Vol. 8, No. 12 June, 1916

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

FRED. E. FARNSWORTH, PUBLISHER A. D. WELTON, EDITOR GEORGE LEWIS, ASSOCIATE EDITOR

TOPICS OF THE MONTH

IS IT A PUBLIC SERVICE?

"AN important public function" is the phrase Congressman Glass used in referring to the par collection of checks. This expression accords with the view that checks are currency. Economists use the terms "check currency" and "deposit currency" indiscriminately in referring to the exchange operations which are performed by the use of these forms of bank credit. For purposes of defining the functions of currency, as distinguished from money, checks are theoretically as good examples as bank notes, which have a genuine public function.

Checks and bank notes, as different forms of expressing bank credit, have, however, differences as pronounced as their similarity. The attitude of the supervising authority—the government—toward them is far from similar. No laws provide for the form in which checks shall be made, for their denomination or the kind of material that shall be used in making them. The only interest of the supervising authority in checks is the establishment of general provisions for the punishment of those who use them for purposes of fraud or crime. Their acceptance is voluntary and payment of them is often held in abeyance against some assurance of value. Bank notes, representing an identical kind of bank credit, are a particular subject of government supervision. Their form and denominations are carefully defined. Counterfeiting them is a specific crime. Their redemption is provided for and their legal functions are determined by statute to the end that they may be generally acceptable and have distance and continuity of circulation. In the contemplation of statutory law the check has none of these qualities or functions. It is a product of banking approval of commercial practices so far as distance of circulation is concerned. A check on an Omaha bank is acceptable in Buffalo because business has demanded the accommodation and banking competition has made refusal impossible or at least inadvisable.

The establishment of the proposed par collection system, made obligatory by Congress on the Federal Reserve Board, will give the check a still higher standing as the instrument for the transfer of bank credit.

The greater use of checks as the result of wider acceptability and less expense must have a tendency to increase the number of checking accounts. Uniformity in the collection process and certainty of the time of payment by the bank on which it is drawn should reduce abuses of the check system. Checks are "deposit currency," and if there are more checks used it is more than likely that there will be an increase in deposits and thus eventual compensation for the exchange losses the new system is expected to bring. But the function of the check will not be changed and the transfer of funds by the use of this medium can hardly be called a public service. Banks are private institutions. They are charged with no obligation to perform public service.

GOVERNMENT BANKS

A conference committee of the House and Senate has begun the work of reconciling the differences between the two rural credits bills passed by their respective bodies. It is predicted that the bill in its final form will be agreed to before July and that the President will sign it.

The bills as they passed the Senate and House are political, but not partizan measures. In the House only ten votes were recorded in opposition. Republicans as well as democrats believed either that a rural credits system is necessary or they believed that the voters believe it is necessary.

The Senate bill was passed on May 3. On May 15 the House passed this bill "with amendments." The amendments were so plentiful that the whole Senate bill was struck out and another measure substituted.

The Senate bill provides for a Federal Farm Loan Board of five members, including the Secretary of the Treasury *ex-officio*. The annual salary of the four appointed members is fixed at $10,000 each, payable, like the salaries of employees of the Board, by the government. It also provides that the execution of the Act shall devolve upon a bureau of the Treasury Department, "to be known as the Federal Farm Loan Bureau," which bureau is to be under the general supervision of a Federal Farm Loan Board.

The House bill does away with the bureau plan and ignores the Secretary of the Treasury. It provides for a board of three men, each to receive an annual salary of $7,500, to be paid by the United States.

Whether or not the rural credits system is to be under the direction of a bureau in the Treasury Department will be settled by the conference committee. This question is political in its nature. It will be remembered that the Secretary of the Treasury, in seeking a definition of the provision of the Federal Reserve Act, which declares that nothing in that law shall be construed as taking away from the Secretary any of his powers over the bureaus in his Department, asked the Attorney-General of the United States for an opinion interpreting the provision. The provision of the Federal Reserve Act reads as follows:

> Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management and control of the Treasury Department and bureaus under such Department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

It was nearly two months after what is now the Federal Reserve Act had passed the House before this provision was inserted. If the Attorney-General had decided that the Federal Reserve Board was a bureau of the Treasury Department the Federal reserve system would have been of little value except as a political appendage of the administration. If the rural credits system is to be a bureau of the Treasury Department, its political character will be even more obvious, and it is obvious enough.

Whether or not the Federal Farm Loan Board is a bureau of the Treasury Department, it is charged with the duty of dividing the country into twelve districts and establishing a land bank in each. It may appoint directors for each land bank to serve until directors are regularly elected and it may open books for subscription to the capital stock. If the $750,000 of capital stock for each land bank has not been subscribed in ninety days after the books are opened, the government is to subscribe it.

Thus there is assurance that the twelve land banks will be opened and made ready for business. The system is bound to be capitalized and started. How much business the banks will do is a matter of prophecy, but it is a fair prediction that the forces which have been able to drive through the House, with only ten dissenting votes, such a measure will have both the power and the ingenuity to force the formation of national farm loan associations—the organizations of borrowers which are to make the loans against which the land banks will issue bonds.

It is doubtful if the government of the United States has ever contemplated a business venture of such proportions. The government control and supervision of the system is complete. Loans may be given or refused. Bond issues may be authorized or not authorized. The land banks are to be depositaries of government funds and fiscal agents of the government. The public may make deposits in the local associations and if the public is willing or eager to make use of these depositaries, the government will be in direct competition with the savings banks.

A stock argument of the proponents of the rural credits system has been that, as the government has provided the Federal reserve system for commercial business and for the cities, it is proper that the government provide another system for the farmers and the country. The fallacy in this argument is, of course, that the government has not provided banks for commerce or for the cities. It made a law whereby the banks of the country could establish such banks for themselves. But that idea is important. If the rural credits system, as outlined in the bill before the conference committee, is developed and proves workable, the next step will be the elaboration of the system—the providing of government banks for all purposes.

The rural credits plan, as evidenced by the pending bills, is highly charged with revolutionary ideas and socialistic tendencies.

THE PRICE OF SILVER

In another part of this issue Mr. Alexander Del Mar has an article in which the history of silver production is given. The price of silver has advanced to a sensational point. It is reported that the Director of the Mint, by forehanded action, has made a million dollars' profit for the government through a purchase of silver in anticipation of the advance in price. Great Britain is coining nearly seven times as much silver as before the war. France is coining ten times as much. India and China have been active purchasers and Russian rubles are being turned out in the mints of Japan. The practical disappearance of gold from circulation in the countries at war is one cause of the increased demand for silver. The amount of "paper money" a people will consent to use varies in different countries, but it is always limited.

There have been evidences of jealousy among the nations at war over their financial stability. The financial leaders of Great Britain and Germany have been carrying on a lively controversy through the newspapers as to the significance of their respective plans and operations. If Germany could foresee the approach of bankruptcy for England, Germany would rejoice. Such a prospect would mean more than military victory. Gold supplies are, therefore, jealously guarded and made to serve most economically as the basis of credit. Germany has placed a $10,000,000 loan in this country for purposes of protecting the exchange situation. This act demonstrates both within and without Germany the fact that she is able to maintain her position in the commercial world and purposes doing so.

The position of gold is, of course, unaffected by the change in the price of silver, which is a change to be noted only in terms of gold. There can be no inference that silver is to be remonetized. It is merely becoming more valuable as a commodity. It is more desirable than formerly and serves a useful purpose in releasing more gold for the work that only gold can do. It would require revolutionary action by Great Britain to cause even the partial remonetization of silver. Such action would be properly interpreted as a sign of weakness and defeat.

Concurrently with the increase in the demand for silver has come a curtailment of production. Mexico, the source of great supplies, is in a condition of chaos. Unless production in that country is resumed and new supplies come to prevent further advances in price, silver production in this country will be stimulated. It is predicted that seventy-five-cent silver will double the population of Nevada in two years.

In a communication to the New York *Sun*, Mr. James S. H. Umsted points out that the price of silver, as a commodity, has for many years been subject to artificial influences. He says that England possesses a factitious weapon by which she has often influenced the silver market. This is the power of the India Council over the currency of that great empire. This council, it would seem, purchases silver according to no particular rule. Mr. Umsted says:

> There has been an excuse, a special plea, for every one of the British experiments with India's

currency and finances. Nor have some English critics spared their condemnation of the Imperial government's policy at times. That speculative favoritism has been derived from some of these violent changes may be found insinuated by political or economic opponents. But disregarding all these matters, what is vital to the American silver producer is to protect himself, if possible, against the market consequences of India's potent but secret operations.

The one remedy for that Mr. Umsted says, is combination which can be secured only by such an amendment to the anti-trust law as will permit American producers to combine. A syndicate which can control the silver output of the western world could probably hold silver at a price which would make its production highly profitable. A combination, syndicate or trust, designed to do this would not be a popular enemy but a popular friend. Silver is not a necessity. An advance in price would work no hardship because articles of silver are purchased only by the rich, while doubling the value of a great mining product would add to the general wealth of the nation.

JAMES J. HILL

On two occasions James J. Hill addressed the convention of the American Bankers Association. At the thirty-fifth annual convention in Chicago he spoke on "National Wealth and the Farm," and at the thirty-ninth annual convention in Boston his subject was "Industry, Credit and Banking."

These two subjects attest, as well as any could, the comprehensiveness of his grasp. He combined in unusual form the attributes of the practical man and the theorist. He was both designer and executor. The imagination which could conceive an empire was only less remarkable than the power and persistence which brought to realization the conception. Neither attribute would have been of value by itself. To achieve the remarkable result of an agricultural empire required the combination of qualities found in Mr. Hill, with the addition of the raw material on which his genius could work.

Not less remarkable than his other traits was the ability to put into words the myriad questions involved in his greater and more practical achievements. In numerous addresses and articles he linked these up with economic laws in demonstration of the simple fact that the developments of transportation were susceptible of analysis and never out of harmony with the fundamental rules of the social and commercial scheme. He never touched a subject he did not illuminate. A master of transportation, he knew the by-ways of his subject—agriculture and its development, banking and its importance, credit and its organization and the relations and inter-relations of them all. To complete the measure of his many-sided qualities, he had the rare ability to pick men and to train and develop them. The railroads, the industries and the financial institutions in which he was prominent were long since brought to a point of high efficiency through organization. They will go on to new successes because it is through organization that the great things in the business world are now done.

James J. Hill was the last of the giants who have built up great enterprises in this land of opportunity. His mantle will not descend on his sons or any one of them. Like the other men trained by Mr. Hill, the sons will become part of the organization—conspicuous factors probably, but subscribing to the new order which takes less and less account of the individual. In these times even imagination finds effective expression only in corporate action; personalities are submerged and the individual, no matter what his ability, is buried in the mass.

"THE PRICE WE PAY"

In another part of this issue is printed the address delivered by President James K. Lynch, of the American Bankers Association, at the meeting of the Pennsylvania Bankers Association in Philadelphia last month. The title of Mr. Lynch's address was "The Price We Pay," and it is such a lucid presentation of problems confronting the banking profession that not only its reading but its study are earnestly recommended.

THE RIGGS BANK CASE

That phase of the Riggs bank case, which involved the trial of three of its officers for perjury, came to an end May 27 when the jury returned a verdict of not guilty. The jury consumed nine minutes in retiring, choosing a foreman, deciding the question and reporting its verdict. The time consumed by the jury indicates the hollowness of the charges and the flimsiness of the evidence. The officers of the bank are completely absolved of the charge of having sworn falsely that the bank did not engage in the business of buying and selling stocks, and the bank is similarly absolved of the charge that it speculated in stocks on its own account.

While the verdict brings complete vindication, it contains no recompense for the vicious affront contained in an unwarranted indictment or the advertisement of corrupt acts. The Comptroller of the Currency has said that with this phase of the case he had nothing to do. In his latest written statement in regard to it he declared that "these officers were indicted by the grand jury for 'felonious, wilful, malicious and corrupt' false swearing. With this criminal case I am not concerned; it is with the Department of Justice. Its results cannot affect me one way or the other."

Nevertheless, the Comptroller of the Currency is concerned with the case and with this phase of the case. It was his case from the beginning. His responsibility is not less, because he is the defendant in the civil suit which the plaintiff bank officers were goaded into starting by his tyrannies. His position in the criminal proceedings was that of complaining witness, whether he held that legal position or not, and he is the party defeated by the verdict of the jury. If official influence had not been behind the prosecution, the indictment would never have been returned by the grand jury. This statement could not be made before the case had been decided because only the officials of the Department of Justice and of other departments knew the nature of the evidence and its inadequacy. But everybody knows it now and the honesty and sincerity of the legal advisers of the government do not mount to large proportions under inspection of this manifestation of their use of the law's machinery. In a case where the evidence adduced is so scant as to merit only a moment's consideration by the jury, the foundation for an indictment is too flimsy to stand unless other purposes are to be served.

The other phase of the legal proceedings involved two questions, according to Comptroller Williams. In an article explanatory of his position, in the *Wall Street Journal,* he said:

> The two questions now pending in that case are whether the court has the right to review the acts of an administrative officer; and, if it has such right, whether the fine of $5,000 imposed on the Riggs bank by me for failure to comply with the law, as I understand it, shall be enforced or set aside. These are the issues at this writing pending in the civil suit.

The attorneys for the bank regarded the decision of the civil case as the bank's victory. The Department of Justice gave out a statement interpreting the decision as a victory for the government. The bank made contentions that failed and the government made contentions that failed, but on the Comptroller's statement of the points at issue the bank won. The court reviewed the acts of the administrative officer and continued the injunction forbidding the covering into the treasury of the $5,000 of the bank's money which the Comptroller had illegally seized. Inferentially the Comptroller is forbidden to impose further fines for similar alleged failures to comply with his orders. Such fines would amount to $150,000,000 or more. The bank is also presumably relieved from continuous examination, from petty persecutions and from constant interference with its affairs, although there is nothing in the decision which directly forbids the Comptroller to continue his annoyances.

The charter of the Riggs bank expires by limitation at the end of June. It is reported that arrangements have been made for taking out a state charter on the assumption that the Comptroller will refuse to grant a new one under the National Bank Act. Early in April the Comptroller was asked if he would grant a new charter to the Riggs bank. His reported reply was:

> This office has received no application for a renewal of the charter of the Riggs National Bank; and no statement has been made by the Comptroller to the effect that an application would be refused if the bank's condition at the time of filing the charter should be solvent, and if the proposed officers and directors of the bank should be men of character, integrity and unblemished reputation.

This same statement might have been made for general application to all banks requesting charters or renewals of charters. But the inference is too obvious. The Comptroller would not consider the request if the proposed officers and directors were not "of unblemished reputation." A man under indictment is not the possessor of an unblemished reputation. But the blemish in this case was removed by the verdict of the jury after a trial in which the decision came before the expiracy of the bank's charter.

The Riggs bank case in all its phases is of general interest because it seems to mark a sort of climax of John Skelton Williams' tyrannical exercise of the powers of the Comptroller's office. There are few banks that have escaped his desire to assert his egoistic notions. His effrontery covers about every form of expression from prying into bank officers' private affairs to delivering insults for the mere love of it.

These things are annoying rather than consequential. Once in a century any public office may be so encumbered. The demand for the abolition of the office of Comptroller of the Currency finds its force in none of the acts of John Skelton Williams. The office was made obsolete by the Federal Reserve Act. No system or organization can have two independent heads. Bank examinations can be better performed by the reserve banks. Statistics can be better gathered by the Federal Reserve Board. Persecutions, tyrannies and statistical misinformation are not necessary to the progress and welfare of the country's banking system and bankers can get along without insults once they have become accustomed to the change.

A. D. W.

GROUP BANKERS ASK FOR REDUCTION OF RESERVE REQUIREMENTS AND RETURN OF PAID-IN CAPITAL

Group VI of the New York State Bankers Association at its annual meeting at Warwick, N. Y., May 20, adopted three resolutions bearing on important phases of operation of the Federal reserve system. The first urged an amendment to the Federal Reserve Act reducing the amount of reserve required to be carried by member banks; the second asked for an amendment directing the return of the reserve banks' paid-in capital stock to the members; and the third expressing opposition to the proposed plan of par collections. The resolutions follow:

I. Resolved, that the bankers comprising Group VI. of the New York State Bankers Association heartily endorse any legislation that will amend the Federal Reserve Act in reducing the amount of reserve required to be carried by the members of the Federal reserve system in the Federal reserve banks and respectfully urge their representatives in Congress to use every honorable effort to have the Federal Reserve Act so amended.

II. Whereas, the banks composing Group VI. of the New York State Bankers Association are of the opinion that as the United States Government is the only creditor of the Federal reserve banks other than the member banks who are the only stockholders of said banks, the Federal reserve banks and system can be successfully operated without the use of any *paid-in* capital.

Resolved, that Group VI. urge its senators and representatives in Congress to introduce or support legislation that will amend the Federal Reserve Act by directing that the paid-in capital be returned to the member banks and authorizing the Federal reserve banks to operate without paid-in capital.

III. Whereas, since its inception it has been told and reiterated by the officers and others in authority that the Federal Reserve Act had especially in mind the interests of the country banks when the act was framed.

Resolved, that we, the members of Group VI. of the New York State Bankers Association in meeting assembled hereby go on record as being opposed to the par collection plan as proposed by the Federal Reserve Board as it is unfair to the country banks by entailing a direct and heavy loss and benefiting only the larger city banks; and

Resolved, that the Secretary of the association be instructed to send a copy of these resolutions to each bank in this state advising that these or similar resolutions will be introduced at the annual convention of the New York State Bankers Association at Atlantic City, June 9, 1916, and urge that they lend their support.

Federal Reserve Board Is Doing Its Best Handicapped By a Defective Law

Explanation of the Position of the Federal Reserve Notes in the Currency's Circulating Medium—Federal Reserve Bank Notes Issued as One Way of Earning Expenses and Dividends.

IN the May number of the *Federal Reserve Bulletin*, issued by the Federal Reserve Board, is an article in explanation of the position of Federal reserve notes in the country's circulating medium. Whether or not the article was intended to counteract the impression that there is a currency inflation is not made clear, but it gives figures and information which are interesting. The article says that "careless reading of the monthly statement issued by the Treasury Department, showing the total amount of money and currency in circulation, is responsible for certain mistaken inferences with respect to the status of Federal reserve note issues in the country's circulation." The article continues:

That there has been a marked increase in the amount of money in circulation is made clear by the figures compiled by the Treasury Department, but careful analysis shows that the increase is represented almost exclusively by the increase in the amount of gold certificates in circulation, representing gold held in the treasury, the net addition to the total volume of currency made by the Federal reserve notes being an insignificant fraction. The statement issued on April 1, indicates that the general stock of money in the United States increased between April 1, 1915, and April 1, 1916, by $455,205,000, of which $440,622,000 represents the increase in the amount of gold coin and bullion held in the treasury. The increase of money in circulation during the same period was about $433,003,000, of which $365,900,000 represents the increase in the circulation of gold certificates.

Included in the total stock of money is the amount of Federal reserve notes issued by the government to the Federal reserve banks. The statement indicates an increase by $148,647,000 in the amount of such notes issued during the year, and an increase of $147,091,000 in the amount of such notes in circulation. The latter amount is arrived at by deducting from the amount of notes issued to the banks the amount held in the treasury among the assets of the government.

The circulation statement also shows in a separate column the amount of gold held by the Federal reserve banks and the government against Federal reserve notes issued. This amount increased during the last twelve months from $35,151,000 to $173,558,000, i. e., by $138,407,000. It may be seen, therefore, that while the circulation statement indicates an increase of $147,091,000 in the circulation of Federal reserve notes, it also indicates that of this total no less than $138,407,000 merely took the place of gold or gold certificates, which were withdrawn from circulation and impounded in the vaults of the Federal reserve banks and of the government. If it is desired to determine the share of Federal reserve notes in the total increase of circulation, the only proper method is to off-set the increase in the circulation of these notes by the increase in the amounts of gold in the hands of the Federal reserve banks and the government and held as security against the Federal reserve notes issued. This is shown in the following exhibit:

	Apr. 1, 1916	Apr. 1, 1915	Increase
Federal reserve notes in circulation	$187,728,000	$40,637,000	$147,091,000
Gold impounded against Federal reserve notes issued	173,558,000	35,151,000	138,407,000
Net addition to total money in circulation	14,170,000	5,486,000	8,684,000

It is seen that the net expansion in circulation which may be properly imputed to Federal reserve notes is $8,684,000 for the 12 months between April 1, 1915, and April 1, 1916. Additional light upon this question of "inflation" is thrown by an analysis of the Federal Reserve Board's bank statement for April 14, 1916, from which the following pertinent data are gleaned:

Federal reserve notes issued to Federal reserve banks	$186,761,000
Of this amount there are secured by 100 per cent. deposit of gold	176,883,000
The remainder	9,878,000
is secured by 100 per cent. of commercial paper and $3,951,000 of gold, which is 40 per cent. of the paper-secured notes.	
The Federal reserve banks have on hand $22,526,000 of Federal reserve notes.	
The amount of Federal reserve notes in actual circulation is thus less by	12,648,000
than the $176,883,000 of gold withdrawn from circulation, and held by the government against Federal reserve notes outstanding.	
The Federal reserve banks have bought up to and including April 14, 1916, United States bonds, most of which have the circulation privilege, amounting to	48,158,000

Practically all of these bonds were sold by national banks which formerly had circulation out against them, which circulation has now been retired. The Federal reserve banks have taken down Federal reserve bank-note circulation against a portion of these bonds, but in some cases this has been done simply for emergency purposes, and the Federal reserve bank notes not actually issued.

The actual amount of Federal reserve bank notes in circulation as of the 14th day of April was $1,423,000. The reason why the circulation statement shows more than this is because Federal reserve bank notes, when issued by the Treasury to the banks, are treated "as issued" even though held in the vaults of the bank.

In a communication to the JOURNAL an ardent supporter of the Federal reserve system expresses the opinion that the statements which have been made about inflation are largely due to misunderstanding of the somewhat blind statement issued by the Treasury Department. Speaking particularly of the activities of the Kansas City bank in forcing out Federal reserve bank notes this correspondent says:

"There are four general ways in which a reserve bank may invest its funds in order to earn its expenses and, if possible, its dividends. The first and most important way, of course, is in the rediscounting of bills of a member bank; the second, the purchase in the open market of bills of exchange, bankers' acceptances and the like, or what is called 'bought paper.' The third is the purchase of municipal warrants under restrictions laid down by the Reserve Board, and the fourth is the purchase of government bonds. The consolidated statement of the earnings and expenses of the Federal reserve banks, which appears in the May issue of the *Federal Reserve Bulletin*, shows that the total earnings for the quarter ending March 31 are derived, 34.2 per cent. from bills discounted, 20.2 per cent. from bills and acceptances purchased in the open market, 20.5 per cent. from municipal warrants and 19.6 per cent. from purchases of United States bonds. It will also be noted that, except for the three southern banks, very few of the Federal reserve banks have had an active demand for the rediscounting of commercial paper. The reason for this is obviously that there is such an abundance of money that very few banks in the north and west have had occasion to call on their Federal reserve banks for help. Rediscounting is the primary function of a Federal reserve bank and it is the preferable form of profit making for the simple reason that the yield is much better than from either of the other three forms of investment. The Federal reserve banks cannot stand idly by because there is no demand for rediscount and, in view of the cumulative feature of the dividend requirements, it is important that they should enter the open market.

"You will find that the average interest rate on discounted paper is over 4 per cent., whereas the rate on municipal bonds is about 2.5 per cent. and the rate on the other two forms of investment only about 2 per cent. Another point which it is important to bear in mind is that when a reserve bank rediscounts paper for its member banks, it can issue notes against the paper so discounted or give a book credit to the borrowing bank. Similarly if it invests its money in government bonds, it can take down bank note circulation against the bonds, and if it is willing to pay the tax on the circulation, it can issue its bank note circulation at will. If, however, it buys bills or bankers' acceptances in the open market, or municipal warrants, it holds a liquid form of investment, but one against which it can give neither a book credit nor issue currency.

"In the discussion of an elastic currency it is frequently contended that one of the objects of the friends and framers of the Reserve Act was gradually to do away with the national bank circulation by retiring the bonds, converting them into 3 per cent. bonds and notes which do not have the circulation privilege, and so permit the Federal reserve notes to occupy the field. That is not a complete statement of the case but it is correct as far as it goes and I agree with it. If, then. that is the policy of the Federal Reserve Board why is it that the Board has encouraged the Federal reserve banks to buy government bonds? The reason is that the purchasing bank can either hypothecate the bonds and receive gold or issue currency against them. The Board has encouraged the banks which do not have an active demand for rediscounts to exercise their privilege of purchasing government bonds. The Board has not encouraged the issue of Federal reserve bank notes against the bonds but it has seen no objection to taking out the circulation and keeping it on hand against a time of stress or of active demand. In some cases the banks have followed the Board's suggestion and have gone even farther than the Board recommended. In other cases they have bought few, if any, bonds. The total purchase of government bonds and notes on April 21 was $49,004,000 against which the combined paid-in capital of the reserve banks is 112 per cent.

"There is one feature of this problem which is well worth study. It has frequently been argued that the national bank currency is inelastic and, therefore, objectionable. There is no doubt of this, but it is pertinent to state that in some measure this is due to the fact that this form of currency is issuable by 7,600 banks—by many of them in very small quantities —and, there being a good deal of red tape about the issue and redemption, there is little inducement for a small bank to own government bonds unless it can push out circulation against them. They do not see any profit in owning the bonds as a fixed investment on a 2 per cent. basis.

"These conditions do not obtain with a Federal reserve bank. Let us assume that the $700,000,000 of national bank circulation were issued not by 7,600 national banks, but by only twelve Federal reserve banks; let us assume that this equivalent in government bonds were all held by the Federal reserve banks as an investment to be converted as rapidly as the government would permit into 3 per cent. bonds without the circulation privilege; let us bear in mind the fact that 64 millions of 3 per cent. bonds with the circulation privilege fall due in 1918, that 118 millions of 4 per cent. bonds fall due in 1925 and that other issues of 2 per cent. bonds fall due in 1930 and 1936, and that all of these and other bonds with the circulation privilege were held by the Federal reserve banks instead of by the national banks. In this event the Federal reserve banks would control all the circulation that could be issued against these bonds. If this were true could not this circulation be handled in as elastic a manner as the Federal reserve notes? If, for example, the Federal Reserve Bank of Chicago had 50 millions of Federal reserve bank notes in its vault to be issued only in emergency, or to meet the demand for currency in crop-moving periods, it would have the option of giving the bank asking a rediscount a book credit, or Federal reserve notes, or Federal reserve bank notes. It is not unlikely that within ten years all the national bank note currency will be retired and Federal reserve bank note currency will have been substituted for, say, half of it. When that step shall have been taken it will be apparent that, instead of having two kinds of currency issued by the Federal reserve banks, there will be only one; for example, Federal reserve bank notes, issued against gold, or against commercial paper, with a gold reserve, or against government bonds, with a gold reserve or redemption fund."

The communication printed above is presumably a fair interpretation of the policy of the Federal Reserve Board, as is the explanation in the *Federal Reserve Bulletin*. Both statements seem to indicate that the Federal Reserve Board has done the best that could be done under the handicaps imposed by a defective law. In the JOURNAL of the American Bankers Association the question of inflation has been discussed with some diffidence because the evidences of inflation are not contemporaneous with its occurrence. The evidence follows the occurrence and comes in the form of the penalty of depression, liquidation, unemployment and commercial failures. If there are not penalties, if after a period of great industrial and commercial activity the process of readjustment does not cause upheavals of the kind mentioned, it is fair to say that there was no inflation.

But in relation to the elasticity of the currency and to the redundancy of the circulating medium, the situation is quite different. The friend of the Federal reserve system states that there is so much currency in the country that the reserve banks have had few calls for rediscounts. This statement is undoubtedly correct. It must be remembered that the first purpose of the Federal Reserve Act was to create an elastic currency. An elastic currency is one which contracts and expands in exact accordance with the demands of commerce and industry for banking accommodation. If a currency system is perfectly elastic there is never too much currency. It is only when the currency system is inelastic that the condition which has existed in this country for a year is possible. The reason for this inelasticity of the present currency system is that Congress left all the currency elements there were in existence and added to them two new forms—Federal reserve notes and Federal reserve bank notes. It is a fair conclusion that Congress' definition of an elastic currency was one that would expand. No provision whatever was made for contraction except as to Federal reserve notes. The demand for Federal reserve notes, as indicated by the utilization of the privilege of rediscount, has been so small as to be negligible. This situation forces the conclusion that there has been continuously in this country, since the retirement of the Aldrich-Vreeland notes, at least as much currency as was necessary, and perhaps more.

If the currency were elastic, the great increase in the gold supply, as the result of the unprecedented demand for American goods in Europe, would have had no other effect than to force the retirement of other forms of currency. As a matter of fact, the plethora of currency, supplemented by this influx of gold, has forced the Federal Reserve Board to make an ingenious use of a power which was conferred with no thought of the appearance of such a condition. The Board has pointed the way and encouraged the Federal reserve banks to impound gold and to issue, as a substitute for it, Federal reserve notes. The advantage in this lies in the fact that the Federal reserve notes are not reserve money and cannot be used as the base upon which to build up a credit structure. Nothing has given a more practical demonstration of the fact that the currency is inelastic. It is a confession by the Federal Reserve Board of its belief that the situation was one that called for unusual care. Conditions have justified the wisdom of the action and yet this policy of issuing Federal reserve notes, except in response to rediscounts, is in itself an impairment of the elasticity of the only currency element, except gold, that is elastic. It prevents the quantity of Federal reserve notes from rising and falling in response to the demands of business. As a substitute for gold these notes are bound to stay out or they must be reissued as soon as they come back to the issuing bank.

The statement that the circulation issued against government bonds would be elastic if the bonds were in the hands of the twelve Federal reserve banks, instead of in the hands of 7,600 national banks, simply begs the question. It is the presumption that they will be transferred to the reserve banks at some time in the future. As only about seven per cent. of them are in the hands of the reserve banks now, there is no prospect of immediate relief or of an increase in the measure of elasticity of the currency as the result of such transfer. It has been pointed out in this JOURNAL that the provisions of the Federal reserve bill, as it passed the House, forbade the issue of notes against government bonds. The privilege of so doing was the work of the Senate, which seems to have been obsessed with the idea that there could not be too much currency. Under the existing conditions bond secured circulation, whether it is issued by 7,600 national banks or by twelve Federal reserve banks, promises to be as much of a bugbear as it was before the Federal reserve law was enacted. The point made in the communication quoted above, that with the bonds in the hands of the reserve banks, circulation can be issued or not issued, as conditions demand, is well taken if dependence is placed on human judgment instead of the operations of economic law. In considering plans for the reformation of the currency system, expert effort was directed toward the possibility of eliminating human judgment, so far as it was possible, and substituting therefor the impersonal operation of a scheme which would work with automatic precision. How far the Federal Reserve Act is from attaining this result is indicated by the arguments and explanations which have been quoted.

Whether or not there is inflation of the currency and whether or not the inflation is dangerous are questions quite apart from that of an elastic currency. An elastic currency is still far from realization and perhaps the strangest thing in the whole situation, is that crude and cumbersome methods are being evolved to produce a desirable currency condition. To secure elasticity of the currency is neither a difficult nor abstruse problem. The retirement of the greenbacks, at a cost to the government of a bond issue of less than $200,000,000, and the refunding of the bonds bearing the circulation privilege into three per cent. bonds without the circulation privilege, would be all that is necessary. The price which the government is paying, if it amounted to anything at all would be very small in comparison with the value of the result.

A. D. W.

Par Transfer of Funds May Force More Economical Check Collection Methods

Arguments Advanced in Favor of Proposed Plan by Those Charged with its Execution—Present System of Collecting Checks a Product of the Old System of Redeposited and Pyramided Reserves—The "Float"

WHEN the representatives of the clearing houses, and state bankers associations of the country met with the Currency Commission of the American Bankers Association in Chicago, in August, 1913, to discuss the provisions of the then pending Federal reserve bill, they gave consideration to the provision for the par collection of checks. Bankers were then, as they are now, apparently opposed to any plan which interferes with the existing arrangement. In giving expression to its views of what the bill should contain in regard to check collections, the Chicago meeting changed the provision of the bill to read as follows:

"It shall be the duty of every Federal reserve bank to receive on deposit at par checks and drafts drawn upon any other Federal reserve bank."

All the remainder of the provision as to check collections was eliminated. That was the best expression of the views of bankers at that time.

In the course of what is known as the "money trust investigation" by a committee of Congress of which Representative Pujo was chairman, the question of exchange charges for the collection of checks was looked into and the committee secured evidence which purported to show that the banks in the central reserve cities, and particularly in New York, made large and unwarranted profits out of their charges for collecting checks. It was the common supposition that this investigation was conducted with a view to securing information upon which could be erected legislation that would punish the New York banks for their alleged vicious operations or would force just treatment to business men. Whichever was the case depends upon the point of view.

The findings of the Pujo Committee had a decided influence on the making of what is now the Federal Reserve Act. The provision in the first House bill was drastic. It was designed "to establish par transfers of funds among the banks in each Federal reserve district," and "to establish par transfer of funds between Federal reserve districts."

In explaining this provision Congressman Glass said in his report:

> Precisely how much difficulty and cost will be incurred by the Federal reserve banks in carrying out the provisions of this section cannot be precisely calculated. It can, however, be positively stated that such expenditures will be very much less than those incurred by banks at the present day in carrying through their exchanges. The proposed provision will eliminate the numerous and well founded complaints of unjust charges for exchange; and, while it will prevent certain banks from profiting as they now do by exchange transactions, it will correspondingly benefit the community. The committee is well aware that the operation of this section will undoubtedly relieve some members of the community of greater burdens than others. It does not, however, consider the fact that some persons have been suffering an unnecessary burden under existing circumstances, a good reason for refusing or failing to provide for an important public function.
>
> That this function of exchange may be effectively carried out, and that other duties connected with relations between the several banks of the system may be wisely, promptly and effectively carried through, the proposed bill confers upon the Federal Reserve Board the power to require each Federal reserve bank to perform the functions of a clearing house and at its discretion to require some one of them to act as a clearing house for all the others or at its own discretion to act as a clearing house itself.

When the Senate Committee on Banking and Currency took up the discussion of the collection of checks, information was at hand to show that the losses from exchange charges would fall, not on the city banks, but on the country banks, and if there were losses as the result of any new plan of collecting checks the country banks would bear them. In his explanation of the Senate measure Senator Owen said in regard to this subject:

> The House bill proposed to clear checks and drafts at par, but we propose an amendment providing that checks and drafts sent to the Federal reserve banks by member banks may be cleared, allowing the Federal Reserve Board to fix the charge which may be imposed for the service of clearing or collection rendered either by the Federal reserve banks or by the member banks, and with a provision that the Act should not be construed to prohibit member banks from making reasonable charges for checks and drafts debited to their account, or for collecting and remitting drafts, or for exchange sold to its patrons. In this way the reserve banks are not put in competition with the country banks, but can serve them and their customers at a fair price. This amendment should remove the very serious objection of many of the country banks to the House provision, which they thought would interfere with their right to charge for exchange in making remittances.

As the bill was recommended by the Senate committee the provision as to check collections read: "Every Federal reserve bank shall receive on deposit from member banks," etc. At the insistence of the House this sentence was changed by inserting the words "at par" after "deposit." The Senate committee also recommended this reading: "Nothing herein contained shall be construed as prohibiting a member bank from making reasonable charges for checks and drafts so debited to its account, or for collecting and remitting funds, or for exchange sold to its patrons."

This provision was changed in conference to read: "Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds," etc.

The House insisted on par collection and yielded only to the extent of permitting the "actual expense" to be charged and imposing upon the Federal Reserve Board the obligation to fix the charges to be collected.

It is unnecessary to go into the history of the preliminary attempts to collect checks. The plans are recent and well known. It was the announcement of the Federal Reserve Board last month of its intention to install the par collection system on June 15 that has interested bankers and caused some consternation. Some weeks ago it was announced that the Federal Reserve Board had asked the Attorney-General of the United States for an opinion as to its powers to compel member banks to use the Federal reserve banks as clearing agents. This opinion has not been rendered and it is reported that it will not be. The compulsory plan has apparently been abandoned. There is no suggestion of compulsion in the announcement of the Federal Reserve Board. Member banks can use the new system or not as they please, but it is the belief that those banks that do use it will have such an advantage in the competition that rival banks will be forced to follow suit.

During the time of the annual conventions of state bankers associations no subject has received the attention that has been given to the proposed check collection plan. No matter what the subjects that were up for discussion the talk invariably veered around to check collections. At the Texas convention the time was too short to permit the full discussion of the subject and a supplementary meeting was called for May 24. At the meeting of the Executive Council of the American Bankers Association at Briarcliff the report of the Clearing House Section precipitated a discussion, the outcome of which was the appointment of a committee of five, which went to Washington and asked the Federal Reserve Board to postpone the date fixed for the installation of the system. Protesting resolutions have been numerous, but while many bankers are plainly opposed to the plan, there are others who see in it progress and the first steps toward the working out of a more economical system of check collection.

Officers of the Federal reserve banks have been called upon to explain the plan, and what they have said has been listened to with close attention, if not always with approval. The trend of the arguments in favor of the proposed plan is more interesting than the arguments against it, because the pro arguments are not so obvious or frequent as the others.

THE ARGUMENTS IN FAVOR

The question of check collections cannot be considered by itself. It is intimately connected with the matter of reserves, for instance. This gives it standing as a banking problem. It is also concerned with the float of checks. The diminution of the amount of float is most desirable as increasing economy and efficiency. Bankers are interested in reserves because reserves mean safety and stability. Increase in safety and stability through the proper utilization of reserve resources was a primary purpose of the Federal Reserve Act. If a better, more adequate and more economical system of check collection will also improve the reserve situation it is doubly desirable.

The present system of collecting checks is a product of the old system of redeposited and pyramided reserves. It was a bad system. It contributed to the intensity of panics if it did not cause them. When the last installment of reserve money has been paid into the Federal reserve banks there will have to be a change in the procedure of check collections. Balances with reserve and central reserve city correspondents will no longer count as reserves, and checks sent such correspondents for collection cannot be counted as reserve as soon as they have been mailed. Obviously checks in process of collection are poor reserve resources. In times of stress in the past this plan has influenced bad situations to make them worse. If the reserve scheme of the Federal reserve system is an improvement over the old one, it is plain enough that its value would be seriously impaired if there was to be any surrender of the rule that the only real reserves are cash, and credit at the reserve banks which may be transformed into cash or into currency.

The perfection of the reserve system, therefore, requires adherence to the reserve provisions of the Federal Reserve Act. There will be such adherence to these provisions unless pending amendments to the Reserve Act, introduced by Representative McFadden and Senator Pomerene, are passed. They probably will not be passed because the Federal Reserve Board is opposed to them. These amendments would permit country banks to count as reserve balances with correspondents three per cent. of the twelve per cent. reserve required, and would, therefore, permit the retention of the present system of collecting checks. Without these amendments, as soon as the last installment of reserve money has been paid to the reserve banks, country banks will have to carry balances, which will not count as reserves, with city correspondents and collection agents, if the present system of check collections is to be continued.

Pierre Jay, reserve agent of the New York reserve bank, in a recent address, explained the relation between the "pyramided" reserve system and the check collection system which permits "the conversion into reserves of checks payable in other places." Mr. Jay said:

> The country bank sends out-of-town checks to the reserve city bank and counts them as reserve as soon as they are in the mail. The reserve city bank sends some of these same checks on to the central reserve city bank and counts them as reserve as soon as they are in the mail. Consequently the same check in transit frequently acts as reserve for both a country bank and a reserve city bank. Competition for the accounts of country banks has led city banks to buy their out-of-town checks and give them immediate credit for items which often take a week or more to collect. Competition and the desire for large footings has often led city banks, in order to maintain reciprocal relations with country banks, to keep balances with them for which they could have no possible use. Checks often reach their destination by circuitous routes, thus greatly increasing the volume of uncollected checks outstanding.

The practices described by Mr. Jay obviously increase the quantity of inter-bank deposits and the deposit liability of all banks. It makes it impossible to gain a comprehensive view of the whole banking structure. The item of "float" is quite as baffling as the "fiction" in the counted reserve under the old system of redepositing. The "float" of checks in process of collection is estimated at the constant sum of $300,000,000. Counted as reserves it falsifies the real position of the banks.

The proponents of the par collection of checks insist that the adoption and use of the proposed plan is necessary if the reserve system is to be given stability and soundness. They add that by direct routing and saving time the volume of float will be reduced to the general advantage. And they argue that the profits from exchange charges are not so large as bankers suppose. In the address referred to, Mr. Jay said:

> I am inclined to think that under careful analysis the earnings from exchange would often shrink materially. But admitting substantial earnings from exchange, let us ask whether the charge is a legitimate one. The country banker replies, naturally, that the check is payable over his counter and not in New York. But this reply is not conclusive and the following questions are asked: What is it payable *in* over the counter? Is it not payable in cash? Assume that for a month all the checks drawn by his customers and sent out of town are presented over his counter for payment in currency, how long would his vault reserves last in meeting them? How long would it be before he would have to ship in currency daily with which to settle for these checks? The more one studies it the clearer it seems that the most economical way for the country bank to pay its checks is to pay them exactly as it now does, by offsetting them with the checks that are deposited with it. But as no expense beyond clerical salaries and postage is incurred in this method of settlement, the conclusion seems inevitable that the exchange charge is not a reasonable and legitimate charge for services rendered.

The Reserve Board is so sure that the usual process of payment is by offsetting checks deposited against checks presented that it has permitted country banks, in the proposed plan, to ship currency for settlement to the reserve banks at the latters' expense.

Another item to which the country bank has given too little attention is the balances it must carry with reserve or collection agents. In a discussion of the question at a meeting of Group VI of the New York State Bankers Association, one country banker said that there was a fallacy in the figuring of profits from exchange. He pointed to the fact that the collecting banks did not perform the services they render for nothing. These banks analyze their accounts and if the expense of collecting a country bank's checks exceeds the profit to be made from the balance it carries there is an instant demand for an increase of the balance.

"We get two per cent. on these balances with collection agents," said this banker. "Out of the balances they earn enough to compensate them for the work of collecting checks and something more. They don't work for nothing. Whatever the cost of collecting checks is someone pays it. We may be sure of that. My problem now is whether I can't earn more on that balance than two per cent. when I bring it home. Isn't it worth as much to me as to my correspondent? To him it is worth the expense he incurs in collecting my checks, plus the two per cent. he pays me, plus whatever his profit is. If I can lend an amount equal to that balance at six per cent. I think I would be better off. I want to try this par collection plan."

Obviously the country banker who thinks he has an exclusive and peculiarly favorable arrangement with his correspondent for collecting checks at par, is required by that correspondent to keep an actual balance at all times. The earnings from this balance enables the reserve city bank to pay: (a) All the exchange imposed upon checks sent for collection, (b) whatever interest is allowed on the balance, (c) all the expense of making collections, (d) some profit for the work and risk.

Country banks must begin to analyze and find out if their theoretical profit from exchange is not offset by loss of earnings on their collection balances.

The possibility of earning more than two per cent. on balances carried with correspondents by withdrawing them for loaning purposes would have a stronger appeal if the Federal reserve system were perfect. The situation in this respect is very similar to that caused by the reduction in reserve requirements. Country bankers customarily assert that the reduction in reserve from fifteen to twelve per cent. has not been of particular benefit to them. One of the reasons that prompted Congress in making this reduction was to compensate country bankers for the loss of the two per cent. on reserve balances with correspondents. The money market has been so easy, however, and surplus reserves so high that the compensation has not been noticeable. Conditions would have been different if the Reserve Act had provided for a really elastic currency. If the contraction in the currency, which conditions demand, had been possible, there would have been more rediscounting, higher interest rates and a better standard by which to measure the effects of reduced reserve requirements. It is the same as to the balances carried against collections. Returned to the country banks, the profits that could be earned on these amounts in excess of two per cent. might be problematical, but it seems clear enough that if they could earn six per cent. the country banker would be better off than when he pays the cost of collecting checks with them.

A common query from country bankers is: If our correspondents can give us immediate credit for checks, why can the reserve banks not do the same? Governor Strong, of the New York reserve bank, has answered this question. He said:

> This immediate credit on the books of the reserve city bank or the central reserve city bank makes the transaction in effect the purchase of the checks by the correspondent bank. Correspondent banks, as a matter of fact, invest their money in those checks as soon as they place the amount to the credit of the country banks. This process of buying checks has imposed upon the reserve city banks the obligation of keeping constantly invested in uncollected checks an amount estimated at $300,000,000. This burden is distributed among thousands of banks, whose aggregate resources are billions of dollars. There are only twelve Federal reserve banks and their resources are only $500,000,000. These twelve banks could not assume this $300,000,000 of float with-

out serious impairment of their resources. To undertake it would be to destroy the reserve system.

Country bankers have also contended that the clearing of items is not an essential feature of a banking system designed to provide an elastic currency and a ready discount market.

It is answered that while this contention is undoubtedly correct, the establishment of a sound banking system, with adequate resources, would be impossible without some provision for collecting checks. So wedded are the bankers to custom that they would not of themselves develop a new system. The stimulus of action by the Reserve Board is necessary to compel the change and make a test of what is believed to be a less cumbersome and more economical and sound plan.

The ideas of the Reserve Board in regard to checks of state banks were expressed by Dr. A. C. Miller, a member of the Board, in an address at the Missouri Bankers Convention on May 24 last. In this regard Dr. Miller said:

The only element of compulsion is that every bank, whether member or non-member, will be obliged to pay without deduction checks drawn upon it and presented at its counter for payment by the Federal reserve bank or its representative, either in acceptable exchange or in lawful money. [The copy of Dr. Miller's address reads "lawful money," but it is impossible to believe that he meant it.]

It has been estimated that as soon as the plan has been put into operation checks upon at least 15,000 banks—national banks, state banks and trust companies —throughout the United States can be handled at par through Federal reserve banks, subject to a small service charge. Par collections will be the rule. State banks whose checks cannot be collected at par will be a small and rapidly diminishing minority, and they will find it difficult to retain much good business when checks drawn upon them are at a discount, while checks drawn upon the majority of banks can circulate at par. The day is near at hand when checks upon practically all banks can be handled at par by Federal reserve banks.

CONFERENCE ON INTERNATIONAL ARBITRATION

The twenty-second Lake Mohonk Conference on International Arbitration was held at the Lake Mohonk Mountain House, Mohonk Lake, Ulster County, N. Y., May 17, 18 and 19, with 300 in attendance. This annual gathering brings together delegates and others, who are the guests of Mr. and Mrs. Daniel Smiley for the period of the conference. It quite resembles a large house party, and all who are so fortunate as to be present are made to feel that they are the personal guests of the ever hospitable host and hostess.

Lake Mohonk is one of the most picturesque resorts in the United States and the hotel is admirably suited for such a gathering. Built on rocky palisades at the edge of the lake, almost at the top of the mountain, with beautiful flowers and trees surrounding this hostelry, with endless drives, all productive of wonderful views, it offers a charming spot for the tourist.

All four of the business sessions of the conference were fully attended. Hon. James Brown Scott, LL.D., secretary Carnegie Endowment for International Peace, presided over the first session and Hon. William H. Taft, ex-President of the United States, presided over the remaining sessions.

The regular program contained many prominent speakers from the army, navy, universities, as well as professional and business men. Discussion under the five-minute rule followed each session. Hon. William Jennings Bryan was among the speakers of special note not on the regular program.

The topics discussed embraced all phases of the peace question, the World's Court League, the League to Enforce Peace, Arbitration and Conciliation. There was a wide divergence of opinion and consequently the platform adopted was most neutral in nature and founded on the traditions of former Lake Mohonk conferences, the keynote of which has ever been "International Arbitration."

Bankers are interested in this movement and a number of them (coming from all sections of the country) were present and took part in the deliberations of the conference. This representation included General Secretary Farnsworth, who was one of the delegates.

Permanent office of the conference is maintained at Mohonk Lake, N. Y., where Mr. Daniel Smiley presides, with H. C. Phillips as secretary.

The platform, which was unanimously adopted, is as follows:

The world conditions of the past two years have confirmed the belief, often expressed in these conferences, that arbitral and judicial methods should and must increasingly prevail in settling international disputes.

During the twentieth century the Permanent Court at The Hague has acted upon cases involving questions relating to Europe, Asia, Africa, the Islands of the Pacific and the three Americas. These questions involved financial and territorial claims, and such fundamental matters as the right to fly the national flag and to exercise jurisdiction over national military forces. These facts are clear testimony to the development of arbitration.

The tendency of this court at The Hague to become in reality permanent is evident from the fact there are eight judges who have sat in three or more of the fifteen cases and one judge who has sat in seven of the fifteen cases.

The conference desires again to affirm its belief in the desirability of such legislation by Congress as will confer upon the courts of the United States jurisdiction over all cases arising under treaty provisions or affecting the rights of aliens.

LEGAL INTEREST RATES IN GEORGIA AND THE COUNTRY BANKER'S PROBLEM

Is it possible for a country bank in Georgia to earn a reasonable profit without charging more than the legal rate of eight per cent. on its loans? The president of such a country bank avers that it is not; the editor of the Atlanta *Constitution* and the Comptroller of the Currency assert that it is.

So far as the facts are concerned, the bank president in a letter to the Comptroller exhibits the earnings of his institution in detail, over a period of years, to prove his contention; while the editor of the *Constitution* quotes government statistics to show that "two-thirds of the country town national banks of this state admitted under oath that during the year 1915 they violated the usury laws of Georgia." Whether such violation occurred in the attempt to earn the reasonable profit referred to need not be discussed here. The point is that the country banker is firm in his belief that the law should be stretched or disregarded in his favor, while the newspaper is equally positive in its assertion that "if the law is a bad one it should be repealed; but while it remains the law of the state it should be both enforced and obeyed." There the issue is joined.

Before discussing the broader questions involved, it is pertinent to reproduce excerpts from the banker's letter to the Comptroller, as it presents the essential features of the case. At the outset, we are taken into the bank's confidence with this statement:

My letter of inquiry of March 3 was written at the request of the (twelve) directors of this bank. They were then, and are now, anxious to ascertain what to expect from you. They are representative business men of this community, held in the esteem and confidence of the people, and their business records are as clean as those of any set of bank directors in the country. They have never used this bank in any improper way to further their own business interests. Their borrowings have been reasonable—far less than their credit has entitled them to and than they could have obtained here or elsewhere. Their sole compensation as directors is only $2.50 each for each of the twelve meetings required by law to be held annually. The highest salary in this bank is that of the cashier—$1,860 per annum. The salary of the writer has never exceeded $1,000 per annum, and is now only $900. The writer has never borrowed a dollar from this bank—directly or indirectly—nor has any paper bearing his name as maker or indorser ever composed any part of its assets. These facts are mentioned to make it clear that this bank is operated legitimately, conservatively and properly, to serve the business interests of this community.

These directors do not care to be held up to public criticism and contempt, such as would result from action by you along the line you indicated in your statement to the congressional committee you might take. Neither the financial compensation nor the benefits that might flow from the honor of being director, president, vice-president, cashier or assistant cashier are in any way sufficient to justify them to be held up to public criticism and contempt as lawbreakers.

The banker then proceeds to show that "the usury question in the south will automatically solve itself when the south becomes prosperous like the east and middle west, and has a surplus of money":

This city and vicinity has banking competition in abundance—perhaps as much as has any city and community in the country. But it is not of the kind you mention. It is competition to get funds to loan to the borrowing public. That is the only kind of competition in banking that exists here. My conclusion is obvious, and is simply that the ancient law of supply and demand will control this matter. Why is it that the legal rate is twice as high in some sections of the country as in others—twelve per cent. in some of the far western states (Idaho, New Mexico, Washington, Wyoming, for instance) and only six per cent. in some of the eastern states (Connecticut, New Hampshire, Pennsylvania, Vermont, for instance)? And why is it that in many states in different sections of the country—far removed from each other geographically, climatically and in relative states of development and wealth and otherwise—there is no maximum rate beyond which interest may not be legally collected (in the east, Maine and Massachusetts, for instance; and in the far west, California, Colorado, Nevada and Utah)? And why is it that in the great state of New York, the financial center of the world, there is no maximum rate whatever beyond which interest may not be legally collected on demand loans of $5,000 and over?

The demand for money in this locality from the inception of banking has been far in excess of the supply. The banks have, therefore, been entirely unable to supply the demand. In addition, to command funds to loan to meet this demand the banks in this vicinity have from the beginning paid six per cent. on their time certificates of deposit in their savings departments. Nothing is, therefore, more demonstrable or clear than the proposition that when the supply of money in this vicinity becomes sufficient to meet the reasonable demands of the borrowing public, interest rates here will further decline. They have been declining for years. There are at present five banks in this city, and thirteen in this county. I, therefore, fail to see how banking competition could be more active here.

When banking began in this city time supply merchants were selling farmers on credit from spring until fall and charging them one hundred per cent. and over profit. Cotton and other products brought in from the farm were sold instantly at whatever prices might be had. The introduction of banking rapidly changed these conditions. There is now practically no business of this kind done here. Supply merchants and cotton factors have practically gone out of business. In addition, interest rates have steadily declined. Then certainly I am justified in the statement that the usury question will adjust itself here and elsewhere as conditions warrant.

The following figures as to the bank's operations are given:

The earnings of this bank were large up to May 9, 1912, when to comply with the national bank act that national banks must not borrow in excess of their capital stocks this bank increased its capital stock from $100,000 to $200,000 and its surplus from $50,000 to $100,000 Your profit figures must, therefore, fall entirely, for the reason that this $150,000 was paid in in cash at that time—a fact which you entirely ignore in your calculation. Your conclusions are incorrect. You must observe that this amount of $150,000 was paid in to this bank by its stockholders, and not earned. This bank has today

116 stockholders. All of them live in this county except nineteen owning 177 shares.

