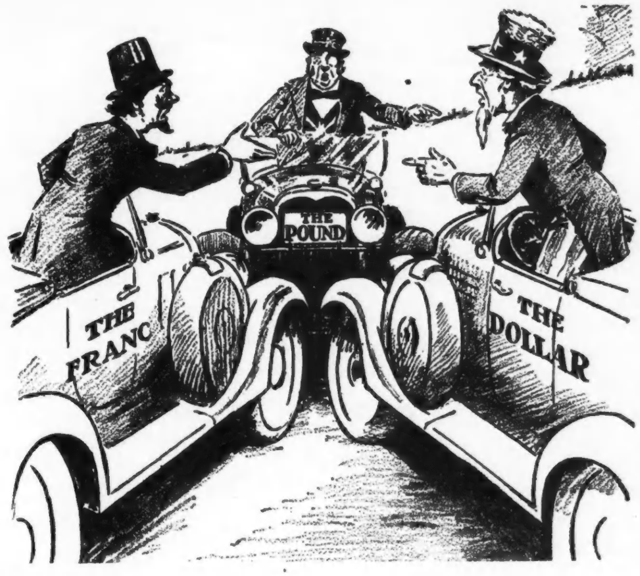
EARLY LESSONS

AT the outset, of course, the bank made a number of mistakes, for it was working along new lines. Its first book of entry, for instance, was a crude affair and the first accounting system proved to be inflexible. There was an unfortunate experience with forgeries on the first batch of notes; apparently the bank trusted too much in human honesty. But it learned as it went along, and became more practical. Instead of checking co-makers' signatures after making the loan, as at the beginning, it checked them first.

In launching the venture the department advertised extensively and obtained considerable publicity through the local press. But it also went directly after business, visiting executives of leading industries in its territory and explaining the plan, telling them that their employees borrowed from time to time and needed the assurances that go with a strong banking connection. The bank said frankly that it was entering the business to make money, but that it was anxious to give persons who required credit an opportunity to get it at the commercial rate.

It listed some of the purposes for which it would lend: payment of legal debts, insurance premiums, taxes, expenses caused by birth, illness, death, or education. Under no circumstances would a loan be granted to help buy a luxury. That rule is still in force.

The department lends no money on chattel mortgages, believing that such security is unsatisfactory.



This cartoon by Marcus in the *New York Times* was captioned "Wanted—A Traffic Cop"

CONVENTION CALENDAR

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

July 19–20	Montana Bankers Association, Many Glaciers Hotel, Glacier National Park
July 22–23	Idaho Bankers Association, Yellowstone National Park
Nov. 22–23	Arizona Bankers Association, Phoenix

Other Groups

July 16–19	American Bar Association, Biltmore Hotel, Los Angeles, California
Sept. 5–6	Maine Savings Bank Association, Rockland, Maine
Sept. 9–11	Financial Advertisers Association, Atlantic City, New Jersey
Sept. 12–14	Massachusetts Savings Bank Association, New Ocean House, Swampscott, Mass.
Sept. 26–27	New York State Savings Bank Association, Hotel Statler, Buffalo, New York
Oct. 2–4	The Mortgage Bankers Association of America, French Lick Springs, Indiana
Oct. 7–9	Morris Plan Bankers Association, Cavalier Hotel, Virginia Beach, Virginia

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of BANKING now available. Free to any subscriber on request. Over 350 articles and charts cross-indexed for ready reference. Useful to any bank officer, director or employee.

Graduate School Enrollment

Following is a list of students at the 1935-36 session at Rutgers University. In the August issue of BANKING there will be an account of the first results of this unusual development

GEORGE J. ALLES, Linden Trust Company, Linden, N. J.; Norman H. Anderson, Reading, Pa.; Ellis F. Auer, Union National Bank, Schenectady, N. Y.; John. F. Austin, Jr., First State Bank, Frankston, Tex.