The conclusive answer to your statement that we could operate at eight per cent., or even at six per cent., and still earn a generous return is a mere recital of our operations since the increase in our capital stock to $200,000 and surplus to $100,000. Thousands of merchants and business men in this and other states in the United States have failed and gone out of business within the last four years who were very prosperous indeed four years ago. Conditions continuously change. What could be more unfair then than a statement based upon operations of this bank, thirteen, ten or five years ago? Railroads that were exceedingly prosperous five years ago are losing money now, and in proper instances the railroad commissions of the country are permitting them to increase their rates.

On May 9, 1912, this bank increased its capital from $100,000 to $200,000 and its surplus from $50,000 to $100,000. Since then its earnings and losses charged off have been, respectively, as follows: 1912 (last half), $9,446.06 and $0.001; 1913, $28,708.23 and $1,259.93; 1914, $22,382.53 and $7,344.48; 1915, $25,934.78 and $5,-208.17. We brought into the new organization $6,100.63 undivided profits. These figures can have but one meaning, and can be verified in your office. They are, of course, absolutely correct. In your calculation that this bank can earn on its present volume of business $35,000 net at eight per cent. interest you entirely overlook to take into consideration any interest paid by us on borrowed money and time deposits. We understand, however, how you were misled in this particular. In this respect our system of bookkeeping is to debit and credit each day extending only in one column the net interest instead of carrying it in two columns under heads of "Interest Received" and "Interest Paid Out." I mention this to show you clearly that the figures of $22,500 taken from our semi-annual return of earnings only represent taxes, rent, clerical expenses, stationery, etc.

The information we requested of you is how to operate this bank at a reasonable profit and not to charge in excess of eight per cent. interest. Since January 1, 1913, we have paid dividends of only eight per cent. per annum on our actual investment, and this has absorbed our entire earnings except $17,897.93. (On January 1, 1913, our undivided profits were $3,546.69, and they are now only $21,444.62.)

This bank made careful inquiry before entering business about the national system with special reference to the interest permitted to be charged. We ascertained that national banks in Georgia were operated exactly as state banks in Georgia were operated, that where conditions required a high rate to be charged it was charged; and we have never had our attention called to the matter of the rate we have been charging until you did so, although we have operated under several of your predecessors and have been examined regularly twice a year by national bank examiners who knew we were charging more than eight per cent. Our average interest rate has declined steadily. This decline has been brought about by improved business conditions. A plea of usury has never been filed by a customer of any bank in this city. We must, therefore, conclude that our customers are satisfied. The banks here have no compact or agreement of any kind with reference to rates—and have never had any.

The writer of the letter concludes with the assertion that the campaign of the Atlanta *Constitution* to restrict interest rates in Georgia to the legal rate "will probably not succeed because that would shut up half of the country banks in Georgia, and the farmer is not yet ready to go back to profits of one hundred per cent. and over to the time supply merchant."

The *Constitution's* editorial comment on this letter begins with the statement that if the position taken is correct, "it is difficult to see or understand why Georgia, or any other state for that matter, should have any usury laws at all." Why, indeed? It would be interesting to know by what method of calculation the Georgia legislature fixed on eight per cent. as a proper interest rate, rather than seven and a half, or eight and a quarter, or eight and three-quarters. James K. Lynch, President of the American Bankers Association, in the course of an address at the Pennsylvania State Bankers convention remarked that when banks first began to pay interest on bank deposits the rate was fixed at two per cent. largely as a matter of guess-work, but that it seemed to have worked fairly well as the gradual development of the analysis department revealed actual costs of handling accounts. Are we to assume, then, that the legislators of Georgia carefully worked out the cost of doing business and the element of risk involved in making loans in that state before determining on eight per cent. as the proper compensation to the lender? Or was it just guess-work?

The country banker states that the banks in his vicinity from the first have paid six per cent. on time certificates of deposit in order to command loanable funds, the demand for which has been far in excess of the supply. Economically speaking, "money" does not create business; on the contrary, with the exception of the gentlemen who still talk glibly about "government money," everybody knows, or ought to know, that the growth of business precedes the growth of the circulating medium. It is evidently a fair conclusion, therefore, that "when the supply of money in this vicinity becomes sufficient to meet the reasonable demands of the borrowing public, interest rates will further decline." In the meantime, with six per cent. being paid by banks for the use of money and the charge which they may make limited by law to eight per cent., the difference of two per cent. is expected to cover the cost of doing business, including such items as rent, salaries, clerk hire, stationery, postage, etc., provide a reserve against losses, pay dividends to the stockholders and furnish additional help for compiling information called for by the Comptroller of the Currency.

Georgia, or rather its country district, is merely paying the price of the undeveloped section. There are plenty such throughout the United States. Unfortunately, risk and cost of doing business are two elements invariably ignored by the champions of the oppressed borrower. It is true that the establishment of branch banks, as suggested by the Comptroller, might supply additional currency to the country districts; but it would also have the effect of putting the small banks out of business.

Usury, as such—usury that means taking an unfair advantage of the borrower's extremity—is indefensible and should be punished severely. But a complaint of usury cannot be entertained when a community in the first place demands a high rate for the use of its funds by a lending institution—witness six per cent. on savings deposits—which money must be reloaned for commercial uses at a rate at least high enough to pay for its own hire. Reform should begin at the source, with the people who demand six per cent. for their savings; but it won't, because the law of supply and demand will keep on working in spite of all that state legislatures and government officials can do or say to stop it.

There is plenty of currency to be had at the Federal reserve bank. But it isn't "government money" and it cannot be issued except under certain conditions. One of these conditions is the creation of rediscountable commercial paper, which in turn means business. To force banking institutions to the wall because, law or no law, they must meet conditions imposed by their very existence, seems a poor way to foster the business of a community. And the removal of the elements that go to make up competition is hardly conducive to the benefit of the farmer who in the past was forced to pay "profits of one hundred per cent. and over to the time supply merchant." G. L.

MERCANTILE FAILURES AND COMMERCIAL PAPER

The recent failure of Mills & Gibb, an old-established New York dry goods house, with an indebtedness of approximately $2,500,000 to banks, disclosed conditions which were so forcibly brought to the attention of the financial community two years ago when the Claflin bankruptcy was announced.

In both instances, the mercantile business was financed by the sale of the corporation's promissory notes, distributed by commercial paper brokers and readily purchased by banks for investment. In both instances, the banks holding the paper did not have a detailed statement indicating the financial standing of the corporation whose obligations they were buying. Both concerns were old-established, and their names were as well known in banking circles as in the trade, and few bankers and merchants ever thought it worth while "to look up" the credit standing.

The Mills & Gibb embarrassment is of considerable interest to banks from three points of view: First, it again emphasizes the importance of obtaining financial statements which are correct and comprehensive; second, it illustrates the superiority of two-name paper (particularly the acceptance form), the use of which the Federal Reserve Act seeks to encourage; and third, the event invites attention to the proposal made some time ago for the registration of commercial paper.

As regards furnishing financial statements, it is generally agreed that the time has passed when a large concern can say that it is too big or too proud to submit a statement, when seeking credit. Refusal to supply legitimate credit information is now looked upon as a confession of weakness. Most banks will not hesitate to insist upon statements, and the tendency is to insist upon reports audited by certified accountants. Banks no longer feel that unwelcome requests for statements may result in customers withdrawing their accounts. Fear of the loss of large deposit accounts was one of the explanations offered by bankers to the inquiry as to why lending institutions did not call for financial statements from the H. B. Claflin Company.

Although the Mills & Gibb notes sold to the banks contained the indorsement of the corporation's president and treasurer, they were not in conformity with the requirements for two-name commercial paper, which forms the basis for the issue of currency under the Federal Reserve Act. The new law contemplates the use of notes and drafts representative of actual business transactions, and not mercantile finance bills. The output of well recognized commercial bills is regulated by necessary legitimate requirements, and it is this very measure of output that in the large sphere of banking activity furnishes elasticity of the currency.

The bank buying or discounting a note or draft bearing the names of the seller and purchaser of goods knows what the proceeds of the transaction will be used for, and has evidence of the exact nature of the financing operation. This is not the case where a large corporation issues an omnibus collection of promissory notes and disposes of them to banks through the medium of brokers. Moreover, in the case of an actual business transaction—of the purchase or sale of goods—the bank has the indorsement to fall back upon, and any indorsement is better than none. It is safe to say that if the notes sold by the Claflin Company had had the indorsement of its customers, the banks holding them at the time of the failure would have had little trouble in collecting them.

The plan for the registration of commercial paper was initiated about five years ago. In brief, it provides for registration of a corporation's short time obligations in the same manner as that availed of in the registration of long term bonds. The registrar is usually a trust company. In New England, the registration of paper was started many years ago, but in New York the practice is of more recent adoption.

This scheme calls for a periodic audit of the books of the corporation issuing promissory notes under the registration system. Before the paper is offered on the market, it is sent over to the office of the trust company where it is registered and stamped and countersigned to indicate that the paper has been duly recorded. Among the advantages of the plan are: first, the bank buying the paper has knowledge of the fact that a company registering its obligations cannot through collusion, dishonesty of any of its officers, or otherwise, successfully float paper in excess of the registered amount; and second, the prospective buyer of the corporation's paper may at any moment, by telephoning to the registrar, ascertain the total outstanding notes of the corporation.

Why America is the Greatest Silver Producing Country in the World

Physical Peculiarities in Coastal States Bring About Natural Separation of Gold from Silver Countries—Steady Employment a Factor in Silver Mining—Recent Rapid Rise in Value of Silver.

By ALEXANDER DEL MAR

AMERICA, and especially the United States, is the greatest producer of silver in the world; and in all probability it will so continue as long as the Sierra Nevada Mountains stand and the mining of silver is not thwarted by untoward circumstances.

The lofty range of the Sierras extends from the northernmost boundary of Washington to the southernmost limit of California, a distance of about 1,500 miles. It really extends still farther north, into Alaska, and south through Mexico to the break at Panama, only to be continued as the Cordilleras of Latin America down to the extremity of the southern continent. But these limits are beyond our continental boundaries and need not at present be considered.

The 1,500 miles of snow-capped mountains within our Pacific borders are characterized by a feature which is physically peculiar and financially important. On their west slope, from the summit to the plains, their dominant metallic content, that one which furnishes the basis of coinage, money, exchange, banking and credit, is gold. On the east slope of the range the dominant metal is silver. There are no silver mines in California except where the political boundaries of the state stretch eastward over the Sierras Nevadas. This is the Mojave Desert. There are no gold mines in the state of Nevada, except where gold occurs in combination with dominant silver. This is usually high up on the flanks of the range, notably the Comstock mines of Virginia City; such a combination of the metals bearing the local name of "doré."

The Sierras are so lofty that they shatter the clouds of the Pacific and shed upon their own western slope those bountiful rains and resulting streams from which arises the prolific vegetation of the Golden State; the *Sequoias giganteas sempervirens*, those redwood monarchs whose tall heads and ample arches obscure the clouds; the sugar pines, maples and larches of the forest and the varied fruits and flowers of a semi-tropical climate. The search for gold is pursued in the midst of a veritable paradise. In many places it has invaded and destroyed the fruit orchards and vineyards.

Such is not the case with silver. Eastward of the Sierras no clouds may pass from the ocean, and hence no rains fall to refresh the alkali plains of the desert states. A few petty rills escape from clefts in the mountains and nourish here and there a starving and struggling ranch. All beyond is desert; arid, treeless and desolate. Its types are Dead Horse Canyon and Death's Valley; its monuments are the bones of perished men and animals, the wrecks of abandoned mines, the ruins and rubbish of deserted camps. It is from amid these mournful surroundings that hardy miners have wrested the bulk of that argentiferous wealth which has made the United States the mistress of silver.

Forty years ago Nevada produced in a single year nearly fifty million dollars' worth of silver and doré bars, toward which the Comstock lode alone contributed thirty-eight millions. ("Mon. Com.," 1876, i, 21.) That state is still the principal producer of silver and doré; but the conditions are becoming too hard to sustain its former affluence. Of the seventy-two million ounces of fine silver produced by the United States in 1914 (latest official statistics), Nevada is credited with sixteen million ounces, valued at scarcely nine million dollars. Add half a million for the gold in the doré and the entire silver and doré product of the state for the year only fetched a fourth of the old Comstock figures.

However, something has happened since 1914, when fine silver was valued in the mint reports at but 55⅓ cents per ounce. It is now worth 76⅞ cents (May 6, 1916); the sun is shining a bit brighter on the eastern slope of the Sierras; and the tired miner is dreaming of better times and redemption from the regions of alkali to civilization and a home.

The silver of Nevada is found in dry siliceous ores, often at great depths; the Comstock, for example, being a mile deep. Of the twenty-eight million fine ounces obtained throughout the United States from these difficult and sometimes dangerous (arsenical) ores in 1914, Nevada produced fifteen million ounces, Colorado six millions; the rest scattering. The lead ores of Idaho, Utah, Montana, Colorado, etc., produced twenty-seven million ounces; the copper ores of Montana, Arizona, Utah, etc., yielded about seventeen million ounces; grand total seventy-two millions. Only the healthiest and strongest men can work in such mines. Eight-hour shifts at fifty cents an hour is an inducement barely sufficient to hold them. The tendency is always to abandon silver for gold mines, in which the work is much lighter and where water and trees and homes abound. The sole consideration that binds a silver miner to his job is its permanency. Gold mining is adventitious; silver mining is steady and continuous. For example, the silver mines of Laurium near Athens, which were worked 2,600 years ago, are being worked today. Such is also the case with nearly all the great mines of Mexico, which the Spaniards opened in the sixteenth century. On the contrary, very few gold mines survive a lifetime.

Silver is quoted in the New York market at the price per ounce fine, in American gold coin. In London and Bombay it is quoted per ounce 37/40 (0.925) fine, in British gold coin; 76⅞ cents in New York quotation being reckoned the equivalent of 37 pence sterling in London, or vice versa. From September, 1913, to the beginning of 1915 silver fell almost continuously. In February, 1915, it stood steady at about 22⅝ pence per ounce. In March, when the Silver League addressed the miners of Tonopah, it had crept up to 23 pence. Not until November did it pass the two shilling mark. From that time onward the rise has been almost continuous. In other words, silver has risen in gold value during the past six months over fifty per cent.

What has occasioned this extraordinary rise? We quote from two authorities, one previous to the rise, predicting it; the other since the rise, confirming the cause assigned.

"Indications are not wanting that the demand for silver will henceforth increase. Gold everywhere in Europe is interned and legal-tender notes with but slender backing have become the universal money of the Continental world. The crux of the war is neither soldiers nor provisions, but money; and the men at the front will soon require for the support of their families something more reliable than war paper." (Circular of the U. S. Silver League, New York, March 15, 1915.)

"A noteworthy feature has been an almost continuous inquiry for silver for Continental coinages. Exports to the Continent (during the year), about 2,500,000 pounds; to India, 3,700,000 pounds sterling. The demand for home coinage has been very important, fairly continuous and most marked in the last few months. Total consumption for this purpose (coinage), 3,000,000, and for silver wares 700,000; imports, 10,960,000; exports, 7,200,000 pounds sterling." (Sharps and Wilkins London Annual Circular, December 30, 1915.)*

The latest (March and April) circulars from the same authority allude to increased "coinage orders for the (British) Government", continued "demands from the Continent" and the belief that "the Indian Government was (also) in the market."

We are now prepared to view the entire silver product of the world so as to measure the proportion which is produced by the American hemisphere, that by the United States alone, and that by the rest of the world.

WORLD'S PRODUCT OF SILVER
Calendar Year, 1914
Condensed from the U. S. Mint Rep. 1915

COUNTRY	FINE OUNCES
United States of America	72,455,100
Mexico	70,703,828
Canada	27,300,667
Central American States	2,416,888
Peru	8,351,563
Bolivia and Chile	4,049,856
Rest of South America	537,020
Germany	4,984,677
Spain	4,231,815
Austro-Hungary	2,104,107
Turkey	1,509,133
Rest of Europe	2,487,423
Asia	5,422,169
Africa	1,028,857
Australasia	3,520,274
Grand total	211,103,377

*The £1,160,000 needed to make up the details of this account may represent additions to the British stock on hand, which at the date of this Circular had fallen to less than £700,000.

From this table it appears that the world now annually produces 211 million ounces of fine silver, toward which the United States contributes thirty-four per cent.; Mexico thirty-three per cent.; the rest of America twenty-one per cent.; in all, eighty-eight per cent. of the total; while the produce of all the remaining countries of the world is but twelve per cent. of the total. Some of this last produce even comes from American ores.

The Statistics of Silver

When they are wanted, statistics are invaluable, when not wanted, they are a nuisance; because the importunity of mere quantities is apt to excite impatience when other and perhaps more important considerations are waiting at the door of the mind. However, they can be pigeonholed and drawn forth when occasion calls for complete and exact information.

Of the thirty billions (mint values) of gold and silver produced by the world, 1492-1914, inclusive, about sixteen billion dollars were in gold and fourteen billions in silver. That portion of these totals which belongs to the present, the twentieth, century, was as follows (*Wall Street Journal*):

World's Annual Product of Gold and Silver (Mint Values)

YEAR	GOLD MILLION $	SILVER MILLION $	BOTH MILLION $
1900	255	240	495
1901	263	225	488
1902	295	210	505
1903	320	215	535
1904	360	212	572
1905	390	220	610
1906	410	213	623
1907	430	235	665
1908	450	260	710
1909	455	270	725
1910	455	285	740
1911	460	285	745
1912	465	290	755
1913	460	289	749
1914	456	273	729
	5,924	3,722	9,646

From the foregoing table it will be observed that about one-third of the world's entire product of gold and silver, from the discovery of America to 1914, inclusive, has been the product of the present (the twentieth) century; an evidence not only of the greater number of mining regions, mines and mining fields recently opened to the explorer, but also of the superior mechanisms and devices which are now employed to prospect, open and work the mines and reduce the ores. The dredger alone, that wonderful "Ship of the Desert," that argosy of the sand bank, which sails over the dry land and exhausts it of its hidden treasures, has added materially to the gold product of recent years. In the United States, the dredger, during the eleven years, 1904-14, inclusive, added 100 million dollars gold to our product. These millions are included in the general table below.

There is another, a newer mechanism mooted, which, like the dredger, is also an American invention, that promises to rescue from the sea the many millions that have been lost in shipwrecks; but as these buried millions are only part of what is already included in our table of the world's product it does not belong to the present phase of the subject.

Turning now from the world's product to that of the United States alone, the following table affords a view of our domestic product of the precious metals during the present century.

Product of Gold and Silver in the United States
Commercial Values; Sums in Million Dollars

YEAR	GOLD	SILVER
1900	79	36
1901	79	33
1902	80	29
1903	74	29
1904	80	33
1905	88	34
1906	94	38
1907	90	37
1908	95	28
1909	100	28
1910	96	31
1911	97	33
1912	93	39
1913	89	40
1914	95	40
1915 Est.	95	42
Total	1,424	550

Although we are the largest producers of silver in the world, our output of that metal has scarcely exceeded one-third the value of our gold product. Moreover, it must be borne in mind that of the seventy million ounces of silver produced in 1914, valued commercially at about 55⅓ cents per ounce, forty-two million ounces were by-products of lead and copper ores; only twenty-eight million ounces having been obtained from the silver mines proper.

Coinage of Bullion

In connection with this subject, the following questions have been asked by the cashier of a national bank:

I. Whence comes the bullion from which coins are made?

II. How is money coined and put into circulation by the Government?

III. What does the Government obtain for the coins it puts into circulation?

Answer. I. The bullion comes from the miner, broker or anybody else who chooses to offer it to the Director of the Mint, who is instructed and enabled under the laws to purchase pure gold at the rate of $20.67 plus per oz. Troy. Down to 1873 the laws also instructed and enabled the Director to purchase pure silver at the rate of $1.29 plus per oz. Troy. These prices make a ratio or governmental valuation between the two metals of sixteen silver for one gold; and as the Mint was always open to the purchase of these metals at such valuation, it governed the market rate. By the law of 1873 the authority of the Director to purchase silver and the privilege of the citizen to sell it to the Mint at $1.29 plus per ounce was curtailed. Since that date the citizen can only sell to the Mint what it cares to buy; and the Mint buys at the open market rate what quantity it requires. This market is in London. The London daily price of silver, which is quoted at 0.925 fine, is therefore the price at which our Mint now makes its purchases of that metal. The quotations in the United States are for silver 1.000 fine, or absolutely pure.

II. Money is coined by weighing, cutting and fashioning the bullion into shapes and sizes convenient for handling, counting and packing. It is stamped with the official seal (mark of governmental authority) and "valued" by giving it a numerical denomination, whose relation to other coins is defined in the law.

III. For the coins it manufactures the Government receives the bullion out of which they are made. It is not the Government which "puts them into circulation," but the owner of the bullion, now turned into money. In other words, in the public interest and for the convenience of trade, the Government runs a manufactory for converting inert bullion into active current money, and pays for the bullion in the very coins into which the bullion has been converted.

MAKING IT WORTH WHILE

The following unsolicited letter of comment on the May number of the JOURNAL-BULLETIN speaks for itself:

"We take this opportunity to congratulate you upon the new dress you recently have given the JOURNAL. It is, I think, in much better form than the old JOURNAL and should be very much appreciated by everyone, just as we believe the information which it brings along every month is. Very rarely do you miss out on any of your information. No matter if an article is by one of your editors, or something from one of your contributors or general banking news, which takes in with it the conventions and committee work, all are very well considered, to the point and done with correctness. We are glad to say this to the publisher, editors, associates and general staff of the JOURNAL.

"JOHN B. CLEMENT,
"Treasurer Central Trust Co., Camden, N. J."

Profits Made on Bank Deposits Must Be Paid For in Money or in Service

How Payment of Interest on Bank Balances Arose—The Analysis Department and Its Shortcomings—Unusual Conditions Created by the War—The Federal Reserve Board's Collection Plan.*

By JAMES K. LYNCH

Vice-President First National Bank of San Francisco, President American Bankers Association.

THE man who expects something for nothing deceives himself; there is always a price that must be paid, and the longer the account remains unsettled, the heavier the cost is sure to be. So with the banker, the deposits out of which his profits are made must be paid for either in money or in service, but the question that is perturbing many a banker today, is whether he is not paying more for his deposits than they are worth.

It is about fifteen years since the custom of paying interest on bank balances became general. Before that time, some commercial banks paid interest on some bank deposits; now all commercial banks pay interest on all bank balances. By a process not quite understandable, the rate generally adopted was two per cent. per annum. This rate was not the result of any analysis, nor was it determined by careful calculation of cost plus expense of handling; it was in fact just a piece of guess-work and it may be said that the guess has on the average worked fairly well.

Of course, interest could not be paid on one class of deposits and withheld from others equally profitable, and it was not long before the bankers found the insurance companies, the railroads, the capitalists, in fact all who carried accounts of unusual size, demanding and receiving interest on their balances. The process, once begun, spread rapidly to smaller accounts, to less profitable kinds of business, until the time came when many bankers found it easier to make rules applicable to all and to pay interest on every account that exceeded a certain very modest minimum, rather than to consider individual cases.

The period during which this development was going on, was characterized by the rise of the modern trust companies, financial institutions differing in character from any hitherto known. The trust company was at first just what its name implied, a corporation authorized by law to exercise a great variety of trust functions, but without any banking privileges. It was not long before the handling of funds coming into the trust company's hands, through the operation of its powers, suggested the receiving of deposits from its customers. When distributing legacies to the beneficiaries of a will, what is more natural than that the money should be left on deposit subject to check, rather than that it should be paid out to be deposited in banks? For a time, this function of the trust company placed it in a position intermediate between the commercial bank and the savings bank, but it was not long before the trust companies began to take on purely commercial business and to make loans without, as well as with, collateral. The idea of the departmental bank was rapidly developed, and we now have trust companies doing commercial, savings and trust business on a very large scale and, in fact, numbered among the largest and strongest of our financial institutions.

The sections of the Federal Reserve Act which permit national banks to take on trust functions and to accept savings deposits are not broad enough to enable the national banks to compete with the trust companies in their special field but it is not unlikely that in the near future Congress will so amplify the legislation as to make real competition possible.

Genesis of Interest on Deposits

I have not recalled these most familiar facts with the intention of charging the trust companies with responsibility for the general payment of interest on commercial or quasi-commercial accounts, but I believe that they had much to do with hastening the general adoption of a custom that was already prevalent. It is no doubt true that in the early stages of the development of banking practice in connection with trust business, some mistakes in policy were made by the managers. It took some time for this new variety of bank to find itself, to strike its gait, and while the process was going on, it was just a little severe on the commercial banks. No doubt, some of these institutions were sleepy and needed waking up, but whether needed or not, the awakening was certainly accomplished.

Instead of paying interest on balances, the commercial banks had been in the habit of performing various services, for which no charge was made. Out-of-town checks were accepted on deposit as cash; exchange was in many cases given free; securities were accepted for safe keeping; and documents in escrow were held without charge. The trust company, on the other hand, had from the beginning made a substantial charge for every service, so that when the commercial banks began to meet the trust company competition in the payment of interest, they were placed at a distinct disadvantage.

The general statements just made are subject to many exceptions, and are not intended to be accurate as applied to all banking institutions, or to all parts of the country, but rather to illustrate a condition which has developed in many cities.

*Address delivered before the convention of the Pennsylvania Bankers Association, Philadelphia, May 18, 1916.

As the banker found his profits diminishing, he naturally tried to ascertain where he was losing and where gaining, and so the analysis department was born. The analysis of accounts developed startling results; balances apparently substantial vanished when the float was deducted, and justified the gibe that some banks paid interest on overdrafts. Free exchange and other premiums were found quite without justification, while accounts thought to be of but little value showed up as steady earners.

The Analysis Department

May I be pardoned for a moment's digression on the subject of the analysis department? I have great respect for the work of the able men who have devised systems to enable the determination of profit or loss on each account, but I always accept the results with some degree of mental reservation. I am particularly distrustful of any system which seeks to attach the overhead expense to the depositors. This must go to capital, or else we find ourselves in the position of being obliged to advise our depositors to do business with smaller banks in sections of the city where the rent is less and where lower salaries are paid the officers; that is, if we are entirely frank in our dealings with them. Some depositors are a little shy about marble and bronze, and they will all develop a distaste for elaborate furnishings, if they have to pay for them. When all overhead has been eliminated and the account shows a profit of even a dollar a year, the bank will be that much poorer if the account is closed.

Whether or not the bank will be enriched to the same extent by the elimination of an account that shows a corresponding loss, is not quite so clear. The figures showing cost of each check paid, cleared or collected, are no doubt accurate from a theoretical standpoint, but the closing of one account for loss so ascertained, does not diminish the expense, but merely increases the ratio. The closing of a sufficient number of accounts of this character would admit of dispensing with one or more clerks and so lessen the expense, in which case we have to consider the value of a non-productive account as a means of publicity. Where an account becomes a nuisance to the tellers, by constant attempted overdrafts, it should certainly be closed, but short of this unpardonable sin, a non-productive account may well be the subject of prayerful consideration. Many a customer whose business is of little or no value, brings in friends who become valuable depositors. I am assuming that even in Philadelphia, the duties of a bank president are no longer confined to looking dignified and shooing away accounts on the ground that the particular bank over which he presides is now large enough. Some of my friends who occupy such positions, I know to be very successful business-getters.

I am informed that in certain favored cities banking affairs are so stabilized that the banker is able to insist on a normal profit on each account, that is the account must not only pay, but pay up to a fixed standard. I can only say that in the city where I do business we are not yet in that happy position.

Whatever the limitations of account analysis may be, we can all agree that it is the only true method of ascertaining the value of business, and that after leaving out the cases on the borderland, the results are clear and definite. It is in fact the only method of protection which the banker can properly apply against the increasing and often unreasonable demands of depositors. Most depositors do not wish to carry unprofitable accounts or to make unreasonable demands, and when convincing figures can be shown them, they are usually willing to have their business put on a proper basis.

Conditions Created by the War

During a long period of active business, with a good demand for money, bank earnings have been in the main quite satisfactory, in spite of the gradual increase in the price that we are paying for deposits. Without warning, a condition has arisen which is abnormal and without precedent. The European war, the great war, created an unusual demand for the products of our fields, factories and shops, which have been sold at very profitable prices. The usual balance between exports and imports having been destroyed the result has been an unusual increase in bank balances in this country. There are, of course, other causes contributing to this result, among which we may mention the state of uncertainty produced by the war in the minds of our own citizens. While they hesitate about new enterprises, their capital remains in the form of bank deposits. Whatever difference of opinion there may be as to the cause, there can be none as to the increase, and increased deposits with no corresponding increase in the demand for loans, naturally lowers rates. This dropping of rates on loans has gone on for nearly two years, with no marked tendency towards a rise, until the bankers have grown accustomed to rates of from two and one-half to three and one-half per cent. per annum for grades of paper that hitherto would have sold at from four per cent to five per cent. The natural result should be a corresponding reduction in the rates paid on deposits, but such action has not taken place. In fact, at no time has there been more active solicitation for deposits with all the interest, free exchange and other premiums that have heretofore pertained to such loaning of credit.

Apparently this is an ideal time to introduce the custom of paying interest on a sliding scale. varying with the rise or fall of the average rate obtainable for commercial paper, or possibly with the discount rates of the Federal reserve banks, but for some reason no one makes the move. Perhaps the standards mentioned are not definite enough, but more probably, most bankers are willing to pay too high a price for money for a period, believing that when the war is over and business is again normal, the two per cent. rate will be more favorable than any rate rising and falling with the rate on loans. In the meantime, they keep as cheerful as possible under burdens that must be onerous. No doubt all cherish the hope (which will, I am afraid, prove illusory) that when money is again in demand, depositors will remember, to their credit, the load carried for them. The fact that the Federal Reserve Act will be in full effect by November of next year, after which date balances carried with national banks in reserve centers can no longer be counted as reserve, has without doubt had its influence in causing the bankers to bear the burden patiently. Had not the working of this Act been much impeded by the extraordinary conditions growing out of the war, the results of its coming into full effect would be more apparent than they are at this time. It seems most probable, however, that the relations between banks and their corresponding banks in the various financial centers will not be seriously interfered with, and in fact, it is on those relations that the free interchange of capital from one section to another still depends.

Had the Federal reserve banks been in operation at the time of the opening of the European war there is no question that they would have responded to the unusual demand for liquid credit in a way that would have given a convincing demonstration of their efficiency. As it happened, they began business when the financial strain caused by the beginning of the war was almost over, and since then their rediscount business has been so small as to have little effect upon the money market. The bankers will have to wait for another emergency in order to obtain the needed proof that the reserve banks will do the work, or they may become gradually accustomed to the working of those banks in normal times.

Agreements—With Exceptions

During the period of the rise in the cost of doing business, brought about by the eagerness of banks to get business more rapidly than it was coming to them, many attempts were made to check the over-ambitious and prevent their ruin through too great generosity. The favorite method was by an agreement among the banks of certain cities to maintain a fixed schedule of charges for exchange, on the collection of country checks, and interest on deposits (in some cases to pay no interest on deposits). These agreements worked with varying degrees of success, the results depending on the character of the men who entered into them, and still more on the reasonableness of the charges that it was attempted to enforce. One vice pervades them all. They are, in fact, a combination with competitors against customers. No matter how carefully an agreement of this character may be drawn, it cannot equitably cover all cases; it ties the banker's hands in dealing with his clients, and in the end, or often in the beginning, it is broken. Human nature being what it is, the result cannot be otherwise; it is absurd to expect a banker to enforce an unreasonable charge against a good customer, and if he does so he is under the fear of losing desirable business, for there is always a way around. If the agreement is among the clearing house banks, there are banks outside the clearing house, or outside the city, or just across the state line, that will take on the business cheerfully. It is the fate of such agreements to be so riddled with exceptions that they amount to nothing, and in the end they fail.

When the Federal Reserve Act was being framed the matter of charges on country checks was considered of such importance that the attempt was made to impose the burden of their collection on the reserve banks, but it was done in such a manner as to have but little force and also to indicate some confusion of mind on the part of the framers. In one paragraph the reserve banks are ordered to receive such checks on deposit at par, and in another they are permitted to charge the cost of collection, which is not at all the same thing. Charges made for the collection of country checks were spoken of as a burden on the industry of the nation, and it was asserted that there was no more reason why a charge should be made on a Florida check circulating in California than on the note of a Florida national bank. Now, a check circulating out of the region in which it has some exchange value is a burden, and the only question is who should bear the burden. In most cases it is the man who sends his check outside of its legitimate district who should pay the tax, as he usually does it with a full knowledge of the circumstances and with the desire to shift to others what pertains to himself. Unfortunately, it is not always easy to place the responsibility where it belongs, and in too many cases some unoffending bank is the victim.

The Federal Reserve Board's Plan

The Federal Reserve Board has just announced a plan for the country-wide clearance of checks at "par," but with certain reservations, such as allowing member banks to ship currency to the reserve bank at its expense in default of exchange and crediting proceeds of collections only when they come into the hands of the reserve bank in the form of cash. It is needless to say that such delay in credit is not at all the treatment which banks have grown to expect from their metropolitan correspondents, although it is unquestionably sound banking practice. The country banks which have been accustomed to deriving a considerable revenue from exchanges on the collection of checks are naturally alarmed at the loss of revenue threatened, and, on the other hand, the governors of the reserve banks look with some dread on the heavy expense that will be imposed on them through this plan.

The rules governing the check collection plan have not yet been formulated and it is unfair to form opinions until it is actually working. Bankers are very naturally averse to radical changes, and justly so, but we have on more than one occasion found that predicted evils did not come to pass and it may well be so in this instance.

If the plan reduces the expense of check collection it must in the end prevail, and we must admit that present methods are wasteful and involve a great amount of duplication of work. From what I have heard of the disposition of the Federal Reserve Board I am convinced that the present plan is tentative, that it will be amended or even abandoned if found wanting, and that there is no intention of working hardship or injustice on any of the banks.

Recently it has been urged that a law should be passed prohibiting commercial banks (national banks particularly) from paying interest on deposits, and especially on the deposits of other banks. Here we have an attempt to save the banker from the results of his own generosity, just as we have laws passed to save the people from his cupidity. I delivered an address quite recently in which I tried to persuade an audience of Texas bankers that laws against usury were vain and futile for the reason that the growth of the country, the accumulation of capital and the consequent competition abolished usury much more effectually than it could be done by law, so that it would not be fair to ask me to support a movement for legislation to protect the banker. Besides, I do not believe that it would protect him.

It is another digression, but where did the American people acquire the childlike faith in the efficacy of laws to correct, to control, to improve on, the laws fixed in the very universe by the Creator himself? Looking over the entire country, there is hardly a human activity which is not forbidden by some law, or regulated by some commission, and as fast as the inability to prohibit or to regulate is established, the demand is made for more laws and more commissions. Somehow the obvious fact that with less law, and that founded on fundamental principles of justice, enforcement would be easier, never occurs to our legislators, who go on creating crimes and wondering why the new made criminals are not banished from decent society.

Now it is just and proper that business should be paid for, and the successful banker must pay for his business. Laws and agreements are clumsy expedients at best, and as a matter of fact, are not needed; there are no transactions between a banker and his depositors which cannot be made the subject of bargain and be settled on the basis of value. Some commercial accounts justify the payment of interest, while others do not; one man is entitled to free exchange and freedom from collection charges; the next should pay for every transaction which he brings to the bank. By no other method can the interests of the depositor and of the banker alike be adequately protected. If the banker is getting the worst of it, he can close the account; if the depositor is not getting a fair deal, there are plenty of other banks to do him justice.

The Question of Branch Banks

The analysis department must be appealed to for exact information, and with this in hand, it is not difficult to arrive at the value of any given account. We have inherited our banking practice from England, and there is but little doubt that the modifications which we have made are not always improvements. For instance, there is the question of branch banks; we decided in favor of the isolated small bank managed by a local board of directors and generally by officers of limited experience. This has advantages, to be sure; the bank is more responsive to local needs and its directors know more of local conditions than is possible for the directors of a large bank, with a branch, serving the community. On the other hand, the local bank does not have the strong backing of the big bank serving a large territory with diversified seasons, whose resources can 'e shifted from one section to another as occasion requires. It is rather gratifying to see how, in the absence of such a system, the metropolitan banks have been able to supply the needs of their country correspondents, either through rediscounts or through direct loans.

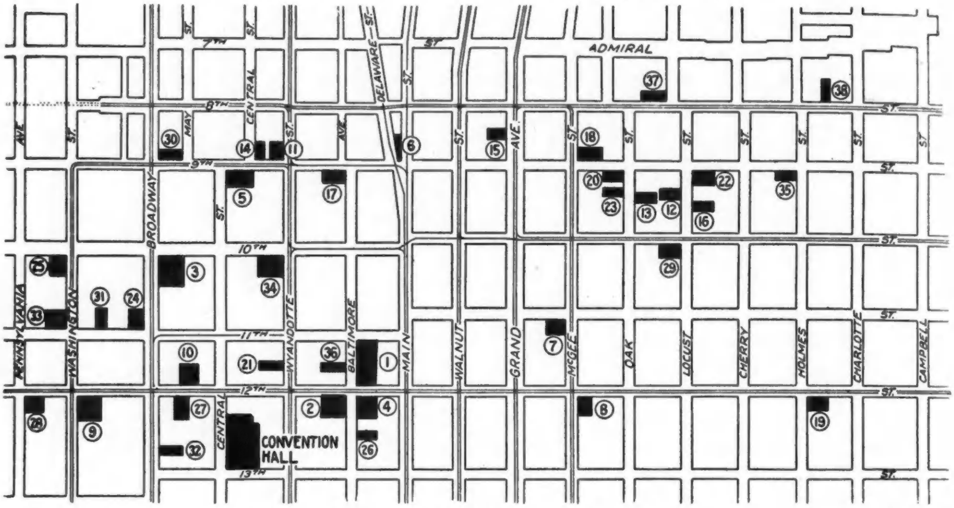
The Federal reserve banks constitute a binding force that, as far as the national banks are concerned, will tend to unite the small scattered banks, give a certain amount of direction to their business, and, if possible, raise the standard of their loans. We find the Federal Reserve Board recommending that national banks be allowed to open branches in the city in which they are located, and as a method has been discovered of providing branches for national banks through the absorption of state banks already so provided, it would seem that before long we may have both systems working together. There is no logical reason why the national government should not permit the banks to do directly what it allows them to do indirectly. This is all preliminary to saying that, in other ways, we may find it necessary to return to English practice. English banks pay interest on practically all deposits, but at the same time, they charge for every service they perform, and if the account does not carry a substantial balance, the charges will exceed the interest. To charge a commission on the debit side of an account, and to include postage with the telegrams and other "petties", would, I am sure, strike the average American depositor unfavorably, and yet if we have adopted a part of the practice, why not adopt it in its entirety?

It is not to be supposed that we can eliminate competition, nor is it desirable, but as time passes the competition will be on a more reasonable basis, and I hope will be more in questions of service rather than in price. As banks grow older, stronger and wiser, there will be less inclination to do business at a loss or without adequate profit. What constitutes an adequate profit, is a question that will always be open for discussion, and the institution that is able to handle a very large volume without an undue increase in its overhead expense, will always afford that variety which is not only the spice of life, but the life of banking. Could we imagine banking fixed and rigid in its practices, with everything down in the book and no room for change to meet changing conditions, we would have a system that, however admirable it might be, would have the defect of being dead. The business of this country is growing, changing, expanding here, contracting, there, as mutable as the sea. Banks are but the outgrowth of this business, a department with the specialized function of assembling, distributing and readjusting the credits which industry and commerce have produced. So the banks that serve the country best must be those that respond most readily to business change, while preserving through all the essential stability which should be their chief characteristic.

PLAT SHOWING LOCATION OF HOTELS FOR

A. B. A. CONVENTION, KANSAS CITY, MO., SEPT. 25 TO 30

HEADQUARTERS HOTELS AND CONVENTION HALL



1	Baltimore	9	Washington	17	Cosby	25	Jarboe	32	Piermont
2	Muehlebach	10	Edwards	18	Victoria	26	Majestic	33	Virginia
3	Coates House	11	White	19	Cotter	27	Convention	34	Metropole
4	Sexton	12	Densmore	20	Gladstone	28	Cordova	35	Arnett
5	Savoy	13	Snyderhof	21	Rasbach	29	Cortez	36	Bray
6	Westgate	14	Moore	22	Sherman	30	Merchants	37	Hendryx
7	Kupper	15	Federal	23	Broadmoor	31	Montague	38	Palmer
8	Mercer	16	Tanner	24	Brunswick				

REDUCED RAILROAD RATES TO KANSAS CITY

Special low fares have been authorized throughout the country to Kansas City, Mo., for account convention of the American Bankers Association, week beginning September 25; and those contemplating attending the convention should make inquiry of their local ticket agents as to exact fares and other information which may be desired.

Advices regarding reduced fares have been received from the following sections:

NEW YORK and the EAST—Trunk Line Association.

Two cents per mile in each direction to Chicago or St. Louis plus fares tendered therefrom (Chicago $21.70, St. Louis $13.50) for the round trip, going and returning via same route only; tickets to be sold and good, going, September 21 to 23, returning to reach original starting point not later than October 10.

CHICAGO WEST—Western Passenger Association.

Round-trip tickets to be sold on the basis of double the current I. C. C. fares in effect from all territory where the fares are made 2.4 cents per mile, and from other territory where the fares are made 2½ cents or 2.6 cents per mile, the basis to be 2½ cents per mile, and the tender of these basing fares from Chicago, Peoria and St. Louis to be made to other associations.

CENTRAL STATES—Central Passenger Association.

Two cents per mile in each direction added to tender received from western lines.

Round-trip tickets requiring validation at Kansas City, Mo., will be sold on September 21, 22 and 23 with final return limit to reach original starting point not later than midnight October 10.

SOUTHEAST—Southeastern Passenger Association.

Special reduced fares from this territory will be authorized and tickets will be sold September 21, 22 and 23, with final return limit good to reach original starting points not later than October 10. The fares will apply from practically all important stations in this territory south of the Ohio and Potomac and east of the Mississippi Rivers.

SOUTHWEST—Southwestern Passenger Association.

Summer tourists' tickets will be on sale to Kansas City from points in this territory with very liberal return limit.

PACIFIC COAST—Transcontinental Passenger Association.

Round-trip fares will apply from Arizona, California and Nevada, going via one direct route, returning via same or any other direct route, $60; one way through California and one way through North Pacific Coast points, approximately $77.50 to $87.50. Tickets to be sold September 7, 8, 12 and 13, and limit of fifteen days for going trip—final limit for return October 31. Stop-overs at all points except in California on going trip.

Round-trip fares from North Pacific Coast, including Portland, Ore., Seattle, Tacoma and Spokane and intermediate main line points; going via one direct route, returning via same, or any other direct route, $60. One way through California and one way through North Pacific Coast points, approximately $77.50 to $86. Tickets to be sold September 7 to 30, inclusive, with final return limit October 31, and with stop-overs at all points. Corresponding fares authorized from branch line points of the North Pacific Coast territory.

All tickets from the Transcontinental Passenger Association's territory must be validated at Kansas City by agent of initial line at that point before they will be honored for return trip.

If a longer limit than October 31 is desired, tickets may be purchased from points in Arizona, California, Nevada and North Pacific Coast points to Kansas City and return at a fare of approximately $90—in effect every day in the year. The final return limit is nine months from date of sale, stop-overs being permitted at all points en route: if nine months' tickets are desired, which include *both* California and North Pacific Coast points, the round trip fare will be approximately $110 to $120.

Full particulars can be secured from local ticket agents throughout the country concerning rates, routes, limit of tickets, etc. The New England Passenger Association has not yet announced its rate for the various lines within its territory. When this advice is received notice will be published in the JOURNAL-BULLETIN.

Railroads will run "de luxe" trains, also many special trains, from various sections of the country to accommodate bankers attending the convention. Unusual opportunities for sightseeing will be accorded those who may travel in this manner.

MORE MISINFORMATION

From the Dayton (Ohio), "News"

Wall Street's opposition to Woodrow Wilson is due to the reserve banks. Naturally the moneyed interests are not willing to admit that their opposition is based upon any such thing, but it is a fact just the same. If Wall Street could get control of the reserve or regional banks, as they are called, their opposition to any certain man would cease. But they have never forgiven Woodrow Wilson for not allowing them to name a majority of the directors.

The average layman has never appreciated the importance of the reserve banks. Only the bankers understand it. Because we have had no threatened panic, with the reserve banks coming to the rescue, giving physical evidence of their usefulness, the layman hasn't understood the meaning of the reserve banks.

But Wall Street understands. The moneyed interests of New York have known since the reserve banks were established that it was impossible for them to bring about financial panics, and they have not undertaken it. They had not had the same grasp upon the country's finances that they formerly had. They have been unable to tell the country bankers that they might or might not make loans to certain interests, as of yore. They have been unable to corner the money in New York, to hold it as long as they desired, and to charge for it whatsoever they desired. They have understood that the moment they undertook any such thing the reserve banks would come to the rescue of the country banks and throw all the money needed into channels of trade.

But if they could control the board of directors of the reserve banks it would be different, and that is exactly what they desire to do. That is why they are going to try to defeat President Wilson for re-election. They hope to have the banking laws amended and the majority of the directors of the reserve banks named by the bankers themselves.

Executive Council Discusses Check Collection Plan at Its Spring Meeting

Intense Interest at Briarcliff Lodge Gathering Finds Expression in Despatch of a Special Committee to the Federal Reserve Board—Members Hear Governor Strong of New York Explain New Plan—Legislation Receives Close Attention—Library Work to be Extended—Remarkable Growth in Association Membership.

THE Executive Council of the American Bankers Association held its Spring Meeting May 8, 9 and 10 at Briarcliff Lodge, Scarborough, N. Y. In importance of topics discussed the meeting ranks as one of the best ever held by the Council; while the large attendance, the interest manifested and the prominent part taken in the discussions by bankers from the so-called country districts, demonstrated conclusively the representative character of the Executive Council as an interim body faithfully reflecting the sentiment of the great majority of the membership of the Association and devoted solely to carrying out its purposes.

As a place for serious and uninterrupted deliberation, Briarcliff Lodge has never been excelled or even equalled, if the general expressions of opinion by those present are to be taken as an indication. The fact that the Lodge is given up exclusively to the members of the Council and their guests makes possible the furnishing of ample facilities for committee meetings and other routine work, besides assuring comfortable accommodation for the personal use of the Council members.

One of the most interesting phases of the meeting arose through the fact that it followed a few days after the issuance by the Federal Reserve Board of its circular setting forth the details of its plan for the clearing and collection of checks by the Federal reserve banks. The introduction of a resolution on this topic precipitated a spirited discussion on the whole subject of check collections and charges, which was finally ended by the appointment of a Committee of Five, charged with the duty of carrying to the Federal Reserve Board a request that the proposed plan be deferred until such time as the views of the country bankers could be laid before the Board and the plan modified to meet their objections. The communication follows:

"To the Federal Reserve Board:

"The Executive Committees of the Clearing House and National Bank Sections of the American Bankers Association have received personally and by letter and wire very vigorous protests from a great number of their members against the plan of par collections as covered by Circular No. 1, dated May 1.

"While we are aware of the fact that your Board and the officers of the several reserve banks are giving this subject very careful consideration, yet it appears to us that there are some very substantial reasons why the banks, particularly the country banks, should feel concerned over the possible results of so radical and violent a change in a system which has grown through years of commercial practice. Therefore we respectfully urge that the actual putting into effect of this system be deferred until a later date than that proposed, namely June 15, 1916, and that after the rules and details are formulated by the committee appointed by you, you will give the representatives of the American Bankers Association the opportunity of discussing same with your Board."

The Committee of Five consists of W. H. Bucholz, vice-president Omaha National Bank, Omaha, Neb.; J. Elwood Cox, president Commercial National Bank of High Point, N. C., and Chairman Executive Committee, National Bank Section; John McHugh, vice-president Mechanics and Metals National Bank, New York, and Chairman Executive Committee, Clearing House Section; George E. Webb, president First National Bank of San Angelo, Tex., and Walker Broach, vice-president First National Bank of Meridian, Miss.

In the event that this committee is unable to accomplish any of the objects desired, it is to report back to the joint executive committees of the National Bank and Clearing House Sections for such further action as the latter may see fit.

Governor Strong's Remarks

Governor Benjamin Strong, Jr., of the Federal Reserve Bank of New York arrived at Briarcliff Lodge during the time that the matter was under discussion and he was accordingly invited to attend the sessions. Governor Strong gave a long talk outlining the position of the Federal Reserve Board and the difficulties encountered in trying to comply with the mandatory provisions of the Reserve Act for the exercise of clearing functions by the reserve banks. The hardest problem, he states, was that of the "float" or aggregate of uncollected checks in transit, which he said was fairly constant at about $300,000,000 per month. He pointed out that as a matter of practice, country banks have been receiving from their correspondents immediate credit on checks deposited for collection; a practice which in effect meant the purchase of that amount of checks by the correspondent banks; and that to expect the twelve Federal reserve banks, with their $500,000,000 of reserve, to give member banks the same service as the latter have been giving their country banks, involving the purchase of $300,000,000 worth of checks monthly, is asking the impossible.

Many questions were asked of Governor Strong by the bankers present. His statement that the proposed plan would be modified if serious objections developed, was regarded as reassuring. He was given a vote of thanks by the Council.

The sessions of the Executive Council occupied the entire day Tuesday and the greater part of Wednesday. Committee meetings were held on Monday. President James K. Lynch occupied the chair at all the meetings of the Council. He presented the report of the Administrative Committee, which among other things recommended the appointment of a Committee on Library to take up the matter of bringing the work of the Association Library to the attention of the members and to keep in close touch with its activities.

The Administrative Committee also reported that they had unanimously adopted the following resolution:

No Auto Rides During Convention

"That there shall be no auto rides or other form of entertainment provided for the men during the day time on the days of our Section meetings or on the days of the general convention in Kansas City."

The Committee's recommendations were approved and the General Counsel was directed to prepare an amendment to the Constitution providing for the appointment of the Library Committee, to be submitted to the Kansas City convention.

General Secretary Farnsworth reported in detail on the various Association activities since the Seattle convention. He dwelt particularly on the fact that at the time of the Spring Meeting in 1910 the membership was 10,950 and the loss through delinquents 243, or .022 per cent.; whereas this year, with a membership of 15,503, the loss by delinquents is only 207, or .013 per cent.—a gratifying decrease in loss through delinquencies.

The report of Treasurer E. M. Wing covered the period from August 15, 1915, to April 24, 1916, and showed a cash balance of $116,155.79.

Reports were received from the following: Thomas B. Paton, General Counsel, covering matters of pending legislation; A. D. Welton, Manager Department of Public Relations; L. W. Gammon, Manager Protective Department; and Marian R. Glenn, Librarian. The report of the Protective Committee, read by the General Secretary, showed only three successful burglaries committed on member banks since last August.

A committee was appointed to prepare a suitable memorial on the death of George E. Lawson. The committee consists of Messrs. B. F. Davis of Michigan, Charles E. Hoge of Kentucky and William E. Knox of New York. Delmar Runkle, president Peoples National Bank of Hoosick Falls, N. Y., was unanimously chosen to fill the vacancy on the Finance Committee created by the death of Mr. Lawson.

Reports were received from the Agricultural Commission, by B. F. Harris, Chairman; the Trust Company Section, by John H. Mason, President; Savings Bank Section, N. F. Hawley, President, who mentioned particularly the growth of the membership, due largely to the thrift campaign; Clearing House Section, J. D. Ayres, President; National Bank Section, President Fred. W. Hyde; American Institute of Banking Section, President Robert H. Bean; State Secretaries Section, President Haynes McFadden.

The Finance Committee, through Chairman P. W. Goebel, brought in a number of recommendations, which were adopted.

Legislation received considerable attention through the reports of the Law Committee, by C. A. Pugsley, and the Committee on Federal Legislation, by Chairman C. A. Hinsch. Mr. Hinsch's report was regarded as one of the most important matters to come before the Council, in view of the character of the legislation covered, and was listened to with the greatest attention. The Council extended a vote of thanks to the committee for its very excellent work.

An important report was that of the Insurance Committee, by Chairman Oliver J. Sands. Following discussion on the report, the committee was requested to tabulate, so far as practicable, certain information concerning burglaries, hold ups, losses and premiums received in the various states and present the statistics at the Kansas City convention.

General Secretary Farnsworth reported that the Currency Commission had not found it necessary to hold a meeting since the last convention, but that they were ready to take up work at any time should the occasion arise.

W. P. Sharer stated that the special Committee on Credit Forms had been unable to arrive at any definite recomendations as yet, owing to the vast amount of labor involved, but that they would be ready to report at the Kansas City convention.

Invitation to State Secretaries

The Council adopted the following resolution:

"Whereas, the Spring Meeting of the Executive Council of the American Bankers Association affords the principal clearing house for banking ideas, and

"Whereas, the same depends largely for execution upon the subsequent action of the several state conventions, therefore be it

"Resolved, That the General Secretary be instructed to invite the Secretaries Section to meet coincident with the Spring Meeting of the Executive Council of the American Bankers Association, should the Secretaries Section decide to hold semi-annual meetings."

Some of the unfinished business of the Council, relating to representation of banks in Central and South America in the American Bankers Association, through vice-presidents for their respective districts, was referred to the Administrative Committee with instructions to report back to the Council at the Kansas City meeting.

The following resolution was also adopted:

"That beginning with the year 1917, the Administrative Committee be instructed to authorize the Librarian of the American Bankers Association to appear before such state banking conventions as may in the judgment of the Administrative Committee appear wise; there to present, so far as practicable, the merits and the features of the Association's Library."

The Committee on Communications brought in a recommendation that the communication from the Advertising Men's League be printed in the JOURNAL-BULLETIN. The communication referred to is as follows:

We have organized the Advertising Protective Bureau to enforce the law against fraudulent advertising. This letter is written to you to ask the co-operation of your organization as a unit and also to ask you to enlist the help of your members by their forwarding to our office all cases of misrepresentation that come to their notice.

Our efforts will be to encourage truth in all kinds of advertising and the only way this can be accomplished to the best advantage is to appeal to your members to send us all cases that are misleading or fradulent.