Perrin L. Babcock, Syracuse, N. Y.; William M. Backer, The First National Bank, Bound Brook, N. J.; John W. Baker, Continental Illinois National Bank and Trust Company, Chicago; Lisle Baker, Jr., The State National Bank, Frankfort, Ky.; David C. Barry, Lincoln Alliance Bank and Trust Company, Rochester, N. Y.; Leo J. Bauman, The Pavilion State Bank, Pavilion, N. Y.; Theodore Benninghoven, Farmers State Bank, Lenexa, Kan.; Alvin J. Berry, First National Bank, St. Johnsville, N. Y.; Cecil R. Berry, Citizens National Bank, Waverly, N. Y.; Robert E. Bible, First National Bank, Rawlins, Wyo.; Hulbert T. Bisselle, Riggs National Bank, Washington, D. C.; Paul W. Bittner, First National Bank & Trust Company, Greenfield, Mass.; Eugene J. Bowe, National Hamilton Bank, Hamilton, N. Y.; Arthur L. Brackett, Bristol County Trust Company, Taunton, Mass.; Raymond A. H. Brandt, First National Bank, Minot, N. D.; John S. Brayton, B.M.C. Durfee Trust Company, Fall River, Mass.; John M. Bredbenner, The Citizens National Bank, Muncy, Pa.; Floyd E. Brink, National Bank of Olney, Philadelphia; James W. Brown, Manasquan National Bank, Manasquan, N. J.; Fred B. Buck, First National Bank, Bakerton, Pa.; Godfrey Budin, Peoples Trust Company, Teaneck, N. J.; Paul C. Butcher, Continental Illinois National Bank and Trust Company, Chicago.

Dudley Caudill, Peoples Bank of Morehead, Morehead, Ky.; Robert L. Cherry, Federal Reserve Bank, Charlotte, N. C.; William G. Cleaver, First National Bank & Trust Company, New Haven, Conn.; Ernest G. Cleverdon, Merchants National Bank, Mobile, Ala.; Harold S. Compton, Cranford Trust Company, Cranford, N. J.; Richard L. Cooch, Equitable Trust Company, Wilmington, Del.; Edward Y. Cox, Durham Loan & Trust Company, Durham, N. C.; Richard S. Crampton, Girard Trust Company, Philadelphia; Thomas H. Crawford, Atlantic National Bank, Jacksonville, Fla.

Edmund C. Darbois, Lawyers County Trust Company, New York City; Walter L. Darrell, Raritan State Bank, Raritan, N. J.; Carlisle R. Davis, State-Planters Bank & Trust Company, Richmond; Edson B. Day, Plainfield National Bank, Plainfield, N. J.; Merle H. Deardorff, Warren Bank & Trust Company, Warren, Pa.; Henry H. Debes, National City Bank, New York City; Edward N. Dekker, The National City Bank of Cleveland, Cleveland; Arthur R. Derbyshire, Fall River National Bank, Fall River, Mass.; C. Wellington Dey, Little Falls National Bank, Little Falls, N. J.; Kenneth H. Dickson, The First National Bank, Westwood, N. J.; Walter G. Doherty, Wisconsin State Bank, Delavan, Wis.; Frank E. Donnelly, Monroe County Savings Bank, Rochester, N. Y.; Blanton K. Dorman, First National Bank, Shreveport, La.; Joseph L. Downey, Grove Hall Savings Bank, Boston; Sherburn M. Driessen, Marshall & Ilsley Bank, Milwaukee, Wis.; Charles W. Dunn, Franklin Bank & Trust Company, Evansville, Ind.

Lewis O. Edwards, Fair Lawn-Radburn Trust Company, Fair Lawn, N. J.; Norman D. Ellison, Mt. Vernon Trust Company, Mt. Vernon, N. Y.; Ralph Endicott, The Washington Loan and Trust Company, Washington, D. C.; Louis W. Enslin, Security-Peoples Trust Company, Erie, Pa.; John R. Evans, The First National Bank and Trust Company, Hudson, N. Y.; Thomas R. Evans, Mercantile-Commerce Bank and Trust Company, St. Louis; Guy F. Evered, Federal Reserve Building, New York City.