It is impossible for us to locate all violations and we must depend upon such organizations as yours to furnish us with violations, so that the best results can be had for our efforts.

We hope you will see it is to our mutual advantage to co-operate with us in this much-needed service and that you will assist us by bringing this matter before your individual members.

The office of the Advertising Men's League of New York City is at 200 Fifth Avenue.

The Committee on Resolutions, consisting of J. Pope Matthews of South Carolina, J. C. McNish of Nebraska and F. A. Drury of Massachusetts, brought in resolutions of thanks to the management of Briarcliff Lodge; to Mr. and Mrs. Frank A. Vanderlip for their hospitality at Beechwood; to Governor Strong; to the American Telegraph and Telephone Company for its share in the magnificent demonstration of trans-continental telephony; to Harold Jarvis of Detroit for his vocal selections at the banquet; to the press, and all others who helped to make the meeting a success.

Some amusement was caused by the reading of a telegram from a Council member, to the following effect: "Cancel reservation. Comptroller calls for statement."

The chief social feature of the meeting was a musicale, Monday afternoon at Beechwood, the home of Frank A. Vanderlip, president of the National City Bank of New York. Mr. and Mrs. Vanderlip received the guests as they arrived in the automobiles provided by their hosts, and after opportunity had been given to inspect the grounds they listened to a splendid program by Mme. Julia Culp and the Russian Symphony Orchestra. Mr. Coenraad V. Bos accompanied at the piano. A collation was served in the dining room.

At the banquet Tuesday evening, tendered by Briarcliff Lodge, there were no speeches except over the long distance telephone. Through the courtesy of the American Telephone and Telegraph Company, each guest was provided with a receiver through which could be heard greetings between those present at Briarcliff and their friends in San Francisco. After an explanatory address, accompanied by motion pictures, by Mr. H. J. Carroll of the New York Telephone Company, the trans-continental line was opened by Mr. W. F. Schmidt of the company and then the talking began. President James K. Lynch spoke to James K. Wilson, of the Wells Fargo Nevada National Bank at San Francisco; ex-President William A. Law talked with Mr. F. L. Lipman at San Francisco; Mrs. Arthur Reynolds exchanged greetings with Mrs. J. G. Berryhill of San Francisco, and a vocal selection by Harold Jarvis of Detroit, Mich., sung into a telephone transmitter, at Briarcliff, was answered by a return victrola selection from San Francisco. William J. Henry, secretary of the New York State Bankers Association, made a telephone address to F. H. Colburn, at San Francisco, secretary of the California Association. Governor Strong of the New York Federal Reserve Bank talked check collections with John Perrin, Chairman of the Board of the Federal Reserve Bank of San Francisco. The demonstration was a magnificent success in every way. The diners gave a vote of thanks to the telephone company, to the singers and to the Northern Pacific Railroad for the "big potatoes" furnished.

The golfers played the usual "kicker's handicap," and the silver cup offered by the Lodge went to Thomas P. Beal, Jr., of Boston.

RESOLUTIONS ON DEATH OF GEORGE E. LAWSON

At the time of his death, February 15, 1916, Mr. George E. Lawson of Detroit, Mich., a member of this Council, was president of the Peoples State Bank of that city.

He was born in 1861. Soon after his graduation at the Michigan Agricultural College at Lansing, he chose banking as a career. His ability for his chosen profession was soon apparent and his promotion rapid.

He was honored by the presidency of the Michigan Bankers Association in 1913-14 and the presidency of the Bankers Club in Detroit.

"George Lawson" bore an enviable reputation, not only in Detroit, but wherever known, and his acquaintance was wide, for to know him was to love him.

Nature endowed him with a personality possessed by few. However busy—for he never knew an idle hour—he always had a pleasant word and warm hand grasp for whoever approached him.

Not only his immediate associates in the bank, of which he was president, but all who knew him felt a personal loss in his untimely death.

Of how little worth the worldly struggle from day to day, in this busy world, that seems freighted with such moments, counts, when after dissolution the loving memories of our departed friends dwell little with worldly achievements, but rather with the memory of the warm heart, the kindly smile, the well timed deeds, making the world brighter for others and creating for the giver the best real happiness the world knows—all these were characteristic of our departed friend.

"Your cause of sorrow must not be measured
by his worth, for then it hath no end."

RESOLVED, That in the death of George E. Lawson, this Council of the American Bankers Association mourns the loss of one whose activities and wise counsel will be greatly missed.

TREASURER'S REPORT

E. M. WING

FINANCIAL STATEMENT AUGUST 15, 1915, TO APRIL 24, 1916

RECEIPTS

Cash balance	$36,097.75
Interest on bank balances	2,015.33
Interest on stock and bonds	3,085.00
Extra guests, Convention	2,000.00
Accounts sale general proceedings	31 50
Account Trust Co. Section	100.10
Account Trust Co. Section, special account	215.00
Account postage, stationery and printing	54.95
Account American Institute of Banking Section	558.25
Account Savings Bank Section	4.42
Account Savings Bank Section, special account	172.00
Account dues (1914-1915)	10.00
Account dues (1915-1916)	240,176.00
Account dues (1916-1917)	250.00
Account Agricultural Commission	3,000.00
Account Furniture and Fixtures	99.63
Account Convention	54.00
Sundry small items	31.50
	$287,955.43

DISBURSEMENTS

Account membership signs		$500.26
Office Fund		1,000.00
Refund of dues 1915-1916, overpaid		79.33
Rent, general offices		4,033.36
Salaries		20,456.33
Postage, stationery and printing		3,158.95
Publishing and distributing Annual Proceedings		13,084.99
Executive Council, Vice-Presidents and State Secretaries, securing new members		717.98
Furniture and fixtures for general offices and sections		1,278.68
Extra office help		308.86
Telephone and telegrams		462.44
Treasurer collecting dues		1,607.50
Convention expenses		5,948.55
Auditors for 1914-1915 (Marwick, Mitchell, Peat & Co.)		100.00
Extra guests, Seattle Convention		1,780.00
Traveling expenses		562.58
Bankers Trust Co., premium on officers' bonds		137.50
American Institute of Banking Section		7,420.75
Savings Bank Section		9,293.97
Savings Bank Section, special account		77.37
Legal Department		11,121.14
Protective Committee		39,964.41
Clearing House Section		2,932.75
Trust Company Section		5,024.70
Trust Company Section, special account		.50
Department of Public Relations		4,335.58
National Bank Section		3,379.76
Insurance Committee		2,735.75
Journal of the American Bankers Association		17,800.00
Administrative Committee		138.81
Agricultural Commission		5,774.78
Library		3,454.28
State Secretaries Section		455.22
Committee on Federal Legislation		925.37
Interest, discount and exchange		6.71
Mrs. Anna G. Waine		850.00
Sundry items, general supplies, etc		882.48
Executive Council Meeting		8.00
Balance on deposit in Continental and Commercial National Bank, Chicago	$50,000.00	
Balance on deposit in National Bank of Commerce, New York	19,432.68	
Balance on deposit in Batavian National Bank, La Crosse, Wis.	46,723.11	116,155.79
		$287,955.43

NOTE.—Cash balance in Continental and Commercial National Bank, Chicago, Ill	$50,000.00
Cash balance in National Bank of Commerce, New York, N. Y	19,432.68
Cash balance in Batavian National Bank, La Crosse, Wis. (Treasurer)	46,723.11
Cash on hand in Office Fund	1,000.00
Cash on hand in Journal Fund	293.66
Cash on hand in Clearing House Section	880.67
Cash on hand in Clearing House Section for account of books of National and State Bank Forms	504.03
Total	$118,834.15

NOTE.—The Treasurer holds for investment the following:

	Par Value	Carried on Books at	Market Value	Cost
Chicago, Burlington and Quincy, Ill., Division, 4's due 1949	$50,000.00	$47,400.00	$47,437.50	$50,843.75
Chicago, Burlington and Quincy, Joint 4's due 1921	12,000.00	11,600.00	11,760.00	11,559.09
Atchison, Topeka and Santa Fe, General Mortgage 4's due 1995	30,000.00	28,500.00	27,825.00	30,825.00
New York City Corporation, Registered 3½'s due 1940	30,000.00	26,500.00	24,525.00	25,506.67
	$122,000.00	$114,000.00	$111,547.50	$118,734.51

REPORT OF THE GENERAL SECRETARY

FRED. E. FARNSWORTH

In accordance with the provision of the Constitution of the American Bankers Association, I submit my report herewith, as your General Secretary, from September 6, 1915 (the date of our last annual convention in Seattle, Wash.), to the present time.

I am also submitting a pamphlet wherein will be found the Report of the Protective Committee, the Report of the General Secretary, Financial Statements of Departments, Sections and Committees, as well as a full Statement of the Treasurer and comparative tables contrasting the condition of affairs a year ago with those of the present day.

These financial reports and statements all commence with August 15, 1915, and are to April 24, 1916. Owing to the early date of our last convention—the week of September 6—and the time required after closing the Association books to print these reports and make the trip to the Pacific Coast, it was found necessary to consider our fiscal year as ending on August 14 instead of August 31, 1915; and our books were balanced accordingly.

The statement of the Treasurer shows a cash balance on hand of $116,155.79.

The balances standing to the credit of the various departments, sections and committees aggregate $81,332.71. These statements carry no debit balances, the departments, sections and committees complying strictly with the constitution in this respect.

There will probably be some requests for appropriations. These will not be extensive and should ensure a healthy cash balance at the termination of our fiscal year—August 31, 1916—as, to our present balance, there will be added cash receipts from dues and investments from this time to the end of our fiscal year.

The Administrative Committee, through action duly taken at Seattle, was increased to four members; the retiring President being now a member for the year next after he retires. This furnished us with three members within easy distance of New York City and has enabled the Administrative Committee to closely follow the details of Association work. Meetings have been held at frequent intervals, and the affairs of the Association have been carefully considered, the committee striving to fulfil the important duty assigned to it. The Administrative Committee is always of great assistance to me in handling the many and varied details of the work.

The reports of the several sections and committees indicate that they have been not less active than in the past and their efforts can but reflect great credit to these important parts of the Association.

With a feeling that all possible recognition from our parent organization is due to the loyal membership of our State Bankers Association and to the American Institute of Banking Section, since my last report I have attended the annual conventions of the Indiana Bankers Association and of the Illinois Bankers Association; annual banquets of the Massachusetts Bankers Association; Rhode Island Bankers Association; Group VIII, New York State Bankers Association; Group I, Pennsylvania Bankers Association; Trust Companies of America, and of New York, Philadelphia and Baltimore Chapters of the American Institute of Banking. I also attended the mid-year conference in Chicago of the presidents and secretaries of Central States Bankers Associations.

The Protective Committee, chosen from our Council membership by the President (under our constitution) has carefully and faithfully followed the detail of its important department work. The Protective Department under the management of L. W. Gammon has developed greater efficiency and now maintains a very complete office equipment of records, indexes and criminal photographs. This vast collection of data is steadily increasing each year.

The reports of the Protective Committee and of the Manager of the Protective Department will show that the expenses of the department do not increase to any extent, despite the ever-growing membership of our Association and the increase in number of criminals arrested and convicted. At the same time the protective features have received the fullest financial consideration.

Considering the vast field and scope of the Protective work, comparatively few complaints are made to the General Offices; and, after investigation and explanation, these few, in the majority of instances, develop that the rules of the Protective Committee were not understood and from the complainant there comes a withdrawal of the charge.

The report of the General Counsel will reveal in detail the importance of the work performed by the Legal Department and the extensive use now being made of this department by the Association's membership. General Counsel Paton is an indefatigable worker and appreciations of his valuable services are continually received in our correspondence.

The American Institute of Banking Section is steadily growing through increased membership. New Chapters are being started and the educational feature (for which this Section was founded) is ever being improved through the energy and attention of Educational Director George E. Allen, who always makes the best interests of the Institute "his interests" and is tireless in his efforts. In his work he has the hearty support of the able young men who are now its officials.

Many are the letters of commendation sent in by our members with relation to the JOURNAL-BULLETIN; and there is a steadily growing demand for our monthly publication from outside sources as well. All of which argues well for the able and efficient labors of Arthur D. Welton, Manager of the Department of Public Relations and Editor of the JOURNAL. To the Associate Editor, George Lewis, great credit is also due for his ability to publish the JOURNAL on time as well as in the handling of the millions of items that make for such successful accomplishment.

With deep sorrow and much regret, I call your attention to the death of George E. Lawson, a member of our Executive Council, a member of our Finance Committee, and Chairman of the Committee on Income, a sub-committee of the Finance Committee. Mr. Lawson was ever an able and willing worker for the best interests of our Association and we shall miss his efficient judgment and faithful work, as we mourn his loss.

The Annual Proceedings for 1915, a volume of 740 pages, was distributed early in December last, no mean record when one considers the magnitude of the task of compiling and editing so important a volume. In form and appearance, like its predecessors, some 25 tons of paper were used in its manufacture, 1,150 yards of cloth, 12,000 feet of leather, 250 pounds of ink and many other items too numerous to mention. Full morocco bound copies were sent to officers, members of Executive Council, Vice-Presidents of States, Secretaries of State Bankers Associations and speakers at our last convention; which distribution—it seems to me—is but slight indication to these people in appreciation of their labors for the Association.

As in 1914, the State Secretaries Section again authorized your General Secretary to publish the Proceedings of the State Secretaries Section in a separate volume. Said Proceedings were gotten out in a separate book; copies thereof being sent to all Secretaries of State Bankers Associations, to Association officers and to ex-Secretaries.

Our Association Library, like the demands made upon its resources, is steadily growing and very many books on banking and finance have been added to its shelves. The portion devoted to clipping classifications, special articles, etc., is assuming vast proportions, all making for an accumulation of information on banking and finance second to none, and available to our members by personal call or through the mails. Much credit is due the Librarian, Miss Glenn, for her great efforts to build up our Association Library and to incite more and more interest in it.

To the Clearing House Section and the newly formed National Bank Section, there has recently come a Secretary (to serve in the dual capacity) in the person of Jerome Thralls, former cashier of the Federal Reserve Bank of Kansas City, Mo. Increased activity in the Clearing House Section may now be expected and a vigorous campaign in the interests of the National Bank Section, for Secretary Thralls is one who accomplishes results.

The National Bank Section, authorized and organized at Seattle, is performing a very important work in the interests of its members. Your General Secretary was elected Secretary *pro tem* of the newly formed Section, pending the selection of a Secretary, and gave considerable of his time to its work. The Executive Committee of the National Bank Section has met once in the General Offices and also held two meetings in Washington, D. C., where conferences were had with the Federal Reserve Board and with the Conference of Governors—being the Governors of the Federal reserve banks.

This being the centennial year of the establishment of the first savings bank in America, the Savings Bank Section is particularly active in conducting a campaign for "Thrift." If the Section succeeds in creating habits of thrift and systematic saving with but a small percentage of the people who will be reached through the vast campaign of publicity, much good will be accomplished and great credit will reflect on the efforts of the Savings Bank Section.

Since rendering my last report, the General Offices have had added to its equipment a new and up-to-date installation of the Turner Dictograph Interconversing System, whereby your General Secretary and five of his subordinates may converse with each other without leaving their respective desks. This new installation replaces an old and antiquated system that had been in service since 1908.

The General Offices of your Association today are well furnished and most excellently equipped for the ready transaction of Association business; and all members are urged to visit the General Offices when in New York, to make same their headquarters (if they so desire) for the receipt of mail or the meeting of friends.

Kansas City, Mo., having been determined upon, at the Seattle convention, as the place for holding our Forty-second Annual Convention, the Administrative Committee, after due consideration of climatic conditions, etc., selected the week of September 25 to 30 (inclusive), 1916, as the time for holding said convention. The Administrative Committee also designated the Muehlebach and Baltimore Hotels as official headquarters for our convention. A local Hotel Committee was promptly selected, also an Executive Committee; and in February I visited Kansas City for the purpose of aiding in the arrangement and perfection of some of the many details in connection with the convention. I found the committees, and the local bankers as well, fully alive to their position as hosts and filled with the intention of making this the greatest convention in the history of our Association. Information at hand indicates a very heavy registration even at this time and the real active registration period has not yet begun. Special trains and tours will doubtless be arranged by the various transportation companies in conjunction with the State Bankers Associations.

Kansas City will not be found lacking in hospitality and I can assure all of our members of a warm welcome and a most profitable, instructive and enjoyable time, if they decide to attend.

It affords me much satisfaction to direct your attention to the statement of membership as presented in this pamphlet. You will note that our losses through delinquents (207) at this time and with a membership of 15,503, are 18 less than for a similar period a year ago when our membership was 14,753 and the loss by delinquents 225.

At the time of our Spring Meeting in 1910 our membership was 10,950 and our loss through delinquents 243, or .022 per cent. This year, with a membership of 15,503, our loss by delinquents (207) is but .013 per cent.—certainly it is very gratfying to realize that each year our percentage of loss of members through delinquencies steadily decreases.

That we have such a handsome showing in increased and maintained membership is due largely to the energies and activities of our officers, Executive Council, State Vice-Presidents and State Secretaries, as well as our departments, sections and committees.

Among those who have been specially active and are deserving of special mention at this time are O. T. Eastman, State Vice-President for Nebraska, with 44; M. A. Traylor, State Vice-President for Illinois, with 31; P. W. Goebel, First Vice-President of our Association, with 24; W. W. Woodson, State Vice-President for Texas, with 16, and A. C. Smith, State Vice-President for Iowa, with 13.

The activities of the National Bank Section have also brought about an increased enrollment from that class of banking institutions; and, if the movement (now under way) of establishing a State Bank Section is successful, it will doubtless bring many banks into our Association that are not now members.

On September 1 last, our Treasurer sent out the drafts for dues and despite the war conditions existing in Europe and the consequent unsettled conditions in this country, members paid their dues more promptly than at any similar period in the history of our Association. This speaks well for the loyalty of our members.

The membership as enrolled on our books on April 22, 1916, is 15,503, with every indication that the 16,000 mark will be reached before the end of our fiscal year on August 31 next.

I would again remind you of the authority granted by your honorable body for the use of the words "A. B. A. Code Used" on stationery of our members. Its adoption is very slow and for this I am sorry, for it would be of distinct advantage to our members to universally adopt the suggestion.

MEMBERSHIP

Membership May 1, 1915		14,790
Lost by failures, mergers and liquidations	216	
Lost by delinquents	207	
		423
		14,367
Addition to membership May 1, 1915, to date		1,136
Present membership		15,503

After deducting delinquents, failures, mergers, etc., these figures show a net gain from May 1, 1915, of	713
Membership May 1, 1908	9,297
Membership May 1, 1909	10,065
Membership May 1, 1910	10,969
Membership May 1, 1911	11,698
Membership May 1, 1912	12,567
Membership May 1, 1913	13,699
Membership May 1, 1914	14,298
Membership May 1, 1915	14,790
Membership April 22, 1916	15,503

MEMBERSHIP BY STATES

Alabama	172	North Carolina	201
Arizona	77	North Dakota	326
Arkansas	237	Ohio	615
California	631	Oklahoma	443
Colorado	230	Oregon	198
Connecticut	177	Pennsylvania	957
Delaware	41	Rhode Island	49
District of Columbia	40	South Carolina	183
Florida	191	South Dakota	299
Georgia	378	Tennessee	235
Idaho	137	Texas	551
Illinois	968	Utah	84
Indiana	398	Vermont	76
Iowa	640	Virginia	252
Kansas	689	Washington	322
Kentucky	175	West Virginia	204
Louisiana	186	Wisconsin	392
Maine	116	Wyoming	90
Maryland	183	Alaska	13
Massachusetts	364	Canal Zone	1
Michigan	464	Hawaii	16
Minnesota	496	Philippine Islands	3
Mississippi	168	Porto Rico	6
Missouri	570	Canada	43
Montana	231	Cuba	24
Nebraska	449	Isle of Pines	1
Nevada	28	Mexico	10
New Hampshire	70	Panama	4
New Jersey	322		
New Mexico	70	Total	15,503
New York	1,007		

REPORT OF THE PROTECTIVE COMMITTEE

The Protective Committee submits herewith its semi-annual report for the period covered from August 1, 1915, to March 31, 1916.

Financial Statement

The financial statement will be published in the pamphlet containing financial statements.

Arrests

For the period from August 1, 1915, up to and including March 31, 1916, the committee begs to report as to its operations against criminals, as follows:

Total cases not disposed of arrested prior to August 1, 1915		108
Total arrests since August 1, 1915		268
		376
Convicted	201	
Released, escaped, insane and died	63	
		264
Awaiting trial		112

Since August 1, 1915, up to and including March 31, 1916, there have been burglaries and attempted burglaries on members, and similar crimes on non-members, as follows:

	Members	Non-Members
Alabama	1	2
California	2	1
Colorado		2
Georgia	1	
Idaho	1	
Illinois	1	5
Indiana		2
Iowa		2
Kansas	1	4
Michigan		1
Mississippi	1	
Missouri	2	2
Nebraska		1
New York	2	
North Dakota		3
Ohio	1	1
Oklahoma	2	5
South Carolina	1	
South Dakota		1
Texas		1
Washington	1	

Of the attacks on members 3 were successful burglaries, 14 unsuccessful.

Of the attacks on non-members 22 were successful burglaries, 11 unsuccessful.

The loss sustained by members in connection with burglaries was $5,231.57; while the loss sustained by non-members amounted to $42,482.30.

There have been 21 hold ups on members with a loss of $34,261.08, also 8 sneak thefts with a loss of $24,511.34.

During the same period there have been 26 hold ups on non-members with a loss of $52,148.45, but no sneak thefts.

Our members, as a rule, report all attacks on them, also the exact loss sustained; while on the other hand, non-members rarely report attacks on them, or the loss sustained, with the result that we do not obtain a record of some of these attacks or losses sustained.

The following figures are given for your information of reported burglaries and attempted burglaries on banks since the inauguration of the Protective feature, such as are known:

Non-Members	1,529	Loss	$2,172,678.72
Members	442	Loss	264,278.74
Difference	1,087		$1,908,399.98

There has been no marked increase in the number of forgers and bogus check operators as far as the professional operators are concerned for the past eight months. In fact, seventy-five per cent. of such operations are those of amateurs.

Correspondence

During the past eight months ending March 31, 1916, the Protective Department has received 20,963 reports and other communications from our detective agents. The department has also received 776 letters and telegrams, and written 1,876 letters and telegrams. These figures do not include circular letters and similar communications.

Photographs

The Department now has 4,667 photographs of criminals, comprising "Yegg" burglars, hold-up men, sneak thieves, forgers and bogus check operators, with a complete record of each.

Offices of Our Detective Agents

The Wm. J. Burns International Detective Agency, Inc., now have twenty-three offices of their own in this country, as follows: Birmingham, Ala.; Los Angeles and San Francisco, Cal.; Denver, Colo.; Chicago, Ill.; New Orleans, La.; Baltimore, Md.; Boston, Mass.; Detroit, Mich.; Minneapolis and St. Paul, Minn.; Kansas City and St. Louis, Mo.; Buffalo and New York City, N. Y.; Cleveland, Ohio; Portland, Ore.; Philadelphia and Pittsburgh, Penn.; Providence, R. I.; Houston, Tex.; Seattle and Spokane, Wash., and one correspondent at Des Moines, Iowa. They also have two special representatives, one at Jacksonville, Fla., C. E. Sears, c/o Hotel Albert, and the other at Dallas, Tex., P. R. Schumacher, 601 Young Street.

They also have offices of their own in London, England, and Montreal, Can.

Detailed Report

Mr. L. W. Gammon, Manager of the Protective Department, will read his report to the Executive Council, which covers matters pertaining to the Department other than those contained in this committee's report.

For more detailed information relative to individual cases and the work accomplished, we respectfully refer you to the monthly Journal-Bulletin, Section Two, which gives a detailed account of what is being performed each month by our detective agents under the supervision of the Protective Department.

(Note.—This report covers August, 1915, for the reason that the last report was closed July 31, 1915, owing to the convention of 1915 being held so soon after the end of the fiscal year, August 31, 1915.)

ADMINISTRATIVE COMMITTEE

James K. Lynch

The Constitution of the American Bankers Association provides that the Administrative Committee is empowered to act generally, for the Executive Council, in the interval between Executive Council meetings and must report its actions to the Executive Council for approval. Your Administrative Committee therefore respectfully reports:

By resolution, it referred the matter of rural credits legislation to the Committee on Federal Legislation and recommended that said committee generally watch bills introduced into Congress and oppose objectionable features therein—the Association not framing or supporting any affirmative legislation.

Pursuant to authority given, your committee duly named the State Vice-Presidents for the dependencies of the United States as appear in the printed lists of our State Vice-Presidents.

Duly selected Briarcliff Lodge, Briarcliff Manor, N. Y., and May 8, 9 and 10, as the place and time for Spring Meeting of our Executive Council in 1916.

Named the Chairman and personnel of the Agricultural Commission.

Approved of the employment of Milton W. Harrison jointly by the Savings Bank Section as its Secretary and as assistant to the Educational Director of the American Institute of Banking Section.

At its meeting of January 28, 1916, passed upon various matters of proposed legislation, as submitted by General Counsel Paton for the Committee on Federal Legislation.

Recommended to the Finance Committee that an additional appropriation be granted to the Savings Bank Section for balance of its fiscal year, in view of the campaign for thrift said Section is now conducting.

Approved of invitation being extended to Federal Reserve Board and to the Conference of Governors (being the Governors of the Federal Reserve Banks) to attend our Spring Meeting.

Selected the dates of September 24 to September 30, inclusive, as the time for holding our forty-second Annual Convention in Kansas City, Mo., and further designated the Muehlebach and Baltimore Hotels as "official headquarters"—registration and committee meetings to be divided between the two hotels.

Recommended that the various Sections designate a representative to confer with the Administrative Committee, during the period of this Spring Meeting, with a view to arranging the convention week program for Kansas City and particularly to give consideration to the selection of speakers for the various meetings.

At our meeting of April 21, 1916, duly approved of the selection, as joint Secretary for the Clearing House and National Bank Sections respectively, of Jerome Thralls, former cashier of the Federal Reserve Bank of Kansas City, Mo.

Your committee further approved of the action taken by the General Secretary in endeavoring to secure the library of the late Senator Nelson W. Aldrich for our Association Library.

Respectfully recommend to the Executive Council the advisability of appointing a special Committee on Library, which committee would keep in close touch with the work of our Library and extend its usefulness; also, that additional funds be placed at the disposal of the Library.

At our meeting held at Briarcliff Lodge on May 6, the general program for our Kansas City Convention, as printed in the Journal-Bulletin of March, 1916, was submitted, discussed and duly approved as outlined and published. And the following resolution was unanimously passed by your Administrative Committee:

"That there shall be no auto rides or other form of entertainment provided for the men during the daytime on the days of our Section meetings or on the days of the General Convention in Kansas City."

A mass of correspondence which was submitted to the Administrative Committee is submitted herewith to the Executive Council and other cases submitted to committees.

On Monday evening, May 8, there was a joint meeting of our committee with representatives from each of the Sections, and representatives from Kansas City, Mo., with a full discussion of the program for our next annual convention in Kansas City.

LAW COMMITTEE

C. A. Pugsley, Chairman

The province of this committee is chiefly confined to promoting state legislation of value to bankers in the different states. The year 1916 is an off legislative year, that is to say, only twelve legislatures hold regular sessions as distinguished from some forty sessions held in the odd numbered years, the majority of which are biennial sessions. As all of the state legislatures have not yet adjourned, this report must necessarily be preliminary to a complete report of state legislation which will be made at the next annual convention.

The following measures recommended by our Association have been passed:

The Negotiable Instruments Act has been passed by the Legislature of Mississippi. This leaves only four states which have not yet enacted the law, Maine, Georgia, California and Texas.

The Uniform Stock Transfer Act has been passed by the Legislature of New Jersey.

In Rhode Island our proposed law punishing the person who issues a check without funds has been passed, but it was changed by a provision to the effect that if the maker deposits with the drawee the amount due on the overdraft within seven days after he receives notice that it has not been paid, this will relieve him.

The legislature of Mississippi has also passed the check without funds law.

The above are the only measures recommended by this Association which have been passed this year, according to our present advices. A number of our recommended measures have made partial progress through different state legislatures and there has been considerable important legislation affecting banks passed in some of the states. This will all be covered in our annual report.

FEDERAL LEGISLATION

Charles A. Hinsch, Chairman

Under the Constitution, the Committee on Federal Legislation is charged with the duty of receiving all resolutions adopted by the Association declaring in favor of or in opposition to national legislation upon any subject and of furthering the purposes declared for in such resolutions by petition, memorial or other proper action.

In pursuance of its duty, your Committee has been active in connection with a number of subjects of Federal legislation pending in the present, Sixty-fourth, Congress, working to promote certain bills which have been favored by the Association and in opposition to other bills inimical to the best interests of the banking fraternity. In order to make its work more effective, a Federal Legislative Council was created as an auxiliary of our Committee, consisting of one member of the Executive Council in each state, charged with the duty of looking after the Congressional delegation from such state. In many of the states the Council member has created a sub-committee consisting of one banker in each Congressional district. The method of communication between Council members has been by a printed Confidential Bulletin referring to the subjects of legislation of more pressing importance, and by telegraphic communication on matters of special urgency, supplemented, of course, by a large mail correspondence. Each state member has been active and faithful in the discharge of the special duties entrusted to him, and acknowledgment is especially due to the District of Columbia member, who, being located at the seat of government, has been in close touch with the course of legislation and has unstintingly given his time and efforts in behalf of our work. The results attained evidence the efficiency of this method of organization.

Our Committee held a special meeting in Washington on January 19 and 20, on which occasion the legislative situation was thoroughly canvassed and numerous interviews had with individual Congressmen as to particular measures. A conference was also held with the Federal Reserve Board to learn their attitude as to pending legislation. On this occasion also a joint meeting was held with the Executive Committee of the National Bank Section with regard to certain measures affecting national banks and a joint conference of both committees was held with the Board of Governors of the Federal Reserve Banks, at which a number of subjects affecting national banks were discussed and the views of the Board of Governors obtained. Our General Counsel has also visited Washington on a number of occasions in connection with the work of our Committee.

A brief summary of the progress and status of the more important legislative subjects upon which we have been engaged will suffice for this report:

1. Philippine Bonds. Senate bill No. 381, which passed the Senate on February 4, contained an addition known as the Clarke amendment, which provided for the granting of independence to the Philippines in four years, and while it empowered the President to safeguard certain property rights of the United States and of American citizens resident or engaged in business or having property interests in the Philippines, it contained no provision for safeguarding the holders of some $17,000,000 of Philippine bonds now in the hands of American banks and other investors. These bonds have been issued by authority of acts of Congress, marketed through the War Department, and while not technical legal obligations, were unquestionably the moral obligation of the United States. It became our duty to use every effort to have the Clarke amendment to the Philippine bill amended so as to give the necessary protection. At first, the House Committee on Insular Affairs looked coldly upon our representations and reported the bill without amendment; but after an active campaign by members of our Legislative Council, which enlisted the interest of a large number of members of Congress, the matter was taken to the President, who recognized the moral obligation, and the House leaders thereupon promised to have introduced and passed an independent resolution taking care of the bonds. So many Democratic members were opposed to the Clarke amendment that the majority party resorted to a caucus on April 27 to bring the opposing members into line, at which thirty-five members voted against the measure and twenty-eight of these refused to be bound by the caucus action. On Monday, May 1, the Philippine bill came to a vote and resulted in a defeat of the Clarke amendment, 213 to 165. The Jones bill (H. R. 1) was then passed as a substitute, which declares the intention of the United States to grant independence ultimately, but without fixing a date. The Clarke amendment has, therefore, been decisively defeated and the Philippine bonds are safe. Our members are to be congratulated upon this successful result.

2. Interlocking Directorates. Our committee have been working unceasingly to modify the Clayton Act prohibiting interlocking directorates of banks, which takes effect October 15, 1916. After canvassing the situation in Washington, we found that there was an indisposition to radically undo any work of the previous Congress and the utmost which could be expected, if anything, was modification of the act which would eliminate some of its harsh features. At an interview of our Chairman and General Counsel with members of the Federal Reserve Board in January, the Board seemed favorable to an amendment which would allow a person to be in other non-competing banks and stated they did not care to be burdened with the exercise of discretion to give prior consent. The Gard bill (H. R. 11,533) was accordingly framed and introduced in the House on February 15. About the same time the Kern bill (S. 4432) was introduced in the Senate. This bill is substantially the same as the Gard bill except that it requires prior consent of the Federal Reserve Board. An active campaign was instituted on behalf of the Gard bill, in which the injustice of the existing provisions of the Clayton law was demonstrated to a large number of members of both Houses of Congress. The pending legislation was thereupon referred to the Federal Reserve Board for its recommendation, and it then developed that the Board favored the Kern rather than the Gard bill under which their prior consent must be first obtained, but recommended a limitation upon this discretionary power, so that a person could not serve on the boards of more than two other banks, only one of which could be in the same place. A report containing these recommendations was made by the Board on March 8 to the Senate Committee on Banking and Currency and on March 22 the Committee reported the bill favorably, modifying, however, the limitation of the Federal Reserve Board so that one person could be in two other banks not in substantial competi-

tion, irrespective of location. On April 11 the Kern bill was read in the Senate and passed unanimously. On April 12 it was referred to the Committee on Banking and Currency of the House and on April 25 was reported favorably by the Committee. The committee, however, recommended an amendment for prócuring the consent of the Board before a person is elected a director. This we understand is a mere suggestion from the Federal Reserve Board as to procedure.

We are gratified to report that the House has just passed the Kern bill, that the Senate has concurred in the amendment and that the bill is now before the President for signature.

(Since the making of this report, the President has signed the Kern bill, which is now law. In this connection the Committee on Federal Legislation feel that acknowledgment should be made to the Continental and Commercial National Bank of Chicago and Mr. George M. Reynolds, its president, for their valuable and most effective co-operation in the promotion of this measure.)

3. Bills of Lading. We have been earnestly advocating the Pomerene bill (S. 19) relating to bills of lading. The object of this legislation is familiar to all our members. It will make negotiable the order bill of lading and enhance its value as a security document. Among its important provisions is one which safeguards the holder who advances value on faith thereof by making the carrier liable upon bills signed by his authorized agent, although the goods stated to be received have not, in fact, been received. Our Association has been behind legislation of this character for a number of years. The Pomerene bill which passed the Senate in the Sixty-second and Sixty-third Congresses was allowed to die in the House Committee on Interstate and Foreign Commerce. It again passed the Senate on March 9 of this year and every effort has been made to secure a favorable report by the House Committee and passage by the House at this session. Senator Pomerene arranged a delegation of shippers and bankers, who visited the President on April 12 in behalf of the measure. Addresses were made by representatives of different organizations, including the Chairman of our Committee. The President declared himself unqualifiedly in favor of the bill. Special hearings were given by the House Committee on April 13 to the delegation, and the committee afterwards gave hearings to members of the Interstate Commerce Commission and to representatives of the railroads. The result of our organized effort has been to spur on the House Committee to give thorough and serious consideration to the bill. It has not yet been reported, but we are confident that a large majority of the House Committee are favorable to the measure and we hope and expect that it will be reported and passed at this session of Congress.

4. Rural Credits. A large number of bills have been introduced on this subject, but what may be termed the Administration measures have been crystallized into the Hollis bill (S. 2986) introduced in the Senate on January 5, 1916, reported with amendments from the Senate Committee on Banking and Currency February 15 and just passed by the Senate; and the Moss bill (H. R. 15,004) introduced in the House on April 25, containing the amendments agreed upon by the House Committee on Banking and Currency and referred back to the House Committee for immediate report. The general plan of farm land banks is the same in both bills, although differing in detail; namely, government control by Federal Farm Loan Board; twelve Federal land banks in different districts (the Senate bill allows more), which will make loans to farmers secured by mortgage through local associations of which the borrowers are the members. Based on the mortgage security the land banks issue bonds. If local associations are not formed, the farm land banks will make loans through agents approved by the Board. There is also provided a system of joint stock land banks to enable individuals to form corporations to loan on farm mortgages and issue bonds under Federal supervision. Our Committee has been working on the policy that there is no need for a Federal farm loan system as the matter of extending credits on farm lands is more properly a matter of state legislation according to local conditions, and it has been our specific purpose to oppose and endeavor to have eliminated objectionable features in the proposed legislation. The original provision for savings departments of Federal land banks has been entirely eliminated from both bills. Both bills provide a government aid feature. The Senate bill requires a minimum capitalization of Federal land banks of $500,000, while the House bill has increased this to $750,000. As the Government must be a temporary subscriber for any unsubscribed portion, it will probably be required to subscribe the major portion of the capital. This feature is clearly objectionable. It is doubtful if local associations will be formed to any extent and the result will be instead of the formation of local associations, the establishment of government owned farm land banks making loans through agents throughout the country. The Government should not embark in the business of loaning money to farmers through stock ownership of land banks. A further objectionable feature in these bills is the exemption from Federal, state and local taxation of the stock and bonds of the Federal land banks and the first mortgages executed to such banks or to joint stock land banks. This creates a favored class of securities and gives them an unfair preference over similar securities which are subject to taxation. Everything possible is being done to have eliminated objectionable features in these bills. In the necessities of the approaching campaign there is probably found the reason why these measures are making headway.

5. Readjustment of Bank Reserves. In accordance with resolution adopted by the Association at Seattle a bill was drafted on behalf of our Committee to amend Section 19 of the Federal Reserve Law so as to enable country national banks, at the end of the thirty-six months' period, to exercise an option to keep three of the required twelve per cent. of its reserves in a member bank within the Federal reserve district, or within a radius of three hundred miles of the country bank, in addition to the option to keep such three per cent. in its own vaults or in the Federal reserve bank of the district. This bill was introduced by Congressman McFadden on March 12 (H. R. 12,998) and is now in the hands of the House Committee on Banking and Currency. There are many good reasons why this amendment should be made; they will not be detailed in this report. Our Committee is doing all it can to procure a favorable report by the House Committee.

6. Reduction and Return of Paid-in Capital. A bill to amend the Federal Reserve Act so as to reduce the paid-in capital of Federal reserve banks to one-sixth of one per cent. of the capital and surplus of the member banks and provide a return of the excess has been drafted on behalf of our Committee and was introduced by Congressman McFadden on April 5 (H. R. 14,227). It is now before the House Committee on Banking and Currency.

7. Foreign Bank Connections. Following a conference with the Executive Committee of the National Bank Section there was framed and presented to the Federal Reserve Board a proposed amendment to Section 25 of the Federal Reserve Act which would effect the following changes: (1) It would amend the present section as to branches by eliminating the provision concerning the amount of capital to be set aside for the conduct of foreign business. This provision is needless, as the entire capital of the bank is at the risk of such business. (2) It would add provisions permitting the investment by national banks in the stock of banks or corporations engaged in foreign trade. (3) It would also add a provision permitting a director or other officer of a member bank to be a director in such bank or corporation in which the member bank is a stockholder.

Thirteen reasons were submitted to the Federal Reserve Board why this amendment is desirable to the end that our foreign trade may have the fullest co-operation and assistance of the banks of the country and thus materially enhance its development. On this same subject the Senate Committee on Banking and Currency have under consideration the Owen bill (S. 5078), which, among other subjects, contains provisions upon "banking corporations authorized to do foreign business." We are credibly informed that the Federal Reserve Board has recommended that our proposed amendment be substituted for these provisions. A committee print of our proposed amendment has been made by the committee and will be given consideration instead of the original provisions of the Owen bill as soon as this particular topic is reached. A bill introduced by Congressman Glass (H. R. 13,391), which provides for the holding of stock by national banks in foreign or domestic corporations other than national banks, which are authorized by their charter to do banking business in foreign countries, was favorably reported to the House, with amendments on March 28 and has just been passed by the House. We endeavored to have our proposed bill substituted for the Glass bill but without success. The situation, however, looks favorable for some beneficial legislation along these lines at the present session of Congress.

This report will not be burdened with a statement in detail of all subjects of Federal legislation in charge of our Committee. Among the subjects of legislation we are aiding and promoting are domestic acceptances; bills of smaller denomination and amendment to Section 5219 U. S. Revised Statutes relating to the taxation of national banks. We have kept track of a large number of objectionable bills, among others those relating to usury, cumulative voting, guaranty or insurance of bank deposits, limiting liability of national banks for borrowed money and other subjects. The thanks of the Committee are due to the members of the Federal Legislative Council for unselfish legislative work in behalf of the Association, and we feel that the work accomplished and in progress has been of material benefit to members of our Association.

INSURANCE COMMITTEE

Oliver J. Sands, Chairman

There has been a growing demand from many of the banks of this country for a form of insurance covering forgery, sneak thievery, misplacement or destruction of money and securities, and other losses not heretofore included in the insurance forms offered by American insurance companies. Certain underwriters representing various Lloyds groups of London, England, have for a number of years offered the American banks a blanket bond undertaking to cover loss due to dishonesty of officers or employees, burglary, hold up and other losses referred to above. While the reputation of the most responsible Lloyds underwriters for equitable settlement of losses has been good, we have been compelled in response to many requests from member banks for opinions as to Lloyds, to point out that they are not legally licensed to transact insurance business in any state in this country, and patrons in the event of litigation in the collection of their claims, must sue abroad, and are subject in some of our states to a demand for the payment of a tax upon Lloyds policies purchased by them, by reason of the fact that no Lloyds underwriter pays license or tax in this country.

In an effort to meet this demand, we conferred early last year with one of the New York insurance companies looking toward some arrangement whereby the American companies could meet the Lloyds competition under a form of bankers blanket bond that would meet the approval of this committee. In October of last year five American insurance companies compiled and offered for sale their own form of bankers blanket bond. This form contained various unsatisfactory conditions, and was not approved by your committee. A second group of surety companies soon thereafter organized and promulgated another bankers blanket bond which was an improvement over the form offered by the first group, but still did not accord with the ideals of your committee. Your committee's secretary made several trips to New York for the purpose of conferring with some of these insurance companies looking toward the adoption of a uniform bankers blanket bond which would meet our views. We succeeded in obtaining some concessions, but not all that we think a proper blanket bond form should contain, and the latest form which is now being offered by all of the insurance companies (their previous forms having been retired) does not yet wholly meet with our approval.

We then proceeded with the compilation of our own form, incorporating the more advantageous conditions to which we think the banks are entitled. We were informed a few days ago by one of the insurance companies that further modifications of their present form will probably be agreed to. For instance, their present form disclaims liability for losses due to so called "teller's shorts." We concede that it is not the purpose of a bond of this sort to pay for small shortages occurring in the teller's cage in the transaction of ordinary daily business, but we have record of more than one case where large amounts (one of them $10,000) had been stolen from the teller's cage, presumably by a sneak thief, or possibly by dishonest employees within the bank, and under the language of the blanket bond, as now offered by the insurance companies, such shortage can be held as a "teller's short." The bond of the insurance company likewise denies liability for loss due to forgery unless the same is due to the dishonest acts of the officers or employees of the bank. The Lloyds bond covers loss "by means of forged or raised checks either deposited or paid over the counter, or through the clearing house." Again, the insurance companies bond pro-rates the liability of the insurance company in the event that other insurance is carried, and further gives the insurance company all salvage that may be obtained without regard to whether or not the entire loss of the bank is paid. We maintain that the bond should be good for its full value without regard to other insurance, and that salvage should be paid first to the bank until its entire loss is settled and the remainder, if any, to belong to the insurance company. There are other exceptions to the insurance companies bond which, if enumerated fully, would make this report both burdensome and lengthy. We attach hereto a form of bankers blanket bond incorporating the language of the bond offered by the insurance companies so far as we are willing to recommend it to you, and further incorporating a correction of the above outlined conditions. Unless it is your pleasure to instruct us to the contrary, it is the purpose of your committee to negotiate for a further brief period with the insurance companies in view of the suggestions above referred to that have just come to us from one of the insurance companies that further modifications will be agreed to, and in the event that we cannot obtain what we want, to put into print the form hereto attached as compiled by this committee, have it copyrighted and introduce its superior advantages to the member banks through the same kind of vigorous campaign that was inaugurated and is still being maintained by us in connection with our copyright burglary policy and our copyright fidelity bond.

Mutual, Inter-alliance and Reciprocal Insurance

We refer to the above three plans of insurance in the same subject for the reason that they each incorporate at least one principle in common, viz., the assumption by each policy holder of a liability, large or small, for losses sustained by every other policy holder in the same company, but the same criticism does not necessarily apply in every case to each plan. We regard mutual insurance as a more commendable plan than the other two, when conducted by proper management and under proper regulations, but we are very much in doubt as to the propriety of at least national banks becoming members of even a mutual company. It is not our purpose to attack or to unduly criticize either of these plans of insurance, but we deem it necessary to report to you a condition with which we are confronted involving particularly reciprocal insurance, which condition brings us up to the question as to whether or not your committee is to serve member bankers as investors in insurance enterprises, or whether or not we are to serve member banks as bankers. A part of the work undertaken by your committee contemplates the furnishing of information or opinions upon any insurance matter in which any member bank may be interested. As the remarkably advantageous results that are being obtained by your committee are becoming more widely known among the member banks, requests for information, opinions and other service upon a wide variety of insurance matters are becoming more frequent. It has inevitably followed that your committee has been asked for opinions as to all of the above captioned forms of insurance, and further for opinions as to particular companies engaged in selling this character of insurance.

In October, 1915, a Maryland member bank asked your committee for an opinion as to the reliability and responsibility of inter-insurance associations and mutual companies in the handling of liability insurance. This bank referred particularly to the restrictions of certain workmen's compensation laws tending to give precedence to the claim of an injured workman over other debts of the employer, including the employer's paper in the bank, thus determining clearly the interest of the bank in the character of liability insurance carried by its borrower. Your committee replied fully and frankly, pointing out the dangers involved in the use of liability insurance of this character. It seems that this member bank without the knowledge of your committee furnished this opinion to a stock insurance company, which company printed it and gave it a wide circulation. Serious exception has been taken to this opinion by the bankers of a section in which this character of insurance has a stronghold, which bankers, General Secretary Farnsworth states to us, "have determined not to stand for the Association criticizing a business, which to them is important; which the bankers support; and from which the bankers get considerable business." The Insurance Commissioner of Virginia in a written opinion to your Committee, states, "It seems to me that the reasons given in the preceding paragraphs are sufficient to warn anyone against placing insurance in such exchanges." A former insurance commissioner of Ohio is on record with a circular letter to Ohio banks warning them against the dangers of inter-insurance, interexchange and reciprocal exchange insurance. The Insurance Commissioner of Texas in a most drastic opinion cautions the insuring public with regard to similar dangers. Your committee has gone into the subject most thoroughly, and while it has never taken the initiative in criticizing any insurance interest or enterprise, and has never tried to make any attack upon any of these plans of insurance, we understand it to be our duty to respond fully and courageously to any request for assistance in insurance matters from any member bank. If this committee should at any time be in error, we are ready and anxious to correct such error fully and completely, but up to this writing we apparently have sufficient evidence to indicate that our expressions have in every particular been correct, pertinent and materially helpful to the member banks.

In addition to the above, your committee has printed a "Warning Card" in the following language:

"Beware of the dangers lurking in your burglary insurance policy and surety bond. The American Bankers Association maintains an Insurance Committee that is equipped to furnish you information, opinions of other insurance service without cost to you, and you are invited to send in your policy or bond for a report upon the same, or to take up with the committee any insurance matter in which you may be interested.

"Address all communications to B. A. Ruffin, Secretary, Box 139, Richmond, Va."

Signed by the Committee.

Your committee sent out only a limited number of these warning cards, and the responses were so immediate and the dangerous conditions uncovered were so numerous that we deem it necessary to bring this card to your attention in this report with the request for suggestions as to obtaining a wider circulation.

Several member banks, in response to this warning card, sent in their burglary policy for examination, and it was found that the old copyright burglary policy of the Association was still being furnished by some insurance companies, although their license to issue the same had been revoked. Previous reports of your committee have covered in lengthy detail the restrictive and dangerous conditions of this old form. In each instance a substitution of the new copyright form was required. Others in response to this card report to the committee indicating that they are using old and imperfect insurance forms compiled many years ago by the insurance companies themselves, and renewed from year to year without change. These are in each instance corrected by requiring the substitution of the newest forms. Others write in asking for assistance in settlement of claims. Others for information regarding insurance companies, and occasionally where the card reaches a nonmember bank an inquiry is received regarding the benefits of membership in the Association, which results in an increased membership. We might note here that one bank applying for membership last month, after correspondence with your committee, requested the first service of this committee in the nature of information regarding a reciprocal underwriters exchange.

General

There are a multitude of other subjects being treated by your committee, a recital of which will unduly lengthen this report. It is needless to state that we have no desire other than to perform an efficient and proper service which in many cases is vital to the small bank, and in every case makes membership in the Association more valuable. The interests of many bankers are large and varied and our service to the banks purely as banks must necessarily conflict sometimes with other interests of some bankers.

The work of the committee involves a tremendous amount of detail; the members have been responsive to every call made upon them and have given a great amount of thought and time with the single purpose of being of service to the members of the American Bankers Association. The secretary of the committee is one of the ablest experts on insurance in America, and we feel that the Association is particularly fortunate in securing his services for the members of this Association.

REGISTRATION AT THE ASSOCIATION OFFICES

DURING THE MONTH OF MAY, 1916.

Baldwin, H. L., treasurer Oneida Savings Bank, Oneida, N. Y.
Barker, Joseph L., vice-president U. S. Investor, New York.
Bishop, A. G., president Genesee County Savings Bank, Flint, Mich.
Blocker, C. M., vice-president State Savings and Trust Company, Texarkana, Ark.
Blocker, Mrs. C. M., Texarkana, Ark.
Bonner, Walter W., cashier Third National Bank, Greensburg, Ind.
Branch, James R., New York City.
Briggs, W. K., National Surety Company, New York.
Broach, Walker, vice-president First National Bank, Meridian, Miss.
Brown, Jos. G., president Citizens National Bank, Raleigh, N. C.
Bucholz, W. H., vice-president Omaha National Bank, Omaha, Neb.
Burks, W. H., cashier Security State Bank, Wellington, Kan.
Calfee, J. S., cashier Mechanics-American National Bank, St. Louis, Mo.
Cathro, F. W., cashier First National Bank, Bottineau, N. D.
Cathro, Miss Frances, Bottineau, N. D.
Clement, John B., treasurer Central Trust Company, Camden, N. J.
Collins, Charles A., president Lynn Institute for Savings, Lynn, Mass.
Couchman, C. B., Crockett, Couchman & Company, Kansas City, Mo.
Cox, J. Elwood, president Commercial National Bank, High Point, N. C.
Cox, Mrs. J. Elwood, High Point, N. C.
Crane, A. A., vice-president First and Security National Bank, Minneapolis, Minn.
Curtis, Alfred H., New York City.
Darbee, R. S., Williamsburgh Savings Bank, B'klyn, N. Y.
Davis, G. D., cashier National Bank of Claremore, Claremore, Okla.
Davis, Mrs. G. D., Claremore, Okla.
Denton, Wesley, cashier Peoples Bank, Butler, Mo.
Downs, F. F., pres. First National Bank, Temple, Tex.
Drake, A. R., Waltham Trust Company, Waltham, Mass.
Drury, F. A., president Merchants National Bank, Worcester, Mass.
Edens, William G., assistant secretary Central Trust Company of Illinois, Chicago, Ill.
Galarneault, J. B., cashier Aitkin County State Bank, Aitkin, Minn.
Goebel, P. W., president Commercial National Bank, Kansas City, Kan.; Vice-President American Bankers Association.
Hall, M. S., vice-president and secretary Buffalo Trust Company, Buffalo, N. Y.
Hamilton, John S., president American Guaranty Company, Columbus, Ohio.
Harris, B. F., president First National Bank, Champaign, Ill.
Hawes, R. S., vice-pres. Third National Bank, St. Louis.
Hawes, Mrs. R. S., St. Louis, Mo.
Hinsch, C. A., president Fifth-Third National Bank, Cincinnati, Ohio.
Hirsch, Jos., vice-president Corpus Christi National Bank, Corpus Christi, Tex.
Howard, C. C., New York Central Lines, New York City.
Jess, Stoddard, president First National B'k, Los Angeles.
Kiesewetter, L. F., vice-president Ohio National Bank, Columbus, Ohio.
Kirkbride, I. Paul, Philadelphia, Pa.
Lampert, Nelson N., vice-president Fort Dearborn National Bank, Chicago, Ill.
Lewis, J. A., vice-president National Bank of Commerce, St. Louis, Mo.
Lynch, James K., vice-president First National Bank, San Francisco; President American Bankers Assn.
Macfadden, W. C., secretary North Dakota Bankers Association, Fargo, N. D.
Macfadden, Mrs. W. C., Fargo, N. D.
McFadden, Haynes, secretary Georgia Bankers Association, Atlanta, Ga.
McFadden, Mrs. Haynes, Atlanta, Ga.
McHugh, John, vice-president Mechanics and Metals National Bank, New York City.
McKee, Henry H., cashier National Capital Bank, Washington, D. C.
Marlin, B. M., secretary and treasurer Union Banking and Trust Company, Du Bois, Pa.
Matthews, J. P., vice-president Palmetto National Bank, Columbia, S. C.
Miller, E. J., cashier First National Bank, Huron, S. D.
Miller, Mrs. E. J., Huron, S. D.
Mitchell, John R., president Capital National Bank, St. Paul, Minn.
Norwood, Ewing, vice-president First National Bank, Navasota, Tex.
Parsons, Mrs. Howard H., Detroit, Mich.
Perry, J. W., president Southwest National Bank of Commerce, Kansas City, Mo.
Philip, Jordan, pres. First National B'k, Hudson, N. Y.
Phillips, W. R., president Bankers Trust Company, Tacoma, Wash.
Platt, J. E., secretary South Dakota Bankers Association, Clark, S. D.
Rankin, J. F., cashier Bank of South Charleston, South Charleston, Ohio.
Rew, Robert E., National City Bank, New York City.
Rombach, D. G., manager Graham & Co., Philadelphia.
Rubey, H. M., president Woods-Rubey National Bank, Golden, Colo.
Schenck, Frederick P., East Orange, N. J.
Simonson, W. A., vice-pres. National City Bank, N. Y.
Smith, A. C., vice-president and cashier City National Bank, Clinton, Iowa.
Smith, Charles E., treasurer Southington Bank and Trust Company, Southington, Conn.
Smith, Theo. G., vice-pres. Internat'al Trust Co., Denver.
Smith, Mrs. Theo. G., Denver, Colo.
Spangler, J. W., vice-president Seattle National Bank, Seattle, Wash.
Stetson, E. W., pres. Citizens National Bank, Macon, Ga.
Stout, H. L., treas. Fulton Savings Bank, Fulton, N. Y.
Sullivan, Col. J. J., pres. Central National B'k, Cleveland.
Sutro, Lionel, New York City.
Teter, Lucius, president Chicago Savings Bank and Trust Company, Chicago, Ill.
Tremble, George T., president Central National Bank, Ellsworth, Kan.
Tremble, Mrs. George T., Ellsworth, Kan.
Wade, Festus J., president Mercantile Trust Company, St. Louis, Mo.
Webb, George E., president First National Bank, San Angelo, Tex.
Webb, Mrs. George E., San Angelo, Tex.
Wells, George T., Denver National Bank, Denver, Colo.
Wells, Mrs. George T., Denver, Colo.
White, Wm. C., president Merchants and Illinois National Bank, Peoria, Ill.
Whittaker, Elmer E., cashier Hanover National B'k, N. Y.
Wing, E. M., president Batavian National Bank, La Crosse, Wis.; Treasurer American Bankers Assn.
Woodside, Robert I., president Farmers and Merchants Bank, Greenville, S. C.
Woodside, Mrs. Robert I., Greenville, S. C.

MORTUARY RECORD OF ASSOCIATION MEMBERS

REPORTED DURING MAY, 1916

Averson, Charles L., president City bank, Portage, and president State Bank, Medford, Wis.

Baker, Thomas F., director Utica City National Bank and Utica Trust and Deposit Company, Utica, N. Y.

Baldwin, William A., vice-president Bloomfield National Bank, Bloomfield, N. J.

Beach, Charles T., cashier Sandy Hill National Bank, Hudson Falls, N. Y.

Bell, Enoch Chamberlain, director Corn Exchange Bank, New York City.

Bernard, James A., president First National Bank, Bakersfield, Cal.

Blair, Chauncy J., vice-president Corn Exchange National Bank and Illinois Trust and Savings Bank and director Union Trust Company, Chicago, Ill.

Blake, Clinton H., president Citizens National Bank, Englewood, N. J.

Campbell, John G., vice-president Citizens National Bank, Oconto, Wis.

Carstens, Ernest, president German American Mercantile Bank, Seattle, Wash.

Churchill, Owen H., director National Bank of California, Los Angeles, Cal.

Clark, Z. H., vice-president and cashier Moultrie Banking Company, Moultrie, Ga.

Clemons, Charles C., director Produce Exchange and Traders National Bank, Kansas City, Mo.

Dauria, Pasquale, director Bronx Borough Bank, New York City.

Dukate, W. K. M., president First National Bank, Biloxi, Miss.

Dunson, J. E., president La Grange Banking and Trust Co., La Grange, Ga.

Eyre, Maynard C., director Stapleton National Bank, Stapleton, N. Y.

Eyster, W. S., cashier Peoples Bank, Ford City, Pa.

Ficken, Henry, president Concordia Savings Bank, Concordia, Mo.

Graham, Andrew J., of Graham & Sons, Chicago, Ill.

Harkness, C. W., director New York Trust Company, New York, N. Y.

Hay, Charles L., director Union Banking and Trust Company, Du Bois, Pa.

Hill, James J., director Chase National Bank and First National Bank, New York, First National Bank, Chicago, and Northwestern Trust Co., St. Paul, Minn.

Hinman, O. C., director First National Bank, Redondo Beach, Cal.

Holland, Nelson, director Manufacturers and Traders National Bank, Buffalo, N. Y.

Horne, Durbin, director Fidelity Title and Trust Company and Union National Bank, Pittsburgh, Pa.

Jager, John, president Manning & Epperson State Bank, Eddyville, Iowa.

Joyce, John R., president First National Bank, Carlsbad, N. M.

Lea, J. Tatnall, chairman of board First National Bank, Philadelphia, Pa.

Lewis, James Palmer, cashier Peoples National Bank, Martinsville, Va.

McAshan, J. E., director South Texas Commercial National Bank, Houston, Tex.

McDoll, William H., director Continental and Commercial National Bank, Chicago, Ill.

McKeen, Frank, president McKeen National Bank, Terre Haute, Ind.

May, Charles H., president Birch Run State Bank, Birch Run, Mich.

Miller, James R., president Chapin National Bank, Springfield, Mass.

Mims, D. A., president Merchants and Planters Bank, Newport, Tenn.

Newby, William G., president American National Bank, Fort Worth, Tex.

O'Riorden, Jeremiah P., vice-president Charlestown Trust Company, Boston, Mass.

Perdue, Edward, president First National Bank, Atchison, Kan.

Rhodes, Frank C., vice-president Mechanics Bank, Brooklyn, N. Y.

Rumsey, Henry M., director Salem National Banking Co., Salem, N. J.

Savidge, William, vice-president Grand Haven State Bank, Grand Haven, and director Michigan Trust Company, Grand Rapids, Mich.

Smith, Charles A., president Citizens Bank, Timmonsville, S. C.

Smith, Charles R., president First National Bank, Menasha, Wis.

Stiegel, John C., vice-president and director Rockingham National Bank, Harrisonburg, Va.

Warner, B. H., director Columbia National Bank and Washington Loan and Trust Company, Washington, D. C.

Waters, John, director Fidelity and Deposit Company, Baltimore, and director Pikesville National Bank, Pikesville, Md.

Wolf, Peter, vice-president Bank of Cedar Bluffs, Cedar Bluffs, Neb.

Worcester, Franklin, director Indian Head National Bank, Nashua, N. H.

LEGAL DEPARTMENT

THOMAS B. PATON, GENERAL COUNSEL

BILLS OF LADING

Following the reception by President Wilson on April 12 of a delegation of shippers and bankers in behalf of the Pomerene bill, S. 19, relating to bills of lading and the hearing before the House Committee on Interstate and Foreign Commerce on April 13, reported in the last issue of the JOURNAL, a number of hearings upon the measure have been given by the House Committee to representatives of various interests. Members of the Interstate Commerce Commission have given their views, representatives of certain railroads have been heard and further presentation has been made on behalf of the shippers and bankers. The Pomerene bill has already passed the Senate and there is reason to expect that a favorable report of this measure, possibly with a few amendments, will be made by the Committee on Interstate and Foreign Commerce to the House of Representatives in the near future. The American Bankers Association has been working for Federal legislation along these lines, which would properly safeguard bills of lading, for more than ten years. Our Committee on Federal Legislation has issued a pamphlet containing the following reasons why the Pomerene bill should be passed:

1. The bill of lading has today become much more than a mere contract of affreightment. It now has the added and very important function of an instrument of credit, upon which billions of dollars are yearly advanced:

(a) By consignees who pay for goods upon presentation of drafts with bills of lading attached, in reliance upon the statements contained in those bills;
(b) By bankers who loan to shippers and to consignees upon the credit of bills of lading.

2. The conditions and necessities of business require that such payments by consignees and such loans by bankers shall be made upon the bill of lading rather than upon the goods themselves. Our cotton, grain, farm products—indeed, all of our raw materials and our manufactured articles are largely moved by advances made upon bills of lading. The Pomerene bill recognizes this function of the bill of lading and provides rules which give it a legal status and value which it cannot possess under the existing Federal law.

3. Section 22 of the bill adopts a rule, long in force in our leading commercial states, which rule makes the carrier liable to a bona fide consignee or banker who pays or loans money upon a bill of lading issued by an authorized agent, certifying the receipt of goods, although no goods in fact have been received. It rightly applies the rule which makes the principal responsible for the act of his authorized agent performed within the scope of his authority to one who relies thereon to his injury. This same principle applies to banks and other corporations which issue negotiable documents and there is equal necessity that it should apply to carriers; otherwise the bill of lading fails in its function as an instrument of credit.

4. Section 37 contains another important provision. That section gives full negotiability to bills of lading and thereby affords greater protection to the discounting banker and to the purchaser of the goods. Where they acquire a bill of lading in good faith, that bill is made enforceable and is not subject to some unknown defect in the title of a prior holder.

5. The Pomerene bill makes criminally liable the person who forges a bill of lading and the agent who issues a bill that does not represent goods. This is a much needed reform. No punishment whatever is now provided for such criminals under the Federal law. Bills of lading purporting to represent goods of a value of about $11,000,000 were fraudulently negotiated by Knight, Yancey and Company in 1910, and by LeMore and Company in 1914-15, and no one connected with either of those frauds has been punished. This failure to punish admitted criminals was due to the fact that no Federal statute existed upon which an indictment could be found. While the state authorities had the power to prosecute, no prosecution under the state laws was even seriously considered. Unless the Pomerene bill becomes law the door will still remain attractively open for the defrauding of our purchasers abroad. At the present time when every effort is being made to encourage our trade with South America a repetition of the Knight-Yancey frauds would do more damage than all of the honest merchants in the country could undo in a generation.

6. The Pomerene bill will also promote the interstate and foreign commerce of the country by making bills of lading inherently safe. The bill is especially advantageous to the small shipper who, unless he can procure advances upon the faith of his bill of lading, cannot conduct business at all.

7. Sound bills of lading will also facilitate the handling of drafts drawn against them and add to the safety of our Federal reserve bank system. As trade acceptances develop, the safety of our bills of lading will become increasingly important.

8. It is objected that the bill shifts the burden from the bank to the railroad, but that is where the burden belongs. The railroad employs the agent and holds him out to the public as authorized to issue bills of lading. If the agent abuses his trust, his principal—not the public—should suffer. The railroads should not be heard to say that it will cost them too much to make their

bills of lading honest documents; as a matter of fact, vigilance will prevent most of the irregularities and insurance will protect the railroads against the rest, at a comparatively small cost. This change will make our law uniform with that of every other commercial country in the world, except only Great Britain and her colonies.

9. It is further objected that the Pomerene bill is not necessary because the Interstate Commerce Commission has jurisdiction to give the necessary redress to the innocent payor or lender upon a false bill of lading, but that is not so. The Interstate Commerce Commission cannot change the Federal law and make it conform to the law of our leading commercial states, nor can the Commission declare any act to be a crime or prescribe the punishment for that crime.

INTERLOCKING BANK DIRECTORATES

We are pleased to announce that on May 15 the President signed the Kern bill amending the Clayton Act as to interlocking bank directorates, which latter Act takes effect October 15, 1916. The amendment will allow the officer, director or employee of a national bank, upon procuring the consent of the Federal Reserve Board, to be in two other banks not in substantial competition. Following is the official text of the Act as approved:

[PUBLIC—No. 75—64TH CONGRESS.]
[S. 4432.]

An Act to amend section eight of an Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October fifteenth, nineteen hundred and fourteen.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section eight of an Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October fifteenth, nineteen hundred and fourteen, be, and the same is hereby, amended by striking out the period at the end of the second clause of said section, inserting in lieu thereof a colon, and adding to said clause the following:

"*And provided further,* That nothing in this Act shall prohibit any officer, director, or employee of any member bank or class A director of a Federal reserve bank, who shall first procure the consent of the Federal Reserve Board, which board is hereby authorized, at its discretion, to grant, withhold, or revoke such consent, from being an officer, director, or employee of not more than two other banks, banking associations, or trust companies, whether organized under the laws of the United States or any State, if such other bank, banking association, or trust company is not in substantial competition with such member bank.

"The consent of the Federal Reserve Board may be procured before the person applying therefor has been elected as a class A director of a Federal reserve bank or as a director of any member bank."

Approved, May 15, 1916.

WAR TAX ON TRUST COMPANIES AS BANKERS

One of the test suits brought by trust companies in New York to test the applicability to trust companies of the special tax on bankers imposed by Section three of the Emergency Revenue law of 1914 has just (May 24) been decided in favor of the trust companies by the United States District Court. Section three provides that annually "bankers shall pay one dollar for each one thousand dollars of capital used or employed, and in estimating capital, surplus and undivided profits shall be included * * *."

The case in which the decision was rendered is Farmers Loan & Trust Company *v.* Anderson, heard before Hough, J., and a jury in the District Court of the United States for the Southern District of New York.

The trust company filed a sworn return in November, 1914, stating that none of its capital, surplus and undivided profits were employed in the business of banking and accompanied the return by a letter to the Collector showing the amount of its capital, surplus and undivided profits, averaged monthly, for the fiscal year, June 30, 1913-14. The letter stated that the capital, surplus and undivided profits had been throughout that period invested in U. S. Government, state, municipal and corporation bonds, bonds secured by mortgages on real estate, corporate stocks and real estate and that no part had been used or employed in the business of banking as defined by the statute.

The Commissioner of Internal Revenue, disregarding the return and letter, required payment to the Collector of the taxes computed on the basis of the trust company's entire capital, surplus and undivided profits. The amount was paid under protest and on July 29, 1915, suit was filed to recover the amount paid.

At the conclusion of the testimony the court denied a motion on the part of the Government to go to the jury on all issues and granted a motion on behalf of the trust company for the direction of a verdict for the plaintiff. No formal opinion was handed down, but the court in directing a verdict for the trust company stated that its direction was based upon the ground that there was no substantial difference between the Act of 1898 and the Act of 1914 and that under decisions in Central Trust Company *v.* Treat, 171 Fed. 301, and Treat *v.* Farmers Loan and Trust Company, 185 Fed. 760, under the Act of 1898, based upon substantially similar testimony, the trust companies were held not liable for the special tax. Both statutes require that the capital, surplus and undivided profits shall be used in banking and where the capital is not used in banking but is invested in real estate, bonds and mortgages and other securities it is not subject to the tax.

A further point involved in the trial related to the legal sufficiency of the assessment. It was shown that the Commissioner of Internal Revenue and the Internal Revenue collectors had no evidence before them counteracting the sworn return of the trust company, that its capital, surplus and undivided profits were not employed in the banking business as specified in the Act. The court held that this situation overcame any prima facie presumption in favor of the assessment and cast the burden of proof in support of the assessment upon the collectors which they could not meet under the former decisions.

Five other suits against the Collector by Central Trust Company of New York, Lawyers Title and Trust Company, Bankers Trust Company, Guaranty Trust Company and United States Trust Company were upon the calendar to be tried, but as the case will be appealed these were continued without trial, pending review by the Circuit Court of Appeals for the Second Circuit of the decision of Judge Hough.

We append, as of interest in this connection, the decision of the United States Circuit Court for the Southern District of New York in Central Trust Co. *v.* Treat, 171 Fed. 301, and an extract from the opinion of the Circuit Court of Appeals, Second Circuit, in Treat *v.* Farmers Loan & Trust Co. and Treat *v.* Central Trust Co., 185 Fed. 760, in which the decisions of the lower court was affirmed.

CENTRAL TRUST CO. OF NEW YORK *v.* TREAT, Collector, 171 Fed. Reporter 301

(Circuit Court, S. D. New York. June 10, 1909)

This is an action to recover $22,156 paid by the plaintiff under protest as a tax claimed by the defendant, a collector of internal revenue, to be due under War Revenue Act June 13, 1898, c. 448, Sec. 2, 30 Stat. 448 (U. S. Comp. St. 1901, p. 2286). The relevant parts of the section read as follows:

"Sec. 2. That from and after July first, eighteen hundred and ninety-eight, special taxes shall be, and hereby are, imposed annually as follows, that is to say:

"(1) Bankers using or employing a capital not exceeding the sum of twenty-five thousand dollars shall pay fifty dollars; when using or employing a capital exceeding twenty-five thousand dollars, for every additional thousand dollars in excess of twenty-five thousand dollars, two dollars, and in estimating capital surplus shall be included. The amount of such annual tax shall in all cases be computed on the basis of capital and surplus for the preceding fiscal year. Every person, firm, or company, and every incorporated or other bank, having a place where credits are opened by the deposit or collection of money or currency, subject to be paid or remitted upon draft, check, or order, or where money is advanced or loaned on stocks, bonds, bullion, bills of exchange, or promissory notes, or where stocks, bonds, bullion, bills of exchange or promissory notes are received for discount or sale, shall be a banker under this Act; Provided, that any savings bank having no capital stock, and whose business is confined to receiving deposits and loaning or investing the same for the benefit of its depositors, and which does no other business of banking, shall not be subject to this tax."

The only matter in dispute is whether the tax is payable on $11,078,355.29, being accumulated and undivided profits resulting from the conducting of the business of complainant for many years.

LACOMBE, Circuit Judge (after stating the facts as above): In view of former decisions in this circuit (Leather Manufacturers' Bank *v.* Treat [C. C.] 116 Fed. 774; Id., 128 Fed. 262, 62 C. C. A. 644), there would be no difficulty in finding that these accumulated undivided profits are either "surplus" or "capital." In the case cited the plaintiff was a bank engaged solely in a banking business, and presumably all the property that it had was employed in such business. But in the case at bar the plaintiff is not a bank or banker, and, although it does some of the things enumerated in the section as indicative of such business, its principal business seems to be distinctively that of a trust company.

It will be observed that the "capital and surplus," which is subjected to the tax, is that which is used or employed by the banker; *i. e.*, in the banking business. The evidence shows that the entire amount of these undivided profits before, during and at the end of the fiscal year were invested in municipal and railway bonds and in the stocks of corporations, and were not in any sense employed in the business of banking, although the ownership of this large amount of securities available to make good losses in any of the enterprises which the corporation was conducting naturally increased its credit generally.

Counsel may prepare and submit findings in accordance with this decision, whereupon they will be signed, and judgment entered for the plaintiff.

Treat, Collector of Internal Revenue *v.* Farmers Loan & Trust Co.; Same *v.* Central Trust Co. of N. Y. (Circuit Court of Appeals, Second Circuit, February 14, 1911, 185 Fed. 760.)

WARD, Circuit Judge: "* * * The questions for consideration are whether the capital and surplus of either of the plaintiff companies were subject to the tax and whether interest and costs or either were properly awarded against the defendant. The agreed statements show that the capital and surplus of both companies are permanently invested in stocks and bonds; that the only business the companies do as bankers within the definition of banking in the act is the opening of credits by deposits or collections of money and paying the same out on check, draft or order and the loaning of money on stocks, bonds or secured paper. This business is done entirely by means of the depositors' moneys. As the act only taxes the capital and surplus used or employed in banking, we think the circuit judge was entirely right in holding as matter of law that the plaintiffs, not using their capital or surplus in banking, were not subject to the payment of any tax thereon. No doubt they got credit by the amount of their capital and surplus, but Congress evidently intended to put corporations upon the same basis as individuals, and it would obviously be very unfair to tax an individual upon his whole fortune because he was using a part of it in the banking business."

OPINIONS OF THE GENERAL COUNSEL

FORGERY OF INDORSEMENT TO NOTE

Where A the maker, forges the indorsement of B and C to note and at maturity B and C are notified but pay no attention thereto and afterwards B sees the note and, instead of disclosing forgery, says he will endeavor to get A to renew with additional indorsers, but afterwards, upon A's death, leaving no estate, B and C assert forgery, question whether B or C or both are estopped by silence from asserting forgery and liable on the note.

From Illinois—Your opinion would be appreciated on the following case: A is the maker of a note, B a brother and C a brother-in-law are indorsers thereon. The note is not paid at maturity and all three are notified. None of them give the matter any immediate attention. Later B is in our place of business and we call his attention to the note being past due. He looks at the note and then says that he will try and get A to renew the note with additional indorsers. Before a renewal is signed, A dies. B and C then say that their signatures are forgeries. To what extent are B and C liable? On our first notification B and C knew that their signatures were forged, but evidently kept quiet in order to protect A. After A is dead they then come forward with the statement of the forgery. A left no estate whatever.

The Negotiable Instruments Act provides:

Sec. 23. When a signature is forged or made without the authority of the person whose signature it purports to be, it is wholly inoperative, and no right to retain the instrument, or to give a discharge therefor, or to enforce payment thereof against any party thereto, can be acquired through or under such signature, unless the party, against whom it is sought to enforce such right, is precluded from setting up the forgery or want of authority.

The question then is whether B and C would be precluded from setting up the forgery.

The principle of estoppel, either by deed or *in pais*, as applied to negotiable paper, being intended to give credit and circulation to such security and to protect the honest holder thereof (Forbes *v.* Espy, 21 Ohio St. 474), it follows that parties thereto are often estopped from asserting defenses which might otherwise have been available, but which, in the light of their previous acts or representations, are unfair, fraudulent or prejudicial to plaintiff. (Buckley *v.* Collins, [Ark.] 177 S. W. 920; Curtin *v.* Mining, etc., Co., 141 Cal. 308; Gin, etc., Co. *v.* Moore, 12 Ga. App. 73; Staunton *v.* Smith, 6 Penn. [Del.] 193; Daniels *v.* Englehart, 18 Ida. 548; *Beatty v. College*, 177 *Ill.* 280; Cassidy *v.* Martin Bank, 23 Ky. Law Rep. 208; Hood *v.* Frellsen, 31 La. Ann. 577; Maine Mut. Ins. Co. *v.* Blunt, 64 Me. 95; Van Slyke *v.* Rooks, 181 Mich. 88; Bank *v.* Merkle, 97 Miss. 824; Wisdom *v.* Shanklin, 74 Mo. App. 428; Reeves *v.* Deets, 82 Nebr. 83; Monongahela Valley Bank *v.* Weston, 172 N. Y. 259; Bank *v.* Strand, 223 Pa. St. 33; Marling *v.* Fitzgerald, [Minn.] 120 N. W. 388; Arthur *v.* Brown, [S. C.] 74 S. E. 652; Hollandsworth *v.* Squires, [Tenn. Ch. 1900] 56 S. W. 1044; Commercial Bank *v.* Cabell, 96 Va. 552; Bank *v.* Bank, 50 Wash. 418; Irwin *v.* Freeman, 13 Grant Ch. [U. C.] 465.)

Thus, an indorser or accepter may be estopped to set up against a bona fide holder that the signature of the maker, drawer or prior indorser is a forgery. (Richards *v.* Street, 31 App. D. C. 427; Bowie *v.* Hume, 13 App. D. C. 286 [holding that one whose indorsement upon a note is alleged to have been forged, but who thereafter signs a waiver of notice indorsed on the note thereby adopts the signature of the indorsement]; Cochran *v.* Atchison, 27 Kan. 728; Burgess *v.* Northern Bank, 4 Bush [Ky.] 600; Beem *v.* Farrell, 135 Iowa 670; Olivier *v.* Andry, 7 La. 496; Turnbull *v.* Bowyer, 40 N. Y. 456; Levy *v.* U. S. Bank, 1 Bin. [Pa.] 27; Rambo *v.* Metz, 5 Strobh. [S. C.] 108; U. S. Bank *v.* Georgia Bank, 10 Wheat. [U. S.] 333.)

"Estoppel by silence" arises where a person who by force of circumstances is under a duty to another to speak refrains from doing so, and thereby leads the other to believe in the existence of a state of facts in reliance upon which he acts to his prejudice. (Tobias *v.* Morris, 126 Ala. 535 [citing Bigelow Estop. 588] [where the court said: "Negligent silence may work an estoppel as effectually as an express representation, for it is a just and well recognized principle that 'He who is silent when conscience requires him to speak shall be debarred from speaking when conscience requires him to keep silent.'"]; Carroll *v.* Manganese Safe Co., 111 Md. 252; Carmine *v.* Bowen, 104 Md. 198 [holding that a party is equitably estopped to deny the existence of a right claimed by another, when he was silent at the time the claim of such right was made, and his silence induced the other party to believe that no opposition thereto would be made, and he consequently altered his position, and the circumstances are such that it would be a fraud upon the latter party to allow the former to deny what his silence induced the other to act upon]; Moorehouse *v.* Burgot, 22 Ohio Cir. Ct. 174; Hall *v.* Rail Co., 27 R. I. 525; Burnett *v.* Atterbury, [Tex.] 145 S. W. 582.)

The silence has been denominated a species of conduct, and held to constitute an implied represenation of the existence of the state of facts in question, and the estoppel is accordingly regarded as a species of estoppel by misrepresentation. (Harris *v.* American Bldg., etc., Assoc., 122 Ala. 545.)

To make the silence of a party act as an estoppel the circumstances must have been such as to render it his duty to speak. It is essential that he should have had knowledge of the facts, and that the adverse party should have been ignorant of the truth, and have been misled into doing that which he would not have done but for such silence. (Thornton *v.* Savage, 120 Ala. 449; Securities Co. *v.* Hodges, 68 So. [Ala.] 980; Simpson *v.* Biffle, 63 Ark. 289; Treat *v.* Treat, [Cal.] 150 Pac. 53; Great West Min. Co. *v.* Woodmas, etc., Co., 12 Colo. 46; Palmer *v.* McNatt, 97 Ga. 437; *Chester v. Wabash, etc.*, *R. Co.*, 182 *Ill.* 382; Cooper *v.* O. R. Co., 156 Iowa 481; Sullivan *v.* Davis, 29 Kan. 28; Oliver Ditson Co. *v.* Bates, 181 Mass. 455; Belding Mfg. Co. *v.* Drury, 111 Mich. 41; Anderson *v.* Baumgartner, 27 Mo. 80; Borden *v.* Hutchinson, [N. J. Ch. 1901] 49 Atl. 1088; Ackerman *v.* True, 175 N. Y. 353; Dow *v.* Bank, 87 Ohio St. 173; Paul *v.* Kunz, 188 Pa. St. 504; Flint *v.* Babbitt, 59 Vt. 190; Onyx & Co. *v.* Miller, 74 W. Va. 686; Priewe *v.* Wisconsin State Land Co., 103 Wis. 537; Greey *v.* Dockendorf, 231 U. S. 513.)

In other words, when the silence is of such a character and under such circumstances that it would become a fraud upon the other party to permit the party who has kept silent to deny what his silence has induced the other to believe and act upon it will act as an estoppel. (Staton *v.* Bryant, 55 Miss. 261; Lee *v.* Kirkpatrick, 14 N. J. Eq. 264; Farber *v.* Lumber Co., 20 Ida. 354; *Maring v. Meeker*, 263 *Ill.* 136; Rothschild *v.* Guarantee, etc., Co., 204 N. Y. 458; Livengood *v.* Staufer, 31 Pa. Super. Ct. 495; Harmon *v.* Liberman, 39 Tex. Civ. App. 251; *In re* Shoe Co., 210 Fed. 533.)

Thus, to illustrate, a maker who stands by and sees his note or mortgage assigned to a third person, without giving the assignee notice of any existing defense, is estopped from afterward contesting its validity, if the assignee has been misled by his silence, and has not taken under such circumstances as to charge him with notice. (Langley *v.* Andrews, 142 Ala. 668; Morris *v.* Alston, 92 Ala. 502; Lawson *v.* Bank, 31 Ky. Law Rep. 318; Buch *v.* Wood, 85 Me. 204; Downer *v.* Read, 17 Minn. 493; Lee *v.* Kirkpatrick, 14 N. J. Eq. 264; Best *v.* Thiel, 79 N. Y. 15; Decker *v.* Eisenhauer, 1 Pen. & W. [Pa.] 476; Coal Co. *v.* Trust Co., 197 Fed. 347.)

The vital principle of equitable estoppel, or estoppel *in pais*, is that he who by his language or conduct leads another to do what he would not otherwise have done, shall not subject such person to loss or injury by disappointing the expectations upon which he acted. (Dickerson *v.* Colgrove, 100 U. S. 580.)

The following cases are illustrative of the principle of estoppel *in pais:*

In Buck *v.* Wood, 85 Me. 204, it was held that where a person whose name has been forged as the maker of a promissory note makes payments on such note to an innocent holder thereof without divulging the forgery, for the purpose of screening the forger from detection and punishment, when otherwise the holder would have initiated criminal proceedings against him, such person when sued upon the note by the holder will be estopped from setting up the forgery as a defense thereto. Such acts amount to an implied or indirect ratification.

In Rothschild *v.* Title Guarantee & Trust Co., (Feb. 1912) 204 N. Y. 458, it was held that where a person wronged is silent under a duty to speak, or by an act or declaration recognizes the wrong as an existing and valid transaction, and in some degree at least gives it effect so as to benefit himself, or so as to affect the rights or relations created by it between the wrongdoer and a third person, he acquiesces in and assents to it, and is equitably estopped from impeaching it.

This was a case in which the name of plaintiff's testatrix was forged to a mortgage, and she continued to pay interest on same, after discovery of the forgery, up to the time of her death. In passing on this phase of the case, the court said: "A fraudulent purpose or a fraudulent result lies at the basis of the doctrine of equitable estoppel through silence or inaction. Actual or intended fraud is not an element essential to it. Neither affirmative acts or words nor silence maintained with the fraudulent intention of deceiving are indispensable elements of it. But it arises only when, relatively to the party invoking it or his privies, the omission to speak is an actual or constructive fraud. Its existence requires that the party against whom it acts remained silent when he had the opportunity of speaking and when he knew or ought to have known that his silence would be relied upon, and that action would be taken or omitted which his statement of the truth would prevent, and that injury of some nature or in some degree would result. (Thompson *v.* Simpson, 128 N. Y. 270; Collier *v.* Miller, 137 N. Y. 332.)" * * * "The defendant, from the moment the checks it gave Baldwin (the forger) were paid, might, had it been conscious of the truth, have availed itself of civil remedies for the recovery from him of the $2,000; it might also, by its complaint and information, have subjected him to prosecution criminally. The right of seeking restoration and payment from the person who accomplished or procured the forgeries was in itself a substantial and valuable one. (Leather Manufacturers' Bank *v.* Morgan, 117 U. S. 96; Continental Nat. Bank *v.* Nat. Bank of Com., 50 N. Y. 575.)"

In Sackett *v.* Fast, 39 Pa. Super. Ct. 431, it was held that if a person stands by and consents, either by words *or impliedly*, to his name being signed to a note and to the delivery of that note for value to one who believes the signature to be genuine, such person cannot thereafter escape liability on the ground that he did not sign the note nor give prior authority to someone to sign it for him.

In applying the doctrine of equitable estoppel to the facts submitted by you, B whose name was forged as indorser, was notified of non-payment but paid no attention and C whose name was likewise forged as indorser and who also received notice of non-payment, not only omitted to inform the bank that his name had been forged, but afterwards upon being shown the note, virtually affirmed the genuineness of his indorsement by stating that he would endeavor to get the maker to renew with additional indorsers. If this silence of B when it was his duty to speak and affirmative representation by C of the genuineness of the indorsement were intended to and did prevent the bank from taking prompt action against the maker, who forged the note, which would have saved the bank from loss in whole or in part, or caused the bank to change its position in any manner to its deteriment or prevented it from taking any other beneficial action which a prompt knowledge of the forgery would have enabled it to take, there would seem a ground of action against C and perhaps also against B. Your letter does not state the facts with sufficient fullness as to what if any injury was caused the bank by this silence as to forgery of the indorsements and virtual false affirmation of their genuineness, to enable a conclusion to be reached whether the principle of estoppel would be applicable to the indorsers in this particular case; but assuming the bank was injured as above described by the silence of one purported indorser and the misleading statement of the other as to procuring a renewal note, there would seem fair ground for holding one or both of the purported indorsers liable under the principles and decisions above set out.

FORGERY OF PAYEE'S INDORSEMENT BY PERSON OF SAME NAME

Indorsement of check by person of same name but not the real payee is a forgery, and drawee which pays such check cannot charge amount to drawer, in absence of negligence, but can recover from person receiving payment.

From Oklahoma—Mr. Brown sent his check for $70 payable to John Smith, enclosing it in an envelope addressed to him in the usual manner. The post office delivered the letter to another John Smith (who gets his mail there addressed the same as the other Smith), and he cashed the check at a place where he was personally known to be John Smith. Soon afterward Brown had his account at the bank balanced, but not knowing the signature of the intended payee, John Smith, he supposed the incident was properly closed. In about thirty days the first mentioned Smith made inquiry of Brown concerning the amount due him, amounting to $70, whereupon Brown discovered that the check had been indorsed by the wrong Smith who is not financially responsible for an amount of this size. Is the drawee bank liable in this instance? Has Brown any recourse on anyone except on the Smith who indorsed the check and got the money on it? We have this question before us, and have been unable to decide it, and we will thank you to give your opinion on same.

It is the general rule, supported by a number of authorities, that an indorsement of a check by a person of the same name, but not the real payee intended by the drawer, is a forgery and no title is derived through such an indorsement. (Cochran *v.* Atchison, 27 Kan. 728; Rossi *v.* Nat. Bank of Commerce, 71 Mo. App. 570; Graves *v.* American Exchange Bank, 17 N. Y. 205; Beattie *v.* Nat. Bank of Illinois, 174 Ill. 571.)

Under this rule, the check having been paid upon a forgery of the payee's indorsement would not be chargeable by the payor bank to the drawer's account, unless the drawer was guilty of negligence in delivering the check to the payee. A case illustrating negligence which would make the drawer responsible is Weisberger Co. *v.* Barbarton Savings Bank, 95 N. E. (Ohio) 379. The drawer being indebted to Max Roth, of 48 Walker Street, New York City, made his check payable to Max Roth, but inadvertently mailed it to "Max Roth, 48 Walker Street, Cleveland, O." The letter was delivered by the post-office authorities in Cleveland to a person whose name was Max Roth, who lived on Henry Street; this Max Roth indorsed and negotiated the check and it was paid by the drawee. In an action by the drawer against the bank the court held that the drawer of the check was first in fault and as his negligence contributed directly to its wrongful and fraudulent appropriation he was not entitled to recover. The court said: "In the case at bar it appears that neither the depositor nor the bank intended to commit any wrong, and we may apply a rule, the substance of which is that where one of two innocent parties must suffer because of a fraud or forgery, justice imposes the burden upon him who was first at fault and put in operation the power which resulted in the fraud or forgery."

In the present case you state the check was forwarded the payee enclosed "in an envelope addressed to him in the usual manner." From this it would appear that there was no negligence on the part of the drawer which makes him responsible. In the absence of such negligence, the check is not chargeable to the drawer but the drawee bank has a right of action to recover the money from the person to whom it paid the check and the ultimate loser would be the purchaser of the check from John Smith who was of the same name, but not the real payee.

BANK SET OFF

Bank has right to apply balance upon depositor's matured indebtedness, without first notifying or obtaining prior consent of depositor.

From Mississippi—One of our customers who owed the bank had a deposit with the bank. One item of indebtedness was secured by deed of trust upon lands, and another item by an assignment of his salary due by the County. The depositor collected the salary due by the County in the shape of a warrant, and deposited it with this bank, together with other moneys. When the debt secured primarily by the deed of trust upon lands became due, the bank charged that item to the depositor's open account, but on the second day of grace, and before the expiration of the third day of grace, the bank charged against the deposit the debt secured by the assignment of said salary which left to the credit of the depositor only $90. Before the land debt became due the depositor had given a check on the bank for $100, which was not presented until after the expiration of the third day of grace, and the depositor having only $90 to his credit, the bank, of course, refused to pay the check for $100. Kindly cite us authorities sustaining our action, as the depositor has sued us for damages for not paying his check, claiming that we had no right to charge his indebtedness against his deposit without his knowledge or consent?

A bank has the right at any time to offset any matured indebtedness owing by a depositor to it against his credit, without prior resort to any collateral held by it. (Morgrage *v.* National Bank, 24 Cal. App. 103; Guernsey *v.* Marks, 55 Oreg. 323; Patterson *v.* State Bank, 55 Ind. App. 331; Royal Trust Co. *v.* Molsons Bank, 27 Ont. Law 441.)

In Mississippi the right of a bank to charge a due and unpaid note to a depositor's account, absorbing his deposit to the amount of the note, has been recognized and declared in the case of Eyrich *v.* Capital State Bank, 67 Misc. 60. This right can be exercised without first notifying the depositor or obtaining his prior consent. In one or two states, prior consent of the depositor or notice to him of the appropriation is a prerequisite, but according to the decisions in a large majority of states, including Mississippi, prior consent of the depositor is not necessary. In a few states also, it has been held that where a bank holds collateral security or mortgage security for payment of the indebtedness, the bank must first exhaust the security before resorting to the debtor's deposit, but the prevailing view is that the right of setoff is not affected by the holding of such security. See, for example, Cockrill *v.* Joyce, 62 Ark. 216.

As I understand the facts in your case, when the check for $100 was presented, there was only $90 to the credit of the depositor because two items of indebtedness had been charged to the depositor's account, reducing the balance to $90 and the check was, therefore, refused payment. Although the application of the deposit to one of the debts had been made before the third day of grace, both these items of indebtedness were due at the time of presentment of the check and at that time there was a clear right of setoff so that when the check for $100 was presented, the bank was only indebted to the depositor for $90. Under such circumstances it would seem that the bank had a right to refuse payment of the check and would not be liable in damages to its depositor.

BRANCHES OF NATIONAL AND SAVINGS BANKS

National banks not permitted to operate branches—Law of Massachusetts as to branches of savings banks.

From Massachusetts—Kindly advise us if it is possible for national banks or savings banks to establish branches in and outside of the city in which they are located.

Under the present Federal Law national banks are not permitted to establish branches either in or outside of the city in which they are located. A bill is pending in the Senate (S. 5078), introduced by Senator Owen, which provides that any national bank located in a city of more than 100,000 inhabitants and possessing a capital and surplus of $1,000,000 or more may, under such rules and regulations as the Federal Reserve Board may prescribe, establish branches within the corporate limits of the city, town or village in which it is located. A bill is pending in the House substantially to the same effect.

So far as the right of savings banks in Massachusetts to establish branches is concerned, Section 36 of the Savings Bank Act relating to savings banks and institutions for savings provides:

> "Such corporation shall carry on its usual business at its banking house only, and a deposit shall not be received or payment on account of deposits be made by the corporation or by a person on its account in any other place than at its banking house, which shall be in the city or town in which the corporation is established; except that the corporation may, with the written permission of and under regulations approved by the commissioner, maintain and establish one or more branch offices or depots, for the receipt of deposits only, in the city or town in which its banking house is located, or in towns not more than fifteen miles distant therefrom in which there is no savings bank at the time when such permission is given; * * *"

The portion omitted is a further proviso relative to the collection of savings from school children.

MATERIAL ALTERATION OF NOTE

Where note is materially altered it is avoided except that holder in due course may enforce according to its original tenor.

From New York—We enclose a copy of a note dated ———, New York, September 5, 1910, signed by B. E. Smith and C. J. Smith in the amount of $300. The words "value received" in the upper left-hand portion of the note and the words "with int." in the lower central part of the note and the lines drawn through "at the residence of A. A. Brown, value received with int." were written and drawn respectively without knowledge of the maker of the note and after its execution and before maturity.

Are the makers of the note released because of such action? B. E. Jones, the payee named in the note sold the note to John Robinson, who is at this date, May 8, 1916, the owner, and the alterations referred to were made by Jones and Robinson before maturity of the note. We will greatly appreciate any information you may give us about this matter.

The Negotiable Instruments Act provides (Sec. 205, N. Y. Act):

> "Where a negotiable instrument is materially altered without the assent of all parties liable thereon, it is avoided, except as against a party who has himself made, authorized or assented to the alteration, and subsequent indorsers.
>
> "But when the instrument has been materially altered and is in the hands of a holder in due course, not a party to the alteration, he may enforce payment thereof according to its original tenor."

The alteration in this case consisted in drawing a line through the words "at the residence of A. A. Brown, value received, with int." and inserting the words "value received" at the top of the note and "with int." at the bottom. Irrespective of the question of the effect of striking out and reinserting the words "value received" and "with int.," this note was altered by striking out the place of payment, and this of itself would constitute a material alteration. See, for example, First Nat. Bank *v.* Barnum, 160 Fed. 245, where a place of payment was erased and another place interlined and it was held the alteration was material and that an indorsee, having notice of the alteration, could not be a holder in due course and could not recover according to the original tenor even though he paid value for the note.

In the present case, therefore, the note having been materially altered by the payee after it left the hands of the maker was avoided as to the maker, although it would be an enforceable obligation against the payee. You do not state who is the present owner of the note, but there could not, I think, be a holder in due course who could enforce same against the maker according to its original tenor because it has been held that where a mere inspection of the instrument shows that it has been altered a purchaser of it cannot recover on it according to its original tenor; such purchaser cannot be a holder in due course because it is not regular on its face. (Elias *v.* Whitney, 50 Misc. [N. Y.] 326.)

RIGHT OF PURCHASER OF STOPPED CHECK

Where check, after issue, was countermanded by drawer, purchaser from payee without notice is holder in due course and can enforce payment from drawer.

From Pennsylvania—In the JOURNAL for April you answer an inquiry from Kansas as to the right of a purchaser of a stopped check. Can you refer us to any decisions along this line in Pennsylvania? The incident in question is one where there is no charge of fraud. "A" gave his check to "B," "C" cashed the check for "B" and in the meantime "A," being dissatisfied with his purchase, stopped payment and "B" is not worth the amount. Can "C" recover from "A" under Pennsylvania laws?

C has an undoubted right of recovery against A, the drawer of the check. C is a holder in due course under the Negotiable Instruments Act, which is in force in Pennsylvania, as in most other states. That Act defines a holder in due course as follows:

Sec. 52. A holder in due course is a holder who has taken the instrument under the following conditions:

1. That is complete and regular upon its face;
2. That he became the holder of it before it was overdue, and without notice that it had been previously dishonored, if such was the fact;
3. That he took it in good faith and for value;
4. That at the time it was negotiated to him he had no notice of any infirmity in the instrument or defect in the title of the person negotiating it.

And concerning the rights of enforcement of a holder in due course, the Act provides:

Sec. 57. A holder in due course holds the instrument free from any defect of title of prior parties, and free from defenses available to prior parties among themselves, and may enforce payment of the instrument for the full amount thereof against all parties liable thereon.

Under the above provisions, which are merely declaratory of the long established rules of the law merchant, C can recover from A even though A had a good defense against B because of fraud, failure of consideration or otherwise. According to your letter no question of fraud is involved, A stopping payment simply because he was dissatisfied with the article purchased for which his check was given, and under such circumstances probably even B, the payee, could recover on the check as based on a valuable consideration; but however this may be, C as a holder in due course has an undoubted right of recovery.

You ask for citation of Pennsylvania decisions. The proposition is so elementary that a bona fide purchaser for value before maturity takes an enforceable title free from defenses between original parties, that most all the decisions in which such proposition is recognized pass upon other questions coupled therewith and are not limited to affirming the precise point. Under the express provisions of Section 57, the holder in due course of an instrument takes it free from any defense to prior parties among themselves. For decisions indicating that this section, when enacted, was declaratory of existing law, see Lewis *v.* Reeder, 9 S. & R. 193; Welton *v.* Littlejohn, 163 Pa. 205. See also the following cases in which the proposition is recognized that the holder in due course may enforce the instrument free from defenses or equities between prior parties. Kuhns *v.* Gettysburg Nat. Bank, 68 Pa. 445; Ihmsen *v.* Negley, 25 Pa. 297; Real Estate Investment Co. *v.* Smith, 162 Pa. 441.

INTEREST ON NOTE

Partial payment on note is applicable first to reduction of interest and only surplus, if any, to principal—Computation of amount of principal and interest due on note in a stated case.

From Illinois—A gives B a note of $435.50 for two years dated March 2, 1914, interest payable semi-annually at five per cent. per annum. A pays no interest until March 8, 1915, and B indorses payment as follows: "Received on the within note $20." (This was the amount paid on March 8.) About May 1, 1916, B left the note with his bank for collection with no instructions as to the amount to collect or no explanation regarding indorsement. Kindly advise what, in your opinion, would be due on May 2, 1916, also if indorsement as made would be construed as a payment of interest or of a part of the principal.

Payments on account of a debt are first to be applied to the interest which has accrued thereon. (Peebles *v.* Gee, 1 Dev. 341.) A partial payment should be applied first to extinguish the interest and the surplus, if any, to the principal. (Russian *v.* Lucas, Hempst. 91; Hammer *v.* Nevill, Wright, 169.) Furthermore, when the $20 was paid in this case the principal was not due, but more than that amount of interest was due. The indorsement of receipt of $20 upon this note would, therefore, be construed as a payment of interest and not as part payment of principal.

The next question which arises is whether the unpaid installments of interest on this note bear interest upon their respective maturities. The note is payable two years after date but the interest is payable every six months at five per cent. per annum. It has been held in Illinois that there is no implied obligation to pay interest on interest. (Smith *v.* Luse, 30 Ill. App. 37.) But compound interest may be lawfully asked for (1) if the contract is made after the interest which is to bear interest has accrued or (2) if the agreement to pay it is expressed in an instrument having the qualities of negotiable paper separate from the instrument evidencing the principal debt. In other cases, compound interest cannot be collected without contract. (Bowman *v.* Neely, 151 Ill. 37.) In the present case there is no evidence of an agreement made after the interest accrued, that it should bear interest and it would seem, therefore, that the unpaid interest would not bear interest.

The specific question you ask is what was due on this note on May 2, 1916, two months after its maturity. The legal rate of interest in Illinois being five per cent., the same as provided in the note, and the unpaid installments of interest not bearing interest, I think the amount due on May 2, 1916, is the principal sum of $435.50 with interest at five per cent. for two years and two months less the sum of $20 which has been paid in reduction of interest.

INDORSEMENT OF NOTE AT DISCOUNT GREATER THAN LEGAL INTEREST

Different views held by courts as to usurious nature of transaction—The rule in Tennessee.

From Tennessee—If one man signs a note that is payable to another, and the payee indorses it, waiving demand and notice, to a third party, and the third party charges a rate of interest in excess of the legal rate, has the indorser the right of recovery on account of the excess interest charge?

If A makes his note to B for value and B indorses it to C without recourse at a discount greater than the legal rate of interest, the authorities are virtually agreed that such a transaction is not within the letter or spirit of the usury laws but is a sale of the paper. But where B indorses the instrument, so as to be contingently liable to the purchaser for its payment at a sum greater than that received, with legal interest, the courts have taken different views as to the character and effect of such a transaction. It has been held by different courts that: (1) the transaction is usurious as to both indorser and maker, (2) the transaction is usurious as to the indorser but the defense of usury is personal and the maker is liable for the full amount, (3) the transaction is not usurious and the maker is liable for the full amount but the holder is limited in his recovery against the indorser to the amount advanced with legal interest, (4) the transaction is a valid sale of a note with warranty of its soundness and the purchaser can enforce the note for its full amount against both indorser and maker. See an opinion in the JOURNAL for December, 1915 (page 514), where this subject is discussed more at length.

Concerning the rule in Tennessee, there are two early decisions of the Supreme Court which bear on the subject. In Campbell *v.* Read, 8 Tenn. 391, decided in 1828, the view was taken that as to the maker the note was enforceable for the full amount, but as to the indorser (the jury having found that the intention of the indorsement was to enable the lender to obtain exorbitant interest) the transaction was in effect an indirect loan and usurious. The court said: "It must be left to the jury in every instance to ascertain the true intention of the parties and state of the transaction; that a note may be sold at a discount is certainly true; but whenever the indorser or seller becomes bound for the whole amount by, in effect, giving a new note, this can be and generally is usurious."

But in the later case of May *v.* Campbell, 26 Tenn. 450, decided in 1846, a different view was taken. A note given by the maker to the payee upon a valuable consideration was indorsed to a purchaser at a discount greater than the legal rate. It was held that the note was not usurious in its inception, and while the purchaser could not recover of the indorser more than he paid, with interest, yet if the indorser paid the whole sum he could not recover back the excess above the principal and legal interest.

If this decision is to be taken as an expression of the present law of Tennessee, the answer to your question is that the indorser who has transferred a note based on a valuable consideration at a discount greater than the legal rate of interest and has paid the same to the holder has no right of recovery because of the excess over the legal interest.

NEW DESIGNS FOR SILVER COINS

Since 1891 there has been no change in the designs of silver dimes, quarters and half-dollars, as the law does not permit a change oftener than once in twenty-five years. Secretary McAdoo now announces that after July 1 new designs of those pieces will be minted.

The face of the new half dollar bears a full length Liberty with a background of the American flag flying to the breeze. The goddess is striding toward the dawn of a new day, carrying laurel and oak branches, symbolic of civil and military glory. The reverse side shows an eagle perched high upon a mountain crag, wings unfolded. Growing from a rift in the rock is a sapling of mountain pine, symbolic of America.

The design of the twenty-five cent piece is intended to typify the awakening of the country to its own protection, Secretary McAdoo's announcement stated. Liberty, a full length figure, is shown stepping toward the country's gateway, bearing upraised a shield, from which the covering is being drawn. The right hand bears an olive branch of peace. Above the head is the word "Liberty" and below the feet "1916." The reverse bears the inscriptions "United States of America" and "E Pluribus Unum." Both the half dollar and the quarter bear the phrase "In God We Trust."

The design of the dime is simple. Liberty with a winged cap is shown on the fore side and on the reverse is a design of a bundle of rods, and a battle axe, symbolical of unity, "wherein lies the nation's strength."

TRUST COMPANY SECTION

OFFICERS OF THE TRUST COMPANY SECTION

PRESIDENT
JOHN H. MASON, Vice-Pres. Commercial Trust Co., Philadelphia, Pa.

FIRST VICE-PRESIDENT
UZAL H. McCARTER, President Fidelity Trust Company, Newark, N. J.

CHAIRMAN EXECUTIVE COMMITTEE
FRANK W. BLAIR, Pres. Union Trust Co., Detroit, Mich.

SECRETARY
PHILIP S. BABCOCK, Five Nassau Street, New York City.

TRUST COMPANIES WIN WAR TAX SUIT

In view of the many inquiries received since the Collector of Internal Revenue ruled that trust companies must pay the special war tax on their capital, surplus and undivided profits, the decision of Judge Hough of the United States District Court of New York City will be of interest to the Section's members. From the *New York Sun*, May 24, 1916:

"Judge Charles M. Hough of the United States District Court in a ruling made from the bench yesterday held that the special war tax on bankers of October 22, 1914, could not be applied to the entire working capital, surplus and undivided profits of trust companies. The Judge accordingly directed the jury to return a verdict for the plaintiff in the suit through which the Farmers Loan and Trust Company sought to recover from the Collector of Internal Revenue for the Second District $5,000 paid by the company under the special tax act.

"The suit brought by the Farmers Loan and Trust Company is the first of a series of similar actions. All of the plaintiffs regard Judge Hough's ruling in the Farmers Loan and Trust Company case as a sweeping victory, but as the Government has announced its intention of taking an appeal, the others will wait until the United States Supreme Court has finally passed on the issue before bringing their suit to trial.

"The special war tax act of October 22, 1914, provides for the payment by 'bankers' of a tax of $1 for each $1,000 of capital used or employed, the act explaining that surplus and undivided profits shall be included in estimating the working capital. It is contended by the trust companies that this act only applies to capital employed in actual banking transactions and not to capital invested in mortgages, title insurance, trust fund administration and the other forms of investment which go to make up the greater part of a trust company's business. The trust companies are willing to pay a tax on the very small part of their capital used in banking transactions, but insist that the remainder should be exempt from assessment.

"In upholding this contention Judge Hough referred to the decisions in favor of trust companies which brought similar suits during the Spanish-American War to avoid the payment of the special tax imposed on bankers at that time. Judge E. Henry Lacombe, then on the Federal bench, decided that investments in real estate bonds and mortgages and other securities dealt in by the trust companies could not be regarded as a banking business."

EXECUTIVE COMMITTEE MEETING

The Executive Committee of the Section held an interesting meeting at Briarcliff Manor, May 8, in conjunction with the meeting of the Executive Council of the Association. Frank W. Blair, chairman, presided, and others present were Mr. Mason, President, Mr. McCarter, First Vice-President, and Messrs. Poillon, Cutler, A. A. Jackson, Grape, Cooke, Teter, Woodruff, Fuller, Dinkins, Adams, Smith and Pratt.

Preliminary reports were made by the chairmen of the several committees covering the six months' work since the last convention. Full reports of these activities will be made at the convention in Kansas City. Mr. McCarter, as chairman of the Committee on Legislation, reported that suits to test the legality of Section K, Article 11, of the Federal Reserve Act had been instituted in Michigan, Illinois, New Jersey, Massachusetts and Pennsylvania. In Massachusetts a bill granting trust company powers to national banks was passed by the State Legislature, but was vetoed by Governor McCall, who the members of the Section may recall delivered, at the Boston meeting in 1913, a most interesting and instructive address on "The Relation of the Government to the Trust Companies." His veto of the bill in question carried out fully the views expressed in that address. As chairman of the Committee on Legislation, Mr. McCarter expressed the view that while national banks were asking for trust company powers from the Federal Reserve Board, it was believed that very few banks intended to exercise these powers to any great extent, and were generally waiting a decision by the United States Supreme Court as to the authority of the Federal Reserve Board to grant such powers.

The secretary's report showed the Section's finances in satisfactory shape and it was decided that no additional appropriation was necessary.

In response to the circular letter sent to all members of the Section, and also published in the April JOURNAL-BULLETIN, asking for suggestions as to the program for the Kansas City convention, a number of letters were submitted; the arrangement of the program was left to the executive officers and the secretary.

Certain changes in the by-laws of the Section covering the election of state vice-presidents, suggested by the General Secretary, were approved and will be submitted to the members of the Section in due course, so that they may be acted upon at the fall meeting.

SAVINGS BANK SECTION

OFFICERS OF THE SAVINGS BANK SECTION

PRESIDENT
N. F. HAWLEY, Treasurer Farmers & Mechanics Savings Bank, Minneapolis, Minn.

FIRST VICE-PRESIDENT
GEORGE E. EDWARDS, President, Dollar Savings Bank, New York, N. Y.

SECRETARY
MILTON W. HARRISON
Five Nassau Street, New York City.