Merle J. Fairbanks, Steuben Trust Company, Hornell, N. Y.; Aage Feldtmose, Fidelity Title & Trust Company, Stamford, Conn.; William C. Fenniman, Phoenix State Bank & Trust Company, Hartford, Conn.; Douglas B. Ferris, Citizens First National Bank, Princeton, Ill.; Louis W. Fischer, American National Bank & Trust Company, Chicago; George M. Fisher, The Washington Loan & Trust Company, Washington, D. C.; Clyde E. Flowers, Lincoln National Bank & Trust Company, Fort Wayne, Ind.; Marion B. Fowler, The Fidelity Bank, Durham, N. C.; John R. Fox, Fort Plain National Bank, Fort Plain, N. Y.; Horace E. Fredericks, Lock Haven Trust Company, Lock Haven, Pa.; Walter B. French, The Trust Company of New Jersey, Jersey City, N. J.; Waldemar H. Fries, New Brunswick Trust Company, New Brunswick, N. J.; George R. Frost, C. D. Barney & Company, New York City.

Walter S. Gabel, The Logan National Bank & Trust Company, New Kensington, Pa.; Jesse J. Gard, The United States National Bank, Portland, Ore.; Louis E. Goldstein, The Public National Bank & Trust Company, New York City; Swayne P. Goodenough, Lincoln-Alliance Bank and Trust Company, Rochester, N. Y.; Jay L. Goodin, The Geo. D. Harter Bank, Canton, O.; William L. Gregory, The Plaza Bank of St. Louis, St. Louis; James B. Grieves, National Bank of Union City, Union City, Pa.; Malvin F. Gstalder, The First National Bank, Williamsport, Pa.; Louis Gurock, The Continental Bank & Trust Company, New York City.

Arthur C. Harcourt, North Adams National Bank, North Adams, Mass.; A. E. W. Harrison, First and Merchants National Bank, Richmond, Va.; Frank M. Harriss, Jr., El Paso National Bank, El Paso, Tex.; William L. Hart, Farmers National Bank, Salem, O.; Robert E. Haycock, Riggs National Bank, Washington, D. C.; George A. Heaney, Manufacturers Trust Company, New York City; James R. Heller, Coplay National Bank, Coplay, Pa.; John A. Herber, The National City Bank, New York City; Frederick W. Hetzel, The Trust Company of New Jersey, Jersey City, N. J.; C. Gordon Hieber, Federal Reserve Building, Cleveland, O.; Francis Guy Hitt, First National Bank, Zeigler, Ill.; Homer H. Hoenstine, Windber Trust Company, Windber, Pa.; G. Philip Hoke, Spring Grove National Bank, Spring Grove, Pa.; Walter S. Hoke, E. P. Wilbur Trust Company, Bethlehem, Pa.; Louis C. Holl, The Chase National Bank, New York City; Thomas J. Hollingshead, The New Jersey Title Guarantee and Trust Company, Jersey City, N. J.; Stanley Hoyt, The South Norwalk Trust Company, South Norwalk, Conn.; Joseph E. Hughes, Washington Irving Trust Company, Tarrytown, N. Y.; John E. Humphrey, The Henderson National Bank, Huntsville, Ala.; Wilbur D. Hunter, The Geo. D. Harter Bank, Canton, O.; Lindley S. Hurff, Farmers National Bank, Mullica Hill, N. J.; Louis E. Hurley, W. B. Worthen Company, Little Rock, Ark.; George

D. Hynes, First National Bank & Trust Company, Montclair, N. J.

Charles G. Johnson, The Bank of Elkin, Elkin, N. C.; Edward Johnson, Bank of Rockville Centre Trust Company, Rockville Centre, N. Y.; Eugene T. Johnson, LaGrange National Bank, LaGrange, Ga.

Walter M. D. Kern, Hudson City Savings Bank, Jersey City, N. J.; Arthur K. Kiester, Bank of America, Los Angeles, Cal.; Henry B. Kingman, Merchants National Bank, Dunkirk, N. Y.; William J. Kinnamon, The Hunterdon County National Bank, Flemington, N. J.; David C. Kirk, Fidelity Union Trust Company, City Trust Branch, Newark, N. J.; Harold D. Knickerbocker, Peoples State Bank, Bellevue, Mich.; William W. Knox, Glenns Ferry Bank, Glenns Ferry, Ida.; John H. Kohler, City Bank Farmers Trust Company, New York City; Russell C. Kremer, Markle Banking & Trust Company, Hazleton, Pa.