EXTRACTS FROM COMMITTEE REPORTS AT BRIARCLIFF

MADE TO THE EXECUTIVE COMMITTEE OF THE SECTION

REPORT OF SECRETARY

Efficient and constructive service to members is the keystone of association work. This has been increasingly evident in the work of the Savings Bank Section. In a nation-wide organization it is essential that its work be broad of scope; that its influence be felt in every part of the country; that the work be inaugurated with courage and assurance of success. In other words, that the work of the Association be commensurate with the size of the organization. Last September, in writing to President Hawley, your Secretary stated: "I think the opportunities in the Section's work for next year are more than unusual. We will try with all the energy we possess to take advantage of them."

Since the Seattle meeting it is obvious we have accomplished much; we have brought the name of the Savings Bank Section and of the American Bankers Association into most every city, town and village in the country. The people have heard more of the American Bankers Association than any other like association. We have constructed for our Association an organization which will mean considerable to it in the future. Assuredly the good will of the public is a factor to be seriously reckoned with. As evidence of the popularity of this Section, it is interesting to note that we have received over one thousand new enrollments since the meeting at Old Point Comfort, approximately a forty per cent. increase in membership. Over 68,000 pieces of mail have been sent out from our office, 59,000 of which were sealed letters and circulars. Requests for information concerning all phases of savings banking have constantly come into our office, and when possible have been promptly answered.

To care for this amount of work and to facilitate its completion, systems have been installed which have been and are being carefully kept up to date. We would be justified in stating, therefore, that our office is efficiently managed and complete facilities are maintained for rendering service to our members. Your Secretary has visited thirty-four cities in the interest of the thrift movement and other work of the Section and thirty-eight addresses have been given.

METHODS AND SYSTEMS COMMITTEE

Of the 1,000 copies of the book of forms, 195 remain unsold. Since our last meeting we have sold 69 copies.*

*Since the Briarcliff meeting 45 more copies have been sold.

Largely on account of the Centennial Thrift Campaign, a great number of school savings systems have been installed.

The list of those who receive thrift talks each month has grown since the Seattle meeting from 1,200 to 6,000—850 of this number are distributed by the Michigan Bankers Association, 1,250 by the Minnesota Bankers Association and 1,600 by the Missouri Bankers Association.

MEMBERSHIP COMMITTEE

Total membership August 14, 1915, was 2,559, and on April 29, 1916, 3,433, a gross gain of 874; 58 were lost by failure, liquidation and merger, leaving a net gain of 816. The voting membership consists of 362 mutual savings banks, 69 less than the total number in the United States; 860 stock savings banks; 842 state banks; 182 trust and savings banks; 21 trust companies; 18 private banks; aggregating 2,227 banks. There are 1,148 banks associate members of the Section, 832 of which are voting members of the National Bank Section and 316 in the Trust Company Section. The sum total amounts to 3,470, including 95 Chapters and State Secretaries.

LAW AND SEGREGATION COMMITTEE

Would it not be fair for us to assume that when we consider the aggressiveness of the Postal Savings system and the tendency of the government, evidenced by the introduction in Congress of the Rural Credits bill, to offer to the public more adequate means for the deposit of savings, that a serious condition arises? Would it not lead us to think that it is necessary to inaugurate a movement for the creation of savings departments in connection with commercial banks and trust companies, thus providing a means for the people to save? Only one-half of the banks of Illinois have savings departments, and a similar condition exists in other parts of the country. If something of this kind is not done it will become necessary for the government to go into the savings business to a greater extent, with the consequent impossibility on the part of the banks to successfully compete. It is an economic law that when a demand arises it must be supplied.

CENTENNIAL COMMITTEE

The meeting was held in Briarcliff Lodge, Briarcliff Manor, N. Y. Those present were: President N. F. Hawley, presiding; V. A. Lersner, Joseph R. Noel, Chas. S. Norris, W. R. Meakle, Henry Schachte, George E. Edwards, James Dinkins, Wm. E. Knox, Lucius Teter, with the Secretary recording.

SECTION NOTES

A very interesting and instructive article on "The Investments of a Mutual Savings Bank," by E. L. Robinson, vice-president Eutaw Savings Bank of Baltimore, appears this month in the pages of the *Bulletin of American Institute of Banking.*

The May JOURNAL made mention of a savings plan for wage-earners. Full credit must be given to A. N. Cassel of New York for devising the plan.

Arrangements have been made with the Western Newspaper Union whereby the Section will supply them with twelve short articles on thrift and savings each month which will be available for publication in over 5,800 newspapers throughout the United States.

Dallas, Tex., is living up to its reputation as a "live wire" city. During the month of May a thrift campaign was successfully conducted. Advertisements and general news items were run daily in four newspapers. Fifty articles of 100 words each, by as many prominent men, on the general idea of thrift and economy were published. J. W. MacDowell of the Bowery Savings Bank, New York, upon the request of the Dallas committee, was sent, by the Section, to Dallas and gave a number of addresses on thrift during the last week in May. The "Reward of Thrift" film was also shown in the motion picture houses of the city.

In making up a report of the campaign at the end of the year, Chattanooga will undoubtedly stand pre-eminent as having produced a campaign which has been substantial and material as a stimulus to the nation-wide thrift movement. In next month's issue a full account will be given of this campaign.

Macon, Ga., and Albany, N. Y., deserve special mention for excellent work in furthering thrift.

Thirty-three hundred text-books of Plan "A" and Plan "One" have been mailed to 1,650 bankers throughout the country. Thus begins, on a huge scale, the greatest thrift movement ever undertaken in the United States.

June first ends the New York *Evening World's* thrift contest for the best stories on household financing. $250 in prizes will be distributed. This contest has been running since January 11.

In the past month the Section has furnished speakers for campaigns in Somerville, N. J., Lawrence, Mass., Brooklyn, N. Y., and Pleasantville, N. Y.

MUTUAL SAVINGS BANKS OF NEW YORK HOLD THEIR CENTENNIAL CELEBRATION

The one hundredth anniversary of savings banks in the United States was appropriately celebrated in New York City, May 17, by the Savings Banks Association of New York State.

The proceedings consisted of addresses and discussions in the afternoon and in the evening a banquet.

The afternoon's business included address by President James H. Manning; address by Deputy Superintendent of Banks George L. Skinner; address by Herbert F. Gunnison, trustee of the Williamsburgh Savings Bank of Brooklyn; remarks by officers of the original savings banks, 1816-1820; report on prize essays on the subject of "Thrift" by chairman of the committee, Henry A. Schenck, president of the Bowery Savings Bank, New York City; award of prizes, and an address on school savings banks by J. Harvey Smedley, of the Long Island City Savings Bank.

Mr. Skinner praised the savings banks system of the state and declared that the banking department needed the assistance of the members along other lines besides their own. Constant effort, he declared, was necessary to increase the members' opportunities. It was the aim of his department, he said, to make the system perfect and to obtain the co-operation of the savings banks men to get good legislation. Mr. Skinner also dwelt on the need of extending the scope of savings banks investments. He spoke favorably of the savings and loans associations that were helping the poor to better themselves. Private bankers and organizations that have defrauded the poor of their savings were scored by the speaker.

Mr. Gunnison dwelt on the need of the savings banks leading a movement to encourage thrift. He spoke on the centennial of savings banks held in Edinburgh in 1910. He described the conference and told of some of the important features and personages. He said that more facts concerning savings banks were presented at that meeting than had ever before or since been gathered. He quoted from two distinguished speakers, one on "Preparedness" and one on "Thrift."

The banquet in the evening was a success, more than 500 guests being present. Four interesting addresses were given, and telegrams from prominent Americans were read by James H. Manning, president of the Association.

The annual meeting of the Savings Banks Association was held the day following the celebration of the centennial. The secretary of the Savings Bank Section delivered an address on "A Practical Nation-wide Effort to Promote Thrift." In referring to the New York banks the secretary said:

"The New York savings banks have a great opportunity in this, the beginning of a new century of savings banking, to develop a greater degree of constructive service, to get into closer touch with the public, their depositors; to teach them higher ideals, stronger principles and thrift.

"First, in being courteous and kind; second, in educating them through publicity in the ways of thrift and opportunity; third, by making a point of service in the banks; and fourth, through accurate advice to depositors in the proper investment of surplus funds. The result of this will not only increase the percentage of savers to population, but will place the New York mutual savings banks in the lead for service to the public."

The following officers were elected for the ensuing year:

Henry A. Schenck, president of the Bowery Savings Bank, was elected president; J. M. Satterfield, president of the American Savings Bank of Buffalo, first vice-president; Samuel H. Beach, president of the Rome Savings Bank, second vice-president; Martin Machtman, president of the Exchange Savings Bank of Albany, third vice-president; Hollis H. Searles, cashier of the Prudential Savings Bank of Brooklyn, secretary, and Walter S. Rose, treasurer of the Union Savings Bank of Patchogue, L. I., treasurer.

AN OBJECT ATTAINED

"One Hundred New School Savings Banks" for New York City during the Thrift Centennial Year has been the watchword of the campaign in that city since the first of March. The results of the work up to the present time show that the aim of the campaign was set far too low, for the mark of one hundred new savings banks has been reached and even passed while the year is still young.

The old principle that "In Union there is Strength" was used as the basis of the campaign. The Board of Education working in conjunction with the Savings Bank Section of the American Bankers Association and the savings banks of the greater city began about the first of February to lay before the principals of the five hundred odd schools of the city the value to be derived from the persistent teaching of thrift. This was accomplished by the use of an active newspaper campaign and a monthly letter sent out by the Savings Bank Section.

The Board of Education provided a teacher, A. N. Clark, who had originated the Brooklyn system of public school banking, and who had worked successfully with it for over six years to give instruction in the operation of the system to those desiring to start a school bank.

The Savings Bank Section and the savings banks of the city perfected an arrangement with a large printing house to provide complete sets of stationery and equipment sufficient for 1,000 accounts upon the call of the school principals, the savings banks advancing the funds necessary for these initial equipments.

As a result of the combination of forces every objection heretofore advanced against the installation of school banks throughout the city was removed. Every school could have a bank by asking for it, without cost and without the exertion of inventing a system of operation. In many of the schools the banks were actually installed for the principals, thus removing the final objection of lack of time to attend to the matter or the plea of pressure of other school duties.

At the present writing over 105 applications for new school savings banks have been received by the Board of Education. Of these over eighty have already been installed and are now in active operation. The remainder are either in process of installation or will be ready to open during the first weeks of the fall term.

The new school banks are all in a flourishing condition, meeting with the hearty approval and active support of the children, teachers and parents. The savings banks that are called upon to receive their deposits report a very active growth in funds and without exception are enthusiastic supporters of the campaign. Examples of school banks that are turning in to the bank of deposit from $400 to $600 and from twenty-five to fifty individual bank-books per month are very numerous. The parents of the school children are becoming actively interested as the movement spreads and are beginning to demand the further extension of the system to more of the schools. The Department of Education has an enrollment of about 800,000 children, of which about 200,000 are now enjoying the privileges extended to them through their school bank.

The campaign will be actively carried on during the fall term so that by January 1, 1917, it is not too much to expect that, instead of one hundred new school banks, the city will be able to proudly point to at least 250 new banks as a result of its year's work.

CLEARING HOUSE SECTION

FUNCTIONS AND OPERATIONS OF THE CLEARING HOUSE

II. OPERATIONS OF THE CITY DEPARTMENT

The original functions of the Clearing House, namely, the exchange of items and settlement of resulting balances are conducted through what is commonly termed "The City Department." On organizing the Clearing House, each member is given a number under which its business is transacted. These numbers are assigned on the seniority basis—the oldest bank member being assigned No. 1, the second oldest No. 2 and so on. When a new member is taken in it is given the next highest number not in use. Each member maintains in its office a department known as its Clearing House Department, and to which is charged by the several departments all items drawn on or payable at the offices of the other members. These items are usually recorded in the department where they originate and on reaching the Clearing House Department are inspected as to signature, dates, etc., are indorsed with a rubber stamp, showing the name and Clearing House number of the clearing bank and the date of clearing. They are next sorted—all items drawn on or payable at the office of each member being placed in a separate pile. When the sorting is completed and the clearing hour approaches, each pile of checks is taken to an adding machine and a list thereof is made and a total is taken. The items are then done up into packages, the list covering each package being placed on its face, and the Clearing House numbers of the members on which the items are to be cleared are marked on the respective packages with pen or pencil. The lists on the packages are indorsed with the regular Clearing House indorsement stamps. The packages are then sealed.

Each member is supplied by the Clearing House with statement blanks which are in duplicate form and which show at the top the name and number of the member using same. Along the left margin of each statement appears, in regular order, the names and numbers of all the members. Immediately to the right of these names and numbers are several columns, the two principal ones of which are headed "On Clearing House" and "From Clearing House." The total shown on each package of items is entered in the column "On Clearing House" and directly opposite, the name and number of the bank on which the items are to be cleared. When all totals have been entered, the statement is footed and if the work has been correctly done, the footings thus obtained will prove against the combined total of all charges made by the several departments to the Clearing House Department. Assuming they do so prove, the packages are placed in a satchel and the Clearing House clerk and messenger grab the satchel and statement and make a mad rush to the Clearing House. The reason for this rush is that the clearing hour is fixed at 10:30 A. M. except Saturdays, when the hour is 10 A. M., and any member not represented on the dot is fined $1 for each five minutes or fraction, and if tardy over thirty minutes, the member is shut out of the clearing for the day.

The exchange room at the Clearing House is equipped with a cage or desk for each member and a manager's desk. The cages are arranged in parallel rows and in numerical order with reference to the numbers of the members.

On arrival at the Clearing House the clerks enter their respective cages and the messengers pass around and deposit their packages of items—packages No. 1 being deposited in cage No. 1, packages No. 2 in cage No. 2, and so on down the line. When all clerks and messengers have arrived at the Clearing House and all deposits have been made, each clerk has on his desk a package of items from each member, and he enters on his statement in the column headed "From Clearing House" and opposite the respective names and numbers of the members the amount shown on the package received from each. The packages when thus entered are dropped into a receptacle from which they are taken by the messengers, who rush back to the banks so that the items may be quickly distributed to the bookkeepers, who pass upon the genuineness of signatures, etc., all items being cleared subject to being returned at a certain hour if found not good for any reason.

Each clerk foots his statement when all totals have been entered, and if he finds he brought a greater volume to the Clearing House than he received from the members he carries his "From Clearing House" footings to his "On Clearing House" column and makes his deduction, showing the amount due his bank from the Clearing House, or his credit balance, as it is termed. Should the amount received at the Clearing House exceed the amount brought to the Clearing House, the operation would be the reverse and he would show the amount due the Clearing House, or his debit balance.

A duplicate of each statement is passed to the manager, who enters on the Clearing House records the net debit and credit balances and the "On Clearing House" and "From Clearing House" totals. He then foots the balances and if they prove the clerks are dismissed and return to their respective banks. The statements are filed as a record of the transactions between the several members, and the manager foots the "On" and "From" Clearing House columns, and if they agree it is conclusive evidence that the work has been correctly done.

The "On Clearing House" column represents the items brought to the Clearing House and are the figures that are reported in the newspapers and financial journals as the bank clearings.

Where an average of ten millions of dollars' worth of items are cleared daily the resulting balances run about six hundred thousand dollars; so by the operation the amount of cash necessary to handle ten millions of dollars' worth of business is reduced from ten millions of dollars to six hundred thousand dollars.

The next step is the settlement of balances. One plan is for the manager to draw checks against the debtor members in favor of the creditor members. The first check being drawn against the largest debtor, in favor of the smallest creditor, the second in favor of the second small creditor, and so on down the line until all the creditors have been satisfied. These manager's checks are payable in cash and must be settled at or before 2 o'clock P. M. of the day on which drawn. In case of failure to collect any such check at or before the specified hour, all members other than the one against whom the check is drawn are released from responsibility thereon. To simplify the payment of these checks a Clearing House gold depository is maintained, in which members deposit gold of the required weight and United States gold certificates, in lieu of which are issued Clearing House gold certificates in amounts of five and ten thousand dollars. These certificates pass current among the members, the holders of same being the owners of the gold and United States gold certificates so deposited and which count as legal reserve. In settling balances of six hundred thousand dollars it is necessary to bring into play only sixty ten thousand dollar gold certificates. This plan saves the abrasion on the gold and the labor of carrying it back and forth and recounting same; also eliminates the danger of street robberies.

The manner of settling balances, the clearing hour and the forms used vary slightly. In some cities the debtor banks pay the cash to the manager of the Clearing House and he in turn pays it to the creditor banks, while in other cities the creditor banks present the Clearing House manager's settlement checks to the debtor banks direct for payment.

In some cities, in order to avoid congestion of work and to head off check kiting, informal exchanges are made by the members, receipts are taken to cover items so exchanged and are passed through the Clearing House at the next regular exchange.

Trading of balances is also in vogue in some cities, and since the inauguration of the Federal reserve system many balances are settled by checks on Federal reserve banks.

To encourage promptness, care and accuracy on the part of clerks, fines are imposed for errors in lists, wrong clearings, missing indorsements, errors in statements, misconduct, etc. These fines range from ten cents to two dollars and are assessed against the banks whose representatives are the offenders, and the proceeds usually go toward defraying the general expenses of the Association.

To get an idea of the convenience and saving that result from the daily exchanges at the Clearing House one need only to consider the number of clerks that would be required to go from bank to bank and collect and handle the actual cash represented by ten millions of dollars' worth of items, then compare that process with the clearing of a like amount of items and the settlement of balances resulting therefrom.

One of the very important functions of the City Department has been the issuance of loan certificates and scrip during times of stringency, but with the passage of the Federal Reserve Act it is hoped that this function is forever eliminated. It was by co-operation through this department that the banks of New York, Philadelphia and Boston were able to protect the credit of the nation during the early years of its existence.

The City Department handles the general business of the association. It is of a legislative and administrative character—through it rules and regulations regarding exchange and collection charges and interest rates allowed on balances are formulated and enforced. It provides for uniform counter checks, uniform advertising and looks after matters of common interest to the member banks and the general good of the community.

Small banks that do not feel justified in joining the Clearing House arrange with some member to act as their agent and to clear for them.

The operations of the Country Department will be covered in the July JOURNAL-BULLETIN and the Examination Department in the August issue.

SPRING MEETING

Called to order 11:00 A. M. May 8, Chairman McHugh presiding. Reports of president, secretary and the chairmen of the several committees showed gratifying development and extension in all phases of Clearing House activities.

Three special sessions of the committee were held for consideration of the nation-wide clearing plan outlined in the Federal Reserve Board's Circular No. 1 dated May 1, 1916. The objections to the initiation of this plan were reduced to the form of a resolution which was taken before the Executive Council for its consideration. That body referred the matter to a joint meeting of the Clearing House and National Bank Sec-

(*Continued on page* 1113)

NATIONAL BANK SECTION

THE NATION-WIDE CHECK CLEARING AND COLLECTION PLAN

The railroads of the country experienced many years of prosperity. They were given valuable concessions by the government, the states, counties and individuals, and after having acquired great wealth and power some of them became arrogant and abused their privileges to the detriment of the firms, individuals and corporations with whom they did business; finding little or no redress in the courts from the wrongs perpetrated by the railroads, the people stored up resentment in their minds and when the abuses reached such proportions as were unbearable, action was demanded. Congressmen and Senators heard the rumblings from their respective districts and accordingly set the wheels of the law making department of the government in motion. The pendulum having swung a long way in one direction returned with terrific force, and laws regulating most every act of railroads, their agents and employees were passed. Many railroads were driven to the wall; the development of others was greatly hampered, and business in general was retarded. Had the railroads not been so self-centered and arrogant they could and would have taken action that would have satisfied the people and saved themselves from heavy losses; and also saved the business public from many annoyances and inconveniences.

While it is to be regretted that Congress was driven to action and then acted so drastically in the case of the railroads, yet, it is generally conceded, that in the long run the results will be beneficial to all concerned—Congress having gotten railroad regulation well under way took notice of the demand on the part of bankers, and the general business interests for a correction of the banking and currency laws of the country. Unlike the railroads, the bankers pleaded for action, but they did not realize how swiftly the wheels of Congress would turn, and how difficult it would be to stop them when once set in motion. Bankers in some sections of the country, like the railroads, had abused their privileges by charging excessive exchange rates, usurious interest rates, high commissions and exorbitant fees for services rendered to their patrons. These matters were called to the attention of Congress—they might have been corrected by the Comptroller of Currency. The offending banks could have been singled out and caused to cease these abuses, but instead Congress sought to correct the trouble by the enactment of additional legislation.

The Federal Reserve Act is a great constructive measure and contains provisions which, if properly administered, will cure the defects in the banking and currency laws—yet, that act contains many features, some of which are covered by Sections 13 and 16, which the majority of the bankers throughout the country contend are not essential and will work a great hardship on the member banks at large, depriving them of compensation for services they render, entailing risk, expense and labor, and for which they are justly entitled under all laws of equity and fairness to receive pay.

Many complaints have been directed against the Federal Reserve Board because of the extravagant expenditures of the Federal reserve banks, and because of the provisions of the check clearing and collection plan which are outlined in the Board's Circular No. 1 dated May 1, 1916. The complaints in both instances are unwarranted. The directors of the several Federal reserve banks should be held to account by their members for the expenditures. The Board at Washington does not, as a rule, initiate the expenses. The Federal Reserve Board is sworn to ultimately place in operation and to enforce the provisions of the law. If the law is wrong Congress alone can correct it. The clearing proposition as provided by the law carries with it the elimination of exchange on cash items on members of the Federal reserve system. If the member banks feel that they are entitled to compensation in the way of exchange from their Federal reserve bank for remitting to cover items drawn on them and sent to them by the Federal reserve bank of which they are members, they will need to apply to Congress for a correction of the law. The Federal Reserve Board cannot authorize the Federal reserve banks to pay such exchange. The Board has given the clearing question earnest thought, study and investigation. The Federal reserve banks have experimented with it from many angles, yet it remains a problem for the future to solve.

The plan announced in the circular above referred to is the least harmful that has been suggested, and that comes within the terms of the law. It is sound in principle and offers every facility that can be given under the law, without impairing the ability of the Federal reserve banks to care for the credit needs of their respective districts. It provides:

FIRST—That each Federal reserve bank will receive for collection and credit at par from its member banks checks and drafts drawn on all members of the Federal reserve system.

SECOND.—That each Federal reserve bank will receive for collection and credit at par checks and drafts drawn on any bank, banker or trust company when such checks and drafts can be collected by the Federal reserve banks, through members or otherwise at par.

THIRD—Par lists covering non-member banks whose items can be handled at par through the Federal reserve banks will be furnished by the Federal reserve banks to their respective members.

FOURTH—Tentative credit for items above referred to will be given by Federal reserve banks to their respective members, but the proceeds will not be available for use either as reserve or otherwise until the funds are actually collected.

FIFTH—The Federal reserve banks will forward items direct to the member banks upon which drawn, and will charge them to the member bank's account when advised that payment has been received, or when sufficient time has elapsed within which to receive advice of payment.

SIXTH—Member banks will be given opportunity to handle checks on non-member banks before effort is made by a Federal reserve bank to secure direct par connections with a non-member bank.

SEVENTH—Where member banks do not have sufficient volume of items to offset at the Federal reserve bank items sent to said member by the Federal reserve bank, such member may ship lawful money or Federal reserve notes in payment at the expense of its Federal reserve bank.

EIGHTH: In handling items for member banks the Federal reserve bank will act as agent only. It will require each member to authorize it to send checks and drafts for collection to banks on which they are drawn, and will assume no liability except for negligence.

NINTH: The cost of clearing and collecting checks and drafts will be assessed against the bank depositing such items with the Federal reserve bank. This cost will be known as a service charge, and will be fixed at so much per item. (It is generally estimated by the Federal reserve banks that the cost will range from one and one-half to one and three-fourths cents per item.)

TENTH: The Federal Reserve Board will fix a penalty to be imposed upon member banks for encroaching upon their reserves.

ELEVENTH: Each Federal reserve bank will carefully analyze the accounts of the member banks, and will apply a penalty where reserves are impaired. A schedule of time required within which to collect checks and drafts will be furnished to each member bank in order to enable it to determine the time at which any item sent to the Federal reserve bank may be counted as reserve and will be available to meet checks drawn against the funds represented.

At the Briarcliff meeting of the Executive Council and Executive Committees of the several Sections of the American Bankers Association, the clearing plan was taken up and discussed, and the following communication was through resolution placed in the hands of a committee of five—Messrs. W. H. Bucholz, Omaha, Neb.; John McHugh, New York, N. Y.; Geo. E. Webb, San Angelo, Tex.; Walker Broach, Meridian, Miss., and J. Elwood Cox, High Point, N. C.—to be conveyed by them to the Federal Reserve Board in hopes that a delay in putting the plan into operation might be effected:

"Briarcliff Lodge, May 10, 1916.

"TO THE FEDERAL RESERVE BOARD:

"The Executive Committees of the Clearing House and National Bank Sections of the American Bankers Association have received personally and by letter and wire very vigorous protests from a great number of their members against the plan of par collections as covered by Circular No. 1, dated May 1.

"While we are aware of the fact that your Board and the officers of the several reserve banks are giving this subject very careful consideration, yet it appears to us that there are some very substantial reasons why the banks, particularly the country banks should feel concerned over the possible results of so radical and violent a change in a system which has grown through years of commercial practice. Therefore, we respectfully urge that the putting into effect of this system be deferred until a later date than that proposed, namely, June 15, 1916, and that after the rules and details are formulated by the committee appointed by you that you will give the representatives of the American Bankers Association the opportunity of discussing same with your Board.

"W. H. Bucholz, Stoddard Jess, Thos. B. McAdams, Oliver J. Sands, J. Elwood Cox, John McHugh, Special Joint Committee."

After the committee's visit to Washington the date of putting the plan into operation was postponed to July 15, 1916. Very few bankers realize how serious the situation regarding the collection of checks and drafts will become when the final reserves are paid in to the Federal reserve banks. In order to make the additional payments it will be necessary for many of the member banks to either withdraw balances from their reserve agents or to reduce the amount of their loans or investments. In event the balances with reserve city correspondents are reduced these balances will not yield sufficient profit to the reserve city banks to justify the reserve city banks in continuing to collect promiscuous cash items for their country correspondents. These balances will, therefore, need be replenished or the service discontinued. If the service is discontinued then it will be obligatory on the part of the Federal reserve banks to furnish the service to their members. If the reserve requirements are not readjusted in some way, it would, therefore, seem imperative that the Federal reserve banks develop a clearing and collection system.

The system outlined under Circular No. 1 can be developed at little expense and may be utilized only to the dgree that is necessary. The McFadden Bill—H. R. 12,998 amending Section 19: So as to permit country banks after thirty-six months from the passage of the

Federal Reserve Act to carry one-fourth of their legal reserves with national bank correspondents in reserve or central reserve cities within a radius of 300 miles, or within their own district—if passed would greatly simplify the collection feature. It would enable country banks to maintain sufficient balances with their reserve agents to justify the reserve agents to continue the handling of their collections; at any rate, it is well for the Federal reserve banks to be prepared to extend collection and clearing privileges to their members, at the same time every effort should be made towards establishing and developing country clearing houses in every city where there is sufficient business to warrant the maintenance of such organizations, and every effort should be made for improving and developing the transit departments of the member banks so that in no event will there be a lack of facilities for handling the business. The system that will prevail is the one that will afford the means of handling the greatest volume of business at the least possible expense.

SPRING MEETING

Called to order by J. Elwood Cox, chairman, 9.30 A. M., May 8, 1916. All members present.

Reports of president, secretary and chairmen of committees showed that much constructive work had been done by the Section since its organization, particularly on legislative matters.

The Section is working in harmony with the Federal Legislative Committee; is in close touch with the Federal Reserve Board and the Federal reserve banks.

5,508 national banks are members.

Three intensely interesting and valuable meetings of the Executive Committee have been held—one in New York and two in Washington. At the Washington meetings conferences on matters of common interest to national banks were held with the Federal Reserve Board, and the governors of the Federal reserve banks. Four sessions were held at Briarcliff, one being a joint meeting with the Federal Legislative Committee and another a joint meeting with the Executive Committee of the Clearing House Section. Much of the time was devoted to considering the contemplated nation-wide clearing plan. Action on this question is covered elsewhere in this edition of the JOURNAL.

Preliminary steps were taken towards arranging a strong and attractive program for the Kansas City convention, and plans for the activities of the Section for the remainder of the year were outlined.

CLEARING HOUSE EXECUTIVE COMMITTEE

(Continued from page 1110)

tions. The joint committee reported its findings back to the Council in the form of a communication directed to the Federal Reserve Board urging delay and opportunity for consideration of the details of the plan, whereupon, through resolution, a committee was appointed and directed to convey this communication to the Federal Reserve Board and in event arrangements for postponement were not effected to refer the whole matter to the Clearing House and National Bank Sections for such action as those Sections might deem best.

The committee visited Washington and sought a postponement to January 1, 1917. The Federal Reserve Board has, it is understood, postponed the inauguration of the plan thirty days only.

One hundred and ninety-one clearing houses are members of the Section. Five joined during the year, two new clearing houses were organized, two, New York and Richmond, established country departments; five additional cities began reporting total bank transactions; forty-five keys to the numerical system and twenty-seven books of form were sold.

The "No-Protest" symbol plan is being generally adopted and the universal numerical system is being widely extended.

An agreement was reached whereby important matters may be passed upon by referendum vote by mail instead of being held over for the Executive Committee at the spring meeting or the annual meeting.

Preliminary steps were taken toward arranging an intensely interesting program for the Kansas City convention and the work for the remainder of the year was outlined.

STATE SECRETARIES SECTION

OFFICERS OF THE STATE SECRETARIES SECTION

PRESIDENT
HAYNES McFADDEN, Secretary Georgia Bankers Association, Atlanta, Ga.

FIRST VICE-PRESIDENT
S. B. RANKIN, Secretary Ohio Bankers Association, Columbus, Ohio.

SECOND VICE-PRESIDENT
FREDERICK H. COLBURN, Secretary California Bankers Association, San Francisco, Cal.

SECRETARY-TREASURER
GEORGE D. BARTLETT, Secretary Wisconsin Bankers Association, Milwaukee, Wis.

WISCONSIN PLAN FOR SIGHT DRAFT COLLECTIONS

The plan recently adopted by the Wisconsin banks for the handling of sight draft collections is arousing considerable interest, not only among the bankers throughout various sections of the country, but also on the part of manufacturers, jobbers and other credit concerns. The Wisconsin Association, before this plan was definitely adopted by the Wisconsin banks, took great pains to gather statistics as to the number of unpaid items returned, for which no fee was ever paid to the bank. Under the new plan a fifteen cent fee is expected to accompany every such sight draft, and only when such fee does accompany it will the item be promptly presented to the drawee. If the item is collected the fifteen cent fee will apply on the regular collection fee, and if the item is returned unpaid the fifteen cent advance fee is to cover the recording, presenting and returning thereof on the part of the bank. Mercantile houses have been accustomed to secure this service without the payment of the advance fee, and the statistics gathered by the Wisconsin Association unmistakably show that very few firms ever take the trouble to pay the fee on items returned unpaid.

Secretary Bartlett of the Wisconsin Bankers Association recently presented to the Furniture Manufacturers Association at its convention in Chicago, statistics gathered by his Association, and in part as follows:

"Fourteen Wisconsin banks, during the month of June, 1915, entered for collection 1,216 items, 653 of which were paid and 563 returned unpaid. One of these banks had presented 207 items, of which 105 were returned unpaid after having been personally presented and upon each item was given the reason for non-payment and requesting a return of fifteen cents as a fee. Only seven out of these 105 firms returned the fifteen cents and the other ninety-eight never so much as said 'thank you' for that service. Another Wisconsin bank took the trouble to write personal letters to manufacturers and jobbers in Milwaukee and Chicago stating that it would make personal presentation of all drafts sent that bank, remitting on the day of payment for such as were paid and returning unpaid drafts with reason given for such non-payment. All this service to be rendered without the requirement of the 'advance fee,' but with the understanding that the drawers would remit the fifteen cent fee upon the return of each unpaid item. A close record was kept by this bank as to all these items and every item marked to show the dates when presented and when returned, every unpaid item showing such information as well as the reasons finally given for refusal to pay. Several of these unpaid items showed presentation at the place of business of the debtor six times and yet notwithstanding this service had been rendered in accord with the letter of that bank, out of seventy-seven items returned unpaid in March the fifteen cent fee was returned by only thirty-four firms and during the month of April forty-five out of seventy-one firms paid no attention to the request for the fee *after* the personal service had been rendered by that bank.

"The Wisconsin bankers claim that seventy-five per cent. of these sight drafts leave the office of their makers as 'lame ducks' if not 'dead ducks,' for if the debtor is prompt and responsible, no such method of collecting is necessary. Hence it is but fair that a fee should be paid to anyone, even a bank, who aids in collecting that debt or in placing the creditor in possession of reasons given for non-payment. Wisconsin may be over 'progressive' in politics, but her bankers believe 'the laborer is worthy of his hire' and that a fifteen cent fee is not only fair for this collection service, but that it should be paid 'in advance' by stamps or checks."

LAUNCH LIVE STOCK CAMPAIGN

The Lake County Bankers Association has been formed in Lake County, Fla., with its nine bank members pledged to the moral and financial support of the bankers of the county, particularly those who will take up stock farming and dairying. The organization was accomplished at a supper given at Leesburg by some of the bankers interested. An agreement has been made to finance the campaign, and five of the Lake County weekly papers have agreed to carry the advertising for the year at half the usual rates for largest contracts. G. G. Ware, president of the Citizens Bank of Leesburg, was chosen president of the association and R. F. E. Cooke, cashier of the Leesburg State Bank, treasurer. E. E. Edge of Groveland was made vice-president and H. C. Duncan of Tavares, secretary. The movement has an enthusiastic backing and gives promise of success.

STAR MEETING IN MISSOURI

Over 1,400 people will remember the twenty-sixth annual convention of the Missouri Bankers Association as the best meeting in the history of that organization. The first session was called to order by President W. C. Gordon, in the Garrick Theater, St. Louis, Mo., at 10 A. M. Tuesday, May 23. The speakers were star performers. The program included questions of vital importance to bankers, the meetings were held strictly to the schedule arranged, were well attended and were full of snap and ginger. The entertainment features included the privileges of the various downtown and country clubs and theaters. The principal feature of entertainment was a "Bohemian Night" at the Liederkranz Club.

The American Bankers Association was represented by P. W. Goebel, Vice-President, and Jerome Thralls, Secretary of the Clearing House and National Bank Sections. Keen interest concerning the coming convention of the A. B. A. was evidenced and many banks promised to join in time to receive the convention privileges. Mr. Thralls reported six new members secured at St. Louis.

At the morning session an address was delivered by Wm. E. Knox, comptroller of the Bowery Savings Bank, New York City, on "Thrift and Preparedness." Mr. Knox was followed by Thos. C. Middleton who spoke on the subject of "American Idealism and American Business." The afternoon speakers were George E. Roberts, assistant to the president of the National City Bank, New York City, on "Business After the War," and John Barrett, director-general of the Pan-American Union, Washington, D. C., on "The New Pan-Americanism: What it Means to the Commercial and Financial Development of the Central West."

Several speakers were heard on the second day, among whom were Prof. G. I. Christie, of Purdue University, Lafayette, Ind., on "Rural Development," and A. C. Miller, member of the Federal Reserve Board, Washington, D. C., on "How the Federal Reserve System is Meeting the Requirements." These addresses were followed by legal discussions conducted by William McChesney Martin, chairman of the board, Federal Reserve Bank of St. Louis.

The election of officers resulted as follows: President, Thornton Cooke, vice-president Fidelity Trust Company, Kansas City; vice-president, W. B. Sanford, president Holland Banking Company, Springfield; secretary, W. F. Keyser, Sedalia (re-elected); treasurer, E. B. Clare-Avery, assistant cashier Merchants-Leclede National Bank, St. Louis; assistant secretary, E. B. Neef, Sedalia (re-elected).

Representatives of the American Bankers Association held a meeting immediately on the adjournment of the first day's session and elected the following: Vice-President for Missouri, O. W. Arcularius, cashier Bank of Washington, to serve the unexpired term of George R. Baker, and Aug. E. Brooker, cashier Manchester Bank, St. Louis, for term following next A. B. A. convention. Member Nominating Committee, A. D. Buckner, vice-president Paris National Bank, Paris; Alternate, J. W. Perry, president Southwest National Bank of Commerce, Kansas City; Vice-President National Bank Section, D'Nean Stafford, president First National Bank, Cape Girardeau; Vice-President Trust Company Section, E. W. Moore, treasurer Pioneer Trust Company, Kansas City.

DISTRICT OF COLUMBIA ELECTIONS

At the annual meeting of the District of Columbia Bankers Association, held at the New Willard Hotel, Washington, May 5, the members of the American Bankers Association in the District of Columbia elected the following officers: Vice-President for the District of Columbia, Wm. T. Galliher, president American National Bank, Washington; member Nominating Committee, Cuno H. Rudolph, president Second National Bank, Washington; alternate, Wm. T. Galliher.

MISSISSIPPI CONVENTION

The twenty-eighth annual convention of the Mississippi Bankers Association was held at Laurel, May 23 and 24, with headquarters at the Hotel Pinehurst, and was conceded by all to have been the most successful ever held by the association. While extensive preparations had been made to handle a large crowd, the attendance greatly exceeded expectations. Mayor T. G. McCallum welcomed the delegates to Laurel and T. W. McCoy, vice-president Merchants National Bank, Vicksburg, made response.

Following the annual address of the president, S. J. High, cashier of the Peoples Bank and Trust Company, Tupelo, a program, with splendid speakers, covered many of the live banking issues of the day. Among those who addressed the convention were George E. Allen of New York, Educational Director of the American Institute of Banking, who talked on banking education; Charles H. Levermore, of Boston, on "World Organization After the War;" Dr. P. H. Saunders, chairman of the board, New Orleans branch of the Federal Reserve Bank of Atlanta, and R. S. Hecht, vice-president Hibernia Bank and Trust Company, New Orleans, whose subject was "Financing the Development of the South."

The entertainment provided by the local bankers covered many features of a most enjoyable nature and included a tea for the visiting ladies, swimming contest for the men at the Y. M. C. A. gymnasium, musicale at which Mme. Augusta Lenska of the Chicago Grand Opera Company, sang, automobile rides and a dance at Interurban Park.

The officers elected are: President, J. A. Bandi, vice-president First National Bank, Gulfport; vice-president W. P. Kretschmar, president Commercial Savings Bank, Greenville; secretary, T. H. Dickson, Vicksburg (re-elected); treasurer, E. P. Peacock, president Bank of Clarksdale (re-elected).

The members of the American Bankers Association in Mississippi held a meeting and elected T. W. Yates, cashier Commercial Bank and Trust Company, Laurel, vice-president for Mississippi; Thad B. Lampton, vice-president Capital National Bank, Jackson, member Nominating Committee; A. L. Jagoe, cashier First National Bank, Okolona, alternate; T. W. McCoy, vice-president Merchants National Bank, Vicksburg, vice-president National Bank Section; J. M. Hartfield, president Merchants Bank & Trust Company, Jackson, vice-president Trust Company Section; and J. B. Sterling, president Union Savings and Deposit Bank, Jackson, vice-president Savings Bank Section.

PENNSYLVANIA DISCUSSES INTEREST

At all sessions of the twenty-second annual convention of the Pennsylvania Bankers Association, held at the Bellevue-Stratford, Philadelphia, May 18 and 19, every seat was occupied. About four hundred bankers were present and much interest was shown. The association went on record in favor of a general reduction of interest rates paid on deposit.

The list of speakers comprised many men well known in the banking fraternity. James K. Lynch, vice-president of the First National Bank, San Francisco, and President of the American Bankers Association, addressed the convention on "The Price We Pay." Other speakers were: Robert F. Maddox, vice-president of the American National Bank, Atlanta, Ga., whose subject was "The Banker in Politics," and Strickland Gilliland (humorist) of Baltimore, who talked on "Generalities, Glittering and Otherwise."

An interesting departure from the regular course of convention speeches was in the form of five-minute talks and discussions. The first subject was "In View of the Prevailing Low Rates Obtainable for Money, Should Some Effort be Made to Adjust the Rate of Interest Paid on Deposits?" and was opened by Hervey Schumacher of Pittsburgh. Those who participated were H. B. Powell, Clearfield; C. F. Zimmerman, Lebanon; W. D. Cotterrel, Waynesburg; A. D. Swift, Ridgway; W. H. Kohler, Mahanoy City, and Ira W. Barnes, Philadelphia. The second subject, "What Should Members of the Pennsylvania Bankers Association Do to Further the Movement for Good Roads Throughout the State?" was opened by Benjamin C. Atlee of Lancaster and participated in by William Jennings, Harrisburg, and David Barry of Johnstown. The third subject, "Is That Section of the Clayton Act, Prohibiting Interlocking Directorates Warranted by Past Abuses, or Should It be Modified or Repealed?" was opened by Grier Hersh of York, followed by J. D. Ayres of Pittsburgh. The fourth subject, "What Essential Changes Should be Made in the Federal Reserve System to Render Membership in it Attractive to Banking Institutions Working Under State Charters?" was opened by John G. Reading, Williamsport, and participated in by Thomas S. Gates, Philadelphia; Donald McCormick; Albert A. Jackson, Philadelphia; B. M. Marlin, Du Bois; Montgomery Evans, Norristown.

The social features were of the usual admirable quality and included a vaudeville entertainment and smoker, a baseball game and a dinner and dance.

The officers for the coming year are: President, J. W. B. Bausman, president Farmers Trust Company, Lancaster; vice-president, L. E. Sands, president First and Second National Bank, Pittsburgh; secretary, D. S. Kloss, cashier First National Bank, Tyrone (re-elected); treasurer, Robert J. Mattern, cashier Union National Bank, Huntingdon.

TEXAS CONVENTION A SUCCESS

The thirty-second annual convention of the Texas Bankers Association was held at Houston, May 2, 3 and 4. President Joseph Hirsch, vice-president of the Corpus Christi National Bank, called the convention to order and presided during all the sessions.

The addresses covered different phases of banking interests. James K. Lynch, vice-president of the First National Bank of San Francisco and President of the American Bankers Association, spoke on "Frontier Banking;" Hon. M. C. Elliott, counsel Federal Reserve Board at Washington, on "The Banker and the Public;" James Callan, president Texas Cattle Raisers' Association, on "Cattle Paper;" J. Dabney Day, cashier First State Bank, Dallas, on "Why State Banks should join the Federal Reserve System;" W. W. Bowman, secretary of the Kansas Bankers Association, on "Educational Work of the A. I. B.;" W. W. Allen of Austin, on "The Banker as a Patriot;" Hon. Clarence Ousley of the Extension Department A. & M. College, on "Texas Credit Problems." Former Congressman J. Adam Bede of Minnesota also delivered an address.

Immediately after the adjournment of the first day's session the Texas members of the American Bankers Association held a meeting in convention hall and Nathan Adams, cashier American Exchange National Bank, Dallas, was chosen member of the Executive Council. A. M. Graves, cashier Red River National Bank, Clarkeville, was made Vice-President for Texas, and W. F. Skillman, cashier City National Bank, Sulphur Springs, and Dr. Benjamin F. Berkeley, president Alpine State Bank, Alpine, were elected member of the Nominating Committee and alternate, respectively. Vice-president National Bank Section, J. A. Condrom of Houston.

The entertainment features were in charge of an able committee and included automobile rides, a theater party, smoker, boat trip down the ship channel, bridge party, and an elaborate ball in the Municipal Auditorium.

The new officers are: President, J. W. Butler, president First Guaranty State Bank, Clifton; vice-presidents, B. C. Roberts, Wharton; I. J. Miller, Beeville; Robert J. Eckhardt, Taylor; Earl B. Smythe, Mart; J. B. Birdsong, Greenville; John B. Yantis, Brownwood; E. B. Bynum, Abilene; secretary, Wm. A. Philpott, Jr., Dallas; treasurer, C. E. McCutchen, assistant cashier First National Bank, Wichita Falls.

The 1917 convention will be held at El Paso, the date to be announced later.

NEW ENGLAND JOINT MEETING

The annual joint convention of the bankers associations of the New England States will be held at the New Ocean House, Swampscott, Mass., on the north shore of Massachusetts Bay, June 16 and 17. The convention will open with a banquet Friday evening, June 16, followed by dancing.

At nine o'clock Saturday morning each association will hold its meeting in a separate room. At ten o'clock the joint meeting will be held. The afternoon will be devoted to pleasure and in the evening there will be a grand ball. The Salem Cadet Band will be in attendance throughout the convention.

Swampscott is fifteen miles from Boston on the Portland Division (Eastern) of the Boston & Maine Railroad.

WEST VIRGINIA BANKERS

At Wheeling on May 24 and 25 the twenty-third annual convention of the West Virginia Bankers Association was called to order by the president, R. E. Talbott, cashier of Citizens National Bank, Philippi. Two addresses of welcome were delivered; one on behalf of the city by Mayor H. L. Kirk and the other by R. C. Dalzell, president of the Clearing House Association, who represented the associated banks of the city. J. Hop Woods, vice-president of the Peoples Bank of Philippi, responded for the association. The business sessions were held in the Assembly Room of the McLure House and were well attended.

At the first day's session President Talbott delivered his annual address, following which the report of Secretary-Treasurer J. S. Hill was read and approved.

The officers elected are as follows: President, A. B. C. Bray, cashier First National Bank, Ronceverte; vice-president, H. O. Aleshire, vice-president Day and Night Bank, Huntington; secretary-treasurer, Joseph S. Hill, cashier Charleston National Bank, Charleston (re-elected).

The elections made by the members of the American Bankers Association at their meeting, are as follows: Vice-President for West Virginia, W. J. McElhiney, cashier First National Bank, West Union; member Nominating Committee, C. T. Hiteshew, cashier Farmers & Mechanics Bank, Parkersburg; alternate, W. B. Irvine, vice-president National Bank of West Virginia, Wheeling; vice-president National Bank Section, R. E. Talbott, cashier Citizens National Bank, Philippi; vice-president Trust Company Section, B. T. Neal, Jr., assistant treasurer Union Trust and Deposit Company, Parkersburg.

KANSAS BANKERS MEET AT SALINA

In attendance of members and interest of the business program, the twenty-ninth annual convention of the Kansas Bankers Association at Salina was a decided success. The convention opened with President Charles E. Lobdell in the chair. Not only were the delegates hospitably entertained by the Salina bankers, but they also had the pleasure of listening to addresses by several distinguished men.

Among the entertainment features were automobile rides, a reception for the visiting ladies at the Country Club, tendered by the ladies of Salina, an afternoon of open air sports, a barbecue in City Park and a vaudeville entertainment.

On the afternoon of the second day the members of the American Bankers Association present met in Convention Hall and made the following elections: Member Executive Council, William M. Peck, president Cloud County Bank, Concordia; vice-president for Kansas, George T. Guernsey, Jr., vice-president Commercial National Bank, Independence; member Nominating Committee, M. H. Malott, president The Citizens Bank, Abilene; alternate, M. A. Limbocker, president Peoples National Bank, Burlington; vice-president National Bank Section, W. J. Bailey, vice-president Exchange National Bank, Atchison; vice-president Trust Company Section, Sheffield Ingalls, president Commerce Trust Company, Atchison.

Officers elected by the Kansas Bankers Association are: President, L. W. Wulfekuhler, vice-president Wulfekuhler State Bank, Leavenworth; vice-president, Thomas B. Kennedy, president First National Bank, Junction City; secretary, W. W. Bowman, Topeka (re-elected); treasurer, C. B. Lambe, cashier Valley State Bank, Belle Plaine.

NEW JERSEY'S RECORD ATTENDANCE

The thirteenth annual convention of the New Jersey Bankers Association was held at Atlantic City, May 12 and 13, with a record attendance. The bankers were welcomed by Allen B. Endicott, president of the Union National Bank, Atlantic City, and response was made on behalf of the visitors by Edward S. Pierson, president of the association.

The annual banquet was held at the Hotel Chelsea, where the convention sessions were held. Addresses were delivered by Newton D. Baker, Secretary of War; James F. Fielder, Governor of New Jersey, and Robert L. Owen, Senator from Oklahoma. After the dinner a telegram of greetings from President Wilson was read.

The slate of officers reported by the chairman of the nominating committee was unanimously adopted. They are: President, John D. Everitt, president Orange National Bank, Orange; vice-president, William Chambers, president Vineland Trust Company, Vineland; secretary, William J. Field, vice-president Commercial Trust Company, Jersey City (re-elected); treasurer, Elwood S. Bartlett, cashier Atlantic City National Bank, Atlantic City.

At a meeting of the New Jersey members of the American Bankers Association, Henry G. Parker, president of the National Bank of New Jersey, New Brunswick, was elected member of the Executive Council; John B. Clement, vice-president of the Central Trust Company, Camden, Vice-President for New Jersey; Walter M. Van Deusen, cashier National Newark Banking Co., Newark, member of the Nominating Committee and

Spencer S. Marsh, cashier North Ward National Bank, Newark, alternate.

Vice-president of National Bank Section, D. M. Flynn, cashier First National Bank, Princeton; vice-president of Trust Company Section, Bird W. Spencer, president Peoples Bank & Trust Company, Passaic.

CALIFORNIA HOLDS BIG MEETING

The twenty-second annual convention of the California Bankers Association was held at Fresno, May 18, 19 and 20, President Charles A. Smith, cashier Security Bank, Oakland, presiding. Hon. Chester H. Rowell welcomed the visitors to Fresno.

The reports of the secretary and the treasurer showed a high-water mark of progress for the association; a balance of $4,333.43 in the treasury and a membership of 685. Secretary Colburn also reported for the Protective Committee.

The addresses were of an interesting character and included the following: "State Funds," by Friend W. Richardson, Treasurer of the State of California; "The Law and the Profits," by Frank C. Mortimer, cashier First National Bank, Berkeley; "Rural Credits," Thomas D. Carneal of Livermore; "Bankers and Law Making," by W. R. Williams, State Superintendent of Banks; "Bank Pensions and Funds," by W. D. Longyear, cashier Security Trust & Savings Bank, Los Angeles; "Preparedness for International Commerce," by John Clausen, manager Foreign Department, Crocker National Bank, San Francisco, and "Mortgages and Deeds of Trust," by W. T. Dinsmore, cashier Security Savings Bank, Riverside.

The program of entertainment and social features arranged by the committee of Fresno bankers was well worth while, and included a reception, smoker and entertainment at the Commercial Club, tea for the visiting ladies at the Sunnyside Country Club, reception and ball at the City Auditorium, reception at the residence of Mrs. T. W. Patterson, visit to a raisin seeding and packing plant, theater party, automobile trips and a basket picnic and barbecue.

The officers elected for the ensuing year are: President, J. M. Henderson, Jr., president Sacramento Bank, Sacramento; vice-president, F. J. Belcher, Jr., cashier First National Bank, San Diego; secretary, Frederick H. Colburn, San Francisco (re-elected); treasurer, George A. Kennedy, assistant cashier First National Bank, San Francisco (re-elected).

ARKANSAS MEETING

The Arkansas Bankers Association concluded a successful two days' convention at Little Rock on April 26, the twenty-sixth annual meeting. The program and entertainment features registered a new high record, as did also the number in attendance.

The guests and speakers included Carl Vrooman, Assistant Secretary of Agriculture, Washington, D. C.; P. W. Goebel, president Commercial National Bank, Kansas City, Kan., and Vice-President of the American Bankers Association; B. D. Harris, vice-president National City Bank, New York; A. D. Welton, editor JOURNAL of the American Bankers Association, New York; Nathan Adams, vice-president American Exchange National Bank, Dallas, Tex.; J. Howard Ardrey, New York; Samuel W. Reyburn, New York. Among those from the home state were Thomas C. McRae, Prescott; J. C. Futrall, president of the University of Arkansas; Rev. Marion Nelson Waldrip, Pine Bluff; Virgil Pettie, Jonesboro; W. B. Mann of Marianna, and others. Better methods of agriculture and other subjects of vital interest was capably discussed by strong men.

The officers elected for the current year are as follows: President, Morehead Wright, president Union Trust Company, Little Rock; vice-president, Albert Rowell, cashier First National Bank, Eldorado; secretary, Robert E. Wait, president Citizens Investment & Security Company, Little Rock (re-elected); treasurer, C. C. Spragins, cashier Citizens National Bank, Hope.

The list of officers elected at the meeting of the members of the American Bankers Association in Arkansas was published in the May issue of the JOURNAL-BULLETIN.

ALABAMANS URGED TO CO-OPERATE

The twenty-fourth annual convention of the Alabama Bankers Association was held at Pensacola, Fla., April 27, 28 and 29. The meeting was called to order with James Keith, Jr., president of the association, in the chair. Hon. W. B. Sheppard, Judge of the United States District Court, Florida, delivered the welcoming address, which was responded to by Lieut.-Governor Thomas E. Kilby of Alabama. In his annual address President Keith took occasion to urge all banks to cooperate with the Federal reserve system rather than to show a spirit of antagonism.

The addresses represented a large variety of subjects and included the following: "Some Observations on the South," by W. B. Harrison, vice-president St. Louis Cattle Loan Association, and formerly secretary of the Oklahoma Bankers Association; "The Banker and the Law," by Milton C. Elliott, counsel to the Federal Reserve Board; "Interest Rates," by Arthur D. Welton, editor JOURNAL of the American Bankers Association. Addresses were also made by Joseph A. McCord, Governor of the Federal Reserve Bank of Atlanta; Emmett A. Jones, Chief of Immigration and Markets Bureau of Alabama, and Mrs. Haveland H. Lund, secretary National Forward to the Land League.

The election of officers resulted as follows: President, C. E. Thomas, president Augauga Banking & Trust Company, Prattville; vice-president, J. Kirk Jackson, vice-president Exchange National Bank, Montgomery; secretary-treasurer, McLane Tilton, Jr., president First National Bank, Pell City (re-elected).