Hubbard S. Lafoon, State-Planters Bank & Trust Company, Richmond, Va.; Harry Larsen, The First National Bank of Lapeer, Lapeer, Mich.; Wendell C. Laycock, The First National Bank & Trust Company, Findlay, O.; Arthur R. Lemm, First Wisconsin National Bank, Milwaukee, Wis.; Henry E. Ley, State National Bank, Wayne, Neb.; John G. Lile, Jr., W. B. Worthen Company, Little Rock, Ark.; Carl H. Lind, First Stamford National Bank & Trust Company, Stamford, Conn.; Charles R. Lose, York Trust Company, York, Pa.

William T. McCaffrey, Lincoln National Bank & Trust Company, Syracuse, N. Y.; Percy L. McCay, Whitney National Bank, New Orleans, La.; Harry R. McIntosh, Worcester County Trust Company, Worcester, Mass.; Vincent McLane, First National Bank & Trust Company, Minneapolis; Charles J. Machleid, Peninsula National Bank, Cedarhurst, N. Y.; Robert W. Mackay, Warren National Bank, Warren, Pa.; Frederick G. Mader, First Trust Company of Albany, Albany, N. Y.; Anthony Maleski, Lyndora National Bank, Lyndora, Pa.; Paul O. Malone, National Bank & Trust Company, Connellsville, Pa.; John F. Mannion, Continental Illinois National Bank and Trust Company, Chicago; J. Francis Mara, Jr., City National Bank & Trust Company, Battle Creek, Mich.; Harold J. Marshall, National Spraker Bank, Canajoharie, N. Y.; Wiley W. Meares, Jr., Planters National Bank & Trust Company, Rocky Mount, N. C.; John W. Medford, Oxford National Bank, Oxford, N. C.; Percy B. Menagh, United States Trust Company, Newark, N. J.; Arthur W. V. Mischanko, Mt. Vernon Trust Company, Mt. Vernon, N. Y.; Roger F. Molloy, The Lawrence Cedarhurst Bank, Lawrence, N. Y.; Donald A. Moore, The First National Bank, Altamont, N. Y.; Eugene M. Mortlock, Gramatan National Bank and Trust Company, Bronxville, N. Y.; Thomas W. Munroe, Fidelity Deposit Bank, Derry, Pa.

Edwin P. Neilan, Federal Reserve Bank, Dallas, Tex.; Carl A. Neumeister, National Bank of Auburn, Auburn, N. Y.; Albert F. Newman, National Bank of Commerce & Trust Company, Providence, R. I.

Harold Ogram, Swarthmore National Bank & Trust Company, Swarthmore, Pa.; John O'Keefe, Plaza Bank of Commerce, Kansas City, Mo.; Nelson B. O'Neal, Riggs National Bank, Washington, D. C.

Harbin K. Park, First National Bank, Columbus, Ga.; Larkin H. Parris, The Citizens and Southern National Bank, Atlanta; Fred W. Patenaude, Middletown National Bank, Middletown, Conn.; J. N. Patterson, Watsontown National Bank, Watsontown, Pa.; Moncure P. Patteson, State-Planters Bank and Trust Company, Richmond, Va.; W. J. L. Patton, The National City Bank, New York City; William E. Pease, Torrington National Bank and Trust Company, Torrington, Conn.; Xavier L. Pellicer, St. Augustine National Bank, St. Augustine, Fla.; Anthony F. Pepe, Bank of Bogota, Bogota, N. J.; Paul D. Peterson, Swedesboro Trust Company, Swedesboro, N. J.; Elmer W. Pollock, First National Bank and Trust Company, Tulsa, Okla.; George E. Powell, Baltimore Bank, Kansas City, Mo.; William Powers, National Bank of Detroit, Detroit.

George E. Raymond, Canajoharie National Bank, Canajoharie, N. Y.; Joseph C. Reid, First National Bank & Trust Company, New Haven, Conn.; John Remington, Lincoln-Alliance Bank & Trust Company, Rochester, N. Y.; Dell R. Richards, Bank of Morgantown, Morgantown, W. Va.; Frank C. Riggs, Merchants & Newark Trust Company, Newark, N. J.; Logan R. Ritchie, Richmond, Va.; John J. Roe, First National Bank, North Bergen, N. J.; Edward Rokahr, State Banking Department, New York City; Theodore Rokahr, First Citizens Bank & Trust Company, Utica, N. Y.; B. Walton Romefelt, The Chase National Bank, New York City; G. Kellogg Rose, Jr., The Chase National Bank, New York City; George J. Ruhlman, Hibernia National Bank, New Orleans, La.; John B. Rutkowski, Forty Fort State Bank, Forty Fort, Pa.

Juan D. Sanchez, The National Bank of New Jersey, New Brunswick, N. J.; Louis Schaefer, National Boulevard Bank, Chicago; Walter A. Schlechte, The First State Bank, Petoskey, Mich.; Bernard J. Schwoeffermann, Citizens National Bank, Chicago Heights, Ill.; John Sellors, National Marine Bank, Baltimore; Walter G. Seymour, The Maplewood Bank & Trust Company, Maplewood, N. J.; Arthur D. Shackelford, National Bank of Wilson, Wilson, N. C.; Russell M. Shontz, McDowell National Bank, Sharon, Pa.; Chester C. Slaybaugh, Central National Bank, Yonkers, N. Y.; Frank E. Smith, United States Trust Company, Paterson, N. J.; Harry R. Smith, Bank of America National Trust and Savings Association, San Francisco; James P. Smith, The National Bank of Topton, Topton, Pa.; Allen N. Stainback, The County Trust Company, White Plains, N. Y.; Joseph F. Stashak, Manville National Bank, Manville, N. J.; L. A. Stewart, The Mahoning National Bank, Youngstown, O.; Harold L. Stiles, The United States National Bank, Portland, Ore.; Horace F. Stokes, National Metropolitan Bank, Washington, D. C.; Oscar T. Storch, First National Bank, Bloomingdale, N. J.; Lloyd W. Stover, Farmers & Mechanics-National Bank, Phoenixville, Pa.; Robert Strite, Chambersburg Trust Company, Chambersburg, Pa.; Stephen A. Sutton, The Colonial Trust Company, Pittsburgh, Pa.

William L. Tandy, National Bank of Commerce, Houston, Tex.; William L. Temple, Ute State Bank, Ute, Ia.; Ralph L. Thomas, First National Bank at Pittsburgh, Pittsburgh; Hale Towne, Mercantile-Commerce Bank & Trust Company, St. Louis.

E. M. Van Lone, Beloit Savings Bank, Beloit, Wis.; Ellery L. Vogel, Northampton National Bank & Trust Company, Northampton, Mass.; Walter G. Vogel, Irving Trust Company, New York City.

Thomas C. Wallace, West Side Trust Company, Newark, N. J.; Rodman Ward, Equitable Trust Company, Wilmington, Del.; Alan G. Warner, Manufacturers Trust Company, New York City; Lawrence E. Watt, Wachovia Bank & Trust Company, Winston-Salem, N. C.; J. Don Welch, The Manufacturers National Bank, Troy, N. Y.; Ralph B. Welsh, Citizens Trust Company, Summit, N. J.; Fay G. White, Farmers National Bank, Deposit, N. Y.; J. Harvie Wilkinson, Jr., State-Planters Bank & Trust Company, Richmond, Va.; Ross P. Williams, University National Bank, Seattle, Wash.; Edward B. Wilson, Union National Bank, Troy, N. Y.; Roscoe M. Wolfe, Jersey Shore State Bank, Jersey Shore, Pa.; Robert R. Wood, Claymont Trust Company, Claymont, Del.; Elmer H. Worthington, New Milford Savings Bank, New Milford, Conn.; William F. Worthington, First National Bank in Dallas, Dallas, Tex.; Marcus N. Wright, The First National Bank, Gardner, Mass.

William N. Young, City Bank Farmers Trust Company, New York City; Frank L. Zeigler, Farmers & Merchants Bank, Cherry Tree, Pa.