At the meeting of the members of the American Bankers Association in Alabama the following elections were made: Member Executive Council, T. O. Smith, vice-president Birmingham Trust & Savings Company, Birmingham; Vice-President for Alabama, Frank S. Moody, president First National Bank, Tuscaloosa; member Nominating Committee, W. H. Weatherly, president First National Bank, Anniston.

TENNESSEE BANKERS

Much interest was manifested in the twenty-sixth annual convention of the Tennessee Bankers Association, held at Chattanooga, May 18 and 19. The meeting was called to order on Thursday morning by the president, S. T. Jones, president of the Bank of Sweetwater. The mayor of the city, Hon. Jesse M. Littleton, welcomed the visitors on behalf of the city and Herbert Bushnell, president of the Chattanooga Clearing House, on behalf of the banks, to which S. H. Bass, cashier of the Munford Savings Bank and Trust Company, responded.

After the annual address of the president, which was replete with interest for every banker present, the following distinguished men spoke: Bradford Knapp of the U. S. Department of Agriculture, on "Safe Farming and Credit;" George E. Allen, educational director of the American Institute of Banking, New York, on "Better Banking;" Norman Hapgood of New York, on "Bankers and the Public;" C. W. McNear of Chicago, on "Municipal Financing;" Wm. F. Dunbar, Insurance Commissioner of Tennessee, on "Unauthorized Insurance." An address was also delivered by Hon. John Skelton Williams, Comptroller of the Currency.

The reports of the various committees covered the work of the different departments. Reports of the secretary and the treasurer showed that the welfare of the members of the association had been well looked after during the year.

The officers elected are as follows: President, A. R. Dodson, cashier Merchants State Bank, Humboldt; vice-presidents, W. H. Eppes, Tazewell; W. P. Hickerson, Jr., Manchester; C. E. Sweatt, Friendship; secretary, F. M. Mayfield, Nashville (re-elected); treasurer, G. W. Wade, president Bank of Trenton, Trenton.

The members of the American Bankers Asssociation in Tennessee held a meeting and elected the following: Member Executive Council, W. A. Sadd, president Chattanooga Savings Bank, Chattanooga; Vice-President for Tennessee, T. A. Embrey, president Farmers National Bank, Winchester; Member Nominating Committee, Fred Collins, cashier Milan Banking Company, Milan; vice-president National Bank Section, J. L. Hutton, president Mercantile National Bank, Memphis, and vice-president Trust Company Section, J. M. Fink, cashier Banking & Trust Company, Jonesboro.

OKLAHOMA BANKERS MEET

The Oklahoma Bankers Association held its twentieth annual convention at the Liberty Theater, Oklahoma City, May 16 and 17.

T. H. Dwyer, president of the Chickasha National Bank, president of the association, called the meeting to order and the visitors were welcomed to the city by E. A. Vaught, president of the Oklahoma City Chamber of Commerce. Response was made by John J. Gerlach, president of the Gerlach Bank, Woodward.

At the morning session D. N. Fink, president of the Commercial National Bank, Muskogee, delivered an address on "Good Roads and How to Get Them," and George J. Hurst of New York City, spoke on "Preparedness by Thrift." Following the addresses, the reports of Secretary Harry E. Bagby and Treasurer J. A. Holt were submitted, which covered results attained in the interests of the membership and showed the closing of a successful year.

At the second day's session P. W. Goebel, president of the Commercial National Bank, Kansas City, Kan., and Vice-President of the American Bankers Association, spoke on "Credits," and S. W. Hayes, former Judge of the Supreme Court of Oklahoma, addressed the convention on "Oklahoma Usury Law."

The entertainment features included a baseball game in Saratoga Park, a theater party, automobile rides, visit to the Ford assembly plant, and a luncheon for the visiting ladies at the country club. On the evening of the last day a ball was held at Euclid Hall.

The election of officers resulted as follows: President, L. E. Phillips, Bartlesville; vice-president, H. A. McCauley, Sapulpa; secretary, Harry E. Bagby, Oklahoma City; treasurer, Sid Garrett, Fort Gibson.

The American Bankers Association was represented by P. W. Goebel, Vice-President; Jerome Thralls, Secretary of the Clearing House and National Bank Sections; and L. W. Gammon, Manager of the Protective Department.

There was a lively contest at the meeting of the A. B. A. members. O. J. Fleming, of Enid, was elected member of the Nominating Committee. H. H. Ogden, of Muskogee, Vice-President; Earl W. Sinclair of Tulsa, member of the Council, and G. D. Davis of Claremore, member of the Council, contingent upon a sufficient number of new members joining to give Oklahoma an additional Council member.

Robert P. Brewer of McAlester was elected vice-president of the National Bank Section.

Those present pledged forty-eight additional members to the A. B. A. and Mr. Thralls reported that he had secured twenty-four new members during the convention.

MARYLAND AT ATLANTIC CITY

The twentieth annual convention of the Maryland Bankers Association, held at Atlantic City, May 23 and 24, was one of the most successful in its history. In addition to a record attendance of Maryland bankers there were many present from nearby states and New England.

The addresses covered a wide range of banking interest. Among those who spoke were: Wm. E. Knox, comptroller Bowery Savings Bank, New York; Walter E. Edge, vice-president Marine Trust Company, Atlantic City; D. H. Robbins, New York; Robert L. Maddox, vice-president American National Bank, Atlanta, Ga.;

Dr. Francis H. Green of West Chester, Pa., and J. Thomas Haflin of Alabama. President Cooper, in his annual address, said that the quantity and quality of the corn crop in the state had been improved because of the prizes given by banks to county fairs. Wm. E. Knox of New York urged every banker to go home and preach thrift in every way he could. He said that after the war there would be fifteen or twenty million men who would go back to work and create labor problems on both sides of the Atlantic; labor would be very cheap, and that now was the time to encourage economy in personal, civic, state and national expenditures.

The new officers are: President, James M. Sloan, president Lonaconing Savings Bank, Lonaconing; vice-presidents, Harry J. Hopkins, Annapolis; Wm. E. Bratten, Snow Hill; Henry B. Reinhardt, Baltimore; E. E. Reindollar, Taneytown; Channing Rudd, Baltimore; secretary, Charles Hann, assistant cashier Merchants-Mechanics National Bank, Baltimore (re-elected); treasurer, William Marriott, cashier Western National Bank, Baltimore (re-elected).

MACON HOST TO GEORGIA

After a two days' session, the twenty-fifth annual convention of the Georgia Bankers Association, at Macon, was brought to a close on Saturday, May 27, and will be remembered as one of the most successful meetings ever held by the association.

The convention was opened with President F. S. Etheridge, president Jackson Banking Company, Jackson, in the chair. The address of welcome was delivered by Col. Malcolm T. Jones, president of the Macon Rotary Club, to which F. T. Hardwick, president Hardwick & Company, Dalton, responded.

Following the annual address of the retiring president, the convention was addressed by Dr. E. M. Nighbert of Atlanta, on "Georgia's Dormant Source of Riches;" Hon. Charles S. Hamlin, Governor of the Federal Reserve Board, Washington, on "The Federal Reserve;" Raymond F. McNally, vice-president Mississippi Valley Trust Company, St. Louis, on "Banking Co-operation in Small Towns;" Mrs. G. H. Mathis, field agent for the Alabama Bankers Association, on "The Land Owner and the Tenant Farmer;" and C. J. Hood, cashier Northwestern Banking Company, Commerce, on "Can a Country Bank Lend Money Without Exceeding the Legal Rate of Interest and Yet Prosper?" J. W. Vaughn, director of the Bank of Cartersville, also addressed the convention.

One of the special features of the entertainment was "speechless" group dinners. Other forms of hospitality included motor drives, ball games, receptions and a buffet supper and dance at the Idlehour Country Club.

The officers for the ensuing year are: President, Charles B. Lewis, president Fourth National Bank, Macon; vice-presidents, Rufus H. Brown, Augusta; J. W. Heffernan, Savannah; T. R. Turner, Haddock; H. Warner Martin, Atlanta; Eugene W. Stetson, Macon; secretary, Haynes McFadden, Atlanta (re-elected); treasurer, E. C. Smith, cashier Griffin Banking Company, Griffin (re-elected).

On the adjournment of the morning session of the first day the members of the American Bankers Association held a meeting and elected the following officers: Member Executive Council, Gordon L. Groover, vice-president Citizens and Southern Bank, Savannah; vice-president for Georgia, J. S. Calhoun, president First National Bank, Cartersville; member Nominating Committee. F. T. Hardwick, president C. L. Hardwick & Company, Dalton; alternate, George H. Smith, cashier Brunswick Bank and Trust Company, Brunswick; vice-president National Bank Section, L. J. Cooper, president First National Bank, Waycross; vice-president Trust Company Section, F. S. Etheridge, president Atlanta Trust Company, Atlanta.

CONVENTION CALENDAR

June	6-7	Oregon	Portland
June	8-9	New York	Atlantic City, N. J.
June	12-13	Idaho	Lewiston
June	13-15	Michigan	Flint
June	14-16	North Carolina	Asheville
June	15-16	North Dakota	Minot
June	15-17	Washington	Everett
June	16-17	Massachusetts	Swampscott
June	16-17	New Eng. Bankers Assn.	Swampscott, Mass.
June	17	Maine	Swampscott, Mass.
June	17	Rhode Island	Swampscott, Mass.
June	17	Connecticut	Swampscott, Mass.
June	19-21	South Carolina	Kanuga Lake, N. C.
June	20-21	Iowa	Waterloo
June	22-23	Minnesota	Minneapolis
June	22-24	Virginia	Old Point Comfort
June	23-24	Utah	Ogden
June	28-29	South Dakota	Sioux Falls
July	22-23	Colorado	Denver
Aug.	8-9	Wisconsin	Madison
Aug.	25-26	Montana	Miles City
Sept.	12-14	Ohio	Columbus
Sept.	20-22	Am. Inst. of Banking	Cincinnati
Sept.	25-30	Amer. Bankers Assn	Kansas City, Mo.
Oct.	2-4	Investment	Cincinnati, Ohio
Oct.	3-5	Illinois	Danville
Oct.	10-11	Kentucky	Paducah
Oct.	26-28	Farm Mort. Bankers Assn.	Memphis, Tenn.
Nov.	10-11	Arizona	Phoenix

LIBRARY DEPARTMENT

MARIAN R. GLENN, LIBRARIAN

SUBJECTS COVERED BY PACKAGE LIBRARIES

The following list of subjects covered by the loan material sent out from the Association Library in the form of "package libraries" is printed for the information of members in accordance with a resolution passed at the recent Executive Council meeting. The list is also available in pamphlet form, and copies for desk use will be sent upon request.

In sending for material please indicate first and second choice, to prevent delay in service when desired data is in use by another borrower.

N. B. THIS IS NOT A LIST OF BOOKS

(For changes and additions consult the monthly JOURNAL-BULLETIN)

ACCEPTANCES—
- Bank.
- Trade.

ACCOUNTING—
- Bank.
- Bank cost.
- Commercial.
- Corporation.
- Fiduciary.
- Foreign exchange.
- Individual books.
- Investment.
- Municipal.
- Public service.
- Statement system.

ADVERTISING—
- Agencies.
- Associations.
- Bank.
- Banking by mail.
- Investment.
- Safe deposit.
- Savings banks.

AGRICULTURAL CREDIT—
- In various countries.

AGRICULTURAL CREDIT—U. S.
- Amortization.
- Building and loan associations.
- Commissions.
- Legislation.
- Life insurance.
- Organizations.
- Plans.

AGRICULTURAL EDUCATION.

AGRICULTURAL EXTENSION BY BANKERS—
- Conferences.
- Contests and exhibits.
- Dairying and live stock.
- Farm bureaus and county agents.
- Farm clubs.
- Work being done in different states.

AGRICULTURE.

AGRICULTURE—U. S.—
- Crop moving.
- Crop reports.
- Dry farming.
- Farm management.
- Organizations.
- Soil productivity.
- Statistics.

AMERICAN BANKERS ASSOCIATION.

AMERICAN INSTITUTE OF BANKING.

AMORTIZATION—
- Bonds.
- Mortgages.

ARBITRAGE.

ARBITRATION, COMMERCIAL.

BALANCE OF TRADE.

BANK BUILDINGS—
- Furniture and equipment.
- Lighting.
- Pictures.

BANK CHARTERS.

BANK CLEARINGS.

BANK CONCENTRATION AND MERGERS.

BANK DEPOSITS—
- Unclaimed.

BANK EXAMINATION AND SUPERVISION—
- Accountants.
- Auditors.
- Directors.
- Employees.
- Examiners.
- Federal.
- Group system.
- Methods.
- State.

BANK FAILURES.

BANK NOTES—
- Issue.
- Redemption.

BANK OF THE UNITED STATES, FIRST.

BANK OF THE UNITED STATES, SECOND.

BANK OFFICERS.

BANK ORGANIZATION.

BANK PROFITS.

BANK PROTECTION.

BANK REPORTS.

BANK RUNS.

BANK STATEMENTS.

BANK STOCK.

BANKERS.

BANKERS ASSOCIATIONS—
- Foreign and United States.

BANKERS CLUBS.

BANKING DEPARTMENTS.

BANKING ETHICS.

BANKRUPTCY.

BANKS AND BANKING—
- History.
- Influence.
- International.

BANKS AND BANKING—
- Africa.
- Alaska.
- Australasia.
- Australia.
- Austria-Hungary.
- Belgium.
- Canada.
- Central America.
- China.
- Cuba.
- Denmark.
- Egypt.
- Europe.

BANKS AND BANKING—*Con.*
- France.
- Germany.
- Great Britain.
- Hawaii.
- India.
- Ireland.
- Italy.
- Japan.
- Mexico.
- Netherlands.
- Norway.
- Pan America.
- Philippine Islands.
- Porto Rico.
- Russia.
- Scotland.
- South America.
- Spain.
- Sweden.
- Switzerland.
- Syria.
- Turkey.
- United States—
  - History.
  - National banks.
  - Statistics.

BILLS OF EXCHANGE.

BILLS OF LADING.

BIMETALLISM.

BIOGRAPHY (OF BANKERS).

BLUE SKY LAWS.

BOARDS OF TRADE.

BOND DEPARTMENT.

BONDS—
- Burglary.
- Collateral.
- County.
- Depository.
- Drainage.
- Electric.
- Fidelity.
- Forgery.
- Government.
- Industrial.
- Irrigation.
- Mortgage.
- Municipal.
- Public service.
- Railroad.
- Real estate.
- Road.
- State.
- Street railway.
- Surety.
- Timber.

BRANCH BANKING.

BROKERS.

BUILDING AND LOAN ASSOCIATIONS.

BUSINESS.

BUSINESS CONDITIONS.

CAPITAL.

CAPITALIZATION (OF BANKS).

CARTELS.

CENTRAL BANK—
- State.

CERTIFICATES OF DEPOSIT.

CHAMBERS OF COMMERCE.

CHECKS.
- Certified.
- Crossed.
- Giro.
- Postal.
- Voucher.

CLEARING HOUSE—
- Associations.
- Certificates.
- Currency.
- Examination.
- Reports.

COMMERCE.

COMMERCIAL PAPER.

COMMERCIAL PRODUCTS.

COMMERCIAL TREATIES.

COMMUNITY DEVELOPMENT.

COMMUNITY TRUSTS.

COMPETITION.

CONSERVATION OF RESOURCES.

CONSOLS.

CO-OPERATION—
- Agricultural.
- Bank.

CO-OPERATIVE BANKING.

CORPORATIONS.

COST OF LIVING.

COTTON—
- Exchanges.
- Financing.
- Production.

COUNTERFEITING.

CREDIT, BANK.

CREDIT, COMMERCIAL.

CREDIT, LETTERS OF.

CREDIT AGENCIES.

CREDIT BUREAU.

CREDIT CURRENCY.

CREDIT DEPARTMENT.

CREDIT INSTRUMENTS.

CREDIT INSURANCE.

CREDIT STATEMENTS.

CREDIT UNIONS.

CURRENCY QUESTION.

DAYS OF GRACE.

DEFALCATION.

DEFERRED PAYMENT.

DEPARTMENT STORE BANKS.

DEPOSITORIES—
- County.
- Government.
- Municipal.
- State.

DISCOUNT AND REDISCOUNT.

DIVIDENDS.

DRAFTS.

DYES AND DYEING.

ECONOMICS.

EDUCATION—
- Bank.
- Business.
- Vocational.

EFFICIENCY AND SCIENTIFIC MANAGEMENT.

EMERGENCY CURRENCY—
- Associations.

EXCHANGE, FOREIGN.

EXPRESS COMPANIES.

EXTRADITION.

FARM MORTGAGE BANKERS ASSOCIATION.

FARM WOMEN.

FARMERS.

FEDERAL RESERVE SYSTEM—
- Acceptances.
- Accounting and auditing.
- Administration.
- Advisory Council.
- Amendments.
- Bank examination and supervision.
- Bank officers.
- Board.
- Bonds, Government.
- Branch banks.
- Branch banks, Foreign.
- Capital.
- Clearing house.
- Clearing house, Central.
- Comment.
- Commercial paper.
- Comparison.
- Country banks.
- Credit.
- Criticism.
- Currency.
- Depositories.
- Deposits.
- Directors.
- Discount and rediscount.
- Discussion.
- Earnings.
- Expenses.

BULLETIN

OF THE

AMERICAN INSTITUTE OF BANKING

FORUM OF THE INSTITUTE

INSTITUTE PROGRESS

President Robert H. Bean in his report to the Executive Council of the American Bankers Association at the May meeting in Briarcliff emphasized the educational progress made during the past few years. The report which was presented to the Association at Seattle seemed to mark the entrance into a period of greater and broader activity. Through the alliance or co-operative agreement between the Savings Bank Section and the Institute, its resources, as represented by the small army of capable young bankers, were put at the disposal of the Association. The systematic plan of action for the thrift campaign which was worked out and presented by Secretary Harrison, invited the support of Institute members in bringing about a successful consummation. The Chapters responded to the invitation for service, and many of the Chapters have been actively in the work under the direction of the Savings Bank Section secretary in preparation for the celebration of the savings bank centenary next winter. The members of the Institute have welcomed this opportunity to co-operate with the Association in its larger work, and holds itself in readiness to be of further service.

Since the last report of the Institute Section there have been added to the membership over four thousand new names, which, after taking out all resignations, places the total membership of the Institute at nearly eighteen thousand, or, to be exact, 17,901. There have been fourteen new Chapters formed since October 1, which gives us now seventy-two such organizations in as many cities. In these Chapters there have been over one hundred and thirty courses of study conducted during the past winter, treating on banking law, practical banking, economics, accounting, credits and thrift, with a total enrollment of more than six thousand. Consider, if you will, what it means to have six thousand bank men devote from one to several hours a week to the courses of study designed and written for them, and the question of whether the Institute is a success and worthy of the unqualified support of institutions and individuals is certain of a favorable verdict

Much attention has been given to the extension of the Institute study course through the Correspondence Chapter. A great number of so-called "country bankers" have participated in a large extent in the movement to secure the indorsement of state bankers associations to a plan that would put the Institute study course in the hands of thousands of bankers in small places out of touch with the regular organized Chapters. There are now 1,965 enrolled correspondence students, and the membership has made a rapid gain during the past year.

The close of the previous Institute administration brought with it the publication of the two volumes which are to be known as Part 2 of our Institute study course. These books on "Commercial Law" and "The Law of Negotiable Instruments" have been in wide and constantly increasing demand. They have been printed and distributed in three editions. It is hoped that within the present year the other two volumes of the study course will be ready for use.

In common with other organizations, the Institute Section has taken a keen interest in the national movement for preparedness, and has tried to interest the bankers in the organization of voluntary military training classes. The great camp at Plattsburg next summer will have a large number of Institute members who have been interested through the efforts of committees in their local Chapters.

The educational director, assistant and the president have visited many of the Chapters since the convention last September, and have kept in intimate touch with their affairs. We know of the conditions existing, and come to you today with the statement that the educational section has, through its large and representative membership, maintained the high standard which is in keeping with the prestige and national importance of the Association of which it is a part. Those who are entrusted with the authority of administration will continue every effort to bring the Institute to the place where it will be of greater and more constant usefulness.

THE NEW YORK CURB MARKET

A request has been received from Pittsburgh for information relative to the New York Curb Market. Specifically, how are securities listed; how is trading carried on; can any broker trade; where are quotations of the market posted?

The New York Curb Market Association organized in 1910 has a membership of 334, each paying annual dues amounting to $250. The Curb Market, however, antedates the New York Stock Exchange, which was established in 1792.

The objects of the association are "To furnish constitution, rules, regulations, penalties and facilities for the transaction of business by its members, as dealers or brokers, in securities not listed in any department of the New York Stock Exchange. Also to take over all archives or other assets now held and owned by the New York Curb Market Agency registered."

In the early days trading was carried on under a tree which stood in front of 68 Wall Street by a few men who dealt in securities not listed on the stock exchange. Trading in unlisted securities increased and brought more brokers to the curb. During the Civil War the curb market was in William Street, between Beaver Street and Exchange Place. No record of transactions was kept, but it is thought that trading during the war period was heavier on the street than on the exchange. Trading began at 8 o'clock in the morning and continued until 6 P. M. The present location of the curb market is on Broad Street, between Exchange Place and Beaver Street. The market is open to all who choose to trade there, but no one is obliged to accept any contract which is not acceptable. Strangers and others must be properly identified in justice to themselves and those they attempt to trade with, and they may be called upon to give up acceptable persons before the contract is closed. This is for the safety of all concerned.

The rules and regulations of the association, to a large degree, prevent fraudulent transactions. For disorderly conduct or skylarking the association imposes fines; for first offense $10; $25 for the second offense and for a third offense summary action by the board of representatives, which is the governing board.

Mutual cash deposits not exceeding ten per cent. may be required at any time by either party to a contract. Whenever the margin of either party becomes reduced to five per cent. by reason of changes in the market values of the securities, further deposits may be called from time to time sufficient to restore the impaired margin. When deposits are called before 2.00 o'clock P. M. they must be made at or before 2.30 o'clock of the same day; if called after 2.00 o'clock P. M. they must be made at or before 10.30 A. M. of the next business day. In case either party shall fail to comply with a demand for deposit, in accordance with the provisions contained in the regulations, the party calling, after having given due notice, may report the default to the chairman, secretary or an officer of the association, who shall repurchase or resell the security forthwith and any difference that may accrue shall be paid over to the party entitled thereto. Payments for securities can only be made on banking institutions within the Wall Street district. Checks drawn on other banks are only accepted by courtesy and may be declined. Dealings in stocks on the New York curb which have a market in Salt Lake, Goldfield, Tonopah and San Francisco, ordinarily have seven days from date of transaction in which to make a delivery and "Buy In" will not be permitted until expiration of such period. Any subscriber who makes a fictitious sale may, upon proof, be suspended or expelled. The units of trading for members of the association are divided into classes: Class A, stocks of a par value less than $5, and Class B, $5 or over. Where the Class A stock sells from $1 to $5 per share, the unit of trading is 1/32; if it is selling at $5 or over per share—1/16. For Class B stocks selling under $1 per share, the unit of trading is 1/32; from $1 to $5 per share—1/16, and for stock selling at $5 or over—1/8.

When a stock is spoken of as being "listed" on the curb, the term must be understood to mean that trading in that stock progresses on the curb. When a broker has made a sale of stock which is entitled to quotation, he reports the fact to a representative of the Curb Association whose duty it is to gather such information. There are certain requirements, however, which must be met with in the listing of securities of mining and industrial companies. Where a mining company requests quotation on the New York Curb Market lists, it is necessary to furnish the association with the following information:

Statements of assets and liabilities, earnings and expenses, signed by an officer of the company, with seal attached, and sworn to before a proper court officer or notary public, engineers' report or certified copy. Certified copy of the charter and by-laws, map of the property. Copy of annual report of prospectus duly authenticated. A list of the officers and directors, with their addresses, and an individual reference for each. Transfer office and registrar at New York. Certified copy of any leases. Confirmation of the titles, etc., certified. Certification by an officer and seal of company must be attached to all papers submitted. Specimen copy stock certificates. They are also required to state whether they are prospect or developed properties.

The application is then considered by a listing committee, consisting of three members and with their approval, upon payment of a listing fee of $100, the security is duly listed.

The application of industrials, the company must give its last statement of assets and liability, a statement of income and expenditures for the last fiscal year, copy of the last annual report, a certified copy of the certificate of incorporation made by an officer of the company or by its attorney or accountant and a copy of the by-laws. It must also state the names and location of subsidiary companies in the event of its being a holding company or a consolidation. They must give the name of the transfer office and registrar at New York, the names of all the officers and directors with their addresses, and an individual reference for each if required by the listing committee. A specimen copy, stock certificates must be included, as also a certification by an officer and seal of the company must be attached to all papers submitted. The listing fee is the same as for mining and oil companies.

The method of trading is interesting. The finger and hand signals employed by the operators to communicate with their colleagues at the windows of offices on either side of the street are suggestive of the method of communication used by deaf and dumb persons. The brokers wear caps of various colors, each color being a distinguishing mark of a firm. A reorganization of the New York Curb Market Association is at the present time being proposed.

CLOSING CORPORATION BOOKS

A Kansas student wants to know why the books of most corporations are closed previous to dividend periods and the transfer of stocks during the closed period thus prevented. The original reason for such closing was to prevent the bunching of transfers at dividend dates and thus augmenting clerical work. The tendency, however, is to accommodate the public rather than transfer agents, and restrictions are gradually being secured. In this connection the secretary of the New York Stock Exchange recently sent a letter to the directors of various corporations, in which he said: "The executive committee [of the Stock Exchange] feels that the closing of books is an unnecessary expedient; many of the larger corporations have long since abandoned this practice for the equally efficient and more satisfactory one of taking a record of stockholders on a fixed date. The old method of closing a company's books results in the tying up of large sums of money at recurrent periods. For example, the capitalization of companies whose books are closed during March and whose stocks are listed on this Exchange amounts to nearly three billion dollars; for April this amount is a little over one billion. This is capitalization, but in a recent month actual sales of these securities on a par of $100 represented $388,400,000 and $129,700,000 respectively. In a case of serious collapse of the market the inability to secure ready transfers must produce unfortunate situations. During panicky conditions small buyers have always appeared to purchase at the low prices for cash; this relief will be seriously impeded, because the dealers in small lots are prevented from splitting up the hundreds bought against such sales and are obliged to receive and carry the hundreds so purchased, while unable to secure from companies the smaller lots sold. This is a matter which as well interests lenders of money, where transfers of stocks are impeded, although money is most needed, its circulation is interfered with, bankers are called upon to carry their customers for longer periods and for larger amounts than where deliveries are made day by day; some books are kept closed as much as thirty days."

CINCINNATI CONVENTION ARRANGEMENTS

Geo. A. Jackson, Director of Transportation, reports that special rates have been secured from three of the leading passenger associations, benefiting the Eastern and Central delegations.

Trunk Line Association—Two cents per mile in each direction, going and returning via same route only; tickets to be sold and good, going, September 18 to 20, and returning to reach original starting point not later than September 26.

New England Passenger Association—Two cents per mile in each direction, short line mileage, going and returning via same route only and over which one-way tickets are regularly sold—one and one-half westbound differential to apply. Reductions will not apply on the Bangor & Aroostock R. R.

Central Passenger Association—Round-trip tickets requiring validation at Cincinnati, Ohio, will be sold on September 18, 19 and 20, with a final return limit to reach original starting point not later than midnight of September 26, 1916.

It is probable that the other passenger associations will not grant further reduced fares, as they have already intimated that on account of the regular summer tourist rates that have been made it is impossible for them to concede any additional reductions during the time of the convention. However, this matter is still pending and a more definite report along these lines will be made as soon as present negotiations are completed.

H. L. Kinsey, of the Williamsburgh Savings Bank of Brooklyn, president of New York Chapter, will take charge of the entire eastern delegation; I. L. Bourgois, of the Hibernia Bank and Trust Company of New Orleans, and of the New Orleans Chapter, will arrange for the southern delegation, and George A. Brown of Sweet, Causey & Foster, Denver, and of Denver Chapter, will arrange for the transportation of all the western delegation.

Some Economic Effects of the European War on the United States

II. The United States a Creditor Nation

Values of Exports and Imports—Loans to Other Countries and Sums Borrowed by Banks on the Basis of Acceptances or Straight Loans—Repurchase of Foreign Owned Securities—The Rate of Sterling Exchange.

By EVERETT WALTON GOODHUE
Professor of Economics, Colgate University

This is the second of a series of four articles by Professor Goodhue on this topic. The first paper appeared in the May issue.

THE United States, for the time at least, has taken a dominant position in international finance. The great commercial nations of Europe which formerly were carrying on the world's business are now bending every energy to conducting the great war in an efficient manner. To this end all the commercial, financial and industrial forces are mobilized. International business functions have either been given up altogether or greatly curtailed, and more and more these nations, where possible, have turned to the United States for supplies and credit. In general, for the belligerent nations, imports have increased enormously, loans to outside countries are totally shut off, heavy borrowing in the United States by governments and banks has been made necessary, financing of foreign trade through acceptances has been largely given up and many millions of dollars of securities, mainly American, have been sold. This country, on the other hand, has in its favor far and away the largest trade balance on record, has loaned large sums to European nations and to others, has imported gold in considerable amount, has called into existence dollar exchange, has cleared off its floating debt to Europe and bought back, on a conservative estimate, one-third of its securities held abroad.*

For a good many years the balance of trade has been running in our favor. Since 1896 the value of exports has exceeded the value of imports by some hundreds of millions of dollars. For five years previous to 1915 the yearly trade balance had been in excess of $300,000,000. On the basis of the old mercantilist theory, the value of exports exceeding the value of imports, gold should be imported and the country be wealthy and prosperous. As a matter of fact, gold instead of being imported was exported, and in the year of the largest excess of exports, 1913, the country was far from being in a prosperous condition. The obvious explanation of the exportation of gold is that there are many so-called invisible items of trade as a result of which the balance of payments between nations reflects a different condition from that shown by the apparent favorable balance of trade. Because of debits due to short term borrowing abroad and annual interest on securities, tourists' expenses, money sent out of the country by immigrants, excess freight charges, insurance and commissions to foreign bankers for financing our trade, the United States was a debtor rather than a creditor on the international balance sheet.

According to a careful and conservative estimate made by Sir George Paish for the National Monetary Commission in 1909 we were debited with $250,000,000 in annual interest payments, with tourists' expenses of $170,000,000, with remittances by immigrants to friends in Europe of $150,000,000, and with excess freight charges of $25,000,000.† In all, we were year in and year out facing a debit balance of some two hundred or more millions of dollars, which either must be paid in gold or offset by the investment of this amount in the United States. From time to time gold would be shipped, but in the main, in ordinary years, the balance would be invested in railroad, industrial or public utility securities.

a. Export and Imports

Since the outbreak of the European war important changes have taken place, so far as this country is concerned, in most of the items on the international ledger. During the early part of the year 1915 much was said about a billion dollar trade balance, and this was considered phenomenal. At that time few people dreamed that the excess in value of exports would reach the sum of $1,768,000,000 for the calendar year. During the current year the net balance of trade is estimated roughly at more than two billion dollars. For the month of February alone the excess of exports was valued at $209,056,001.* A comparison of the value of exports and imports for the last three years will show the effects of the war upon these items so far as total values are concerned.‡

Year	Imports	Exports	Excess
1913.....	$1,792,596,480	$2,484,018,292	$691,421,812
1914.....	1,789,276,001	2,113,624,050	324,348,049
1915.....	1,778,596,695	3,547,480,372	1,768,883,677

*Cf. Resumé of Loree Report. *New York Times*, Dec. 24, 1915, pp. 1 and 4.

†Paish, The Trade Balance of the United States, pp. 153-197, National Monetary Commission, 1910. It should be noted that these estimates are based on net amounts owed. That is to say, taking interest payments as an example, the $250,000,000 is the difference between the total interest payments due foreigners and the total interest payments due on investments made by Americans in foreign securities. The same is true for the other items.

*Monthly Summary of the Foreign Commerce of the United States, February, 1916, p. 3.

‡Monthly Summary of the Foreign Commerce of the United States, December, 1915, p. 3.

The value of imports for the total foreign trade of the United States has remained in these three years remarkably constant, but the value of exports from this country declined sharply in 1914 and advanced to an unprecedented figure in the last calendar year. This great advance is primarily due to two causes. In the first place, the demand of the warring countries for supplies which would assist them in carrying on the war and which could be obtained in this country has increased our exports. This demand, since the establishment of the English blockade, has come almost entirely from the allied nations. In the main, the demand has fallen upon raw materials and partly finished products. There have been large increases in exports of food products, animals, especially horses and mules, steel, munitions of war and hospital supplies. There should also be included in this demand the increased purchasing of goods in this country by many neutral countries which formerly traded with Great Britain or Germany.

The second reason for the large increase in the value of our exports is the great advance in export prices. This, of course, tends to make the excess in quantity of goods shipped considerably less than the excess in value cited above would indicate. In many cases the export prices have advanced more than fifty per cent. The advance for February, 1916, ranges from twenty-five to one hundred per cent. greater than for the corresponding month of 1914. Some of the increases reported are: steel, 150 per cent.; dynamite, 138 per cent.; automobiles for commercial uses, 105 per cent.; brass, 66 per cent.; horses, 65 per cent.; potatoes, 62 per cent.; shoes, 51 per cent.; refined sugar, 40 per cent., and barbed wire, 29 per cent.

Another factor slightly influencing the situation was the decline in the value of imports by $14,000,000 as compared with the year 1913. The decline in the value of imports from Europe and the United Kingdom during the first six months of 1915 was considerable, and although the imports from the United Kingdom for the year were about normal yet the totals for Europe show a decrease of $237,164,942 when compared with 1914 and $318,313,536 compared with 1915. This decrease, however, was largely made up through the increase in imports from the South American countries and the Orient.

Both exports and imports from South America, Asia and Africa have increased in the past year. The following table will serve to indicate the changes which have taken place in the values of imports and exports by grand divisions. It will be noted that exports and imports are compared for the month of January, 1914 and 1916, and for the seven months ending with January in these two years.*

January

Countries	Imports		Exports	
	1914	1916	1914	1916
South America	$20,061,039	$40,940,195	$8,656,228	$13,842,584
Asia.........	22,751,155	32,616,649	11,645,894	18,987,391
Africa........	1,735,493	10,148,413	2,450,415	3,092,668

*Table compiled from Monthly Summary of the Foreign Commerce of the United States. January, 1915, pp. 599-600. January, 1916, pp. 56-57.

Seven Months Ending January

	Imports		Exports	
	1914	1916	1914	1916
South America	$118,664,571	$207,179,653	$80,933,316	$97,396,826
Asia.........	163,386,319	210,917,260	73,228,284	101,572,915
Africa........	8,268,388	26,878,213	17,402,241	24,092,385

Here again a considerable part of the increase in value is undoubtedly due to the increase in export prices and the increase in the invoiced value of the goods imported. The figures, however, would indicate some increase in the actual volume of goods shipped to and from these countries.

One great obstacle at the present time to the extension of this foreign trade is the lack of shipping facilities and the consequent rapid rise in freight rates. The American members of the International High Commission, who have recently returned from a visit to the South American countries for the purpose of studying the commercial and financial opportunities there, in a statement made public, say that the lack of ships is seriously militating against the extension of trade. Within the last few months some orders for goods which might have been placed in the United States have been placed in England on account of the excessively high freight rates which now exist between New York and the South American ports. For example, before the war the rate on coal from New York to Buenos Aires was 16 to 20 shillings a ton, but at present the rate is 102s. 6d. and it has been as high as 120s. At the rate quoted before the war coal was sold in Buenos Aires in cargo lots from $7.75 to $8; now it is quoted at from $28 to $30 per ton, and of this price about twenty-five dollars is accounted for by freight payments. Rates proportionately as high are cited for numerous other articles.

These high freight rates make it practically impossible for American manufacturers in many lines to compete against English manufacturers for the South American trade. Because England has available the ships for the carrying of this overseas trade, the English manufacturer has an advantage in rates of from fifty to seventy-five per cent. Seemingly, then, until the United States has an adequate merchant marine with direct service to the South American ports, our manufacturers will be at a decided disadvantage in their competition for these markets.

Although these large exports may be but a drop in the bucket when compared with the enormous domestic transactions of the United States which were estimated at $450,000,000,000 in 1913, yet they do carry large significance so far as our international commercial relations are concerned. This great balance of trade is one of the important factors in placing the United States among the chief creditor nations of the world.

b. Loans to Other Countries

The second change which has taken place in the financial international relations of this country, and which temporarily, at least, has switched us from the debit to the credit side of the ledger is in the considerable sums loaned to other countries.

Although this new venture of the United States in the international loan market was foreshadowed as early as the year 1900 in the negotiation of a national British loan and in 1904 by syndicate operations in Imperial Japanese bonds, yet it was not undertaken in any general way until the war created the opportunity. The necessities of the belligerent nations and other nations which had formerly borrowed in Europe forced them to seek loans in the United States. This country not only had the capital but it could also be borrowed more cheaply here than elsewhere. By the middle of April, 1916, loans of $830,000,000 had been floated in this country by the belligerent governments, and besides these some $91,000,000 had been loaned to the governments of neutral countries* Of this latter amount $64,500,000 has been loaned to the Argentine government. Before the war Argentina would probably have negotiated these loans in England or Germany, but now the government is forced to turn to the United States.

There must, in addition, be included in our loans to foreign countries, considerable sums borrowed by banks on the basis of acceptances or of straight loans. To the extent, then, of more than $1,000,000,000 we have become the world's banker. For the time being these loans appear as debit items. The funds borrowed are deposited with the lending banks or with bank syndicate managers and are used for the purpose of drawing exchange with which accounts for the purchase of supplies in this country may be settled. From time to time the short term, or floating debt, may be paid off as happened last fall in the case of France.† It may reasonably be expected, however, that the bulk of these loans will be funded into long term obligations and thus become a permanent investment. Ultimately, then, the United States will receive some millions of dollars in annual interest payments, which, together with the purchase of large blocks of foreign owned American securities, will reduce the annual debits of this country on account of interest payments. If, as seems likely, loans to foreign countries continue and foreign owned securities are offered for sale in our markets it may happen that the whole excess interest charge of $250,000,000 will be offset.

The capital borrowed in the United States to finance the war and the industrial requirements of other countries which formerly were financed in Europe, to say nothing of the enormous new requirements in our own country, shows the fundamental strength of the United States.

At the present time capital seems to be available in this country, and at surprisingly favorable rates. In spite of the large sales of bonds due to the desire of Englishmen to liquidate some part of their holdings and reinvest in British consols and treasury notes, and the activities of the English Government in connection with the stablizing of sterling exchange, the bond market has shown remarkable strength. In the case of the New York Stock Exchange the bond transactions for the year 1915 amounted to $955,000,000, a total which has been exceeded in only five years of the last twenty. According to a statement made by the National City Bank, the expectation of many investment bankers who believed that the natural course of events would lead to higher interest rates and a lower price for long term bonds has not been realized in the past year. The statement says:

"The average price of ten representative high grade, long term railroad bonds stood at 87.85 on November 30, 1914, while the average price of the same ten bonds on December 28, 1915, was 93.64. The *New York Times* average of 40 bonds showed a figure of 81.53 at the beginning of January, 1915, as against 86.41 on December 29, 1915."*

As a result of this favorable condition of the bond market certain railroads which were forced, on account of the unfavorable condition of the market for the past two or three years, to issue short-term notes for the purpose of financing their capital expenditures within recent months have sold bonds to liquidate these short maturities and meet new capital requirements.

The loan which has been most in the public eye is the $500,000,000 Anglo-French loan negotiated through a syndicate of American bankers by the Anglo-French financial commission. This loan is in the form of five-year government bonds in the denominations of $100, $500 and $1,000 bearing 5 per cent. interest. Security for the loan is in the total resources of each nation. The bonds may be converted at any time up to within six months of maturity into joint British and French 4½ per cent. bonds. The bonds are to mature not earlier than fifteen years and not later than twenty-five years from the present time. They carry a prior lien, and are jointly and severally the obligation of the two governments both as respects interest and principal. A syndicate of American bankers, headed by J. P. Morgan & Co., was formed to take over the issue at 96. Through this syndicate, which paid all the expenses of advertising and offering the bonds, the bonds were to be sold to the public at 98, which would net about 5½ per cent. on the investment. In connection with this loan it was understood that the funds obtained should be left on deposit with the syndicate banks, and drawn upon to pay for goods bought here; thus not a dollar would leave the country.

This was the first instance in which a foreign loan on a large scale had been attempted in the United States, and, with very few exceptions, loans of such magnitude have never been tried in any foreign country. The problem of marketing a loan of such dimensions was a difficult one. An arrangement was made by which the bonds were listed on the New York Stock Exchange. In less than a week the entire loan was subscribed by the members of the underwriting syndicate at the pre-

*Wall Street Journal, April 21, 1916. Morning edition, second sect., p. 5.

†$10,000,000 of French one-year notes fell due and were paid off, and on April 1, 1916, $30,000,000 more matured and were paid.—Monthly Letter of the National City Bank, April, 1916, p. 3.

*Monthly Letter of the National City Bank, January, 1916, p. 7.

vailing price of 96, and about half of the entire loan was removed from the market by the bankers who took the bonds for their own account, or for their customers who were allowed to participate in the underwriting. One interesting sequel to the bond issue was the distribution of $11,182,300 Anglo-French bonds by the E. I. duPont de Nemours Company as a special dividend upon its common stock.

With the dissolution of the syndicate in December the bonds were thrown into the open market, and were left to develop a free market of their own. Not a little fear was felt lest these bonds should decline a good many points from the syndicate price when the support of the syndicate was removed. One of the leading bankers who was largely instrumental in bringing out the issue was quite elated at the strength shown by the bonds. Many bankers were prepared for a break to 90, since it was expected that a number of the large subscribers to the issue, who had taken the bonds largely as an accommodation and because they felt that this was the only way to control the exchange situation in the interests of the United States, would, as soon as they were released from their obligation, sell at a sacrifice in order to get their money back. The lowest price touched by the bonds was 93½. As the investors have become better informed in regard to the bonds and their attractiveness from an investment point of view, considerable buying pressure has developed which has resulted in lifting the price until now they are quoted at 95½.

This loan met with considerable opposition on both sides of the water. In the United States there was no little newspaper criticism and some local demonstrations against it. In the main, the opposition developed among those who were ignorant in regard to the nature and security of the loan and those with pro-German sympathies. These latter looked upon this loan not as a direct benefit to the United States, but as a method of violating neutrality by assisting the Allies in a financial way to carry on the war. In England the opposition was based on the unfavorable terms of the loan. England had been borrowing at the rate of four and one-half per cent., and now this first external loan was costing the English nation, taking into consideration the depreciated rate of exchange, about seven per cent. for the five years. The *London Economist*, reflecting the prevailing sentiment, says: "To claim that these are favorable terms would be affectation. The British nation does not enjoy paying over six per cent. for its accommodation, and nothing but the state of the exchange could justify the conditions under which we borrow. On the other hand, it would be mere folly to suggest that the deal is an index to British credit, for it is clearly nothing of the kind. We are not raising money on New York's terms because they are the best we can get, but because credit in New York is at the present time essential to the financing of American trade."*

**London Economist*, October 2, 1915, p. 499.

In spite of the opposition the subscriptions to the loan in the United States came in rapidly and from all parts of the country, even banks with a pro-German clientele participating. In England the bill authorizing the loan passed the Commons without a single dissenting vote. On the face of it, the loan was a forced loan and only the necessities of the occasion made possible the negotiation of this large sum on terms clearly favorable to the investors of this country. It was seen to be to the mutual advantage of England, France and the United States to devise some way by which the purchases of the two borrowing nations in this country could be financed. A condition of our continued sales, not merely of munitions but of all supplies, was that of finding the temporary means of financing the purchases. For this reason the loan was quite as necessary and advantageous to the United States as to France and England.

c. The Repurchase of Securities

The third item which enters largely into the balance of payments between nations is the interest charges due on foreign owned securities. In this respect England has occupied a favored position. It is estimated that England alone owned above $2,500,000,000 of American industrial and railroad securities which called for payments each year of $125,000,000 or more in interest. In no small way England has been the world's workshop, and with her well developed commercial and financial machinery has been able to invest her savings in enterprises carried on in the newer, outside communities. American railroad, public utility and industrial undertakings have attracted the English investor, and no small amount of the capital required for the expansion of our thriving industries has been drawn from the one time "mother country." In general, the United States for thirty years and more has used up its own savings in domestic developments and has been obliged to call upon Europe for additional amounts of capital. To a minor degree, it is true, in the last ten or fifteen years our investors have made a start in risking some funds in other countries, but this amount has been relatively small. We have had use for our capital at home, and besides have taken very little interest in overseas trade and capital requirements.

A natural step in the direction of utilizing our surplus capital would be to own outright our own enterprises. And this we have partially accomplished by buying back from Europe a considerable amount of our securities. Various estimates of the total amount of securities bought back by the United States since the war began have been made, but most of these are rather rough and give us only approximate amounts. The total figures vary between $1,000,000,000 and $1,500,000,000. An estimate made by the *New York Times* and listed by countries is as follows:*

**New York Times*, December 18, 1915, p. 12. This statement goes on to say that if the sales from Germany before the war, heavy sales having taken place for some time previous to the actual oubreak of hostilities were added, the total would be increased from that source alone by $700,000,000.

Great Britain	$950,000,000
Germany	300,000,000
France	150,000,000
Holland	100,000,000
Switzerland and other countries	50,000,000
	$1,550,000,000

Perhaps the best and most conservative estimate of security sales is that made in the Loree report. According to this report we bought back between January 31, 1915, and July 31, 1915, securities to the par value of $621,289,772; on the latter date there were still owned in Europe securities to the par value of $2,864,810,228 and a market value of $2,317,467,908, the difference being accounted for by an average market price of 81.†

This repurchase of our securities, to be sure, is not a matter of our own choosing, but rather has been forced upon us by the exigencies of war. Some European holders of our securities became panic-stricken on the outbreak of war and rushed their holdings into our market in order to liquidate them and acquire cash. This selling pressure became so serious during the last days of July, 1914, that the stock exchanges were forced to close in order to prevent Europeans dumping these securities into our market at ruinous prices. Since the reopening of our exchanges for free trading on December 15, 1914, Europeans, partly through a patriotic desire to free their funds and reinvest them in government obligations and partly attracted by the high prices of securities on the New York market, have been disposing of their securities at private sale.

One unique feature in connection with the sale or control of American securities is the scheme of mobilization adopted by the British. The plan was consummated last December and provides for the sale or loan, for a period of two years, of dollar securities to the British Government. This mobilization involves the great investment concerns like the insurance and trust companies, and also a large number of private investors. In brief outline the plan contemplates: (1) the purchase by the government of dollar securities at current prices in New York; the securities to be paid for by five per cent. five-year exchequer bonds, (2) the loan for a period of two years of the securities, for which the owner receives all interest or dividends and one-half per cent. per annum on par value as consideration for the loan, (3) the owners may sell these securities whenever they please, only provided that the funds obtained from the sale be transmitted through the representative of the British government in New York, and, in turn, the government reserves the right to sell any securities loaned whenever it deems a sale necessary, (4) in case of sale by the government of loaned securities the government will pay the owner a mean between the high and low price on the New York market, and, in addition, two and one-half per cent. as compensation to the owner for disturbance.*

†Resumé of the Loree Report. *New York Times,* December 24, 1915, pp. 1 and 4.

**Cf. London Economist,* December 18, 1915, p. 1007.

In order to facilitate the practical working out of this plan of mobilization, instructions were drafted to show what securities would be eligible and the method of submitting lists of such securities. Acceptable securities must be either directly expressed or readily converted by the holder into American or Canadian currency, interest or dividends must have been regularly paid, and they must have been in physical possession in the United Kingdom or in the ownership of the seller or depositor since September 30, 1914. Provided these conditions are fulfilled, securities quoted on the London stock exchange, American and Canadian Government bonds, state and municipal issues, railroad securities, and the securities of large, well known corporations, like the United States Steel Corporation, are eligible. Furthermore, the instructions emphasize the fact that the purpose of mobilization will be entirely met if private holders sell their securities direct in New York and reinvest the proceeds in British Government obligations.

The underlying purpose of this plan is to concentrate in the hands of the British Government the large holdings of American securities so that purchases in the United States may be financed without the necessity of shipping gold. A fund can thus be created either by the sale of the securities, or by pledging them as collateral for loans, in New York, which may be drawn against in the payments of maturing accounts.

When the plan was first broached there was considerable fear in Wall Street lest these securities should be thrown into the market in large blocks and depress prices, even to the extent, perhaps, of causing a ruinous break in prices. It was soon evident, however, that the government would handle the securities judiciously and with due regard for the interests of the American market. As a matter of fact the bond market has been little disturbed by either the large private sales which have taken place or by such sales as have been made under the mobilization plan.

d. The Rate of Sterling Exchange*

The great loan of the United States to the Allies and the mobilization of securities by Great Britain were both made necessary by the unusual decline in sterling exchange rates. At first gold in large amounts was imported, but it was evident enough that purchases could not be continued on this basis. Either some other way must be found to finance the heavy purchases which were being made here by England and France or else such purchases would have to be discontinued. This would be as prejudicial to the interests of the United States as to those of the purchasing nations. It has been proven often enough that a large and continued importation of gold is not beneficial. In ordinary years there is a normal corrective for continued importations of gold; industry is stimulated, labor employed, capital for enlargements or improvements is in demand, prices and interest rates rise, the country is a good country in

*Sterling rates are taken because sterling exchange is the most important single rate, and rates in other countries move more or less in harmony with sterling.

which to sell or loan and a poor country in which to buy or borrow, claims against the country begin to pile up, exchange rates rise to the gold export point and gold goes out. Now, because of the hostilities in Europe, practically every situation is abnormal. In spite of the extraordinary methods devised to correct the exchange rates, gold continues to come in and is being heaped up in the Treasury, the banks, and in the hands of the Federal reserve agents.

In the background of foreign exchange is indebtedness arising out of a maze of transactions carried on in all parts of the world. If the claims of one country against another are exactly equal in value to the claims of the second country against the first, exchange will be at par. That is to say, if the claims of the United States against England are offset by equal claims of England against the United States, exchange will be fixed at $4.86⅔. Now the amount of fine gold in $4.86⅔ is exactly equivalent to the amount of fine gold in the English standard coin, namely 113+ grains. This exact equivalency of claims rarely if ever occurs, so that at one time the United States has more claims against foreign countries than foreign countries have against the United States, and at other times the opposite is the case.

When the claims of Americans against other countries are large the tendency is for exchange rates to fall and for gold to be imported. The normal fluctuation in exchange rates is about two cents to the pound sterling either way. In normal years, $4.84 approximately is the gold import point and $4.88 the gold export point. The fluctuation is determined by the cost of shipping gold from one country to another, and as the cost between England and the United States is about two cents per pound sterling the fluctuation in rates is confined to these narrow limits. At times this situation is complicated by the amount of bullion held in the respective countries, the value of money, and the state of the paper currencies. Claims of one country upon another give rise to bills of exchange which at one time may be at a premium and at another at a discount, or, taking for example the United States, at one time more dollars may be given for a bill, at another time less. But the premium or discount, in normal years, will keep within the limits indicated above, for when the rates rise to $4.88 it becomes as cheap to ship the gold as to buy the claim and, conversely, when the rate falls to $4.84 it becomes as cheap to bring the gold in as to sell the claim. The whole situation in regard to the exchange rates is then determined by the relative demand for and the supply of bills.

The European war has affected the sterling rate quoted in the United States in extreme ways. During the first three months and a half of the war claims were running heavily against this country. There was a great scarcity of sterling exchange available for the settling of our debts in Europe and as a result the demand for these claims was so great that sterling rates were pushed up to $5 and in a very few cases as much as from $6 to $7 was bid for sterling. All ordinary conditions were out of joint; shipping was taken off the regular trade routes, marine insurance on account of war risk was very expensive, and our crops on which we depend for the offsetting claims were piling up at the seaboard ports. Thus we had to resort to the extraordinary measures of creating a huge gold fund and of depositing gold in the Bank of England's depository at Ottawa. It was not until mid-November that exchange rates dropped to a point below the gold export point, and this relief came only when the allied countries began to purchase supplies in considerable amount in this country. This created a supply of sterling exchange and lifted the tension.

Since the beginning of the year 1915 the United States has been creating large claims against the belligerent countries which have had access to our markets. The course of sterling exchange reflects this new relation, for sterling fell gradually until in March it had dropped to $4.80, by June it had touched $4.76¼ and by September it had fallen as low as $4.49, the lowest point reached. Since September the release of a large amount of gold, the Anglo-French loan and the mobilization scheme have brought about a recovery in sterling rates until now for some months the rate has been "pegged" close to $4.76½. Very recently a new fluctuation has set in which carried the rate for demand bills down again to $4.75⅝ and resulted in another importation of gold on English account.* During a period of ten days, in the early part of May, $10,456,000 was received by J. P. Morgan & Co., and this came largely from the Bank of England's fund at Ottawa. This new influx of gold seems to indicate a preference on the part of England to ship gold rather than to sell securities on a declining market.

Since the beginning of the year 1915 there has been a movement of gold to the United States. The net importation from the end of the fiscal year, June 30, 1914, to the first of March, 1916, has amounted to $305,657,424.† In the month of October, 1915, alone, November $44,115,000 was shipped.‡ Despite these large importations of gold the sterling rate has for many months remained ten points below par. Sterling bills cannot conveniently be converted into gold, for the claims of the United States against England, arising out of the enormous exportation of supplies and munitions, is greatly in excess of the claims of England against the United States, even taking into account the loan, the sale of securities, and the net importation of gold. The sterling bill because it cannot be converted readily into gold sells at a discount, which is equivalent to saying that the dollar is at a premium and the sovereign has depreciated. In September this depreciation was as much as six per cent., but through the means taken to stabilize the exchange rate the depreciation for some months has been about two per cent. That is to say, an

**New York Times*, May 17, 1916, p. 15.
†Monthly Summary of the Foreign Commerce of the United States, February, 1916, p. 63.
$28,810,000 was brought in on English account, and in
‡*London Economist*, December 11, 1915, p. 972.

English importer who buys goods in this country, when he converts his sovereigns into dollars in payment for the goods, has to pay more sovereigns to cover the dollar value of the goods purchased. This has the effect of increasing the price of the goods imported. If it were not deemed necessary to economize gold in order to maintain a large reserve at the Bank of England, and gold at the Bank were freely exchanged for notes, there would be no premium on the dollar as long as the gold lasted. As it is, England is redeeming sparingly in gold and releases it only when absolutely necessary. This, to my mind, results in a partial suspension of specie payments, and hence causes the dollar premium. Today London is not by any stretch of the imagination a free gold market, and as long as this condition prevails and the balance of payments runs heavily against England, the dollar will remain at a premium in London.

The English have shown no little concern over this situation, and point out that the only hope for any change lies in reducing the demand for luxuries on the part of the rich and the well-to-do. In spite of the war extravagance is rampant. Economy must take place if imports are to be reduced. The only offsets to the debts owed the United States on trade account are increased exports, selling securities or borrowing. Any considerable increase in exports is hardly possible because manufacturing establishments now are running at high speed to furnish the supplies necessary to conduct the war, and also the labor force is depleted by drafting off men for military service. The sale of securities and borrowing have been already developed as far as is practicable, and therefore the only remedy is in eliminating waste and extravagance and curtailing the importation of all things not necessary for the successful prosecution of the war. Some of the English statesmen look on the present rate of exchange with surprisingly little concern, for they believe that it operates to raise the price of all imported goods and in that way will bar many things not considered necessities.

A good illustration of this attitude is found in the recent utterance of Mr. McKenna, who adroitly explains the English feeling toward the unfavorable sterling rate when he says: "At the present time the rate is 4.76 and the government does not wish it higher than that. It is still ten cents below normal, but we do not wish it to go up to or above normal, for the simple reason that we are discouraging imports by keeping exchange a little below par and checking the export of gold to America." The emphasis laid on the disinclination to ship gold is significant.

Whether exchange be high or low, one of the great practical problems is to keep it from fluctuating widely. It is for the interest of both the United States and England to prevent such oscillations in the rate of exchange as occurred in August and September, 1915. Wide variations in price bring uncertainty as to the gain or loss on exchange and lead to speculation, which causes much embarrassment to legitimate business. For the last eight months England has tried, in every way possible, to stabilize the rate of exchange, and now releases gold largely for the purpose of keeping the rate "pegged" at or about \$4.76½. When speaking of the normal point around which exchange fluctuates, we must carry in mind the fact that fluctuations may be somewhat wider than before the war, due to the higher freight and insurance rates. Formerly approximately two cents per pound sterling measured the limits of fluctuation for demand bills. Today, however, the rate of freight and insurance is estimated by a writer for the *London Economist* at one and five-eighths per cent.* At this rate the cost of shipping each gold sovereign would be .079+ cents, which would lower the gold import point to approximately \$4.79. Under this condition the sterling rate on demand bills might drop about eight points below par and not show any premium on the dollar.

The United States is now, and for the period of the war, the leading creditor nation of the world. New York City has secured a position of financial advantage and there has been not a little speculation as to the retention of this advantage after the war is over. In this question the wish is undoubtedly father to the thought. London for at least a hundred years has held a position of financial supremacy, and this historic position she is not going to relinquish lightly. It will take, needless to say, more than two years, or three years, or five years of war to break the commercial habits of a hundred years and to destroy the efficient financial organization of England which has been built up through long years of trading with all parts of the habitable globe. Already England is discussing ways and means of combating the efforts of the United States and other countries to command the neutral markets. England is not blind to the new situation, and recognizes this country as a factor with which to reckon after the cessation of hostilities. We have forged to the front, and with the advantage of being the chief creditor nation of the world, have the opportunity to become a factor of considerable importance in international trade and finance. Just what our position in the future will be is dependent upon the way we utilize the opportunities now within our grasp.

*London Economist, November 13, 1915, p. 808.

Study Course in Savings Banking

LESSON 7

Investments for a Mutual Savings Bank

Money Must be Put to Work—Safety, Marketability and Income Basis—The Advantage of Varying Maturities and Diversification—How Mutual Savings Banks Could Distribute Funds—Cash on Hand—Municipals—County Bond—Railroad Bonds—Buying into a New Issue of Bonds—New York Law—Other Elements to be Considered—Classes of Bonds—Equipment Bonds and Equipment Trusts—Public Utilities—Mortgage Loans.

By EDWARD L. ROBINSON
Vice-President, Eutaw Savings Bank
Baltimore, Md.

Safety was the only desideratum in the mind of Dr. Henry Duncan who by common consent is revered as the founder of savings banks. Productivity was an afterthought.

All the funds of the original savings bank were deposited in a strong box with three separate padlocks and access to the contents required the insertion of three different keys, one of which was held by Dr. Duncan, the others by two of his elders.

"Safety first" was the slogan of 1810, when Dr. Duncan inaugurated his historic enterprise. This primitive method of preserving intact and returning to the depositor the exact coins or bank notes he had deposited helped to establish confidence, but rendered no other benefit to the community.

It was not long, however, before it dawned upon the trustees that their funds should be put to work; a stagnant stream of wealth is as dangerous to economic welfare as is a stagnant pool of water to the health of a community. The rust of disuse will quickly corrode and destroy the most delicate mechanism; the talent hid in a napkin brought ruin to its owner; idleness at first atrophies and finally annihilates.

Is State Regulation Desirable?

The proper investment of savings bank funds is a matter of great public concern and the law in many states prescribes a formula which allows only a limited latitude for the exercise of judgment; this is not an ideal situation in that it substitutes a rigid strait-jacket for the element of human choice and largely denies to the banker the enjoyment of the fruit of his study and investigation.

This system of inflexible regulation has its merits, of course, but in the writer's judgment safety could just as easily be had by giving the savings bank trustees a free field; then require full publicity as to the character of all investments purchased and lodge in some disinterested and competent body power to order the sale of such securities as do not measure up to commonly accepted standards. This liberty would beget a high sense of responsibility and savings banks could serve their constituency with a maximum usefulness.

Assuming then that the savings bank officers have a free hand in choosing their investments, what principles should guide them?

Safety first! Marketability second! Income basis last! One is apt to be dogmatic in laying down general rules but surely these principles need no defense.

There are other elements of investment which require careful thought but all are incidental to the fundamental rules just noted.

Local Investments

Every savings institution owes a first duty to the community from which it draws its depositors and its resources should be at the command of its local enterprises, subject always to the invariable factors of safety and marketability; in accordance with this principle we find that savings banks in New England have been for many years investors in double name paper issued by its manufacturing interests; experience has shown this to be almost an ideal investment. In New York City real estate conditions have required large advances from the savings banks on bond and mortgage; in many instances upwards of fifty per cent. of total deposits are thus invested; this class of loans is highly satisfactory as to safety and income yield but does not always furnish a quick method of liquidation. In some of our mutual savings banks in the middle west farm loans furnish a very desirable channel of investment; it has been demonstrated that these loans when carefully chosen through reliable agents are not only secure but pay a fair rate of interest and because of a heavy demand from conservative local investors are readily marketed even in times of financial stringency.

Another factor to be given consideration is that of local taxation; in most states a special tax is imposed upon savings institutions without regard to the character of their investments; elsewhere a franchise tax is levied representing a fixed percentage of the total deposits of savings banks but permits a reduction to the extent of all local investments or securities of corporations chartered within the state; this law is designed to keep the deposits at work within the state but it often has the effect of creating an artificial market for local securities not justified by intrinsic merit, just as the rigid New York law creates a higher market for certain railroad and city bonds eligible for investment, than similar bonds enjoy, of equal merit but not eligible under the law; this exemption from taxation is nevertheless of sufficient moment to create a decided leaning towards "home" securities, and other elements being nearly even, is the determining consideration.

Varying Maturities

A very important investment feature to be borne in mind is that of choosing securities with varying maturities; it could easily be very embarrassing to have a large percentage of investments mature on the same date; the ideal situation is to have an even flow of maturing obligations so that no abnormally large amounts of cash may offer temptations to hasty and careless investing. An incidental advantage is that in times of stringency the bank will enjoy an uninterrupted stream of liquid assets without being forced to sacrifice securities in a declining market. Car trusts and serial municipal bonds give investors full opportunities to secure successive short date bonds.

Another detail which should not be lost sight of is to select a widely diversified class of investments with no undue percentage in any one class; for instance, it would be highly unwise to place seventy-five per cent. of a bank's resources in railroad bonds, however secure; nor should municipal bonds or equipment notes, or obligations of public service corporations, or even mortgage loans, have a similar preponderance.

With these general principles in mind mutual savings banks could properly distribute their funds as follows:

Cash on Hand

A liberal supply of currency for the probable needs of two or three days is generally kept on hand; this amount augmented from day to day by the current receipts should meet the ordinary demands. An additional supply of large notes is kept as a special reserve by many banks for use in emergencies and is available quickly without calling upon their depositories. There is also kept on deposit with local commercial banks or correspondents in large financial centers, funds available for checking purposes; the total amount of cash on hand and in banks varies according to particular circumstances, but should hardly ever be less than five per cent.—ten per cent. is probably a maximum requirement.

United States Bonds

It was quite usual until recently for savings banks to carry at least a small percentage of their funds in government bonds; some banks still follow this practice but most institutions feel that they cannot afford the luxury of this secondary reserve. In view, however, of the ease with which they may be at all times converted into cash, either through sale or through the circulation privilege which may be availed of by the bank's correspondents, they are still a desirable asset yielding at present prices nearly two and three-fourths per cent. income. A large savings bank on the Pacific Coast has always adhered to the policy of liberally investing in the securities of the United States and today holds upwards of $6,000,000 of various issues—about ten per cent. of its total funds. A savings bank which is thus strongly intrenched has but little need to ask favors of other institutions when general financial unrest exists and many wise bankers believe that the sense of security thus enjoyed is worth all it costs.

Municipal Bonds

Next in desirability from the standpoint of safety come the several classes of municipal bonds. Let it be understood that by "municipals" is meant all bonds issued by any political division or sub-division, the payment of which depends upon the collection of taxes levied within the given district; as usually interpreted the term applies to town and city bonds, but financial writers have broadened its significance until it now includes states, counties, cities, towns, school districts, etc. Municipal bonds today are enjoying a wider popularity than any other class of investments; two outstanding reasons account foı this; first, the imposition of a Federal income tax improved their investment position because income derived therefrom is excluded altogether from the normal and the super tax, justifying the investor in paying a premium for this immunity and for the further privilege of being relieved from exposing his financial affairs, at least to the extent of his municipal holdings; the second reason is that investors for several years have been disturbed by the present-day Socialistic tendencies and by the Federal and state attitude of antagonism to big business generally and to the railroads in particular, and have taken refuge behind those securities supported by the taxing power. This situation has led to a marked appreciation in the prices of municipal bonds and has increased the difficulty of securing choice issues at a good income return. Some savings banks confine their investments entirely to this class of securities and to first mortgages on real estate, feeling that all of their needs can be met without recourse to the railroad—or any public utility field.

In considering the purchase of any class of municipal bonds it is to be assumed that an acceptable legal opinion is furnished setting forth that *all* of the property within the particular territory covered is liable for the debt; school district—drainage district and special assessment bonds of any character are to be avoided unless reliable information is at hand establishing the security of the bond.

State Bonds

States whose financial records are clean can borrow at very low rates and this class of security usually commands a ready market; unfortunately, however, some states, because of present or past political conditions, do not enjoy the favor of investors; delinquencies which date back many years and which have been amply atoned for, or which in their very nature were justifiable, are still held against these commonwealths and often unjustly; it is certainly now fair to assume that all state issues regularly made within recent years under proper legislative authority are perfectly safe and are legitimate investments for the most conservative savings banks.

County Bonds

County bonds do not enjoy the same popularity which is accorded to city bonds for several reasons: The unit of responsibility is larger in area and the per capita wealth is generally much smaller; statistical information upon which an intelligent appraisal of investment values may be made is not usually available, nor is it apt to be reliable because of the lack of concentrated political authority to set up uniform statistical standards; sub-standard forms of valuation and assessment which have been in vogue in many county governments have also reacted unfavorably upon this entire class of investments—although many individual counties enjoy the highest credit. In the state of New Jersey especially their investment position is very strong. With the passing of a crude fiscal system and the inauguration of proper accounting methods, county bonds are destined to overcome this prejudice of investors.

Savings banks can properly purchase the bonds issued by the counties of their own state when the size and character of the population, percentage of debt to assessed valuation, average per capita wealth and political conditions are all favorable factors.

City Bonds

An investment expert states that nearly $3,000,000,000 of city and town bonds are now outstanding and that they are being issued at the rate of upwards of $300,000,000 annually.

The average net debt of all cities is about eight per cent. of their total estimated wealth, and as the debt of a particular city varies from this average it is in some degree indicative of the desirability of that city's bonds as a suitable investment, although several other factors may negative such a conclusion.

Most investors fix a certain standard of population excluding from consideration all municipalities under say 20,000 to 50,000 people; here again a wise discrimination should be exercised and certain exceptions may be safely made when all other conditions are favorable; for instance many state capitals and county seats with a comparatively small population are yet stable and prosperous; the fact that the state legislature meets periodically or that the country courts are regularly convened, or the location of historic public buildings, give a certain prestige which is reflected in land and other property values; this prestige often favorably affects the credit of the community; furthermore, there may be smaller towns in the state where the bank is doing business which forcefully appeal for recognition and deserve it.

Granting then that the debt ratio and the size of the town are satisfactory, the moral and industrial character of the community and especially the character of its governing body are to be studied; it should be remembered that the character of communities varies in its standards as the character of individuals. Has the town been steadily growing in population and in resources? Are its industries diversified and would the closing down of any one industry throw out of employment a large percentage of its laboring classes? More than a decade ago the shifting of the tobacco manufacturing trade from several Virginia and North Carolina towns to certain other centers wrought serious hardships to the towns affected and for a time impaired their borrowing facilities.

Is its industrial population contented, or is it frequently at odds with capital through strikes and disorder?

What is its geographical situation with respect to general intelligence and stability of its population? Certain southern and western communities by reason of a heavy percentage of negro or foreign-born population are regarded as undesirable and unstable because their people are largely ignorant, shiftless or migratory. What is its geographical exposure in the matter of possible invasion, flood or earthquake? Is it located on some thoroughfare of commerce? Does it enjoy ample railroad facilities or is it located on navigable waters? How does it treat its public utilities? Some cities have been notoriously unfair to their street railway and other public service corporations, almost to the point of attempted confiscation. Is capital treated with consideration? Are the tax laws equitable and is the tax rate reasonable? What is the purpose of the particular issue under consideration? Preference is often given to those issues, the proceeds of which are to be used in constructing water or dock systems or other public works which produce revenue independent of the usual direct taxation. On the other hand bonds issued in aid of railroad building or for stimulating manufacturers through the donation of factory sites, or for similar extraneous purposes, are to be avoided because of questionable legality even when issued after careful safeguards. Another important point to consider is whether the local tax rate is limited by any provision of the state constitution; in several Southern States the constitution forbids the levying of taxes in excess of a certain figure; the careful investor will not tolerate any impediment in the taxing powers of a community; it is easy to conceive how such a mischievous provision would lead to repudiation.

Most municipal issues are protected by a sinking fund feature which provides for the redemption of the loan at maturity; of late years serial bonds have been much in vogue and are to be preferred to those with sinking fund provisions. Sinking funds have many times been invaded for improper purposes and the immediate political exigencies of the party in power have often resulted in the omission of the sinking fund items from the tax levy to the dismay of succeeding administrations.

It will thus be seen that the selection of a line of city bonds is fraught with serious difficulties; few bonds possess all the good points which the ideal investment should have but a careful weighing of the several known merits as against the known weaknesses will enable the bondholder of experience to make wise choices; fortunately through the United States census reports and numerous financial publications, with the aid of the ordinary cyclopedia, nearly all of the important historical and industrial information desired is quickly accessible.

As to the marketability of municipal issues, it should be borne in mind that bonds put out by the older and more important and better known cities with a small debt are more readily disposed of than bonds issued by the less prominent cities and naturally command better prices; bonds of old and conservative New England cities in a favorable money market bring close to three and one-half per cent. basis and enjoy a very active market; most bonds of this class are eligible for savings bank investment under the banking laws of New York and of the New England States, and this fact establishes a quick market and good prices; as the income yield increases either marketability or safety or both must be waived.

Railroad Bonds

The confidence of investors has been severely shaken by the vicissitudes of the railroads during recent years; many of their troubles have grown out of their own transgressions; others have been unfairly thrust upon them; overnight changes in control have occurred whereby conservative forces were compelled to give way to reckless and unintelligent expansion; small but substantial roads doing a lucrative local business have been absorbed by some great trunk line and exploited by their new owners until they finally collapsed under impossible burdens; some of our best roads have become victims of the unbridled ambitions of selfish interests; attempts have been made to weld together into new systems—various units which did not "fit"; huge monopolies have been created through buying up at ruinous prices competing lines—in open violation of all moral and statute law; in many of these exploits grave losses have been inflicted upon security holders.

Following in the wake of these practices the law of the land has laid a heavy hand of prohibition and restriction upon railroad activities until the pendulum has swung to the other extreme of its arc; in order to check the various forms of evil it has been found necessary to regulate the details of the transportation business until nearly all liberty of individual action has been abridged or destroyed. Federal regulation has been aggravated by state and local exactions; labor organizations have been making demands which the roads seem powerless to resist; all other commodities used by the roads can only be supplied at advancing costs, and as yet little relief has come from the rate-making powers; it is believed, however, that a more friendly sentiment is being gradually evolved and that railroad securities will soon assume the investment position which they once enjoyed. The *Wall Street Journal* estimates that today there are $844,500,000 of railroad securities in default, a greater amount than the reconstruction period of the early nineties furnished; many of these issues are underlying bonds which are perfectly safe and will ultimately be paid; many others are practically worthless but represent "good" money of misguided investors. In these circumstances the correct appraisal of railroad securities challenges the best thought of the most astute investor; he is aware of the many elements of hazard in the risk; the growing industrial importance of some communities and the decadence of others, growing out of the constant shifting of the centers of population, are reflected in railroad values; a railroad cannot convey its belongings from one place to another to meet these changing conditions because more than ninety per cent. of its property is immovable; terminals, ties, rails, bridges and rights of way are useful only in fulfilling the road's original destiny; its function is to develop the country through which it passes and it is only in rare cases that the road is profitable from the start; errors in location are therefore irremediable; from this it would seem to be dangerous to purchase the securities of any road until it has demonstrated earning power; its replacement value is, of course, an important criterion but *only* when linked with stable earnings.

Buying Into a New Issue of Bonds

A single instance of the unwisdom of buying into a new issue of bonds will suffice: The Wabash Pittsburgh Terminal Railway Co. issued $30,000,000 of first mortgage bonds which today represent a replacement value of $40,000,000, but have a market value of about $300,000; they were sold to trustees, savings banks and others around $990 for a $1,000 four per cent. bond, upon the glowing promises of the promoters; the first mortgage debt per mile is in round figures $500,000; this fact should have warned investors, but they were led to believe that certain contracts of the company would be ample to take care of all fixed charges. The road was a link in a long chain of railroads designed to connect the Atlantic with the Pacific, but its rosy dreams have never been visualized; all of its several units were seriously involved; some have passed through the fires of reorganization, others are still on the auction block; still another is facing the penalties of indorsing the obligations of a sister road. This "house of cards" has brought trouble to many confiding but careless investors; the element of common sense should never give way under the spell of a promoter's expectations; every savings bank bond should be buttressed by a long sustained earning record.

The roads which enjoy the highest credit have bonded debts not greatly in excess of capital stock obligations and have for a long period of years maintained a liberal dividend record; they are not of necessity the great trunk lines, but may traverse a limited area. The Lackawanna and the Delaware & Hudson systems are examples of comparatively small roads with the highest credit. Each of these systems operates less than 1,000 miles of track, but they both serve a densely populated territory and have uniformly pursued a conservative financial policy; all of their securities take high rank, although not all are eligible under the New York laws governing savings bank investments.

The experienced and discriminating investor does not confine himself to roads of the highest class, but can often obtain securities of unquestioned strength issued by the weaker roads, yielding an income far in excess of that realized from bonds of the larger and stronger systems; a concrete illustration of this situation may be found in comparing certain bonds issued by the Delaware & Hudson Co., the Erie Railroad and the Missouri Pacific Railway Co., respectively.

The Delaware & Hudson first and refunding 4's of 1943 have a margin of safety covering the past ten years of eighty-seven per cent.; the Erie Railway Consolidated 7's of 1920 have ninety per cent. and the Pacific Railroad of Missouri first 4's of 1938 have ninety-five per cent.; all of them are entitled to rank in the first class. The approximate market prices of today reduced to an income basis are: Delaware & Hudson 4's, four and twenty-hundredths per cent.; Erie 7's, four and thirty-hundredths per cent. and Pacific Railroad of Missouri, four and seventy-hundredths per cent.

Only the first of these issues is eligible for investment under the New York law, which accounts in part for its low income yield; the last issue suffers, of course, because of the troubles of the parent company, but is as strong intrinsically as either of the other bonds. In each case the net earnings per mile of system are from eight to twenty times the interest requirements per mile of road mortgaged under each particular bond.

There is no equity protecting the Delaware & Hudson 4's except the capital stock of the parent company, which has a long and generous dividend record; there are no prior liens except upon a very short portion of the system.

In the case of the Erie 7's there are several bonds prior in lien and several junior liens, but none of the several classes of stock pays dividends; the road, however, is splendidly managed and its best years are evidently ahead of it.

The Pacific of Missouri 4's are a first mortgage on an indispensable section of the Missouri Pacific system, *i. e.*, from St. Louis to Kansas City; is followed by several junior issues of varying strength; the road has not in recent years had wise or successful management, is now in the hands of a receiver and its capital stock is practically worthless.

These three issues vary widely in individual characteristics and are cited to indicate the difficulty of setting up any unvarying standards in selecting investments; the general suggestions which follow should therefore be interpreted broadly; long training and experience, combined with a due sense of responsibility, will enable one to escape many pitfalls which yawn for the unwary and the unwise, although no one can expect to avoid all the unhappy turns in the wheel of fortune.

New York Law

No guide to correct investing offers a safer path than the New York law; it may therefore be confidently used as a basis until the investor acquires sufficient self-confidence to disregard its rather strict provisions. Two particularly wise features of this law deserve notice, bearing in mind, however, that these rules do not apply in the case of many individual high-grade bonds which cannot qualify under the conditions.

Savings banks in the State of New York are permitted to invest in:

(1) The first or refunding bonds of any road in New York State which has paid dividends for five years at four per centum or better and has not defaulted in payment of principal or interest on its bonded debt within the same period and which has a *substantial* capital stock that is equal at least to one-third of its total capitalization.

(2) The bonds of any railroad in the United States which owns in fee at least five hundred miles of road and which has complied with the above mentioned interest and dividend requirements; which shows annual gross earnings five times as great as all interest and rental charges and which has a bonded debt not greater than three times its capital stock.

The law has not been quoted in exact terms and some important conditions are omitted, but the general idea conveyed is that the road should have (1) a substantial mileage, (2) heavy gross earnings, (3) a large stockholders equity, (4) a good financial record.

To these factors it may be added that a road should have a well diversified business; it should not derive its traffic entirely from one commodity, such as coal, lumber or ore; it should enjoy a fair percentage of income derived from passenger traffic; its traffic density should show a constant increase and there should be left a substantial margin of earnings after caring for all fixed charges, including taxes, rentals, etc. It is also quite desirable that in addition to the capital stock equity there should be an issue of bonds junior to those held by the investor, so that in the event of possible trouble the junior bondholders must unite for self-protection to care for the interests of the senior security holders.

Other Elements to be Considered

A matter of important concern is the ratio of capital stock to bonded debt; a comparison in this respect between the successful railroads and those which have fallen by the wayside reveals an interesting situation: The *Wall Street Journal* computes that ten roads now in receivership have $3.12 in bonds to $1.00 in stock, while ten standard dividend paying roads average $1.11 in bonds to $1.00 in stock; one of the roads now in trouble has $8.19 in bonds to $1.00 of stock, while the Pennsylvania Railroad enjoys the unique distinction among the large roads of having practically two dollars in capital stock to one dollar in bonded indebtedness. If a road is top-heavy in fixed charge obligations it is only safe to buy these bonds in the systems which are well protected by junior liens; none of our best roads has a bonded debt as much as twice its capital stock.

Reference has been made to replacement values, but this matter cannot become much of an issue until the appraisal work—now going on under Federal auspices—progresses far enough to establish satisfactory standards of measurement; meantime, no one can accurately determine the proportion of "water," if any, in the capitalization of a given road; too much weight should not be attached to the capitalization per mile, as this item varies widely even in similar territory; some roads have capital stock outstanding at the rate of $5,000 per mile, others at the rate of $100,000 per mile—the criterion after all is earning power and the margin of net earnings which remain after caring for fixed charges.

Few railroad bonds have a sinking fund feature, but there is a growing disposition to require that some provision be made for the retirement of maturing railroad loans; some lenders maintain that railroads should not expect to create permanent bonded debts, notwithstanding the constantly increasing equity brought about through plowing back current earnings and through improvements paid for by new capital stock or junior mortgage issues. Such bonds as the Louisville & Nashville Gen'l 6's, due June, 1930, which are subject to call by lot at 110, are always sought after at good prices; these bonds were issued to run for fifty years and every year one and one-tenth of one per cent. of the original issue must be called in at a premium of ten per cent.; the bonds called are kept alive in the sinking fund and the income derived from them is used to purchase additional bonds of the same issue; this will result in the extinction of the entire debt before maturity. There are very few similar bond issues and all of them are in eager demand.

Another feature requiring examination is the matter of terminal accommodations in the great traffic centers; if a road is dependent upon competitors for entrance into an important city it may be placed at a serious disadvantage when its lease has to be renewed; it has often happened that new and expensive terminals had to be provided away from the established business sections, necessitating longer hauls for merchants, who naturally would seek a rerouting of shipments so that their consignments might be handled with the maximum convenience. A road should have its own yards and depots or should share equitably in some co-operative system of terminals such as exist in Boston, Washington, St. Louis, Kansas City, etc.

Attention should be given to the personnel of the road's management; a road which is dominated by railroad builders as opposed to railroad manipulators should have the preference of investors, no matter how good intrinsically the latter road may be; there are today several conspicuous examples of splendid railroad properties which have come to grief through having been exploited in the interest of certain financial coteries—once majestic in financial strength and of great usefulness, their treasuries are today empty and their structure tottering.

The factors then to have in mind are, briefly:

PHYSICAL—with reference to the road's location, character of traffic, terminals, etc.

FINANCIAL—with reference to a proper and proportionate relationship between the interests of its owners, the stockholders, and its creditors, the bondholders, and to the stability of earnings, etc.

CONTROL—with reference to its management as a railroad proposition or as a financial plaything.

Brief consideration may now be given to several popular classes of railroad securities which are often brought to the notice of investors and which generally require expert knowledge in order to determine the adequacy of protection and the general desirability of the security.

Classes of Bonds

CONVERTIBLE BONDS are usually not bonds at all but simply debentures—or the "promise to pay" of the issuing corporation; they are essentially a business man's investment and not a proper channel for the investment of trust funds; they are simply a "call" upon the stock of the road at a given price and their quotations vary with the movements of the stock—it is a convenient method of financing and holds out the same possibility of profits enjoyed by the stockholders but with less risk.

DEBENTURES are also often used in financing the needs of a road; they are not mortgages but unually contain a provision that no subsequent mortagage can be created except by caring for the issue of debentures on even terms with the new mortgage debt. There are several popular issues of debentures which now rank among the higher grade bonds because they have been provided for under later general or refunding mortgages; among them may be mentioned the New York Central & H. R. debenture 4's of 1938 and the Chicago Milwaukee & St. Paul debenture 4's of 1925 and 1935.

TERMINAL BONDS are of as many grades as railroad bonds and should be always scrutinized with great care; the weakest of this class of bonds is upon a terminal proposition which is not owned or controlled by the roads using it, but simply occupies the position of a landlord towards the several roads which are its tenants; upon the expiration of their several tenancies the roads are free to go elsewhere and this privilege has been exercised in recent years in several instances, resulting in the bankruptcy of the terminal company.

Another form of terminal bond is that issued upon the credit of the road using it and which derives no revenue from leases to other roads. The other form and most usual one and by far the safest is the obligation of a terminal company guaranteed unconditionally by the companies using it; even in this class of bonds the character of the guaranteeing roads must be carefully considered; among the safest of these may be mentioned the Kansas City terminal, Washington terminal, St. Louis terminal, etc.

A word should be said about *guaranteed bonds;* the present situation with respect to the indorsement by the Denver & Rio Grande Railroad of the five per cent. first mortgage bonds of the Western Pacific Railway should indicate to investors the futility of depending upon the guarantee of even a strong railroad; if this guarantee were enforced it would simply add to the embarrassment of the D. & R. G. Railroad without adequate advantages to the Western Pacific Railway; this indorsement, however, may remain a millstone around the neck of the Denver road for years to come; it should be borne in mind that the guarantee of a road is simply its individual obligation and does not prejudice any of its mortgage obligations, whether issued before or after the guarantee is given; guarantees are often evaded through some technicality and it is a safe rule to accept no guaranteed bond unless it has individual intrinsic merit sufficient to pay its own way without assistance—this rule applies particularly to branch line bonds which have an independent corporate existence but whose earnings are merged with those of the parent company; it is often impossible to learn whether these branch lines are self-sustaining or not and in such circumstances they should be passed over no matter what guarantee may be behind them. The experience through which many branch line bondholders of the Missouri Pacific system are now passing presents a salutary warning to investors who are giving thought to the purchase of similar securities.

Collateral Trust Bonds. Many issues of this class make a strong appeal to investors and justly so, but care must be used to determine the adequacy of the collateral and the indenture should be examined to ascertain the powers of the trustee; it sometimes happens that the trustee is permitted to change the collateral from time to time; in others the trustee may be allowed to sell certain collateral and is clothed with a wide discretion as to application of proceeds; this provision naturally prejudices the security. It frequently happens that an important road acquires a valuable property which is in process of development and finds it more feasible to use its own high credit in financing the needs of the new property than to sell the mortgage bonds of the latter; it therefore deposits these bonds with a trustee and issues against them its own promise to pay; this security then is in effect a first mortgage bond on the new road with the added security of the parent company. If none of the bonds of the new road are in the hands of the public and all are deposited under the trust agreement, the trustee can easily enforce his lien in the event of default, but if only a portion of the bonds is deposited, the hands of the trustee may be tied by litigation of third parties, it is therefore desirable that all of a given issue of bonds be deposited with the trustee. Again the intrinsic value of the collateral should be determined and too much reliance must not be placed upon the credit of the parent company. Collateral trust bonds predicated upon stock collateral should not receive serious consideration at the hands of those who are investing the funds of the widow and orphan.

Equipment Bonds and Equipment Trusts

Equipment Bonds or Equipment Trusts occupy a unique position in railroad finance; the first class is the direct obligation of the issuing road secured by rolling stock, title to which is vested in a trustee and passes to the railroad only when final payment is made; the other class represents usually the obligation of a trustee which owns the rolling stock and leases it to a road in whose interest the equipment was purchased; this obligation is generally guaranteed unconditionally by the railroad; the security is practically identical in each case, the second form being used mainly for certain technical reasons in order to enjoy the freedom from taxation in Pennsylvania.

Equipment obligations were first issued in this country in 1873 and have enjoyed a practically unbroken record for safety of principal and income; they usually run for ten years and represent ninety per cent. of the first cost; the remainder is financed in twenty semi-annual payments covering principal and interest, and these semi-annual payments are regarded as hire for the use of the property; the equity behind the obligation increases with each payment and the later maturities are actually better secured than the earlier ones, because the average life of present-day equipment is reckoned at upwards of twenty years. When roads are in distress the courts almost invariably recognize the priority of the equipment trust liens and provide for their serial redemption as an operating charge similar to taxes and wages; this was forcibly demonstrated within the last year when the court authorized the receiver of the Chicago & Eastern Illinois Railroad to extend the road's equipments three years at an increased rate of interest and giving them at the same time a lien on the road itself prior to its first mortgage bonds. It is probably safe to assert that no equipment bond issued under proper legal safeguards has yet cost investors any loss; in several reorganizations first mortgage bonds have been scaled while equipments have been paid in full; this class of securities is not legal for New York savings banks, but does command the respect of the most prudent investor whose hands are free. When the legal details of an equipment issue receive expert attention and when an initial payment of at least ten per cent. of the cost is made in advance, the investor may feel pretty secure in buying equipment issues of any well-managed railroad; preference, however, should be shown to the strong dividend paying systems even upon a lower income basis.

Public Utilities

Bonds secured by mortgage on electric railways, gas companies and electric light and power corporations have been upon the market long enough to give investors ample grounds upon which to base an intelligent appraisal and there are many of these issues which may be bought today with as much confidence as is felt in any other field. During seasons of depression bonds of these several classes have shown greater stability of earnings than some of the best railroads; the reason is clear: the movements of merchandise and passengers over our railroads vary with the ups and downs of business and gross earnings reflect quickly and sharply any change in trade conditions; the use of gas and electricity varies also in the same circumstances and the receipts of the companies furnishing heat, light and power are lessened but not to any such extent as is shown in the railroads, for the reason that the same degree of economy cannot be practiced in the use of the daily household necessities, such as light and heat and in the use of the street cars, as can be practiced in the use of general commodities from which the railroads derive their revenue; in times of depression the roads suffer the loss of revenue from handling a greatly diminished quantity of coal, lumber, ore and other raw material used in manufacturing enterprises; likewise passenger traffic falls off in a marked degree.

The underlying issues of many public utilities are protected by earnings from three to ten times the interest requirements; however, the same principles of caution must govern in making a selection of these issues as is found necessary in choosing a municipal or railroad bond. A very important matter to consider is the franchise situation; generally speaking, the franchise should extend beyond the life of the bond; in some states no franchise can be secured beyond a certain term of years; for instance, the Ohio Legislature forbids the granting of any franchise for more than twenty-five years; in these cases the local political situation may help in reaching a conclusion; if the corporation is on good terms with the people it serves, if the stock ownership is held locally and the road has a good record of satisfactory earnings and service it is probably safe to take on its underlying first mortgage bonds if the company is reasonably capitalized and shows gross earnings of at least one-third of its total bonded debt.

The matter of operating expenses should have attention also and ought not to exceed sixty per cent. of gross earnings. A sinking fund feature should apply to bonds of this class as depreciation is rapid; in many instances such bonds always enjoy a ready market at high prices, not only for their intrinsic strength, but also because the sinking fund trustees are periodically in the market to buy bonds for redemption.

No consideration will be given to industrial securities as a class, although some are entitled to rank high in the favor of the most exacting investor; nor will the field of bank stocks be discussed.

Mortgage Loans

The first duty of a savings bank is to foster the interests of its own community when it can do so without sacrificing the fundamental factor of safety; this can be accomplished through a liberal attitude towards real estate loans; it should be said to the credit of the mutual savings banks that as a class they are living up to this requirement; New York banks especially deserve credit in this connection, many of them carrying as much as one-half of their total deposits in this class of investments.

Local conditions must determine the policy of a savings bank in respect to mortgage loans; in the larger cities where real estate is active and values firm, two-thirds of the appraised value may be safely loaned on business property although most banks adhere to a sixty per cent. basis; the responsibility of determining property values should be vested preferably in an expert and disinterested real estate agent and a physical inspection and detailed report should be made of every piece of property tendered for a loan; sometimes a bank's business is large enough to justify a real estate department manned by competent and experienced men but in most cases an appraisal made by an outsider is of greater value. In every instance the bank's representative should accompany the real estate appraiser in making an examination; the bank is thus able to "check up" general conditions with its appraiser and a conference is mutually helpful in reaching conclusions as to the acceptability of a loan.

Loans upon residence property should be made with great care and a wide margin of security demanded; fifty per cent. is perhaps a safe risk if the property is carefully watched as to its physical condition and general neighborhood conditions. Buildings erected for a special purpose such as churches, apartment houses, hotels, theaters, etc., should be treated upon their individual merits. It is not fair to exclude all such propositions since these enterprises are all helpful factors in community building. The value of the land should govern consideration of such applications; in large cities the site is often as valuable as the improvements and liberal loans may be safely made predicated upon the land values; on the other hand if the land is cheap and the improvements expensive intelligent care should be used.

The term of real estate loans is also a matter of some importance; business property is more stable than residence property and such loans may therefore be made for a longer period; five years is the usual limit of loans on business property and many such loans carry annual reduction features. Borrowers should be educated to provide a sinking fund to take care of their loans at maturity, at least in part.

Residence loans are generally made for periods ranging from one to three years. The trolley and the automobile have stimulated suburban development and in nearly every large city old residence sections have suffered seriously because of the exodus to the suburbs and to the country. Business encroachments are also making depredations in many places and correct valuation presents many difficulties. Loans made directly to home owners on a fair margin and with periodical reductions of principal are usually very safe and satisfactory; such borrowers are also good friends and good advertisers. The business of lending on mortgage security requires a knowledge of men as well as of property; experience will gradually unfold new principles upon which to base the granting of loans but an increasing vigilance must be exercised not only before making the loan, but every risk should be periodically re-examined so as to keep in touch with changing conditions.

The bank with which the writer is connected has practiced a liberal policy towards mortgage loans along the general lines just alluded to and has not suffered a loss on any loan made within the past twenty years.

In conclusion it may be well to again call attention to the futility of formulating rules which will apply except in a most general way to any particular class of security. The science of investment is intricate and perplexing; it requires diligent and studious application but its rewards are permanent and alluring, at least in the sense of furnishing equipment for the intelligent service of others.

INSTITUTE CHAPTERGRAMS

ALBANY

By Edmund W. Corrie

Our May meeting was devoted to cleaning up the year's work and electing officers for the ensuing year. The finance committee showed a gratifying balance in the treasury and the membership committee reported that the record was 115. It is hoped that the number will be increased during the year. The officers elected were: President, Mills TenEyck, Albany County Savings Bank; first vice-president, Alfred L. Taylor, National Savings Bank; second vice-president, Arthur Koch, Manufacturers National Bank of Troy; treasurer, J. Raymond Roos, National Commercial Bank, and secretary, Edmund W. Corrie, New York State National Bank. Board of Governors for one year, Edmund W. Corrie and John C. O'Byrne; for two years, Mr. Polk and Mr. Smith; for three years Mr. Sheary and Mr. Williams. Delegates elected: Messrs. Trowbridge, O'Byrne, Williams, TenEyck, Hotaling and Krause.

ATLANTA

By T. J. Miller

The classes in commercial law have completed the course, and, within the next few weeks, will take the final examinations. The attendance at these lectures throughout the year has been good. The boys have been quite interested in the work, and we hope to add several full fledged Institute men to our already growing number in Atlanta. With the completion of the law course, the annual election of officers, and our annual banquet, the Atlanta Chapter will bring to a close the year's work. Actual work will be suspended during the summer months. The Atlanta Chapter proposes to send quite a delegation to the convention. As a grand finale will come our annual banquet, the date of which will be announced later.

PITTSFIELD

By Le Roy P. Ogden

The Chapter has completed its fourth year. The law course has been conducted in an interesting manner by James M. Rosenthal. Classes have been held regularly every other Thursday evening since last October, and at least once a month a supper has been served in the Park Club after the class. The membership has fallen off sharply this year. Last season the membership was fifty. Since then one has joined and eighteen have resigned or have been dropped for non-payment of dues. Most of the Chapters have had the same experience at some time or other, as there is always a number who join at first to help the movement along and then drop out later on; however, it is better for the Chapter to have a small number who are really interested than to have a larger membership who simply pay dues. The Chapter needs loyal support from its members just as much as it needs the $4 a year per man to pay its expenses. Having classes every two weeks instead of once a week, we found it was not possible to finish both "Contracts" and "Negotiable Instruments" during one season. As it was deemed better policy by your officers to take up both in a thorough manner, a decision was made to simply study "Contracts" this year and start on "Negotiable Instruments" next fall.

BIRMINGHAM

By C. E. Holcomb

Birmingham Chapter has just concluded a very successful year's work, and on Thursday evening, May 25, held an examination on the course of "Banking and Finance." Our annual election was held on May 18, and the following were elected: C. P. Hilty, president; W. W. Crawford, Jr., vice-president; A. J. Williams, secretary; E. M. Brittain, treasurer. Executive Council: W. D. Robertson, C. P. Hilty (ex-officio), C. E. Holcomb, M. H. Sterne, W. B. Thornberry, J. G. Farley. Delegates to National Convention, A. I. B.: C. P. Hilty, C. E. Holcomb, Leo M. Karpeles, S. D. Camper. For the summer months we are planning to have several debates on current topics, and a committee composed of M. H. Sterne, C. P. Hilty and C. E. Holcomb was appointed to arrange the program.

BOSTON

By Thornton O. M. Fay

The annual meeting, which was held at the New American House on May 10, was the most noteworthy event to record for Boston Chapter in May. At this meeting the following officers were unanimously elected: President, Clarence A. Rathbone, Merchants National Bank; first vice-president, Raymond Merrill, New England Trust Company; second vice-president, Frank B. Young, Boston Safe Deposit and Trust Co.; secretary-treasurer, Charles W. Stevens, Old Colony Trust Company; directors, Russell C. Gibbs, Fourth-Atlantic National Bank; Christopher Haworth, First National Bank; Wm. S. Holdsworth, Metropolitan Trust Company; Leo Wm. Huegle, New England Trust Company; Herbert W. Toombs, Commonwealth Trust Company branch office.

At the Board of Governors meeting, held May 17, 1916, Myrton F. Beeler, of the Merchants National Bank, was elected chief counsel, and Frank C. Brady, of the United States Trust Company, was elected director to fill the vacancy caused by the resignation of Wm. T. Salter, of the Merchants National Bank, who has left the banking business and will be unable to devote the time required for the work of the A. I. B. The following chairmen of committees have been appointed: Advisory committee, George W. Grant, Old Colony Trust Company; trustees of educational fund, Thomas P. Beal, Jr., Second National Bank; educational committee, Raymond Merrill, New England Trust company; junior work committee, Frank B. Young, Boston Safe Deposit and Trust Co.; post-graduate committee, Harold A. Yeames, Webster & Atlas National Bank; membership committee, Edward B. Staples, First National Bank; meetings committee, George F. S. Bartlett, Boston Five Cent Savings Bank; Finance Committee, Earle P. Perkins, Federal Reserve Bank; employment committee, Olaf Olsen, First National Bank; public affairs committee, Edward G. Randolph, American Trust Company; legislative committee, George H. Cummings, Exchange Trust Company; Library Committee, Robert W. Coburn, Commonwealth Trust Company; publicity committee, Leo W. Huegle, New England Trust Company; Boston convention committee, Herbert E. Stone, Second National Bank.

At a recent competitive examination for the office of sergeant in the Business and Professional Men's Military Training School, one of our members, Livingston Davis, was successful. Eliot F. Larned, of the National Shawmut Bank, was appointed a corporal. Roy A. Corey, of the First National Bank, Malden, has been appointed treasurer of the Malden Morris Plan Company, to take effect June 1. Mr. Corey has been actively connected with the Chapter, his term as a director for three years having just ended. Frederick D. Potter, a charter member, has resigned as assistant secretary of the Cosmopolitan Trust Company and is now vice-president of the Lake Williams Ice Company of Marlboro, Mass.

BUFFALO

By Lawrence H. Geser

The annual Chapter dinner was held on the evening of May 6, with more than one hundred members present. D. A. Mullen, president of Pittsburgh Chapter, and Fay E.

Wright, president of Rochester Chapter, were guests in attendance. President Henry H. Hale, Jr., was toastmaster. Mr. Halm briefly reviewed the progress made by Buffalo Chapter during the past year, calling attention to the generous support given by the banking institutions of Buffalo and announced tentative plans for next year's educational work. Rabbi Louis J. Kopald spoke interestingly on "If I Were a Banker." Raymond B. Cox, vice-president of the Webster and Atlas National Bank of Boston, Mass., chose for his subject, "Trade Acceptances from the Banking Standpoint." Mr. Cox explained that the term trade acceptance is the name proposed for that form of bill of exchange rarely used in the United States, but popular in other countries in the settlement of merchandise sales. He went into detail in explaining the operation of the system and pointed out the advantages it would bring to bankers and business men. Mr. Cox stated: "To substitute the trade acceptance plan for the system now used in the United States would involve a considerable change in business and financial methods, but it is a change that would result in much stronger mercantile and bank credit for the United States. Business in the United States has expanded so rapidly that little thought has been given to the supporting structure or to the little things which have so accumulated that their bulk is now the principal element in business success. Whether or not a change to this method from the present one would place the banking of the country on a more scientific and at the same time safer, more liquid and serviceable basis, are considerations of particular interest to us."

At the annual meeting of Buffalo Chapter, held May 9, a resolution was unanimously adopted indorsing James Rattray of the Bank of Buffalo as the candidate of the Chapter at the Cincinnati convention for membership on the executive council of the Institute. For the past eight years Mr. Rattray has been actively associated with Buffalo Chapter and has served continuously on the executive committee for six years. He has held the office of president, vice-president and secretary, in which he served faithfully and well. The increased efficiency of the Chapter may be attributed largely to his administrative ability. He is an Institute graduate and for two seasons acted as instructor of the banking and finance class with such excellent results that he has again been chosen as next year's instructor. As leader of the Forum, he has given the Chapter the benefit of extensive study and research in the field of finance, and with this scholarly talent he should prove invaluable on the Executive Council. The following committee has been appointed to further Mr. Rattray's candidacy: Godfrey F. Berger, Jr., chairman; Gordon Cleversley, A. J. Duerr, A. L. Dutton, H. H. Halm, Jr., H. G. Hoffman and J. M. Kinney.

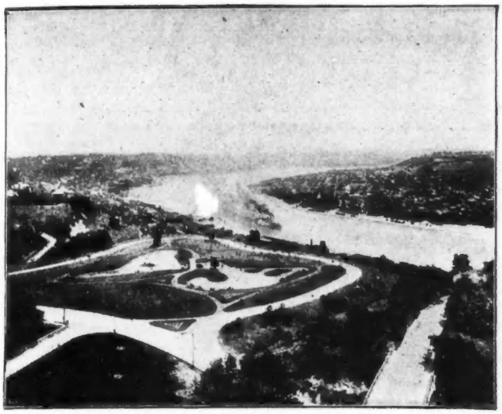
The annual election of officers was held on the evening of May 9 and the following were unanimously elected: President, Godfrey F. Berger, Jr., The Peoples Bank; vice-president, Gordon Cleversley, Marine National Bank; secretary, Louis W. Enslin, Manufacturers and Traders National Bank; treasurer, Aug. G. Haselbauer, Citizens Bank; executive committee: H. H. Halm, Jr., The Peoples Bank; Wm. B. Frye, City Trust Co.; A. W. Anderson, Erie County Savings Bank; Carl Wenger, Marine National Bank; and Lawrence H. Geser, Fred'k Robertson & Co., bankers, North Tonawanda, N. Y. In order to have sufficient funds to enable us to furnish our Chapter room, Wm. B. Frye, trust officer of the City Trust Co., volunteered his services as law instructor on condition that the appropriation for the instructor be used for furnishings. In recognition of the excellent work he has done for us, President Halm presented to Mr. Frye, at the last session of the law class, a token in the form of a very pretty masonic ring. About thirty tried the law examination on Saturday afternoon, May 20, and the results will be announced later. Buffalo Chapter will send the following members as delegates to the National convention at Cincinnati: James Rattray, Godfrey F. Berger, Jr., Gordon Cleversley and Lawrence H. Geser. We take great pride in announcing that Harry G. Hoffman, a former president and a very active member of the Chapter, has been made assistant cashier of the Black Rock Bank.

CHICAGO
By G. W. Cooke

The annual election of Chicago Chapter, held in the Northwestern University building May 23, resulted in the victory of Adolph Floreen over C. A. Edmonde in the contest for the presidency. Other officers elected, without competition, were James J. O'Connor, vice-president; W. F. Murphy, corresponding secretary; C. B. Petersen, financial secretary; F. H. Raddatz, treasurer; Norman Collins and Schuyler Johnson, directors for three-year term, and O. F. Meredith and G. W. Cooke directors for one year. Candidates for delegate to the Cincinnati convention numbered only about sixty per cent. of the total to which the local membership entitles the Chapter. Those elected will probably be augmented by the addition of many more who will go to Cincinnati. The fact that it is only a night's ride from Chicago to Cincinnati is likely to influence quite a number to make the trip. The delegates elected follow: John W. Gorby, Edward W. Jaeger, Hugo Bernahl, K. C. Borregard, L. F. Chapman, Chas. S. Elkinton, W. O. Fray, Ferdinand S. Hirsh, Geo. A. Jackson, G. L. Johnston, Fred S. Frizell, Arthur R. Schumacher, Guy Wickes Cooke, Emil A. Hannig, Daniel J. P. Jones, Everett B. Mann, Wm. H. Monroe, Philip P. Larson, R. H. Brunkhorst, G. Walter DeGrasse, Henry A. Engel, Wilbur K. Lyle, David Johnstone, Arthur A. Bernahl, Wm. J. Bruebach, Wm. M. Antonisen, Chas. J. Cody, Fred W. Roth, Ernest O. Jones, A. Danielsen. The Spanish class, inaugurated this year under Prof. Severino Ojea, was brought to a satisfactory conclusion at a special meeting held May 25. The three leading members of the class competed for a gold medal awarded by the Spanish consul at Chicago, the judges being the Consul of the Panama Republic and Dr. Gardiner, a noted Spanish scholar. Richard Wagner took first honors and the medal, though there was close competition, and the efforts of the men showed great possibilities of concentrated effort, as the class had been of less than two months' duration. A Spanish society has been formed within the Chapter with about thirty members, and present indications are that the language will become a permanent part of the Chapter curriculum.

CINCINNATI
By R. C. Smith

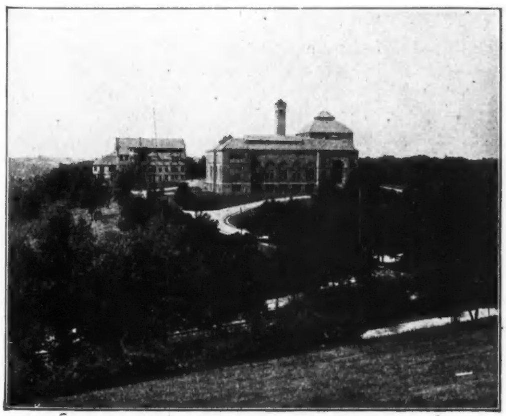
With the warm hospitality of the south, to which it is a natural gateway; combining all the facilities of a modern municipality with the charm of an old-world city, picturesque, progressive and interesting always; located at the very heart of the country's distribution of population; a terminal point for 200,000 miles of first-class railways, radiating in every direction; with ample hotels, meeting places and exhibit halls, Cincinnati approaches the ideal as a convention city. Within 600 miles of Cincinnati live nearly three-fourths of the people of the United States. As near as they can be estimated from 1910 census, there are 62,500,000 people living within the territory named, reaching roughly from New York on the east to Kansas City on the west, Canada on the north to the upper part of Florida on the south. Cincinnati is located only about 100 miles from the center of the population of the country and is within a night's ride of all the principal cities in the Central States and many southern and eastern cities. Within twenty hours are the Atlantic seaboard cities and the western prairies. Due to the fact that Cincinnati is this year entertaining 125 conventions, the majority of which are those of national business, commercial and social organizations, it is advisable that members of the American Institute of Banking send in their hotel reservations as soon as possible to Gus. G. Hampson, Chairman Hotel Committee, c/o Fifth-Third National Bank. It is important that the hotels be made aware of the number of delegates and visitors to the convention who will probably attend, in order that proper arrangements may be made for their reception and entertainment. Cincinnati has



VIEW OF OHIO RIVER FROM EDEN PARK

a great many places and things of interest to the visitor, including the world-famous zoological garden, with beautiful grounds and wonderful collection of wild animals; Coney Island, on the Ohio River, reached by steamer over a most picturesque route; Chester Park, with every amusement facility, and other amusement places. Cincinnati is a member of the National League, and big league ball is played at Redland field, a new $400,000 grand stand, one of the largest in the United States. In season there is racing at Latonia, across the river. There are the famous Rookwood pottery, the art museum and art academy; great system of public parks, playgrounds and the athletic field, totaling over 2,500 acres; Fort Thomas military reservation; symphony orchestra; many institutions of higher learning, music, etc.; a great public school system and many other places and things of interest to the visitor. Cincinnati is a metropolitan and cosmopolitan city, with an atmosphere full of color and charm, believes in hard work when work is on the program and in wholesome recreation when there is time to play; back of it all is a people whose hospitality has always been of the most open-hearted kind.

The entertainment committee is preparing elaborate plans for taking care of the A. I. B. this year and desires that everything shall move off smoothly. The number of delegates and visitors must, of course, be learned well in advance in order to properly care for everyone.



ART MUSEUM AND ART ACADEMY

A two-day trip to Mammoth Cave, Ky., is in contemplation immediately after the convention; so that delegates and visitors can reach their homes Monday following.

Business sessions will proceed with the greatest promptitude and economy of time, consistent with the production of new ideas and discussion of old ones. Entertainment features will be novel in character and well worth the while of every visitor. Cincinnati's banking people extend the heartiest welcome to all delegates and visitors and promise a royal good time and a productive business session.

The convention committees are as follows:

CONVENTION EXECUTIVE COMMITTEE—Louis C. George, chairman; H. A. Green, vice-chairman; Wm. Beiser, secretary; Wm. E. Strautmann, J. E. Sohn, R. C. Smith, H. J. Mergler, W. L. Thede, D. J. Lyons, C. W. Dupuis, Wm. Quinlan, Gus Hampson.

LADIES' AUXILIARY COMMITTEE—Madames D. J. Lyons, chairman; Chas. W. Dupuis, W. D. Duble, Harry Selmeier, H. A. Green, Louis C. George, R. C. Smith, J. E. Sohn, Jr., W. L. Thede, H. J. Mergler, A. Schreve, Mary Brewster, J. T. Ridgeway, Wm. Beiser.

TRANSPORTATION; AUTOS AND STREET CARS—W. E. Strautmann, Harry Benedict, Theo. Geisler, H. Selmaier, H. Nagel, H. Plogstedt.

LADIES' ENTERTAINMENT—Wm. Beiser, Denison Duble, A. Shreve, J. C. Minderman, Robert Hummel.

PROMPTNESS—INFORMATION—J. Ed. Sohn, Ben Keam, Ed. Linneman, F. H. Lange, Ray Poland.

HOTELS AND REGISTRATION—Gus Hampson, H. A. Green, J. C. Hogan, Geo. Goetz, J. Heimerdinger.

PUBLICITY AND PRINTING—R. C. Smith, J. T. Ridgeway, Max Rieker, C. E. Ford, J. P. H. Brewster.

ENTERTAINMENT—H. J. Mergler, Ed. Vosmer, Ed. Knauft, Arthur Schmidt, Erwin Steinkamp.

FINANCE—W. F. Thede, J. M. Fisher, Wm. B. Huesing, E. A. Sisson, Samuel McFarland.

RECEPTION—D. J. Lyons, H. J. Guckenberger, Geo. Shraffenberger, Jr., R. Berger, Gordon Haerr, W. Kolb.

ADVISORY COMMITTEE—C. W. Dupuis, Orin Littell, Monte J. Goble, Robt. McEvilley, F. Hertenstein, W. D. Duble, Chas. Deppe, E. Goepper, G. W. Williams, A. C. Shinkle, Wm. Quinlan.

DAYTON

By Jess Blackmore

The May meeting marked the close of the year for Dayton Chapter. All the activities for the year were rounded out in good time and the new administration enters the new year with a clean slate. The Educational Committee reported five graduates in the course in commercial law and negotiable instruments. This gives Dayton Chapter five Institute graduates, all of this year's graduates of the commercial law and negotiable instruments course having passed the examinations for the first course in banking. The officers for the following year are: A. C. Jackson, North Dayton Savings Bank, president; Franklin Rice, First Savings and Banking Company, treasurer; Lawrence Bucher, Dayton Savings and Trust Company, secretary. A. H. Callahan, Fourth National Bank; W. E. McGervey, East Dayton Savings and Banking Company, and Theodore Brinkmeyer, First Savings and Banking Company, were elected members of the Board of Governors, Mr. Callahan being elected for a second term. The graduates in the study course are Fred W. Hecht, Lawrence Bucher, Floyd Pansing, Fred Sellers and Jess Blackmore.

DENVER

By Marsden E. Weston

Denver Chapter has elected its officers for the coming year, and most of the delegates to the Cincinnati convention. The officers elected are as follows: President, A. E. Ferguson, First National Bank, Englewood; vice-president, H. M.

Jackson, German American Trust Co., Denver; treasurer, W. S. Larson, First National Bank of Denver; secretary, Giles F. Foley, Denver National Bank; financial secretary, J. F. Kenedy, First National Bank of Denver. Sever Daley of the Pioneer State Bank was elected executive councilman to the Colorado Bankers Association. The following members will represent the Chapter at the national convention in Cincinnati next September: George A. Brown, Sweet, Causey, Foster & Co.; Sever Daley, Pioneer State Bank; William O. Bird, Colorado National Bank; Roy Clarkson, First National Bank; A. E. Ferguson, First National Bank, Englewood. The convention committee, recently appointed to invite and work for the 1917 convention for Denver, was also authorized to elect two delegates to the Cincinnati convention and one of these will most likely be R. M. Crane, 305 Colorado Building, chairman of the convention committee. The entire delegation was instructed to do all in its power to bring the convention to Denver next year. As a climax to a very successful year, the Chapter is now making arrangements for the annual banquet which will be held early in June. The committee claim they have many surprises in store for the banqueters, and declare that the attendance will be the largest in the history of the chapter. Marsdon E. Weston has been appointed chairman of the local thrift campaign committee which was organized early in the spring, and active work which has been planned by the committee will begin at once. This will include organization of a school savings system, public speaking, the speakers being mostly A. I. B. and Y. M. C. A. men, bill-board advertising, motion pictures, etc. In this advertising campaign for thrift, the names of all banks will be entirely eliminated. The following extracts from the educational committee report by George A. Brown, chairman, indicate the extraordinary enthusiasm which prevailed during the year just closed in the educational activities of Denver Chapter:

"The educational committee, encouraged by the splendid report they had received from the officers of the First National Bank, as to the offering of a prize of $10 to the man in their employ who obtained the highest mark for the course, took up the matter of prizes with the officers of other banks, resulting in prizes for this year from the United States National Bank, the Colorado National Bank and the German American Trust Company. The United States National Bank gave $10, which was to be divided between three men in their institution who had completed the year's studies, resulting in William L. Hazlett receiving $5, E. E. Edwards, $3, and Philip L. White $2. At the Colorado National Bank the prize was divided as follows: L. F. Bartels, Jr., $5; Stanley A. Thornhill, $3; and Stanley M. Wright, $2. The German American Trust Company had a tie to contend with, F. W. Mueller and H. M. Jackson having run a "dead heat," each receiving a mark of ninety and each man received $4 prize money, while H. LaShell received $2. All of the above mentioned banks have stated that the prizes given this year stand good for next year and to this The Denver National Bank has added a prize of $10, making a total of five prizes totaling $50 for the men in next year's educational classes to work for."

The banking course has just been completed by the following: W. D. Seguin, A. L. Pendill, R. T. Stender, H. M. Jackson, H. LaShell, S. M. Wright, S. A. Thornhill, D. W. Peterson, F. J. Mueller, Wm. L. Hazlett, E. E. Edwards, P. L. White, F. R. Robinson, J. F. Kennedy, Hugh Hill, R. Clarkson, L. F. Bartels, C. W. Williams.

The highest mark of ninety-two was attained by J. F. Kennedy of the First National Bank, and the average mark of the entire class was eighty-seven plus.

DETROIT
By E. J. Flemming

The following officers were elected for the year 1916-17: Bernard Johnson, president; Ed. Goodwin, vice-president; E. J. Flemming, corresponding secretary; A. Kinney, recording secretary; J. Bosley, treasurer. Frank J. Maurice, the retiring president, gave a talk on the past year's Chapter work. The future meetings of the Chapter will be held in the rooms of the Detroit Board of Commerce.

HARTFORD
By V. I. Neilson

The annual meeting of Hartford Chapter was held on May 23, with a record attendance, due to the fact that it was the last event in the hottest campaign for election that has been held for many years, there being two men after each office. Mr. Lawson being unable to attend, Mr. Bolles, our vice-president, presided at the opening of the meeting. Two of our accomplished musicians rendered vocal and piano solos, C. A. Newton delighting his audience with some very fine singing and Herbert Hubbard with some of his own original piano playing, which was well received by the boys. The reports of the secretary and treasurer for the year showed that the Chapter has had a very successful year. A report that interested the members was that of our educational committee chairman, George F. Kane, who gave an outline of the work for the past year, the number of members enrolled in the law class being sixty-eight with an average attendance of thirty. The next business that was taken up was probably the most important matter that has been brought before the members of Hartford Chapter for many years. A. H. Newton, a member of a committee of five men who are all past presidents of the Chapter and men who have stood by the Institute for many years, reported that this committee, consisting of H. T. Holt, A. H. Newton, W. S. Sherwood, A. H. Cooley and A. D. Johnson, had drawn up a resolution announcing the candidacy of George F. Kane for membership on the Executive Council of the Institute.

Hartford Chapter at this time goes on record as unanimously endorsing the name of George F. Kane as candidate for membership on the Executive Council. Our new neighbor, New Haven Chapter, has extended an invitation to us to join them in an outing on June 17. We are looking forward to the excursion with pleasure. The following men were elected to serve the coming year: Calvin C. Bolles, president; Clarence T. Hubbard, vice-president; Victor I. Neilson, secretary; A. George Mackinnon, treasurer.

Wilbur F. Lawson and Dexter S. Phelps, Jr., were elected to the Board of Governors and Calvin C. Bolles was chosen delegate-at-large to the national convention.

JACKSONVILLE
By J. E. Stephenson

The annual meeting of Jacksonville Chapter was held in the banquet hall of the Chamber of Commerce on May 25. A. C. Martin, secretary-treasurer of the Chapter, submitted his annual report, evidencing a successful year for the Chapter. The president, J. A. Newsom, reviewed his administration and showed that the past year had been the most successful one in the Chapter's history from both an educational and a social standpoint. A new feature of the year's activities has been the monthly entertainments given by members representing the different local banks. These entertainments, in addition to being enjoyable affairs, have served to stimulate interest in the more serious features of the Chapter work and to keep up the membership. An election by ballot for officers to serve during the ensuing year was then held, with the following results: Charles B. Campbell, assistant cashier, Florida National Bank, president; J. C. Montgomery, of the Atlantic National Bank, first vice-president; E. D. Garrett, of the Heard National Bank, second vice-president; J. E. Stephenson, of the Atlantic National Bank, secretary-treasurer. J. A. Newsom, J. C. Montgomery, W. M. Girardeau and W. T. Coates were elected delegates to the Cincinnati convention from Jacksonville Chapter. The end of the study course in commercial law, which has been conducted under the able leadership of Judge G. A. Stephens, finds a number of students preparing with confidence to carry off honors in the approaching examination, and the Chapter expects to make the best showing in its history.

KANSAS CITY

By Theo. S. Cady

The most successful year in the history of the Kansas City Chapter came to a close with a banquet at the Coates House, Saturday evening, May 13. The attendance of 104 testifies to the great amount of interest that has been manifested throughout the year. To Harry B. Walker, our instructor for the past year, belongs a great deal of credit for the fine showing made in the law class. His efforts have been untiring and he holds the good will and gratitude of all the members of the Chapter and that feeling of friendship evidenced itself in the gift to Mr. Walker of a handsome stick pin. Twenty-nine students made satisfactory grades in the final examination in the law class, which is a new record for numbers in the local Chapter. Attendance has been good all the year, there being an average of fifty-five present each Tuesday evening in the law class. The graduate class has had no lack of interest and it is with regret that the members realize that the meetings for the season are over. Too much credit cannot be given the officers of this class for the splendid manner in which the programs for the different evenings have been arranged. It is no exaggeration to say that there has not been a single meeting during the year in which enthusiasm has not been at a high mark and all the members have shown a great interest in all subjects discussed. The attendance in this class has averaged about thirty-five for the year. President Cheney presided at the banquet and gave a short review of the past year, coupled with a rousing good talk on thrift. We had the pleasure of having as an honor guest H. J. Dreher, assistant cashier of the National City Bank, New York, who talked on economic conditions as they are at this time and pointed out the splendid opportunities that await the trained banker or other professional man. He spoke of the training which the course in law and banking gives to Chapter members.

Dr. Burris A. Jenkins, pastor of the Linwood Boulevard Christian Church, spoke on "Preparedness for Peace."

The election of officers for the year 1916-17 resulted as follows: President, L. M. Pence; vice-president, F. W. Wilson; secretary, J. B. McCarter; treasurer, Charles D. Hayward; executive committee, C. H. Cheney, Sam H. Hoefer and A. B. Eisenhower; educational committee, C. C. Jones, T. S. Burch, W. E. Estes, C. N. Prouty, C. W. Watson, C. W. Allendoerfer, J. D. Bjorkman, A. W. Kennedy, George Dillon and T. S. Cady; delegates to national convention, C. H. Cheney, F. W. Wilson, L. M. Pence and H. L. Larson; alternates, A. B. Eisenhower, G. J. Gillman, F. D. Sage and D. W. Martin.

Ten members of the Chapter have made satisfactory grades in both the law and banking courses and are to be awarded Institute certificates this year. They are James J. Swofford, Jr., R. J. Conway, A. C. Hedrick, D. McLeod, D. K. Snyder, C. H. Cheney, C. D. Hayward, Sam H. Hoefer, William Phares and Theodore S. Cady. Half the story would not be told if there was not added a word of praise for our retiring president, C. H. Cheney. No man could give more conscientious or loyal service to the work of the Chapter than he has during the past year and the successful termination of the year's activities and study speaks volumes for the energetic work that Mr. Cheney and his associates have done. Kansas City Chapter takes a great deal of pleasure in presenting the candidacy of Mr. Cheney to the Cincinnati convention as a member of the Executive Council.

LOS ANGELES

By A. C. Hoffmann

Our meeting of Friday, May 19, was the last under the old régime. President Thomson called the meeting to order and briefly reviewed past history. The untiring efforts of our officers in charge of affairs, the hearty co-operation of the Clearing House Association and the loyalty and sincerity of members all contributed to make the past year a successful one. The law course, which was the only educational effort attempted during the past year, proved entirely successful and 175 members took the examination, which was held several weeks ago under the auspices of the University of Southern California. The corrected papers were returned last Friday and 155 passed. This undoubtedly sets a new record in the Institute as far as numbers of successfully completing any one year's course are concerned, and the prospects are therefore excellent for a large number of students obtaining certificates next year. A review of the questions was also held. Mr. Tapaan announced that those passing the examination would be accepted by the University of Southern California as having completed this course of study, should they desire to continue in the law course of the university. The fact that practically all of the larger banks offered prizes to those of their employees attaining first, second and third place among their immediate associates taking the course made the examination all the more interesting. The highest individual percentage was ninety-six, while the class average mark was eighty-two. The nominating committee, composed of J. M. Stone of National Bank of California, C. E. Morey of Commercial National Bank and H. Russell Greaves of Home Savings Bank, announced their selection of officers to guide the affairs of the Chapter for the ensuing year as follows, all of whom were duly elected:

W. D. Otis of Security Trust & Savings Bank for president, to succeed W. H. Thomson; F. W. Healy of German American Trust and Savings Bank for vice-president, as successor to W. D. Otis; W. W. Stone of First National Bank for secretary, to succeed W. N. Bucklin, Jr., and F. C. Bold of Farmers and Merchants National Bank for treasurer, to succeed himself. Walter Bridwell was re-elected for service as a member of the Board of Governors, with J. C. Lipman and Paul C. Turman to serve in place of Walter A. Ellis and A. W. Frye, whose terms have expired. The members of the Board of Governors continuing to serve in that capacity are Leo S. Chandler, C. S. Tolley, Fred Healy, Geo. S. Pickrell, J. H. Ramboz and P. R. Williams. What amounts to practically one of the final acts of the old administration is the appointment of a board of consuls, similar in character to that of other large Chapters of the Institute. One member from each bank has been chosen for representation upon this board, whose duty it will be to do everything possible in their power to further the interests of the Institute in their respective banks and relieve Institute officials of all detail wherever possible. No time limit has been set for the term of service of each individual consul, and should any vacancies occur upon this board in the future it will be necessary for the bank losing such representation to appoint a new consul.

The thrift work is steadily progressing in Los Angeles, and in addition to the Advisory Thrift Committee, composed of fifty prominent citizens, as mentioned in a previous Chaptergram, a sub-committee has been appointed by the chairman of the Public Affairs Committee, known as the Speakers Committee, and they are arranging a series of talks at such a time and place as designated by those delivering the addresses. A number of prominent men of this city have accepted invitations to talk and a definite program will be announced shortly. An address was recently delivered before the Young Women's Christian Association by a member of the Thrift Committee upon the subject of "Financial Preparedness" and one before the Life Underwriters of Los Angeles, regarding "Thrift." The Y. W. C. A. is lending its co-operation to the thrift movement so far as possible and the Life Underwriters Association has passed a resolution indorsing the work, similar to that adopted by the Chamber of Commerce, the Clearing House Association and the Ad Club of this city. A number of thrift articles are appearing in the newspapers and magazines in this section and it is gratifying to note that the leading newspapers are co-operating to some extent in this movement. Many encouraging and favorable letters have been received regarding Mr. McWilliam's candidacy for the office of president of the Institute, and Los Angeles is in hopes of having the signal honor of bringing the presidency to the Pacific Coast for at least one year, which, undoubtedly, would do much to stimulate Institute work in this section of the country. Elaborate plans have been made for the annual banquet on May 25, which will wind up the Chapter's activities for the season of 1915-16. This will be covered in our next Chaptergram.

LOUISVILLE
By V. F. Kimbel

The annual election of officers of Louisville Chapter for the year 1916-17 was held May 17 and resulted in the selection of the following: H. Lee Earley, of the American-Southern National Bank, president; A. B. Frese, German Security Bank, vice-president; Richard L. Krauss, Fidelity and Columbia Trust Co., secretary, and John L. Pound, Fidelity and Columbia Trust Co., treasurer. The chairmen of the various committees are: Membership, Walter L. Borgerding; entertainment, Embry L. Myers; press, V. F. Kimbel, and finance, Stanley P. McGee. Joseph H. Mershon, Coleman S. Simpson and E. A. Converse, Jr., were elected to the executive committee. Our new president, H. Lee Earley, Stanley P. McGee of the Fidelity and Columbia Trust Company and Coleman S. Simpson of the National Bank of Kentucky will be the delegates to the convention at Cincinnati. Short talks by the incoming officers and several other members of the Chapter, followed by an hour of music and refreshments, completed the entertainment for the evening and closed the work of our Chapter for the year 1915-16. We regret to state that our Chapter lost one of its recent members by the death on May 27 of Joseph Kinkead Mershon. In the short time he was a member he had been a regular attendant at all our meetings and interested in the affairs of the Chapter. His father, Joseph H. Mershon, is one of our charter members and has always been an active man in all the affairs of Louisville Chapter during the years of its existence. The members of Louisville Chapter extend a cordial invitation to all delegates and visitors to the Cincinnati convention to stop in Louisville on their way to the convention city. Make your arrangements accordingly.

MACON
By G. C. McWhirter

The study class in law finished the course and took the examination on May 16. While the enrollment of the class was more than twenty men, fifteen of them persevered to the end and took the examination. Those finishing the course were Arthur Branan, H. P. Smith, R. J. Taylor, Jr., G. C. McWhirter, Guy Huthnance, W. G. Lasch, Allen Chappell, S. H. Buxton, J. F. Cargyle, P. E. Davis, W. H. Andrews, Jr., I. L. Rowlson, H. E. Mershon, R. F. Fincher and Maynard B. Smith. The annual election of officers will be held on May 25, and shortly afterward a small banquet and social occasion will be given, to mark the season's close and to allow those who have been faithful through the year to relate their final experiences and to enjoy another occasion together before the summer vacation.

Thrift Week was conducted here during the week of May 7 to 14, and quite a nice bit of publicity was given along thrift lines. Newspaper displays were frequently made and several talks and addresses were given before the schools of the city and elsewhere, and the week closed with a free presentation of the special motion picture, "Reward of Thrift" shown at one of the local playhouses.

MILWAUKEE
By H. G. Zahn

The present Chapter year is rapidly drawing to a close. The class in commercial law under Professor Fox has finished its work for the season, and the class in public speaking, under Professor Zavadil, an innovation in Chapter work, also came to a successful close. On the evening of April 28 Milwaukee Chapter listened to an address by ex-Governor Francis E. McGovern, who spoke on "Rural Credits" with special reference to the development of northern Wisconsin. His talk was exceedingly interesting as well as instructive. We regret exceedingly that after the Milwaukee debating team had spent considerable time in preparing arguments for the Chicago and Milwaukee debate, the Chicago team requested a postponement until late in the fall. On April 28 the annual election of the officers of the Milwaukee Chapter was held. A. J. Salentine was honored with a unanimous re-election. Other officers elected were: Vice-president, F. T. Nicolai; secretary, Joseph F. Miesbauer; treasurer, George D. Luscher; librarian, William Hencke. Directors for two years are August Kath and H. G. Zahn.

MINNEAPOLIS
By Carrol H. Rose

The annual banquet of Minneapolis Chapter was held at the West Hotel on May 16, with an attendance of nearly 350, among whom were a great many bank officers and directors. The excellent program and highly satisfactory menu testify to the care with which the committee worked to make this affair the great success it was. President J. C. Thomson presided and took the opportunity to explain to the associate members what the Chapter had accomplished during the year and to thank them for their support. Mr. Thomson mentioned the large increase in membership, the extension of the industrial work, the organization of a school for training of junior bank men in the rudiments of banking, the publishing of a Chapter paper and the development of men capable of speaking on banking subjects to help in extending to the people of the country a more general knowledge of the manifold uses of a bank. He recommended that the Chapter take a more active interest in public speaking classes and organize a debating team during the next year. John J. Arnold, vice-president of the First National Bank of Chicago, was the principal speaker of the evening, and his views on "National Preparedness" were listened to with a great deal of interest. Mr. Arnold is a firm believer in the development of manhood through universal military training.

John T. Baxter, president of the Northwestern National Life Insurance Company followed Mr. Arnold with a humorous talk on "What I Don't Know About Banking." He suggested that the Comptroller of the Currency was more competent to talk on the subject than he. Rev. W. P. Remington, rector of St. Paul's Church, spoke on "American Ideals." He believes Americans should do more real thinking. He said this country needs more good men and women, not more laws.

The annual election which preceded the banquet resulted in the following officers being chosen for the coming year: A. V. Smith, First and Security National Bank, president; J. W. Groves, Minnesota Loan and Trust Company, vice-president; Eban Johnson, First and Security National Bank, recording secretary; A. D. Hagg, Farmers and Mechanics Savings Bank, corresponding secretary; R. E. Blair, Northwestern National Bank, treasurer; James Murphy, First and Security National Bank, and J. C. Thomson, Northwestern National Bank, members of the executive committee, and the following delegates to the national convention: A. G. Bloomquist, C. B. Brombach, Ralph Chapman, S. J. Fitzsimmons, J. W. Groves, Howard Hall, H. Landquist, Trygve Oas, Elmer Olson, Lawrence Olson, H. Lee Post, Carrol H. Rose, A. V. Smith, J. C. Smith, J. C. Thomson, Robert Towle and Geo. P. Witt. The results of the election were announced at the banquet, and judging from the ovation given A. V. Smith, when his name was announced as the new president, he will have the loyal support of the whole Chapter during his administration. In the past he has always given liberally of his time and worked hard for the success of the Chapter and we are sure he will live up to the standard set by past presidents. Interest in the convention is very keen among the delegates chosen and they are already making plans for the trip. Minneapolis Chapter is sure of having a large delegation at Cincinnati. The classes have all come to a close and few were absent from the final examinations. The educational work has been very gratifying and, although returns from the examinations have not yet been received, we are sure a number will qualify for the Institute certificate. Our president, J. C. Thomson, has been appointed by the board of education on a permanent advisory committee made up entirely of business men to revise the courses of study in Minneapolis high schools with a view of having them more nearly meet the needs of the business men. The committee has already visited all the high schools and suggested changes in the commercial courses which will no doubt be adopted.

NEW ORLEANS
By Norbert B. Hinckley

On the evening of April 19 L. O. Armstrong, of the Bureau of Commercial Economics, Washington, gave an illustrated lecture on "Half Way Around the World Through Canada." More than half of our membership attended, besides a large number of their friends, and proved quite successful both from a social and an educational standpoint. The American record for listing 100 checks was broken by L. F. Pecot of the Bank of Orleans, on the evening of May 12, at our annual adding machine contest, the time being 1 minute and 21 seconds. This being the second year he has lead the contest he was also awarded the Burroughs Adding Machine Company cup. The checks used were of various amounts, no two figures alike and were composed of from four to seven figures. The 1915-16 session came to a splendid conclusion on May 13 with our annual banquet, the success of which was due to the efforts of I. L. Bourgeois, chairman banquet committee, when more than 200 of our membership were in attendance, and at the same time opened the activities of the year 1916-17 with the installation of the newly elected officers, as follows: Felix J. Lloveras, City Bank and Trust Company, president; Norbert B. Hinckley, Hibernia Bank & Trust Company, vice-president; H. B. Turcan, Canal Bank & Trust Company, recording secretary; R. Wm. Brady, Hibernia Bank & Trust Company, corresponding secretary, and C. McKinney, New Orleans National Bank, treasurer. Board of Governors: Joseph E. Douglas, Whitney Central National Bank; E. F. Le Breton, Canal Bank & Trust Company; C. M. Pasquier, Jr., Metropolitan Bank, and J. H. Peterson, New Orleans Clearing House Association. The newly elected officers have already started their plans for the ensuing year and will shortly announce the appointments for the various committees.

NEW YORK
By Harold S. Schultz

The fifteenth fiscal year of New York Chapter's activity ended officially on May 11 with the annual meeting held at the Chapter rooms. Reports were rendered by the officers and chairmen of committees, and the members present were favored by an address on "Preparedness" by Major Hutchinson of the National Guard. Perhaps the most interesting items from the standpoint of the Institute at large were covered by the report of the educational committee, which included reports from members in each of the classes. Taken as a whole, considering the additional cost to members and the smallness of our quarters, the co-operative method of conducting the courses, which was practically a new idea with us this year, has proven a marked success, both from the standpoint of scholarship and from the standpoint of service to the banking community of our city. That we have been able with very little outside assistance to complete our year satisfactorily is a source of much gratification to all who have been and are interested in the development of our work. Our alliance with Columbia University has brought not only the need for systematic arrangement of work, but has also shown many possibilities in the field of future endeavor. The weekly attendance, including with the regular classes, the forums, post-graduate course and open meetings, has been from 600 to 800 men, a little more than one-third of our total membership. Of these about 500 were new men this year. These facts clearly show that the demand for a practical and thorough course of training for banking men is increasing at a most rapid rate.

Hartford Chapter defeated us in our annual debate with them on Saturday evening, May 6. The subject this year was "Resolved, that an immediate repeal of the LaFollette Seamen's Act would be for the best interests of this nation." Teams were made up as follows:

Hartford, Affirmative—H. T. Nearing, State Bank & Trust Co.; C. C. Bolles, State Bank and Trust Co.; A. G. Mackinnon, First National Bank; E. C. Young, Connecticut River Banking Co. (alternate).

New York, Negative—A. F. Johnson, Irving National Bank; R. W. Saunders, National Bank of Commerce; H. S. Schultz, secretary, New York Chapter.

The judges were Messrs. Louis F. Dodd, lawyer; C. A. Greene, professor of history at the Brooklyn Polytechnic Institute, and H. J. Dreher, assistant cashier National City Bank, formerly president of tne A. I. B. The decision was unanimous.

His many friends in the Institute will regret to hear that Henry M. Baldwin for many years with the Title Guarantee & Trust Co. of this city, formerly treasurer of the Chapter and a member of our Board of Governors, passed away suddenly on Monday, May 22. Mr. Baldwin was forty-two years old and probably one of the best known Institute men in the United States. During his membership in the Institute he attended most of the conventions which have been held, and was a familiar figure at Chapter banquets, and, in fact, wherever Chapter men were wont to congregate.

The "Cannon Prize" of $25 was this year won by Rudolph J. Welti of the Bank of America for his excellent paper on "The Probable Effect of the European War on the Foreign Trade of the United States." We take pleasure at this time in announcing as the result of recent elections our officers for the coming year, and our new governors: President, Joseph A. Seaborg, Bankers Trust Company; first vice-president, B. P. Gooden, New Netherland Bank; second vice-president, Burnett S. Miller, Chemical National Bank; treasurer, Louis H. Ohlrogge, National Park Bank; librarian, Charles M. Mead, Bowery Savings Bank; chief consul, Frank M. Totten, Farmers Loan & Trust Co. Governors (term expiring 1919): Louis Auperin, assistant manager, Bronx Branch, Corn Exchange Bank; F. D. Bartow, vice-president First National Bank; John Roeder, National Park Bank; Wellington E. Bull, Swartwout & Appenzellar; G. A. Kinney, Hamilton Trust Company, Brooklyn, New York; H. R. Kinsey, assistant cashier, Williamsburgh Savings Bank; Wm. E. Knox, comptroller Bowery Savings Bank; W. H. Radcliffe, Westchester Trust Co., Yonkers, N. Y.; J. M. Squier, Guaranty Trust Company; H. L. Tompkins, State Banking Department; term expiring 1917, P. B. Menagh, National Newark Banking Co., Newark, N. J.

OMAHA
By William Phillips

The Omaha Chapter held its wind-up meeting for the season April 30. The year's work was reviewed with satisfaction, an interesting feature of which was the commercial law class, conducted by Harry O. Palmer, a young Omaha attorney. Interest in the course was unflagging throughout the season and the knowledge gained should prove highly beneficial to all who attended the lectures. Several short talks were given by the members, conspicuous among which was an address by G. H. Yates, assistant cashier of the United States National Bank, as to the advantages the Chapter work held out for young men and its value in equipping them to take hold of the great opportunities which the future of American banking assuredly holds out to properly trained men. The election of office bearers for the ensuing year was held, popular choice falling upon the following: President, W. D. Dressler, The Stock Yards National Bank; vice-president, J. A. Changstrom, Omaha National Bank; secretary, W. Phillips, The Corn Exchange National Bank, and treasurer, N. L. Sjolin, United States National Bank. Mr. Dressler, on accepting the office of president, spoke of the opportunities we have here for a big live Chapter and called on the members to support him in making the coming year the greatest in our history. At the close of the meeting a vote of thanks was accorded our late president, Mr. Williams of the United States National Bank, who retires after two years of valuable service to our Chapter in that position. Mr. Williams goes, *ex-officio*, as our delegate to the national convention at Cincinnati, Ohio, which meets in the fall.

PHILADELPHIA

By David Craig

Final examinations in the study classes have been held. Seventy-five men passed in the commercial law class and forty-four men in the negotiable instruments class. Nineteen of this number have received sufficient credits to entitle them to Institute certificates. Three other members of the Chapter have been awarded certificates during the winter by the educational director, and the total number of certificate holders is now 149. On Saturday evening, April 29, the educational classes held their annual dinner, at which time the Board of Governors entertained the winning team in the membership contest. During the past year 347 new members have been added to the Chapter roll. Captain A. Reed Engel's team led in the contest with 105 new members. The team captained by Elmer Schall was seconded with 102 members, while the teams of H. H. H. Cowley and E. Wallace Miller were tie with a score of 70. The Chapter membership is now over 1,300. On May 18, at the convention of the Philadelphia Bankers Association, held in Philadelphia, a debating team from Philadelphia Chapter debated a team of Pittsburgh Chapter men on the following question: "Resolved, that the closing of accounts on terms exceeding thirty days by an acceptance is an improvement over the present method of merchandise extension." Philadelphia Chapter was represented by Paul B. Detweiler and Stephen G. Duncan, with W. W. Allen, Jr., as alternate. The Pittsburgh debators were John A. Price and George Rankin, Jr., with Albert T. Eyeler as alternate. This discussion created much interest and proved to be one of the most attractive sessions of the convention. Both sides handled the subject very well. Philadelphia upheld the affirmative, while Pittsburgh opposed and the decision of the judges favored the latter.

The Board of Governors met for reorganization May 23, when the following officers were elected: President, Norman T. Hayes, Philadelphia National Bank; vice-president, Anthony G. Felix, Peoples Bank; secretary, William A. McCamy, Fourth Street National Bank; treasurer, Howard E. Deily, Tradesmen National Bank; assistant secretary, Paul D. Cressman, Franklin National Bank.

Philadelphia Chapter takes pleasure in announcing as its candidate for the Executive Council of the American Institute of Banking, William A. Nickert, whose record as an executive and long and faithful devotion to both Chapter and National Institute affairs qualify him for broader service. Attracted by the educational advantages provided, Mr. Nickert became a member of the Chapter in 1909, and two years later was granted an Institute certificate. Elected to the Board of Governors in 1912, his judgment and ability were at once recognized, resulting in his election to the presidency of the Chapter, to which office he was re-elected. He has served on all the important committees of the Chapter, acting as chairman of the educational, post-graduate and speakers committees. His most important contribution to the progress of Philadelphia Chapter was the organization of the board of consuls, which stimulated new interest in educational work and resulted in a marked increase in membership.

Throughout the Institute Mr. Nickert is probably best known by his activity in organizing and successfully conducting the president's conference, a most valuable feature of the convention program. At the present time he is vice-chairman of the National Thrift Committee of the Institute. In Mr. Nickert Philadelphia Chapter presents for consideration at the Cincinnati convention a candidate whose knowledge of and experience in Chapter and Institute work have especially fitted him for service as a member of the Executive Council, and in an effort to elect him we ask the support of all Chapters.

On behalf of Philadelphia Chapter: William S. Evans, Frank C. Eves, Anthony G. Felix, Carl W. Fenninger, Harry J. Haas, Norman T. Hayes, Eugene J. Morris.

PROVIDENCE

By Harry C. Owen

Providence Chapter held its last meeting of the season and its annual election of officers on Wednesday evening, May 23, at the Noonday Club. The election resulted in the re-election of all of last year's officers, a recognition, well deserved, of their creditable work of the past year. The new slate for the season 1916-17 is as follows: J. Harry Marshall, president, R. I. Hospital Trust Company; Walter F. Farrell, vice-president, Union Trust Company; George H. Berry, treasurer, Mechanics National Bank; Milton W. Pooler, secretary, Merchants National Bank. Executive committee: William A. Readio, Mechanics National Bank; Richard C. Shaw, Industrial Trust Company; Nathan Chase, Metacomet National Bank, Fall River, Mass.; Horace Greene, Slater Trust Company, Pawtucket, R. I.; Louis R. Holmes, Union Trust Company; James H. Andrews, Blackstone Canal National Bank. Delegates to 1916 convention: J. Harry Marshall, Walter F. Farrell, George H. Berry, J. Edgar Nickerson, Nathan Chase, William A. Readio, Richard C. Shaw, Louis R. Holmes, W. Howard Perry.

President Marshall spoke briefly of the Chapter's activities and accomplishments during the past year and of his hopes and ambitions for the future. Among other things, he suggested a class in public speaking in order that the Chapter might be in a position to provide capable speakers, if called upon, for thrift lectures and kindred subjects. Mr. Berry reported that after liberal expenditures during the year, for educational purposes, the treasury still showed a respectable balance on hand, and Mr. Pooler reported a net gain in membership for the year of eleven, making a total membership of 200. Mr. Elder presented the report for the educational committee, stating that seven more members had acquired the coveted Institute certificates and passed into the graduate class, and eleven others had received credit for having passed the Institute course in commercial law. The seven new graduates are: A. Raymond Snow, Union Trust Company; Jesse P. Hathaway, Union Trust Company; Joseph A. Fallows, R. I. Hospital Trust Co.; John E. Farrell, Blackstone Canal National Bank; John A. Anderson, R. I. Hospital Trust Co.; Shirley Harrington, High Street Bank; William A. Soban, Union Trust Company. Aside from the Institute study courses the Chapter provided a more advanced course for the older members, called business economics, in which there was an enrollment of forty-four members. This latter course was under the able leadership of Fred B. Wilcox, of the firm of Bodell & Company, investment bankers, who made the lectures so interesting and instructive that the attendance increased at each meeting. Mr. Elder presented a resolution, which was enthusiastically adopted, that Providence Chapter of American Institute of Banking go on record as being unanimously in favor of preparedness. A committee was appointed to make the necessary arrangements for the Chapter to march in a body in the preparedness parade to be held on June 3. The speaker of the evening was Joseph J. Bodell, senior member of the firm of Bodell & Company, and his subject was, "Requirements of Investment Bankers in the Financing of Public Utilities."

SACRAMENTO

By Harlan Fowler

The month of June will be a busy month for the banking and law classes, as the final examinations are to be taken. The Forum will also close the season by presenting a special program to which the members of the law class and officers of the local banks are invited. At this session the members of the Forum hope to bring out the importance of their work by showing that the first real step towards a higher attainment of banking knowledge is presented in the Forum, that in order to enter this section a thorough understanding of commercial law and banking is a requisite. As a result of the election held May 10 the following were elected: J. E. Seaton, president; S. Shaw, vice-president; L. H. Street, secretary-treasurer; G. Woodall, J. C. Wilson and E. N. Littlefield, Board of Governors; A. C. Smith and L. E. Kenny, delegates. Loyld Landsborough, formerly a teller in the Peoples Savings Bank and a member of the Forum, has accepted a position as cashier in the Bank of Alaska, Skagway, Alaska. Mr. Landsborough's interest in the work of the Chapter was very creditable, especially in the study classes, and we are sure he will fill his position admirably. Although it was never previously mentioned, the members have expressed interest in the work of furthering the cause of preparedness which is sweeping the country. A machine-gun company, which was formed about two months ago, has been drilling regularly. Recently examinations in military rules were taken. A. E. Spillman, who took part in this work, has secured permission through Congressman Curry to enter the military school at Annapolis, Md. Russell House of the California National Bank, and who was head bookkeeper of that institution, has been appointed to take charge of the bond department which was recently added as one of the many facilities offered by the bank. Mr. House will take a three months' course in one of the large bonding houses in San Francisco so as to better inform his customers of the advantages of investments in bonds.

ST. LOUIS

By Arthur W. Haill

The annual election of officers was held on May 9, and to the gratification of the members, Charles A. Schacht of the Franklin Bank was unanimously re-elected to the presidency. Mr. Schacht has been untiring in his efforts to push our Chapter to the front, and with such marked success that his re-election was assured as soon as his nomination was announced. John V. Keely, who proved himself such a capable lieutenant to Mr. Schacht, is again our vice-president; Frank Hall remains as treasurer, while the office of secretary, which is now separate from the treasurership, is represented by A. C. Riedell. The Board of Governors retains Messrs. L. C. Bryan, C. W. Wright and A. W Haill, of the old board, and has added some promising material in C. M. Walters, C. H. Lakebrink, A. W. Rieter and H. H. Reinhard; all newly elected. Last month a new and greatly improved set of by-laws was adopted by our Chapter. We have hopes that they will help to considerably broaden the scope of our work. They empower us to elect (and we have already elected) chairmen of ten different committees who will handle all Chapter activities, thereby doubling the membership and increasing the efficiency of the administrative department, lightening the duties of the president and Board of Governors, creating more interest and enthusiasm in our active members and finally will tend to increase that feeling of good fellowship and companionship that our organization should foster.

The chief item of interest this month was the sixteenth annual banquet and installation of officers for 1916-17. About 140 of the most enthusiastic members, past and present, congregated on the evening of May 17 at the new and palatial home of the Missouri Athletic Association. It was not the good things to eat that made this meeting an enjoyable one, they are too easily forgotten; our real pleasure was derived from the speaking, and when the Hon. John J. Gundlach sat down after delivering his address on "Discounts in Community Life" everyone was convinced there are things other than commercial enterprise that go to make our great cities what they ought to be. He painted a picture of the city beautiful and useful that created thoughts which otherwise might never have come to us, and we thank him for them. From Judge O'Neill Ryan we received some inspiring words for the ambitious. They were words that should live long in the minds of his hearers. He painted another kind of picture, one showing the possibilities of the future, outlining the vast benefits held out to the energetic and persevering young men of today, his frank and sincere manner carrying his words home to everyone, leaving us feeling as young and determined. National preparedness and military training of young business men were vividly placed before us by J. Temple Graves, of the *New York American*. Our Chapter has taken up this new idea, endeavoring to develop it, and Mr. Graves' remarks on this subject will surely help to produce in us a more earnest desire to further so important and necessary a project. Wm. McC. Martin, Federal reserve agent for the St. Louis district, one of our oldest Chapter members, conducted the installation of the new officers, after a few appropriate introductory remarks.

ST. PAUL

By A. E. Turnquist

The sixth dinner meeting of the year and the election of officers for the ensuing year was held at the Emporium Tea Rooms May 15. We had with us a former member of our Chapter, now cashier of the Drovers State Bank, South St. Paul, who gave us a talk on the subject "Cattle Loans." His talk proved very interesting and instructive as well. The result of the election of officers for the year 1916-17 is as follows: President, N. P. Delander, Merchants National Bank; vice-president, C. A. Maley, American National Bank; secretary, A. T. Stolpestad, N. W. Trust Co.; treasurer, H. E. Kern. First National Bank. Board of Governors: R. Whilhelmi, Merchants National Bank; Keith Vars, First National Bank; A R. Larson, Merchants National Bank. Delegates to the Cincinnati convention: W. H. Schulze, First National Bank; C. A. Maley, American National Bank; Otto Wolff, Merchants National Bank.

SAN FRANCISCO

By W. F. Gabriel

Although the past month has been the last of the old administration, Chapter activities have not lessened, but rather continued, completing a very full year. Only those that have been in close touch with Institute affairs can realize the great amount of time and work given by our presiding officer, who, with highest ambitions for Chapter development and with untiring efforts, he has achieved a most remarkable year. It will be interesting to read a part of his annual report: "The past year has been an eventful one for the San Francisco Chapter. It was the year of the exposition, of the most successful of Institute conventions, a year of great study and development. It has been a year of reaching out for foreign trade, a year of vast increase in our commerce. San Francisco Chapter has been alive to its opportunities and has made corresponding progress. It is a pleasure to note the substantial gain in membership during the year, a net increase of 110. San Francisco Chapter is now seventh largest in the United States. The attendance at the banking and law classes has been especially gratifying, the enrollment being nearly twice as large as in former years. It is expected that at least thirty will be awarded Institute certificates upon successfully passing the final examinations during this month and June. We are indebted to John Clausen for inaugurating a Spanish class, the success of which has been most remarkable. With only seven months of study the members of this class are able to understand ordinary conversation in that tongue. Informal Spanish dinners held from time to time have added to the enjoyment of the study. The classes in public speaking and accounting, although not so large in number, have proven quite successful. As the list of graduates grows, the post graduate work conducted by the Forum becomes more and more important. Debates, practical talks by members and discussions of modern banking problems are of noticeable value to the members. It is suggested that a business men's section be added to the Forum, as it is felt that the interchange of ideas between banks and business houses would be of mutual advantage. Discussion of insurance, transportation, manufacturing, importing and exporting, foreign trade, salesmanship, advertising and other subjects would broaden the scope of Institute work. It is also urged that a series of visits be made to our different industrial plants, so that we may all be familiar with local conditions and developments. Preparatory to entertaining the thirteenth annual convention, San Francisco Chapter had accumulated a fund of $3,257.49, to which was added the generous subscription of $3,000 from the Clearing House Association and $1,000 from the Associated Savings Banks of San Francisco, bringing the total to $7,257.49. The cost of entertaining the convention was $5,196.22, leaving a cash balance of $2,061.27. After consultation with the advisory council and other bank officers in San Francisco it was decided to set apart from the surplus the sum of $2,000 as the nucleus of a permanent endowment fund under the joint control of the San Francisco Clearing House Committee and the San Francisco Chapter, American Institute of Banking. The interest on this fund is to be used for educational expenses of the Chapter. It is hoped that the endowment fund will be materially increased each year. A special library fund of $1,000 has been raised among our own members. The Chapter rooms have been altered and modern shelves installed to accommodate the library. At the present time a committee of bank officers is selecting books for purchase. Support was readily given to the thrift campaign in San Francisco. The talks given before the public schools, Heald's Business College and the Young Men's Christian Association have been well attended and evince a growing public interest in the work. We are on the threshold of an era of largely extended banking connections."

At our annual election held May 10 the following officers, members of the Board of Governors and delegates to the Cincinnati convention were elected: President, John Clausen, Crocker National Bank; vice-president, Victor Klinker, Anglo & London Paris National Bank; secretary-treasurer, W. F. Gabriel, Wells Fargo Nevada National Bank. Governors: W. Graf, Anglo California Trust Co.; L. H. Hansen, German Savings & Loan Society; L. K. Heiser, Bank of California, N. A.; W. D. Lux, Crocker National Bank; H. J. Moore, First National Bank; W. O. Patch, Donohoe Kelly Banking Co. Delegates: H. E. Miller, Crocker National Bank; R. Tierney, American National Bank; alternates: W. A. Marcus, Savings Union Bank & Trust Co.; Victor Klinker, Anglo & London Paris National Bank.

We are proud to report as above, the name of John Clausen, foreign exchange manager of the Crocker National Bank, as our new president. His ability in his chosen work has made him a universally recognized authority on the foreign situation. As a member of the Central American committee, appointed by the Pan-American Financial Congress, Mr. Clausen has just returned from a three months' visit to the Central American republics. Under his guidance we are confident that San Francisco Chapter will record another record-breaking year. Our class in banking and finance will be completed this month. The final examinations are to be held May 27. Two thrift talks were given at the Y. M. C. A. during the month on the following topics: May 4, "United States as a World Banker," by John Clausen; May 11, "Preparedness—An Argument for Thrift," by Dr. A. H. Giannini. A large gathering of members enjoyed the annual show and informal dance given at the Scottish Rite Auditorium, on the evening of May 17.

SYRACUSE

By Robert B. Porter

Syracuse Chapter closed with a banquet four successful years of Chapter work. The past year nas not been lacking in interest and enthusiasm. The course in banking law was taken and resulted in ten men trying the examination, which occurred May 9. Through Professor Roman of Syracuse University, the Forum class has very successfully studied to the Federal reserve act. In addition, we have had the pleasure of listening to several noted speakers upon the subjects of agricultural credits, taxation and ancient moneys. These lectures have been of the highest class and given by men who were recognized authorities.

WASHINGTON

By John A. Petty

Washington Chapter practically closed its year's activities on Thursday night, May 18. On that night we held our final meeting and smoker. The retiring administration gave account of its stewardship and turned over the gavel as well as a substantial cash balance to the newly elected officers. In reviewing the past year's work, we are proud of the educational results accomplished. While we enjoyed the various social and entertaining meetings held and recall them with pleasure, we feel a more lasting pride in our educational achievements. There will probably be twenty-five more names on our graduate roll after the law examinations, and in addition to this we carried the post-graduate work throughout the entire year. Most creditable individual work was developed in this course, which was conducted in forum style. This was our first attempt along these lines and the attendance and enthusiasm which persisted the entire season indicates that the Forum has come to stay. We in Washington are more fortunate than our sister Chapters, in that we have a host of men in official life here to call upon for aid and direction in our work. This fact in a large measure spelled success for our work. The Forum idea is a splendid work and probably accomplishes more direct results than any other form of educational work used in the Institute. But it must be under the leadership and direction of a competent head, otherwise much time and effort will be spent without the proportionate results.

Our success during the past year was assured when Dr. H. Parker Willis, secretary of the Federal Reserve Board, consented to direct our work. His readiness to help us and his unequaled ability in handling the higher subjects of banking and finance have put Washington Chapter under deeper obligations to him. Harry V. Haynes, our retiring president, was fortunate in having R. L. Neuhauser as chairman of the educational committee. It was due largely to his untiring efforts that we are able to boast of things done. Mr. Neuhauser is a hustler, and as he has been given the honor of being our president for next year we look for big things from him. On the occasion of our recent smoker, Harry V. Haynes was presented with a handsome leather bag as a slight token of appreciation for many years of hard work. We will send our usual quoto to the convention this year and a casual glance at the list below will show the old "war horses" still in service.

Newly elected officers and list of delegates: President, R. L. Neuhauser; vice-president, P. A. Brunger; treasurer, F. Pettit; secretary, C. Elhninger; assistant secretary, W. H. Pardoe; chief consul, C. T. Beaumet. Board of Governors: C. D. Boyer, J. A. Fugett, H. V. Haynes, Burdet Kelly, R. E. Pollock. Convention delegates: H. V. Haynes, R. L. Neuhauser, C. T. Beaumet, F. G. Addison, F. B. Devereau, R. A. Brunger, P. A. Galleher, W. W. Spaid, F. Pettit, E. J. McQuade, E. S. Wolfe, A. M. Nevius, Arthur Nyman, C. L. Eckloff.

MEMBERSHIP CHANGES

REPORTED DURING MAY, 1916

Arizona	Holbrook	Navajo-Apache Bank and Trust Company succeeded by Holbrook State Bank.
	St. Johns	Navajo-Apache Bank and Trust Company succeeded by St. Johns State Bank.
	Winslow	Navajo-Apache Bank and Trust Company succeeded by Arizona State Bank.
California	Riverside	First National Bank consolidated with Citizens National Bank.
		Riverside Savings Bank consolidated with Security Savings Bank.
Illinois	Hanaford	Hanaford Bank changed to Exchange Bank, Logan.
	Kankakee	First National Bank succeeded by First Trust and Savings Bank.
Kansas	Muscotah	Muscotah State Bank succeeded by Farmers and Merchants State Bank.
Kentucky	Henderson	Union Bank and Trust Company merged with Farmers Bank and Trust Company.
Massachusetts	Boston	N. W. Harris & Company succeeded by Harris, Forbes & Company.
	Hyannis	First National Bank succeeded by Hyannis Trust Company.
Nebraska	Decatur	Farmers State Bank in hands of State Banking Board.
New Jersey	Bound Brook	Bound Brook National Bank changed to Bound Brook Trust Company.
	East Orange	Peoples Bank absorbed by Savings Investment and Trust Company.
New York	East Aurora	First National Bank succeeded by Erie County Trust Company.
Ohio	Middletown	American Savings Bank changed to American Trust and Savings Bank.
Oklahoma	Muskogee	American National Bank merged with Exchange National Bank.
Washington	White Salmon	Gillett State Bank merged with First National Bank as Columbia State Bank.

NEW MEMBERS FROM MAY 1 TO 31, 1916, INCLUSIVE

Arizona	Ajo	Miners and Merchants Bank.
	Chloride	Arizona Central Bank.
Arkansas	Fort Smith	City National Bank.
	Hatfield	Bank of Hatfield.
California	Berkeley	First Savings Bank of Oakland.
Connecticut	Middletown	Middletown Trust Co.
	Southington	Southington Bank & Trust Company.
Delaware	Smyrna	Fruit Growers National Bank.
District of Columbia	Washington	Northeast Savings Bank.
Florida	Apalachicola	Apalachicola State Bank.
	LaBelle	Bank of LaBelle.
Idaho	Blackfoot	D. W. Standrod & Co., Bankers.
	Dubois	Security State Bank.
Illinois	Colfax	Farmers State Bank.
	Windsor	Commercial State Bank.
Indiana	Princeton	Peoples American National Bank.
Iowa	Ames	Union National Bank.
	Avoca	Citizens Savings Bank.
	Conroy	Conroy Savings Bank.
	Hamburg	Bank of Hamburg.
	Indianola	First National Bank.
	Marshalltown	Security Savings Bank.
	New London	Farmers State Bank.
Kansas	Burlington	Farmers National Bank.
	Fowler	First National Bank.
	Lucas	Farmers State Bank.
	Sawyer	Sawyer State Bank.
	Willard	Willard State Bank.
Kentucky	Jackson	First National Bank.
	Murray	First National Bank.
Massachusetts	Boston	Fidelity Trust Company.
	Milford	Milford National Bank.
	Whitman	Whitman National Bank.
	Woburn	Woburn National Bank.
Michigan	Alpha	First National Bank.
	Big Rapids	Big Rapids Savings Bank.
	Carson City	Farmers & Merchants State Bank.

Michigan	East Lansing	East Lansing State Bank.
	Hartford	Olney National Bank.
Minnesota	Clarkfield	First National Bank.
	Nerstrand	Farmers State Bank.
	St. Paul	Great Northern State Bank.
	Ulen	First National Bank.
Missouri	Berger	Bank of Berger.
	Gallatin	Farmers Exchange Bank.
	Hannibal	Hannibal National Bank.
	Lebanon	State Bank of Lebanon.
	Novinger	Union Bank of Novinger.
	Osborn	Farmers Bank of Osborn.
	Otterville	Bank of Otterville.
	Pattonsburg	Daviess County Bank.
Nebraska	Chambers	South Fork State Bank.
	Spencer	First National Bank.
	York	Farmers State Bank.
New Jersey	Farmingdale	First National Bank.
	Florence	First National Bank.
	Lodi	Lodi Trust Co.
New Mexico	Hope	First National Bank.
New York	Central Valley	Central Valley National Bank.
	New York	Broadway Central Bank.
North Carolina	Elkin	Elkin National Bank.
North Dakota	Verona	Farmers and Merchants State Bank.
	Wyndmere	First National Bank.
Ohio	Toledo	Northern National Bank.
	Zanesville	State Security Bank.
Oklahoma	Ada	Merchants and Planters National Bank.
	Allen	First National Bank.
	Arnett	Farmers and Merchants Bank.
	Bessie	State Bank of Bessie.
	Bliss	First State Bank.
	Breckenridge	Bank of Breckenridge.
	Claremore	Farmers Bank and Trust Co.
	Clarita	First State Bank.
	Coweta	First National Bank.
	Coweta	National Bank of Commerce.
	Duke	Farmers and Merchants Bank.
	Fairland	Citizens State Bank.
	Fletcher	Fletcher State Bank.
	Fort Gibson	Farmers National Bank.
	Goltry	Bank of Goltry.
	Guymon	City National Bank.
	Howe	State Bank and Trust Co.
	Hydro	First National Bank.
	Ingersoll	Bank of Ingersoll.
	Loco	State Bank of Loco.
	Mill Creek	First National Bank.
	Newalla	State Bank of Newalla.
	Peckham	Peckham State Bank.
	Poteau	National Bank of Poteau.
	Ringling	First State Bank.
	Sayre	Beckham County National Bank.
	Tupelo	Bank of Commerce.
	Waynoka	First National Bank.
	Wirt	Security State Bank.
	Woodward	First National Bank.
	Wynona	First State Bank.
Pennsylvania	Farrell	Peoples Bank.
	South Bethlehem	Peoples Trust Company.
	West Middlesex	First National Bank.
South Carolina	Rock Hill	Peoples National Bank.
Tennessee	Lebanon	American National Bank.
Texas	Blooming Grove	Citizens National Bank.
	San Antonio	Guaranty State Bank.
	Throckmorton	First National Bank.
Virginia	Hopewell	Virginia State Bank.
Washington	Cle Elum	First National Bank.
West Virginia	Ravenswood	First National Bank.

CORRECTION.

In the list of new members in the JOURNAL-BULLETIN for May, 1916, there appear the Fidelity National Bank, Aurora, and the Farmers State Bank, Wolbach, under the state of Montana. This listing is an error. These institutions should be listed under Nebraska.